

# Special account

Sole proprietors registered in the commercial register have the right to open one special account with a credit institution which is a resident of EEA Contracting State or a branch of a non-resident credit institution registered in a Contracting State, where to they can transfer the income derived from business only and the benefits and compensations received in connection with business.

Any increase in the amount in the special account during a period of taxation is deducted from the business income of the same period and any decrease is added to the business income of the same period. The decrease in the amount in the special account is not added to the business income for a period of taxation if the special account is transferred to another person who will continue the activities of the enterprise in the case specified in **subsection 37 (7) of the Income Tax Act**

Any increase in the amount in the special account during a period of taxation may be deducted from the business income received during the same period of taxation if the following conditions are met:

- ✓ Amounts calculated as business income and benefits and compensations received in connection with business are transferred to the special account within ten working days as of their receipt;
- ✓ If the increase in the amount of the special account during a period of taxation exceeds the business income and the amount of benefits and compensations received in connection with business during the same period of taxation, from which the deductions allowed in **§ 32 of the Income Tax Act** have been made, the portion exceeding the specified proceeds are not deducted from the business income of the period of taxation;
- ✓ The part of the decrease in the amount in the special account which was not used for reducing the income is not added to the business income;
- ✓ Upon a transfer of the business income which is not subject to tax in Estonia (derived from a foreign state and the method of taxation indicated 'V' - 'exemption method') to the special account, the case is not considered an increase in the amount in the special account and by this amount you may not reduce the business income subject to tax in Estonia and the taking off of the amount from the special account does not increase the income subject to tax in Estonia.

A sole proprietor may let the amounts received as business income to be transferred directly to the special account with no need to calculate these ten working days. In general, working days are deemed to be days from Monday to Friday. If the national day or public holidays provided for in the Public Holidays and Days of National Importance Act fall on working days, the days of rest are concerned.

An ordinary bank account opened by an employer is considered a special account if a sole proprietor takes it into use as the special account for his/her business. Upon changing the account or transferring

from one bank to another, the entire amount in the account being closed is transferred to the new special account within ten working days as of closing the special account. The use and taxation of a special account is regulated by **subsections 36 (7), (7<sup>1</sup>), (7<sup>2</sup>) and (8) of the Income Tax Act** .

The Tax and Customs Board need not be separately notified about the opening of a special account, a sole proprietor informs of the existing special account by filling in Table 2 on Form E of the income tax return.

A special account can be used for collecting money for large investments without taxation of the amount in the account at the end of the period of taxation when the income was received.

All interests accrued from the money kept on the special account are deemed to be business income and charged by income tax during that period of taxation when the interests accrued if the bank has not withheld income tax on the interests upon payment thereof. In the case of termination of engagement in business, the amount in the special account used for reducing the prior taxable business income is added to the business income subject to tax (except interests).

The income tax refundable by the Tax and Customs Board is not transferred to the special account as this is not business income, therefore no special account (the number of the special account) is indicated in the income tax return for refunding the income tax.