Founding of a company

According to the legal regulations the founding of a company is possible by one or more persons. The founding requires a founding decision or memorandum of association and the articles of association of the company in notarial form. For the founding the shareholders must make a contribution to the company’s capital in cash or in specie. For this purpose a bank account must be set up for the company. The share capital of a company with limited liability must amount to 2,500 euros and the share capital of a joint stock company to 25,000 euros.

The managing director (GmbH) and the executive board members (AG) must also be appointed (for this a declaration of consent of these persons is required in writing), whereby the company and headquarters of the company and contact data of the company must be supplied and certain other legal requirements met including payment in cash of the prescribed stamp duty. The documents presented to the commercial register including the memorandum of association must be in the Estonian language. For registration in the commercial register an application must also be submitted by a notary or through a special internet portal with digital signature.

Takeover of a company / joint venture

The sale of company shares or shares of listed companies is allowed with restriction unless the law (e.g. competition law) or the articles of association define a restrictive or special regulation.

Legal forms of business

In Estonia it is also possible to act as a sole trader and also to found a general partnership or limited partnership. The sole trader and the shareholders of the general partnership are personally liable for the obligations of the company, whereby for a limited partnership at least one shareholder (general partner) assumes unlimited liability for the obligations of the company and a further shareholder (limited partner) assumes limited liability to the amount of his contribution to the capital.

Company management

A company is represented and managed by the company management or the executive board. The managing director/executive board members are appointed by the shareholders or if a supervisory board exists (compulsory for AG) from the supervisory board. The company management or the executive board may consist of one or more members. All managing directors or executive board members can represent the company on their own account unless a special regulation is defined in the articles of association. A managing director of the GmbH is appointed for an unlimited or limited period (if the articles of association require this). An executive board member of the AG is appointed for the limited time period of 5 years. A company can also have a supervisory board and an authorised officer. With an AG the supervisory board is compulsory.

Foreign exchange law (foreign exchange restrictions)

There are no restrictions with regard to the movement of capital, execution of payments and transfers. Commercial transactions and other transactions with a value exceeding 15,000 euros must be included in the financial accounting. Suspicions of money laundering must be reported if the value of cash transaction exceeds 32,000 euros. All banks, notaries, law firms and auditors including companies are obliged to notify the authorities of violations of the law against money laundering and financing of terrorism.

Financing possibilities (required track-record)

The Estonian commercial banking market is shared by 4 Scandinavian banks which almost control the complete banking sector. Apart from that there are also small banks. There are no special regulations for the financing of loan projects. The financing depends on the project in question. It is possible to find co-financing such as through domestic or EU funds or through private investors. As Estonia is a member of the euro zone, EURIBOR is valid as the base interest rate. The interest on a drawn credit is based on the EURIBOR rate plus margin. It is possible to replace the variable interest rate with a fixed interest rate.

Real estate and acquisition of land

There are no restrictions for the acquisition of real estate for the citizens of Estonia, the European economic area and OECD member states. Legal acquisition restrictions are especially valid for legal entities of third countries and for all other legal entities which wish to acquire more than ten hectares of land or forestry area.

Labour law

In Estonia an employment contract must be concluded in writing. If the formal requirement is not complied with, the employment contract is also deemed to be concluded if the employee performs his duties properly and the worker is paid with wages. It is assumed that an employment contract is concluded to be unlimited in time. A time-limited employment contract
Tax returns / tax consulting

Companies which pay tax must submit tax returns on a monthly basis. The wage and social tax return must be presented by day 10 and the sales tax return by day 20 of the following month. In practice around 99% of all tax returns are submitted electronically. A change to a tax return is possible and in justified cases will be authorised.

Special points regarding the company tax audit

The tax office does not carry out comprehensive tax controls. The inspection is made using risk analysis in which the commercial area and also the tax behaviour of the company and the other companies in the industrial field are taken into consideration.

Audit of the annual financial statement and appointment of the auditor of the annual financial statement

The annual report (annual financial statement and management report) of an AG must be audited by an auditor. The audit of the annual report of a GmbH is obligatory if the threshold variables laid down in the legal regulations are exceeded. The current threshold variables are listed at the internet site www.roedl.ee. The auditor can be selected for one or a number of years. The audit fees depend on the respective agreement. The audit fee must not be linked to the company result.

Liquidation / ending of the company

The ending of a company is made through a liquidation procedure unless otherwise specified in law (e.g. with insolvency). The liquidators of a trading company are the managing director or executive board members to the extent that the articles of association, shareholders’ meeting or a court ruling stipulate otherwise. The implementation of the liquidation process may not be carried out by natural persons who according to the law or a court ruling have the right to be appointed a managing director or executive board member. Apart from that, at least one liquidator must have his domicile in Estonia. The duties of the liquidators are to end the running operations of the company, to list all the liabilities, to dispose of the remaining assets and satisfy creditors.

Trademark law / industrial property rights

The personal creations of people in Estonia are protected. Protected objects of intellectual property include works of art, trademarks, technical inventions and similar works of personal creation which are not industrially produced. These are protected by copyright law (see Estonian authors’ society). Industrial property rights (trademarks, patents and utility models, product design, geographical indications of source, topographies of semiconductor products) differ from copyright law and the associated rights such that these rights do not automatically exist with the creation of the product, but are subject to a patent application process. Each area is regulated by law taking EU law into consideration.

Financial accounting obligations

All trading companies in Estonia are required to maintain financial accounting. The trading companies must also at the latest 6 months after the end of the financial year draw up an annual report (annual financial statement and management report) and present this to the commercial register (for publication). The annual financial statement must be according to the Estonian principles of orderly financial accounting which are based on IFRS SME or IFRS. The company management or executive board are liable for compliance of this obligation. The company’s financial accounting department can write the financial reports and declarations or this work can be outsourced.

Dismissal protection

Withdrawal from an employment contract is not possible. The employer can terminate the employment contract extraordinarily if there is good cause and in particular due to culpability of the employee or the financial position the company. Dismissal protection is accorded to pregnant women, persons bringing up small children, and also workers’ representatives.

Other administrative or special bureaucratic points

In respect of other administrative or special bureaucratic points mention should be made that the official process in Estonia is largely carried out in electronic form. Persons with an Estonian
ID number (permanent residents of Estonia) can apply for the Estonian ID card and using this card are able to electronically sign documents. This possibility accelerates the official process and enables the easy managing of most formalities without having to leave the house or office. Commercial register registrations and real estate transactions, however, require a notarial form.