



# ESTONIA - October 2018

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**US THINK TANK RATES ESTONIAN TAX SYSTEM MOST COMPETITIVE WORLDWIDE..... 1**

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## **US think tank rates Estonian tax system most competitive worldwide**

*US think tank Tax Foundation has for the 5th year in a row ranked Estonia at the top of its International Tax Competitiveness Index (ITCI), published this week, which ranks member states of the Organisation for Economic Co-operation and Development (OECD).*

"For the fifth year in a row, Estonia has the best tax code in the OECD," the Tax Foundation said. "Its top score is driven by four positive features of its tax code. First, it has a 20% tax rate on corporate income that is only applied to distributed profits. Second, it has a flat 20% tax on individual income that does not apply to personal dividend income."

The third positive feature cited by the think tank was the fact that its property tax applies only to the value of the land, rather than the value of real property or capital. "Finally," it continued, "It has a territorial tax system that exempts 100% of foreign profits earned by domestic corporations from domestic taxation, with few restrictions."

Estonia's performance is relatively weaker in consumption taxes and the international tax rules rank, as Estonia is levying a relatively higher consumption tax than many of its OECD peers. The same holds true for EU member member states in general, which apply VAT at a rate that is generally higher than the sales tax used elsewhere in the world.

The report also points out that every OECD country except Australia, Estonia, and New Zealand applies its property tax to capital. These countries only tax the value of land, which excludes the value of any buildings or structures on the land. In the think tank's 2018 rankings, Latvia has climbed to second place after Estonia, with New Zealand coming in third. The survey points out that countries with lower overall dividend tax rates score higher on the ITCI due to the dividend tax rate's effect on the cost of investment.

Regarding Latvia, the report says that Estonia's southern neighbour implemented a business tax reform package that matches the competitive Estonian system. Latvia now applies a corporate income tax at a rate of 20% to distributed corporate profits. It was already among the top five most competitive countries, and these reforms helped Latvia climb to second place behind Estonia.