

# HOW TO FORM A COMPANY IN ESTONIA



**PayBitoPro**

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Estonia has emerged as a popular choice for cryptocurrency exchange platforms seeking to tap into the burgeoning market trends and the expanding community of crypto investors and traders. In 2017, Estonia enacted legislation enabling entities to apply for a business license to operate as a crypto-fiat exchange service or a decentralized wallet provider.

The regulations impose stringent guidelines on companies involved in exchanging cryptocurrencies for fiat currency, requiring robust KYC (Know Your Customer) and AML (Anti-Money Laundering) protocols to combat money laundering and prevent the facilitation of financial crimes.

Upon obtaining an Estonian license, operators can legally provide cryptocurrency exchange and wallet services to clients across Europe.

The application process for the license can take up to six months and necessitates a deposit of €10,000 as an application fee to the Estonian Ministry of Finance. Furthermore, applicants must demonstrate ownership of €100,000 as initial capital, maintain a physical office, employ local staff, and implement internal auditing.

In 2022, legislative updates to the crypto exchange regulations introduced additional requirements for registering new investors, mandating the processing and verification of user information such as name, ID number, date and place of birth, and proof of payment method, whether through a virtual wallet or a physical credit/debit card.

## Process of Obtaining a Crypto License

The Procedure for Obtaining a Crypto Exchange License in Estonia

To apply for a crypto exchange license in Estonia, a business entity must complete the following steps electronically through the state portal at <https://mtr.tija.ee>

1. Provide the physical office address in Estonia along with documented proof of ownership or lease of the property.
2. Submit contact and personal details of individuals responsible for communication, service delivery, public relations, legal representation, and financial transactions.
3. Present internal procedural guidelines and quality control measures.
4. Disclose criminal records, identification cards, positions, and duties of the business owner or beneficiary shareholders.
5. Furnish details of corporate bank accounts, including those registered within the Estonian banking system.



6. Provide comprehensive information on the crypto assets to be offered by the company.
7. Submit proof of funds in euros, accompanied by a bank statement confirming sufficient financial resources.
8. Develop a business plan covering the next two years.
9. Specify the name and contact details of the internal or external auditing body.
10. Describe technical aspects, such as website features, platforms, and technological solutions utilized and offered by the company.

The cost of a crypto exchange license includes an application fee of €10,000, and the typical processing time is 60 days. However, depending on the complexity of the procedures involved, it may extend up to 6 months.

## Information Requirements to Obtain a License

1. Business contact details (telephone number, email, postal address), and resumes.
2. Location of service provision, including website address.
3. Information about the proposer.
4. Details of the true beneficiary of the company, including name, personal code or date of birth, place of birth, and residential address.
5. Establishment of procedural rules and internal controls as outlined in sections 29 and 30 of the Prevention of Money Laundering and Terrorist Financing Act, and compliance with procedures specified in Section 6 of the International Sanctions Act.
6. Details of the contact person referred to in Article 29, paragraphs 3 or 4, of the Law on Prevention of Money Laundering and Financing of Terrorism.
7. Details of the person applying international financial sanctions as per Article 13.9.
8. If any stakeholders are foreign citizens, a certificate from the register of penalties of their country of origin, or an equivalent document, must be provided to certify a lack of punishment for certain offenses, unless otherwise specified by contract.

## Requirements for Crypto Companies

### The capital of virtual foreign exchange service providers

- Providers offering virtual currency exchange services, enabling the exchange of virtual currencies for money, must have a minimum authorized capital of EUR 100,000.



- Providers offering virtual currency transfer services, facilitating the electronic transfer of virtual currencies to a virtual currency wallet or recipient account, must have a minimum authorized capital of EUR 250,000.

Authorized capital for virtual currency service providers must be paid in cash to establish a virtual foreign exchange services provider.

## Requirements for Customer Identification and Verification

To ensure accurate identification and prevent data tampering or misuse, service providers must employ technology that facilitates genuine identification.

Individuals falling under the scope of Article 31, paragraphs 1 and 2, of the Law on the Prevention of Money Laundering and Financing of Terrorism, or legal representatives of entities, must utilize Digital Identification or another form of electronic identification approved by the Law on Identity Cards, as per Article 9 of Regulation (EC) No 910/2014 of the European Parliament and the Council. This identification must be on the list published in the Official Journal of the European Union. Additionally, individuals must possess an information technology tool equipped with a functional camera, microphone, and suitable hardware and software for digital identification, as well as internet connectivity.

Service providers can employ biometric data through information technology tools for identity verification.

Virtual Currency Service Providers engaging in exchange and transfer transactions must verify the identity of each customer and collect the following information, as outlined in Articles 21 and 22 of the law:

For individuals: name, gender, unique transaction identifier, payment account or virtual money purse identification number, identity card number, place of birth, date of birth, and residential address.

Virtual currency providers must collect unique identification data for recipients of virtual currency or transfers during exchange and transfer transactions. If payment account data or virtual currency wallet identifiers are used, the provider must also collect the corresponding identifiers.



# Action Plan for Virtual Currency Providers

Virtual currency providers are required to submit business plans spanning at least two years.

## The funds of virtual currency providers must be self-owned

Virtual currency providers must maintain funds equal to one of the following at all times:

- The amount of authorized capital
- Own funds are calculated according to the following method:

A minimum of the virtual currency provider's own funds should equal the sum of the following portions of transaction volumes if the provider offers services specified in paragraphs 101 and 102 of part 3 of this Law:

- 4% of transactions exceeding or equaling 5 million euros;
- More than 5 million euros in transactions, but not exceeding 10 million euros;
- Over 10 million euros in transactions, but not exceeding 100 million euros;
- More than 100 million euros in transactions, but not exceeding 250 million euros (0.5% of that amount);
- 0.25% of transactions exceeding 250 million euros.

For Part 6 of this Article, the share of transactions defined as services shall be calculated as 1/12th of the total volume of transactions defined as services in Parts 100 and 101 of this Article. If a venture capital company has operated for less than 12 months in the previous year, the amount of remittances and foreign exchange transactions made during the previous year must be divided by the number of months in the prior year.

Ensuring accurate calculation of own funds is crucial for virtual currency providers.

In accordance with this law and related legal acts, the Financial Intelligence Unit may establish a timeframe for virtual foreign exchange service providers to comply with Law requirements.

## Audits of cryptocurrency providers:

Virtual foreign exchange service providers must undergo annual report audits. Licensing applications should include auditor details.



# The Regulatory Framework for Cryptocurrency in Estonia

Estonia's approach to cryptocurrency regulation is characterized by its comprehensive yet flexible policies, overseen by the Financial Intelligence Unit (FIU). As one of the pioneers in establishing clear legal guidelines for cryptocurrencies, the country offers various types of crypto licenses, including:

- Crypto exchange license in Estonia: Permits businesses to provide exchange services between cryptocurrencies and fiat currencies.
- Crypto broker license in Estonia: Authorizes companies to act as intermediaries in cryptocurrency transactions.
- The crypto trading license in Estonia: Specifically tailored for entities involved in the trading of digital assets.
- VASP crypto license in Estonia: Designed for providers offering services related to virtual assets.

## Tax Obligations

There are no unique or industry-specific tax requirements for businesses dealing with cryptocurrencies in Estonia. As such, a crypto exchanger licensed in Estonia will adhere to the same tax laws and regulations as any domestically registered business, as outlined by the [Estonian Tax and Customs Board \(ETCB\)](#).

However, establishing a virtual currency service provider in Estonia offers the advantage of leveraging regional and global trade agreements to safeguard your company against double taxation across multiple jurisdictions.

It's worth noting that Estonia has recently raised the value-added tax (VAT) from 20% to 22%, effective from 2024.

