Transfer of dwelling used for business

TAXATION OF GAINS RECEIVED FROM TRANSFER OF A DWELLING USED AS THE PLACE OF RESIDENCE AND PARTLY FOR BUSINESS PURPOSES

The income received from transfer of the immovable the essential part of which is a dwelling is not considered a natural person's taxable income if the person used the transferable dwelling up to the transfer as his/her place of residence.

If a natural person has used his/her dwelling partly for business purposes and entered a part of the acquisition cost of the dwelling into the expenses related to business, the corresponding part of the income received from the transfer of this dwelling is taxed.

If a self-employed person has terminated the use of the dwelling in business and added the market price of the part entered into business expenses to the business income or has terminated the use of the dwelling in business long time ago and used it as his/her actual place of residence, then the gains received from the transfer of the dwelling are exempt from taxes in full.

Example 1
A self-employed person resided permanently in an apartment the total surface area of which was 100 m^2. Thereby she used 70 m^2 of it as her dwelling and 30 m^2 for business purposes. The acquisition cost of the apartment was 700,000 kroons in 2009 (44,738.15 euros). The self-employed person **did not enter** the part of the acquisition cost of the property used for business in her business expenses. The self-employed person as a natural person sells the apartment for 63,912 euros, using the services of a real-estate agent and paying brokerage in the amount of 639 euros.
The person received gains from the transfer of the property in the amount of 63,912 – 44,738.15 – 639 = 18,534.85 euros. 70 per cent of the income (18,534.85 euros) is exempt from taxes, i.e. this part of the dwelling which the self-employed person used as her actual dwelling. The remaining 30 per cent (18,534.85 × 30% = 5,560.45 euros) is taxed as the income from the sale of the natural person's property because the self-employed person used a part of the dwelling in business up to the transfer.
The gains from the transfer of the natural person's property is declared on form A of income tax return for natural person.

Based on the information in example 1, the gains from the transfer of the property is declared on form A in table 6.3 as follows.

Transfer of other property

Type of property	Address	Acquisition cost and expenses related to transfer	Sales price

Sales of apartment (30%)	Harju County Rae rural municipality Jüri town Ehituse 3–2	13,421.45 (44,738.15 × 30%) + 191.70 191.70 (639 × 30%)	19,173.60 (63,912 × 30%)

Example 2

Let us take example 1 for a basis, where the self-employed person resided permanently in an apartment with the total surface area of 100 m^2. Thereby she used 70 m^2 of it as her own dwelling and 30 m^2 for business purposes. The acquisition cost of the apartment was 44,738.15 euros. In this example, **the self-employed person has entered** the part of the acquisition cost of the apartment used for business purposes into the expenses related to business (44,738.15 × 30% = 13,421.45).

The self-employed person as a natural person sold the apartment for 63,912 euros, using the service of a real-estate agent, for which he paid 639 euros. As a self-employed person, he received the gains from the transfer amounting to 19,173.60 euros (63,912 × 30% = 19,173.60). The income received (19,173.60 euros) must be declared on form E, line 1.1.4 (Income from transfer of property used in business). The self-employed person may enter the expenses for the services of the real-estate agent in the amount of 191.70 (639 × 30% = 191.70) in form E, line 1.2.11 (Other expenses).

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