Deduction of expenses and limitations thereon

THE RIGHT TO DEDUCT EXPENSES

Self-employed persons (notaries and bailiffs included) are allowed to deduct all certified expenses incurred in relation to business during a period of taxation from their business income.

In the accounting for taxation purposes, source documents (documentary evidence) must meet the requirements provided for in **§ 7 of the Accounting Act**.

If expenses incurred are only partly related to business, only the part related to business may be deducted from business income.

If the person is not registered as a self-employed person, he/she has no right to make deductions from the business income.

It is allowed to deduct expenses incurred before the registration as a self-employed person as well, if they are related to the registration of the self-employed person, obtaining activity licences or registrations necessary for commencement of business activities.

LIMITATIONS ON DEDUCTION OF EXPENSES

On deduction of certain expenses from income, the limitations set out in the Income Tax Act should be taken into account (**§ 33 of the Income Tax Act**).

- ✓ Certified expenses incurred in connection with the provision of catering, accommodation, transportation or entertainment to guests and co-operation partners may be deducted from the business income in an amount not exceeding 2 per cent of the business income after the prior deduction of the expenses. In addition to 2 per cent, expenses made for entertaining guests may be deducted in the amount of up to 32 euros per calendar month.

- ✓ Expenses of goods transferred or services provided for the purposes of advertising may be deducted from the business income of a period of taxation if the value of the goods or services without value added tax is up to 10 euros.

- ✓ Expenses made by a self-employed person for improving his or her own health may be deducted to the extent of 100 euros in a quarter on the conditions provided for in **subsection 48 (5^5) of the Income Tax Act**. In other words, the conditions listed under the mentioned subsection apply to self-employed persons in the same way as to their employees.
- ✓ Certified expenses incurred in connection with personal meals of a self-employed person during

- temporary engagement in business in a foreign state may be deducted from the business income of a period of taxation, provided that prior to the engagement in the foreign state, the business was conducted in Estonia and after the engagement in the foreign state, the business will be continued in Estonia, or in other words, a substantial part of his/her business was conducted in Estonia (i.e. the smaller part than 25 per cent of the supply or the time of engagement is in a foreign state). During the first 15 days, the tax exempt limit is 50 euros per day, and beginning from the 16th day it is 32 euros per day.

Last updated on 08.01.2025