



# Tax Alert

Estonia, August 2024

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Our team of experts in Baltic States keeps you updated on most recent and most relevant changes in tax legislation. We work closely with our PwC colleagues world-wide and use our access to international know-how and long-term experience to quickly and efficiently solve tax issues that arise both locally and in foreign jurisdictions.



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# Upcoming tax changes in Estonia

## Estonia to introduce defence tax

Estonia intends to introduce a defence tax. According to the published coalition agreement, the tax is to be funded from three sources and will be introduced on a temporary basis until the end of 2028:

- from July 1, 2025, the VAT will increase by two percentage points, i.e. to 24% (VAT was already increased from 20% to 22% in 2024);
- from January 1, 2026, the income tax for natural persons will increase by two percentage points to 24%; and
- from January 1, 2026, a tax of 2% of profits applies to companies.

Most of the income from the defence tax will be directed to the development of Estonia's defence capability and security investments. The government taking office after parliament elections in 2027 will decide on the further need or change of the tax.

The corporate income tax, which will be imposed starting in 2026 according to the coalition agreement, will not affect the application of double taxation treaties that Estonia has with other countries. However, it is expected the corporate tax rate is quite high, making it more difficult for foreign owners of companies operating in Estonia to utilize their profits.

Also, in addition to defence tax, the excise duty on alcohol, tobacco and gasoline will be increased by an additional 5% per year in order to improve the budget situation.

## Motor vehicle tax

On July 29, 2024, the Estonian Parliament adopted the updated motor vehicle tax law, which was sent to the President of the Republic of Estonia for promulgation so that the law would enter into force on January 1, 2025.

The motor vehicle tax will consist of two parts - the annual tax, which will be collected by the Tax and Customs Board, and the registration fee, which will be collected by the Transport Administration. The motor vehicle tax will be paid into the state budget.

- Annual tax shall be paid yearly by the motor vehicle owner for vehicles registered in the traffic register. The motor vehicle tax rate for passenger cars and vans will consist of the base part, the specific CO2 emissions part and the gross weight part, and for motorcycles, the engine capacity. The annual tax rate for passenger cars and vans also depends on the age of the vehicle. If the passenger car or van does not have CO2 data, the calculation is based on the formula provided by law, where the vehicle's power in kilowatts, the vehicle's unladen weight and age in years and, if necessary, the type of engine fuel are taken as a basis.

- The registration fee is paid before the registration of passenger cars and vans in the traffic register, i.e. the registration fee is a prerequisite for registration. In the registration fee formula, the proportion of CO2 is higher to encourage the purchase of less polluting vehicles. The age of the vehicle will also affect the amount of the registration fee. The age reduction decreases linearly each year until 15 years pass from the date of initial registration of the motor vehicle, after which the age coefficient is 0.20.

The registration fee must also be paid for the first change of ownership of vehicles already registered in the Estonian traffic register, provided that no registration fee has been paid for this vehicle before. The amount of the registration fee will, on average, be less than ten percent of the approximate value of the vehicle. Registration fee rates will increase by law in 2028 and 2031.

# Upcoming tax changes in Estonia

## Motor vehicle tax (continued)

According to the Motor Vehicle Tax Act, emergency vehicles, vehicles owned by private individuals that have been converted or adapted for use by a disabled person, and vehicles of foreign missions are exempted from the annual tax and registration fee in accordance with foreign agreements.

The registration fee does not have to be paid when purchasing a vehicle from a leasing company and registering it in your own name, and when registering a vehicle received as an inheritance in your own name. In their case, the registration fee applies to the next sale transaction.

It is possible to apply for a refund of the registration fee for vehicles up to ten years old that are taken out of the country. The amount of both the registration fee and the annual tax is reduced by the age of the vehicle - both for natural and legal persons, and for both passenger cars and vans.

In order to permanently delete vehicles with a suspended entry from the register, their owners have a transitional period of two years - 01.01.2025 to 31.12.2026, when these vehicles are not taxed with motor vehicle tax and individuals have the opportunity to delete them from the traffic register.

The link to calculate motor vehicle tax can be found here (in Estonian): [calculator](#)

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