Eurofast

INDIVIDUAL TAXATION: ESTONIA

INDIVIDUAL TAXATION IN ESTONIA

1. General Information

Residents are subject to tax on worldwide income, irrespective of the origin of the income. Non-residents are taxed on their Estonian-source income.

In Estonia, personal income is subject to a flat tax rate, maintaining fairness and simplicity in the tax system. This rate stands at 20% and applies to various sources of income, including employment earnings, self-employed income, property/investment-related income (such as rental income, royalties, interest, and capital gains), and other income sources like certain pensions, scholarships, grants, awards, lottery prizes, and insurance indemnities.

From 2018 onwards, dividends that have been subject to the reduced rate of 14% at the level of the distributing Estonian company will have WHT of 7% levied. Certain pension payments are subject to 10% income tax.

Estonian tax laws allow for specific deductions from personal income, which can help reduce the tax burden. Some of these deductions include the basic exemption, which ranges from EUR 0 to 7,848 per year. For a resident parent supporting two or more minor children, there is an increased basic exemption applicable to children up to 17 years of age, starting from the second child.

Furthermore, additional deductions can be claimed for various expenses, such as housing loan interest, training costs, gifts, donations, insurance premiums, and the acquisition of pension fund units. However, there is a limit to the total amount of additional deductions, capped at EUR 1,200 (including EUR 300 for housing loan interest). The deductible amount cannot exceed 50% of the taxpayer's taxable income during a given tax period, which corresponds to a calendar year.

Individuals are allowed to deduct amounts paid to acquire units of a supplementary pension fund or as insurance premiums under an insurance contract for a supplementary funded pension (known as the III pension pillar). However, these deductions are subject to a maximum of 15% of the taxpayer's annual taxable income or up to EUR 6,000.

As part of the tax process, individuals are required to submit their personal income tax return annually, with the deadline falling on the 30th of April following the year of taxation.

Some basic examples and breakdown of taxes in Estonia can be found below:

Annual gross income (EUR)	Basic exemption (EUR)
Up to 14,400	In the maximum amount of 7,848
Between 14,400 and 25,200	Proportional reduction of basic exemption, determined using a specific formula
Over EUR 25,200	No entitlement to basic exemption except old-age pensioners, who, as from 1 January 2023, are entitled to a monthly basic exemption of 704 euros, regardless of the size of their income.

2. Social Security Contributions (SSC)

In Estonia, employers have the responsibility of making mandatory social security contributions based on the gross employment income of their employees. There is no maximum limit set on these contributions, ensuring that social security coverage remains comprehensive. The minimum monthly social security obligation per employee amounts to EUR 215.82.

For employees working in Estonia, the social security and unemployment insurance contribution rates are as follows:

- Employer's rate: 33.8% (comprising 33% of social tax and an additional 0.8% for the unemployment insurance contribution).
- Employee's rate: 1.6% (pertaining to the unemployment insurance contribution).

Furthermore, there is a funded pension system, known as the II pension pillar, where contributions of 2% are deducted from the employees' gross salary payments, but only if they have chosen to participate in this pension scheme. It's worth noting that Estonian tax residents born in 1983 or later are automatically integrated into the II pillar.

Employees have the freedom to decide whether they want to contribute to the funded pension system or not. They can exercise their choice on this matter. Additionally, the status of any employee may change up to three times per year, specifically in January, May, and September. This implies that employers need to examine and ascertain the status of their employees three times annually and comply with the relevant obligations based on the chosen pension plan or lack thereof. This allows for flexibility and adaptability in the Estonian pension system, catering to individual preferences and circumstances.

3. Residence

To establish tax residency in Estonia, individuals must meet certain criteria. They are considered residents if they possess a permanent residence in Estonia, stay in the country for more than 183 days during any consecutive 12-month period, or are Estonian public servants sent abroad on official assignments. The tax residency status of an individual can be determined from the date of their arrival in Estonia. It's important to note that, for calculating the number of days spent in Estonia, even a part of a day is considered equivalent to a full day.

However, there are situations where a dual-resident individual may be subject to a double tax treaty (DTT). If the tie-breaker article in the DTT designates the individual's residency to a foreign country (which usually happens when their home and family remain abroad during their assignment in Estonia), then they will be treated as a non-resident for tax purposes in Estonia, overriding the domestic rules mentioned earlier.

In the event of a change in tax residency, individuals are required to inform the Estonian Tax and Customs Board about their new tax status. This notification ensures proper compliance with tax regulations and avoids any potential issues related to tax liabilities in Estonia. Being transparent about the change in tax residence helps maintain a clear and accurate tax record with the tax authorities.

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