Maksym Stepanenko

Estonia: e-Residency, Zero Tax on Retained Profit, and the Digital Country

How to open an EU company online and pay 0% while the money stays in the business

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Innova Publishing · 2026

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CHAPTER 1

e-Residency: What It Is and What It Doesn’t Give You

Estonian e-Residency, a program launched in 2014, lets anyone in the world get a digital identity and open an Estonian company without leaving their own country. It is the world’s first government-issued digital identity open to non-residents. According to e-resident.gov.ee, more than 145,000 people from 170+ countries have received e-Residency.

What e-Residency gives you: a digital signature for running the company (signing contracts and documents). The ability to open an OÜ (a private limited liability company) through the State Portal. Access to Estonian government e-services. Use of EU SEPA bank accounts (through Wise, LHV, and Revolut Business). Online filing of tax returns through the e-Tax Board.

What e-Residency does NOT give you: a physical residence permit in Estonia or the EU. The right to live and work in Estonia. Estonian tax residency. The right to vote. A guaranteed bank account (banks decide for themselves). It is a digital ID for business, not an immigration document.

Who e-Residency suits: digital entrepreneurs who work remotely. Freelancers with international clients. Startups that need an EU entity to work with EU clients, payment systems, and investors. People who want a legal EU structure without moving. People who already plan to move to the EU and want to start with the business.

How to get e-Residency: submit an online application at e-resident.gov.ee. Pay €100–120. Upload a photo, a passport scan, and a motivation letter. Wait 3–8 weeks (background check). Receive a notification. Pick up the card at an Estonian embassy or consulate, or in person in Estonia. Install the card reader and software. Now you can sign documents with a digital signature.

The reality of e-Residency today: the program works, but banking is harder than it looks. Estonian banks usually require a strong business connection to Estonia and a visit to a branch in person. The banks on the e-Residency marketplace (LHV and Coop Pank) open an account only after a visit to Estonia. Fintechs work without a trip: Wise Business, Revolut Business, Payoneer, and Paysera. Holvi currently serves only companies from Finland, Germany, and Austria. For most needs, Wise Business plus Revolut Business is enough.

CHAPTER 2

Zero Tax on Undistributed Profit: A Unique System

The most unusual thing about the Estonian tax system is the 0% corporate tax while profit stays in the company. Tax (20%) is paid only when profit is distributed to shareholders. This is called the Distributed Profit Tax system.

How it works: a company earns €100,000 in profit. Leave it in the company, and the tax is €0. Reinvest it in the business, and the tax is €0. Pay yourself €50,000 in dividends, and the tax is 20%, or €10,000. Net dividend: €40,000. That means as long as you are growing the business, reinvesting, and hiring, your taxes are zero. Tax arises only when you take the money out.

Comparison with other systems: UK: 25% corporate tax immediately on profit, then dividend tax on distribution. Germany: 30% on profit immediately. Estonia: 0%, then 20% only on distribution. In total on €100,000 of profit: UK: €25,000 (company tax) plus 8.75–39.35% on dividends. Estonia: 0% (if you don't distribute). On distribution: 20% of the gross amount, or 25% of the net amount.

Salary vs. dividend in Estonia: a director's salary (paid to yourself) carries Social Tax of 33% plus Income Tax of 20%, a high burden. Dividends: 20% distributed-profit tax (for individuals, with no additional personal income tax if the company has already paid). The optimal structure is a minimum salary (enough for social security) plus maximum dividends. Dividends are more advantageous for people who live in a low-tax jurisdiction (Georgia, Portugal NHR, and so on).

VAT (Value Added Tax), known as KM: the standard rate is 22% (raised from 2024). The EU reverse charge for B2B with EU clients: VAT = 0% when documented correctly. KM registration is mandatory at turnover of €40,000+ per year. For B2B services

with EU clients, there is often no real VAT obligation. Registration through the e-Tax Board takes hours.

E-filing of taxes: returns are filed online through e-tax.emta.ee. Corporate Income Tax (TSD form): monthly or quarterly when dividends or salaries are paid. Annual Report: required every year. KM Report: quarterly. Everything is online, with a digital signature. No office visits.

CHAPTER 3

Opening an OÜ: From Application to Bank Account

An OÜ (Osaühing) is the Estonian equivalent of an LLC. Registration takes a few hours online if you have an e-Residency card.

Requirements for an OÜ: at least 1 shareholder (an individual or a company, from any country). At least 1 director (not necessarily an Estonian resident). A registered office in Estonia (a commercial address; a virtual one is acceptable). Share capital: a minimum of €1 under the FIE regime or €2,500 for a standard OÜ. In practice most people contribute €2,500 (it is not frozen, so you can use it for the business right away).

The registration process: open portaal.rik.ee. Log in with your e-Residency card. Choose “Register new company.” Fill in the company name, the activity (EMTAK codes, the Estonian activity classification), the director and shareholders, the registered address, and the share capital. Sign with your digital signature. Pay the registration fee (€265). Receive the Business Registry code (registration number) in 1–3 hours. Register with the Tax Board in 1–2 days.

Virtual Office Services: many providers offer a registered address for €100–300 per year, plus mail scanning and forwarding and secretary services. Popular ones: 1Office, LeapIn (now Xolo), and e-Residency Marketplace partners. A full package (address plus company management): €300–800 per year.

Management platforms for e-residents: Xolo (formerly LeapIn) is the best known. €99–149 per month. Registration, bookkeeping, banking, and invoicing. Briox is another popular option. 1Office Estonia. These platforms make running an Estonian business “out of the box,” which is ideal for freelancers and solopreneurs.

The real banking situation today: LHV Pank is an Estonian bank on the e-Residency marketplace. You can apply online, but the account opening must be completed in person in Estonia. It requires a substantial business connection to Estonia. Account opening costs 300 EUR, and maintenance is 30 EUR per month (including VAT). Review takes from 10 business days. Approval is not guaranteed. Coop Pank is the second Estonian bank on the marketplace, also with an in-person visit. Wise Business accepts Estonian OÜs after review. IBAN. Multi-currency. SEPA transfers. An ideal replacement for a “real” Estonian account. Revolut Business accepts Estonian OÜs, but the company address must be in the EEA. Holvi currently works only with companies from Finland, Germany, and Austria. PayPal Business is one more option.

CHAPTER 4

Moving to Estonia in Person

e-Residency is for online business only. For an actual move to Estonia you need an ordinary visa or a residence permit. Estonia is an EU/Schengen country and one of the most technologically advanced in the world.

Startup Visa: for startup founders. Term: 18 months (can be extended). Requirements: an innovative, scalable business with global potential. Endorsement from Startup Estonia (a government agency). A team or a solo founder. Sufficient funds to live on. No minimum capital. Process: apply for a startup assessment at startupestonia.ee. Prepare a pitch deck and an executive summary. Assessment takes 10 business days. After approval, apply for a Long-Stay Visa D at an embassy. Convert it to a residence permit after you arrive in Estonia.

Visa D for a Temporary Residence Permit: the main grounds are work (Employment), business (Entrepreneurship), study, and family reunification. For entrepreneurship: a registered Estonian company. Evidence of real business activity. Sufficient income (at least €725 per month net). Process: apply to the Police and Border Guard Board. Timeline: 2–4 months. The residence permit is issued for 1–3 years. After 5 years of continuous residence, you qualify for the EU Long-Term Resident Permit.

EU Long-Term Residence Permit and citizenship: EU Long-Term Resident status after 5 years. The right to live in all EU countries without additional visas. Estonian citizenship: 8 years of permanent residence, B1 Estonian, and knowledge of the Estonian Constitution. Estonian citizenship does not allow dual citizenship, so you must give up your previous citizenship. The exception applies to EU citizens born in Estonia.

Life in Estonia: Tallinn is a beautiful medieval city with an advanced tech scene. Population: 420,000. The second most important city is Tartu (a university center). Cost of living:

significantly lower than in Western Europe. Rent for a 1BR in Tallinn: €600–900 per month. Junior developer salary: €1,500–2,000 per month. Senior: €3,000–5,000 per month. Climate: temperate. Summer: 20–25°C. Winter: cold and dark (-10°C). The Russian-speaking population is 25% of the total, a real asset for Russian-speaking immigrants. Russian-language schools, communities, and services exist.

Digital country facts: in Estonia 99% of government services are available online. Electronic voting in parliamentary elections. Digital prescriptions. A tax declaration takes 3–5 minutes (the data is pre-filled automatically). E-health records. The only in-person visits are for marriage and divorce registration and real estate.

CHAPTER 5

Estonia as an EU Structure for Non-Residents

Many entrepreneurs use an Estonian e-Residency company without moving to Estonia. It gives you an EU legal address, SEPA access, and the trust of EU clients. But there are important nuances.

Where you really pay taxes: the key principle is that taxes are paid where the company is actually managed (Place of Effective Management). If you manage the company from Georgia, there are arguments that the company is managed from Georgia and should pay taxes there. If you manage it from Ukraine, the same applies. CFC (Controlled Foreign Corporation) rules: many countries tax the profit of foreign companies that are managed by their residents. In practice: if you are a tax resident of a country with CFC rules (France, Germany, the UK), your Estonian company may fall under CFC. If you are a resident of Georgia, the UAE, or Portugal (NHR), the situation is better.

Recognition by EU clients: “I have an Estonian company” is perceived by EU clients as a full-fledged EU business. An EU VAT number. An EU IBAN (through Wise). All EU contract norms. This is one of the main practical advantages of e-Residency.

Stripe and payment systems: Stripe accepts Estonian OÜs. PayPal Business. Adyen. Gumroad. LemonSqueezy (recommended for digital products, since they take on tax compliance). For SaaS products: an Estonian company plus Stripe plus Wise is a complete operating structure for accepting payments from any country in the world.

Annual reporting: the Annual Report is mandatory. Deadline: June 30 for the previous year. It is filed through the company registration portal. If there is no activity, a Dormant company report (minimal requirements). If you don’t file, there are fines and

possible forced liquidation.

The e-Residency ecosystem: the e-Residency Marketplace is the official list of service providers. Xolo, 1Office, Companio, and E-residency.help offer full service packages. Average cost of full support: €100–200 per month. It includes a registered address, a company secretary, bookkeeping, and tax filing.

Limitations of an e-Residency company: you cannot hire on-site employees in Estonia without registering as an employer. You cannot open a physical office, only a virtual one. To receive some EU grants you need a physical presence.

What next

Thank you for reading “Estonia: e-Residency, Zero Tax on Retained Profit, and the Digital Country”.

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