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Expanding Business into Europe Through Estonia

A Practical Guide for Laghu Udyog Bharati (LUB) Members

> For Indian MSMEs, Estonia offers a simple and cost effective gateway to the European Union (EU). It provides access to all 27 EU countries, a business friendly tax system and low administrative costs.

1. Ways to Enter the European Market

Option 1: Direct Export from India

Your factory exports products directly to European buyers.

ADVANTAGES

- Simplest model
- No physical EU company required
- Exports are zero-rated under GST

LIMITATION

- Many European buyers prefer dealing with a local EU-based company.

Option 2: Representative Office or Local Partner

An Estonian presence handles marketing, networking and customer support, while manufacturing remains in India.

ADVANTAGES

- Builds trust with EU customers
- Easier participation in European tenders

Option 3: Estonian Company (OÜ)

You establish an Estonian private limited company which purchases goods from India and sells them across Europe.

This can be:

- A standalone company managed through Estonia's e-Residency program
- A subsidiary owned by your Indian company
- A branch office of your Indian company

ADVANTAGES

- EU presence
- Better customer confidence
- Tax efficient growth structure

Option 4: European Warehouse Hub

Products are shipped in bulk from India to Estonia and distributed across Europe.

ADVANTAGES

- Faster deliveries
- Lower shipping costs
- Better inventory management

2. Tax and Compliance Requirements

In India

- GST registration
- Import Export Code (IEC)
- Export documentation and customs compliance
- Indian taxes continue to apply to Indian operations

In Estonia and the EU

CORPORATE TAX

- Estonia taxes profits only when they are distributed as dividends. Unlike India, where corporate profits are taxed immediately at year end, Estonia charges **0% corporate tax on profits kept or reinvested inside the company**.
  - If your entity makes €100,000 and you spend it on inventory, marketing or expansion, you pay nothing.
  - A flat **22% tax** is deferred and only triggered if/when you withdraw profits as personal dividends.
- This means profits retained and reinvested in the business are not immediately taxed.

VAT

- VAT registration is generally required once taxable turnover exceeds applicable thresholds.
- VAT collected from customers is remitted to the Estonian Tax Authority.

IMPORT DUTIES

- Goods entering the EU must clear customs.
- Applicable customs duties and import VAT are paid upon entry.
  - This means: Once your goods land in Estonia, clear customs, and handle the local **24% import VAT**, they receive official EU status. You can then ship them to buyers in Germany, France, or Spain with **0% customs duties and no internal border checks**, operating just like shipping across different states in India.

3. Key Benefits for MSMEs

1) Reinvest Profits More Efficiently

Unlike many countries, Estonia does not immediately tax retained profits. This means profits can be used for:

- Inventory
- Warehouses
- Marketing
- Business expansion

before any dividend tax becomes payable.

2) Double Taxation Protection

India and Estonia have a Double Taxation Avoidance Agreement (DTAA). This helps ensure the same income is not taxed twice and allows tax credits where applicable.

3) Access to the Entire EU Market

Once goods enter the EU and complete customs procedures, they can move freely across all EU member states. This simplifies distribution to countries such as Germany, France, Italy, Spain, etc.

4) Ground Rules & Compliance Checklist

If you move forward with a full corporate setup (OÜ) or direct warehousing, keep these operational thresholds in mind:

- **The VAT Trigger:** You must register for an Estonian VAT number once your European sales cross **€40,000** within a calendar year.
- **Customs Entry:** Standard EU Customs Duties apply at the first port of entry, determined entirely by your specific product's HS code.
- **Minimal Overhead:** There are no requirements for expensive local resident directors or paper heavy corporate filings. Your complete European accounting and tax declarations are managed online in minutes.

Quick Comparison

Traditional EU Setup vs. Estonia

Feature	Traditional EU Setup	Estonia
Tax on retained profits	Usually taxed annually	Tax generally deferred until distribution
Setup process	Often complex	Fast and digital
Local director requirement	May be required	Generally not required
Administration	Higher cost	Lower cost
Access to EU market	Yes	Yes

Conclusion

For members of Laghu Udyog Bharati, Estonia can serve as a cost-effective gateway to the European Union. It enables Indian manufacturers to establish a trusted European presence, access the entire EU market, reinvest profits for growth and manage operations digitally from India.

Compared to traditional European expansion, Estonia offers a simpler and more flexible setup with lower administrative costs, fewer management requirements and less bureaucracy. This allows businesses to focus more on growth and expansion while keeping more working capital available within the company.

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