



# ESTONIA PAYROLL GUIDE 2024

## Setting up payroll in Estonia

Payroll-related processes in Estonia are mainly carried out **electronically**. This includes tax filing, employee registration and more.

**New employees must be registered** with the Estonian Employment Register which is administered by the Estonian Tax and Customs Board. Employees need to be registered before they start working for their new employer. Electronic registration is possible via the e-Tax system. A separate registration process is necessary for non-resident employees who are hired to work in Estonia.

To facilitate tax filing and payments, companies should register for **e-Tax** which is the electronic tax filing system. Non-resident employers can name a representative to operate their e-Tax account on their behalf. Setting up a local bank account is not mandatory as payments to employees and authorities can be issued from foreign bank accounts.

## Income tax and social security contributions in Estonia

There is one **universal tax rate (20%)** applicable to all types of employment income, regardless of the amounts earned. This includes wages and salaries as well as additional payments, bonuses and holiday pay. Employees are not taxed on fringe benefits provided by the employer.

In Estonia, social security contributions are mainly borne by the employer who pays **33% social tax plus 0.8% unemployment insurance**. Social tax comprises payments towards state pensions (20%) and the public health system (13%). It is worth noting that employers are obligated to pay a monthly minimum social tax contribution of EUR 239.25 even if the employee's income of that particular month was zero.

The employee is only required to pay **1.6%** towards **unemployment insurance**. There further is a mandatory **2% "funded pension"** contribution which applies to employees born after 1983.

It is the **employer's obligation to withhold** the employee's mandatory pension and unemployment fund contributions from their salary and pay them to the Tax and Customs Boards together with their own social security contributions. The deadline is the same as for withheld income tax payments.

## Tax withholding and reporting

**Employers are responsible for withholding** income tax at source and submit the withheld amounts to the authorities on a monthly basis. For this purpose, employers have to file a monthly tax return. This monthly return is called **TSD** and can be accessed and filed via the e-filing system. Both payments and tax return are **due on**

**the 10th of the month following the payroll run.** Fringe benefits must be reported in a separate form annexed to the TSD.

The **tax year is the calendar year.** Individuals file an annual tax return which can be submitted between 15 February and 30 April of the following year via the e-Tax system.

## Employment laws

Employment contracts must be signed by hand or digitally. An employment contract may be concluded for a specified term only with a good reason arising from the temporary, fixed-term nature of the job.

The employment contract indicates the agreed gross wages. The employer undertakes to pay the employee wages **at least once a month** on the agreed day. Employers are obligated to provide employees with a payslip at the end of each payroll run.

The duration of annual holiday is a minimum of 28 calendar days per year. The claim for annual holiday expires within one year as of the end of the calendar year for which the holiday is calculated. Unused annual holiday is reimbursed in money only at expiry of the employment contract.

The **employer cannot unilaterally and ordinarily cancel the employment relationship** with an employee, i.e. dismiss them without any reason. An employer may extraordinarily cancel an employment contract entered into for a specified term and an employment contract entered into for an unspecified term with good reason arising from the employee or the economic situation. However, cancellation of employment contract by employer for economic reasons means a lay-off, which has its own rules.

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