

# Tax alert

Estonia, January 2021

**AS PricewaterhouseCoopers in Estonia helps clients in finding tax efficient business solutions and managing tax risks.**

We work together with our colleagues in other PricewaterhouseCoopers' offices 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. For more information, please see our contact details below.



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# Tax indicators

The table below provides a comparative overview of the most relevant tax indicators for the years 2020 and 2021.

Tax indicators		2021	2020
<b>Value added tax</b>			
Threshold to register for VAT (for a calendar year)	EUR	40,000	40,000
Threshold for cross-border digital services*	EUR	10,000	10,000
<b>Income tax</b>			
Flat income tax rate to be paid or withheld from taxable income of individuals or non-residents	%	20	20
Income tax prepayments of credit institutions (paid on quarterly profits)	%	14	14
Reduced rate of corporate income tax on regularly distributed profits**		14/86	14/86
Income tax to be withheld in case recipients of dividends are individuals and when distributing the profits, the resident legal entity paid reduced rate of corporate income tax	%	7	7
Reduced rate of income tax (disbursements from third pillar, royalties and service fees paid to non-residents)	%	10	10
Income tax rate of taxable payments of legal persons (dividends, gifts etc.)		20/80	20/80
The overall tax-free income (basic exemption) of a resident individual per calendar month	EUR	500 .... According to the formula: $500 - 500 / 900 \times (\text{income amount} - 1,200)$	500 .... 0 According to the formula: $500 - 500 / 900 \times (\text{income amount} - 1,200)$
The overall tax-free income (basic exemption) of a resident individual per calendar year	EUR	6,000 .... 0 6 000, if the annual income is up to 14,400 If the annual income is greater than 14,400, basic exemption decreases according to the following formula: $6,000 - 6,000 / 10,800 \times (\text{income amount} - 14,400)$ 0, if the annual income is greater than 25,200	6,000 .... 0 6 000, if the annual income is up to 14,400 If the annual income is greater than 14,400, basic exemption decreases according to the following formula: $6,000 - 6,000 / 10,800 \times (\text{income amount} - 14,400)$ 0, if the annual income is greater than 25,200
Additional tax exempt allowance per month on pensions	EUR	0	0
Additional tax exempt allowance per month for accidents at work or occupational disease	EUR	0	0

# Tax indicators

Annual additional tax exempt allowance for parents (starting from the second and third child) ***	EUR	1,848 (second child) 3,048 (third and the following)	1,848 (second child) 3,048 (third and the following)
Annual additional tax exempt allowance for a spouse in case certain conditions are met	EUR	2,160	2,160
Tax exempt rate of a birth allowance paid by an employer (single payment)	EUR	2,500	2,500
Combined annual deduction rate for housing loan interests, education expenses and charitable donations per individual		1,200 incl. 300 EUR on housing loan interests but no more than 50% of income	1,200 incl. 300 EUR on housing loan interests but no more than 50% of income
Tax exempt limit of third pillar contributions	EUR %	6,000 15% of income	6,000 15% of income
Additional tax allowance for self-employed individuals on income derived from sale of agricultural products	EUR	5,000	2,877
Additional tax allowance for self-employed individuals on income derived from sale of timber and Natura 2000 private forest ownership support		5,000	5,000
Social tax			
Social tax rate	%	33	33
Monthly base rate for social tax contributions	EUR	584	540
Minimum monthly employer’s social tax liability	EUR	192.72	178.20
Self-employed individual's minimum quarterly social tax liability	EUR	578.16	534.60
Self-employed individual's minimum annual social tax liability	EUR	2,312.64	2,138.4
Self-employed individual's maximum annual social tax liability	EUR	23,126.4	21,384
Social security contributions			
Employers’ unemployment insurance contributions	%	0.8	0.8
Employees’ unemployment insurance contributions (to be withheld)	%	1.6	1.6
Mandatory funded pension contributions	%	2	2
Mandatory funded pension contributions in case an application was submitted)	%	0 (until 31.08.2021)****	
Salary			
Minimum monthly salary for full-time employment	EUR	584	584
Minimum hourly rate	EUR	3.48	3.48

# Tax indicators

## Compensations and fringe benefits

Tax exempt per diem rate applicable on business trips abroad (up to 15 days a month)	EUR	50	50
Tax exempt per diem rate applicable to self-employed individuals on business trips abroad (up to 15 days a month)	EUR	50 (documented expenses)	50 (documented expenses)
Tax exempt compensation for usage of a private vehicle for business purpose (in case a travel diary is kept)		0.30 EUR/km. but no more than 335 EUR per month	0.30 EUR/km. but no more than 335 EUR per month
Fringe benefit cost on the usage of employer's car (in case a travel diary is kept)		1.96 EUR/kW per month. For a car that is older than 5 years 1.47 EUR/kW per month	1.96 EUR/kW per month. For a car that is older than 5 years 1.47 EUR/kW per month
Fringe benefit cost on usage of employer's car (in case a travel diary is not kept)		1.96 EUR/kW per month. For a car that is older than 5 years 1.47 EUR/kW per month	1.96 EUR/kW per month. For a car that is older than 5 years 1.47 EUR/kW per month
Combined income tax and social tax liability on usage of employer's car (in case a travel diary is not kept)		1.3 EUR/kW per month or (for a car that is older than 5 years) 0.98 EUR/kW per month	1.3 EUR/kW per month or (for a car that is older than 5 years) 0.98 EUR/kW per month
Annual minimum interest rate on loans granted to employees		0%	0%
Compensation of public transportation tickets (commute between home and workplace) to the employee without the application of fringe benefit taxes		Yes, unconditionally	Yes, unconditionally

## Interest on the amount of outstanding tax (by the due date)

Interest rate and payment of income tax on interest	%	0.03 per day	0.06 /0 /0.03 per day****
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\* Digital services refer to cross-border electronic services and electronic communication services. Estonian 20% VAT rate is applied when the threshold sätetud above is not exceeded. However, if the threshold is exceeded, the VAT rate of the Member State where the final consumer lives becomes applicable. In order to avoid the obligation to register for tax purposes in each Member State where the final consumer lives, a special mini one-stop-shop (MOSS) scheme can be applied by submitting a MOSS application via the e-tax authorities.

\*\*According to the §501 of the Income Tax Act, the year 2018 will be the first year taken into account when calculating the average taxable distributed profit of three years. Reduced rate of 14% will be applied:

1) in 2019 to one third of the profit distributed in 2018 from which a resident company has paid income tax;

2) in 2020 to one third of the profit distributed in 2018 and 2019 from which a resident company has paid income tax;

3) in the amount of the average profit calculated on the basis of the profit distributed in the previous 3 calendar years of 2021 (2018, 2019, 2020) on which the resident company has paid income tax.

\*\*\*As of January 1, 2020 (based on the 2020 income tax return filed on April 30, 2021), the additional tax exempt allowance for a parent is EUR 1,848 starting from the second child and EUR 3,048 starting from the third child.

\*\*\*\* From 01.09.2021, the 2% withholding of pension insurance will end for employees who submit an application to leave the second pillar from January to March 2021.

\*\*\*\*\* Due to the state of emergency declared by the Government on 12.03.2020, no interest was calculated from 1.03.2020 until the end of the state of emergency (17.05.2020 inclusive). From 18.05.2020 to 31.12.2021, interest on the tax debt must be calculated and 0.03% per day must be paid.