Business income

Business income is connected with independent economic activity.

BUSINESS INCOME IS:

- ✓ money received from the production, sale or intermediation of goods;
- ✓ income from the provision of services or other activities, including creative or scientific activity;
- ✓ financial benefits, scholarships and grants received in connection with business activity (including scholarships and grants paid from the state budget under the law and benefits received under the law);
- ✓ ARIB supports given to a self-employed person that are directly received by third parties but are supports to self-employed persons by their nature;

  Example
  In 2020, a self-employed person acquires a combine harvester on a lease basis at the price of 160,000 euros. The amount of self-financing for the self-employed person is 60,000 euros and in addition, he applies for an investment aid from ARIB for the additional investment. The amount of the support determined by ARIB (100,000 euros) is not transferred into the self-employed person's bank account, instead, it is directly transferred into the bank account of the lessor, reducing thereby the leasing obligation.
  This financial entry under the leasing contract is equalised in the accounting for taxation purposes with the receipt into the bank account and with the payment from the bank account.
  Thus, the ARIB support for the self-employed person (100,000 euros) must be indicated in the income – on the income tax return form E line „Benefits" and in expenses – line „Acquisition cost of fixed assets", i.e. the expenses made for the acquisition of fixed assets.
- ✓ any financial income received in the non-monetary form (except non-monetary benefits);

  Example
  Mr Karu rents out unrenovated rooms for 50 euros per month (renting out of rooms is his business income). Resulting from the contract, Mr Karu receives financial income in the amount of 30 euros in a month whereas the lessee is renovating the rented rooms instead of Mr Karu. The rest of the rent (20 euros) is offset against the renovation costs. In this case, the business income for Mr Karu is still 50 euros.
- ✓ income from rent or licence fees;
  If a taxpayer is registered as a self-employed person and the income received from rent or licence fees is her business income, such income is declared on form E. If the said income is not business income, it is declared on form A.

- On leasing or renting out their property or receiving licence fees, natural persons can make a choice whether the said activity is their business activity or not. Being a self-employed person, they can make deductions from the income received but they must pay social tax.
  If a self-employed person has entered the acquisition cost of the property to be leased or rented out into the expenses related to business, the property has not been taken into personal use and the market price of the property has not been added to the business income, the income received from the rent of such property is **always** business income.

- financial income (including interests paid by the bank, for depositing money in a special bank account);
  From 2018, income tax is charged on all interests paid by banks. If a bank has declared these interests in the tax return TSD and these data are pre-filled on form A of the income tax return, these already taxed interests shall not be declared on form E any more.

- An insurance indemnity paid in a case where the insured event occurred under non-life insurance conditions if the self-employed person has deducted the insurance premiums related to such insured event or the acquisition cost of the insured assets;

- the market price of the property taken into personal use;
  The income derived from the transfer of property or the market price of the property taken into personal use shall be considered business income if the acquisition cost or improvement costs made for the property have previously been entered into the expenses related to business.

- income received from business abroad;
  If a self-employed person earns business income in a foreign state through her permanent establishment situated in the foreign country, the income is not subject to income tax in Estonia. The income and incurred expenses are declared on form E in table 1 (choose 'V' as a method of taxation-exemption method). To apply tax exemption to such income in Estonia, the following conditions must be met:

  1. the business income has been earned through the self-employed person's permanent establishment situated in the foreign country,
  2. the income received abroad is taxed in the foreign country and this is certified,
  3. the amount of income tax paid is indicated on the certificate.

- All other business income taxable on the basis of the Income Tax Act.
  For example, value added tax refunded by the Estonian Tax and Customs Board or settled by some other obligation shall be considered business income.

Business income may be received, *inter alia*, as a service fee on the basis of the contracts under the law of obligations (for example, a contract of purchase and sale, authorisation agreement, etc.).
Income is indicated together with value added tax on form E of the income tax return.

The accounting period for business income is the calendar year, regardless of how many months the self-employed person received income during the calendar year and whether he/she received income during engagement in business, suspension of business or after the termination of engagement in business. Thus, pursuant to the Income Tax Act, business income is taxed regardless of the time it is received.

WHAT IS NOT CONSIDERED AS BUSINESS INCOME

Whereas a natural person and a self-employed person is one and the same person, the income received by the natural person is not always considered business income of a self-employed person. Here, it is necessary to clarify for what a natural person receives income. Some examples of income which is not considered a natural person's business income:

- ✓ income from employment received from the employment or service relationship;
  In a situation where a natural person works at an employer, subordinates to the employer's leadership and control, and his/her working time and duties of employment are determined by the employer.

- ✓ income received from the transfer of securities belonging to the natural person;

- ✓ non-monetary benefits related to business and received pursuant to law (for example, a tractor granted to a farmer as a support);

- ✓ a loan taken whereas it is subject to the repayment;

- ✓ income received into a business account (not into the self-employed person's special account) in accordance with the Simplified Business Income Taxation Act. The owners of a business account have to bear in mind that they may not be engaged in the same or similar business activities as a self-employed person at the same time.

Last updated on 08.01.2025