

Value Added Tax

Value Added Tax (VAT) is a tax levied on goods and services in most countries of the world. For a theoretical background, you can read the [Wikipedia article](#).

It is important to understand how and when VAT is applied to your business model. In some cases VAT rules can also be an important factor in deciding whether or not it makes sense to run your business using the “e-Residency + company in Estonia” model. Read more about such choices in our [article about various business models](#).

In your company’s accounting, VAT consists of two opposite parts:

- VAT that you pay when buying goods and services from other companies (input VAT)
- VAT that your customers pay to you when they pay for the goods and services you sell (output VAT)

Input VAT and output VAT can be offset against each other. An example of such offset is the following

Example – input and output VAT offset

Your company buys a laptop from an online shop in Estonia. The seller issues you an invoice:

Cost of laptop	€1,000
VAT (24%)	€ 240
Total cost	€1,240

The €240 of VAT, which you paid to the seller of the laptop, is now considered your company’s “input VAT” and is declared as such by your accountant at e-Residency Hub

During the same month, when you sell your services to a private individual in Germany for the sum of €2,000, you issue that person an invoice for your services:

Cost of your services	€2,000
VAT (24%)	€ 480
Total cost	€2,480

The €480 that you now received from your client is considered your company’s “output VAT” and is declared as such by your accountant at e-Residency Hub.

*The €480 that you received can be offset against the €240 input VAT that you had spent earlier. As a result, the sum which you need to pay to the Estonian Tax Authority is: €480 - €240 = **€240***

Registering for VAT

Registering for VAT (and getting the relevant VAT number) in Estonia or in any other country, is not automatic. To get a VAT number, your company needs to apply for it from the Tax Authority of the country in which you need the VAT number.

Things to remember

- Each country has its own VAT number. Estonian VAT numbers are 9-digit numbers, preceded by “EE”. For example, “EE123456789”
- Getting a VAT number in any particular country is not a “right”, but a “privilege” and tax authorities give out VAT numbers only in cases when the company can demonstrate that they have a practical need to get the VAT number in that country.
- Your Estonian company can have VAT numbers in several countries at the same time
- Having a VAT number in a country always comes together with a requirement to submit regular tax returns in that country, even if you do not have any business going on in that country at that time. “Regular” usually means either “monthly” or “quarterly”.
- In Estonia, VAT reports are submitted each month. In the UK they are submitted once per quarter. Some countries (e.g. Germany) require additional annual VAT summary reports, etc.
- We strongly recommend that you commission a professional accountant to submit your VAT filings. This way you can ensure compliance with the laws and regulations across the world. E-Residency Hub handles your VAT filings in Estonia. This service is part of our Micro, Lightweight, Standard and e-Commerce packages. For VAT filings in other countries of the European Union or the UK, we recommend using some of the numerous service providers available online, such as [Taxually](#).

Who can get an Estonian VAT number?

You MUST get an Estonian VAT number if your sales to private and corporate customers in Estonia and the rest of EU reach €40,000 in a given calendar year (the “clock is set back to zero” in the beginning of a new calendar year).

Before you issue the next invoice, which will take you over the €40,000 limit, you need to inform your e-Residency Hub accountant, who will make the required applications for a VAT number.

You CAN voluntarily apply for an Estonian VAT number earlier IF

- Your business sells services AND you need to buy services or physical products to develop your business AND you buy these input products and services from EU companies which have their own VAT numbers OR
- Your business buys and sells physical goods, which are physically warehoused in Estonia OR which arrive into the EU through Estonia

Things to remember

- If your main business is about buying and selling physical products, which never actually come to Estonia, you should apply for a VAT number in the country in which your goods will be stored and dispatched to end-customers.
- Businesses using Amazon FBA need a VAT number in ALL the Amazon marketplaces in which your goods are stored (usually Germany and/or UK, but can be up to 7 countries in case you use Amazon's Pan-European plan). Please remember that each VAT number comes with a requirement to submit regular filings and costs which are related to preparing these filings by professional accountants

Limited VAT

If your company does not have a VAT number in Estonia and you are not required to get it, based on the criteria described above, your company may still be **required** to register in Estonia as a "limited VAT payer". This requirement applies to all Estonian companies, which buy

- Physical goods from a company in another EU Member state (outside of Estonia) for more than €10,000 per calendar year

OR

- **any of the services** listed below from **any company anywhere in the world**. In the case of services, the **requirement to register for Limited VAT is valid from the very first purchase onwards**, even if the purchase is very small (i.e. the requirement "kicks in" from the first cent you spend on any of the services listed below)
1. grant of the use of intellectual property or transfer of the right to use intellectual property;
 2. advertising services;
 3. services of consultants, accountants, lawyers, auditors and engineers, translation services, as well as data processing or the supplying of information;
 4. financial services, except for leasing safes, or insurance services, including reinsurance and insurance intermediation services;
 5. allowing use of manpower;
 6. the hiring or leasing of or establishment of a usufruct on movables, except means of transport;
 7. electronic communications services, including assignment of rights to use transmission lines;
 8. electronically supplied services;

9. allowing access to natural gas or electricity, heating and cooling energy network connections, and transmission of natural gas or electricity, heating or cooling energy through networks and services directly related thereto,
10. transfer of permitted limit values of emissions of greenhouse gases regulated by the Ambient Air Protection Act;
11. refraining from the services mentioned above, waiving the exercise of a right or tolerating a situation for a charge.

Digital services

If your company is selling subscriptions online to private end-users in the EU, some special requirements for “digital services” apply.

When **selling “digital services” to private end-customers in the EU** for more than €10,000 per year, you **MUST** register for VAT in Estonia. You must also register for the “One-Stop-Shop (OSS)” scheme. VAT rates will be applied according to the EU member state rate where your customer is located.

Your e-Residency Hub accountant will handle the OSS registration for you. Please see more details about digital services and the OSS scheme on our [website](#) (click “Additional information and prices for Software-as-a-Service (SaaS) companies”).

If I have a full VAT registration in Estonia, how much VAT should I add to my invoices?

The rates vary according to the types of your transactions. For a general overview, please see Table #2 in the end of this document.

Options and advice

When starting your business, it is very important that you understand the VAT issues related to your business model. **Table #1** contains our analysis and comparison of the options available to you. It is always a good idea to consult your accountant at e-Residency Hub in case you have doubts or questions.

Annex Table #1 – comparison of different VAT registration types

Option	Plusses	Minuses	Important
Full VAT registration in Estonia	You can use your input VAT to decrease the VAT payments made monthly to the Estonian government. Your suppliers in the EU can issue you invoices with “0% VAT”. To get that benefit, you need to give your Estonian VAT number to your supplier before they send out the invoice.	If you are selling services, your invoices to your private individual clients in the EU will have to include 20% Estonian VAT (i.e. the price of your services for private end-customers will go up)	This is usually the preferred and most flexible option.
Limited VAT registration in Estonia	Your suppliers in the EU can issue you invoices with “0% VAT”. To get that benefit, you need to give your Estonian VAT number to your suppliers before they send out the invoice to you	You must pay the Estonian VAT (22%) on <u>all purchases</u> made anywhere in the world, based on a very long list of services (in practice only purchases made from other companies in Estonia fall outside of that requirement). You cannot offset your VAT payment requirement by any input VAT on purchases in Estonia (e.g. the accounting services from e-Residency Hub). The VAT on such services will be a cost for your company.	Limited VAT is a “one-way street” and only applies for <u>your company’s purchases</u>. You should never include any reference to VAT in your own sales invoices (i.e. do not add VAT to your invoices and also do not use the phrase “0% VAT” on your invoices) Your clients in the EU cannot use your limited VAT number to offset their own costs in their own VAT declarations they submit in their respective countries. NB! Limited VAT numbers and full VAT numbers in Estonia look exactly the same (both are in the format of EE123456789)

No VAT registration in Estonia	You do not need to add Estonian VAT to your invoices. This way, for your private person clients anywhere in the world, your services shall be cheaper.	You cannot buy any services from outside Estonia, which fall under the very long “limited VAT list” described above in section “Limited VAT”.	This option is very unlikely for companies who have business transactions outside Estonia (i.e. most companies operated by e-Residents).
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Table #2 – Estonian VAT rates for companies with a full VAT registration in Estonia

Type of sales	Private persons in EU (incl Estonia)	Private persons outside the EU	Companies in Estonia	Companies in EU (outside of Estonia) with a VAT number	Companies in EU (outside of Estonia) without a VAT number ¹	Companies outside of the EU
Services	24%	0%	24%	0%	24%	0%
Physical goods warehoused in and dispatched from Estonia	24%	0%	24%	0%	24%	0%

¹ You can check the validity of VAT numbers from the [VIES database](#)