The ABCs for a self-employed person

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Starting a business and overview of liabilities

What is business

For the purpose of the Income Tax Act, business is a person's independent economic or professional activity (including the professional activity of a notary or bailiff and the creative activity of a creative person engaged in a liberal profession), the aim of which is to derive income from the production, sale or mediation of goods, provision of services, or other activities, including creative or scientific activity (**subsection 2 of § 14 of the Income Tax Act**).

For the purpose of the Value-Added Tax Act (VAT Act), business means the independent economic activity of a person in the course of which goods are transferred or services provided, whatever the purpose or results of that activity. The professional activities of a notary and bailiff are also deemed to be business (**subsection 2 of § 2 of the VAT Act**).

According to the regulatory legislation about their activities as regards accounting and taxation, notaries and bailiffs are deemed to be self-employed persons.

Who is self-employed person

Self-employed person is a natural person who is engaged in business. Any natural person can be a self-employed person, including a minor of at least 15 years of age to whom his/her parent has granted consent or a court has extended his/her active legal capacity to engage in economic activity **(sections 9 to 11 of an Act on the General Part of the Civil Code**).

A self-employed person and their business as an economic entity through which they operate **is not a legal person**.

A self-employed person may operate in areas of activity in which operation is not prohibited by law. The laws may provide for areas of activity for which a licence is required or in which only a particular class of undertaking may operate (**subsections 1 and 2 of § 4 of the Commercial Code**).

Organisation of business includes the following characteristic features:

- ✓ self-employed persons themselves decide how, to whom, where and when they provide their services;
- ✓ self-employed persons provide goods or services in their own name (independently) to other persons (purchasers/contracting entities;
- ✓ self-employed persons may employ other persons, that is, they may be employers to other persons;

- self-employed persons acquire and repair the devices, work equipment and the like used in their business, on own account;
- self-employed persons organise their accounting pursuant to the Accounting Act;
- self-employed persons determine the proportion of the part of their assets used in their business and the proportion of use of these assets in business;
- self-employed persons acquire materials, goods and services for their business on own account;
- self-employed persons cannot be their own employer, send themselves to a business trip, pay themselves a salary or a compensation for the employment related use of a personal automobile or grant themselves fringe benefits;
- self-employed persons may not conclude transactions with themselves (for example, enter into a loan agreement, an asset sale contract with themselves);
- self-employed person as an undertaking bears the risk related to economic activities, assuming responsibility for their activity with all of their assets, that is, with both of the assets used in business and their personal property;
- self-employed persons submit to the Estonian Tax and Customs Board form E of the income tax return reflecting the income and expenditure derived from their business as a self-employed person.

Last updated on 08.01.2025

Registration of natural person as self-employed person

Before starting business activities, all self-employed persons must apply for their entry in the **commercial register**. Self-employed persons are entered in the commercial register based on the application submitted by the person concerned (**§ 3 of the Commercial Code**).

To register a self-employed person with the commercial register, an application for entry in the register must be submitted (digitally signed or certified by a notary) to the commercial register. The application must contain the following information:

- ✓ business name (requirements for a business name in **sections 7 to 15 of the Commercial Code**), in case a name of farm is used, the reference to the number of the registered immovable property in the land register should be added;

- ✓ postal address of self-employed person (number of apartment and house; name of street or farm, name of settlement, local government, county and postal code);

- ✓ details of self-employed person (first name and surname, Estonian personal identification code or the birth date);

- ✓ beginning and end of the financial year (please note that irrespective of the self-employed person's financial year, a period of taxation is still a calendar year);

- ✓ if needed, information on the suspension of business activities, seasonal or temporary activity (**§ 3 (3) of the Commercial Code**);

- ✓ means of communication (phone, fax, e-mail, website etc.);

- ✓ information on the planned principal activity. Unlike other self-employed persons, farmers may have two activities registered in the commercial register (for example, in a tourism farm the farmer may be engaged in production of agricultural products and accommodation services at the same time).

- ✓ receipt of the payment of state fee.

More information can be found on the website of the Ministry of Justice and Digital Affairs on the page **"Füüsilisest isikust ettevõtja" ("Self-employed person")** (in Estonian).

Notaries are registered by the Estonian Chamber of Notaries whereas bailiffs are registered by the Estonian Chamber of Bailiffs and Trustees in Bankruptcy.

The tax authority uses the information on self-employed persons obtained from the commercial register, the Estonian Chamber of Notaries and the Estonian Chamber of Bailiffs and Trustees in Bankruptcy. Therefore, it is important that the information on self-employed persons entered in the register be correct. Hereby it should be borne in mind that self-employed persons must perform their tax liabilities as long as they are entered in the register as a self-employed person.

SELF-EMPLOYED PERSON AS A SALARIED WORKER

Being a self-employed person does not exclude working under an employer. Whereas a self-employed person and a natural person is the same person, the natural person may earn income in various ways (for example, income from employment, income from transfer of securities, business income, etc.), but they must differentiate their different kinds of income on the income tax return of natural person.

REGISTRATION OF A SELF-EMPLOYED PERSON IS PUBLIC INFORMATION

All interested persons may check out via the **Information System of the e-Commercial Register** whether the person has been registered as a self-employed person.

FOR YOUR INFORMATION

- The obligations arising from the tax legislation shall also extend to self-employed persons who have not registered themselves with the commercial register;
- the rights provided for in the tax legislation apply to self-employed persons as from the date of their registration in the commercial register. Thus, only the persons registered in the commercial register as a self-employed person may make deductions from their business income as specified in **Chapter 6 of the Income Tax Act** .
- Transfer of securities owned by a natural person does not constitute business. Purchase-sale of securities and gains therefrom shall always be taxed as gains from transfer of property.
- Taxpayers may, at their own discretion, include also rent and royalties in their business income.

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Obligations of self-employed persons

SELF-EMPLOYED PERSONS ARE OBLIGED TO:

- keep accounts on their activities;
- in addition to keeping accounts, self-employed persons must keep records of facts relevant for taxation purposes (accounting for taxation purposes);
- pay **income tax** and **social tax** on their business income and if they have joined the mandatory funded pension (II pension pillar), pay also **contribution to the mandatory funded pension**;
- in addition to form A of the **income tax return of natural person**, submit a business income return (form E) not later than by 30 April of the year following the period of taxation (calendar year). (*The Estonian Tax and Customs Board will calculate the social tax and contribution to the mandatory*

- ✓ *funded pension to be paid from the business income on the basis of form E and the income tax on the basis of forms A and E of the income tax return and send a corresponding tax notice not later than by 1 September; the taxes due by the tax notice must be paid by the self-employed person not later than by 1 October);*

- ✓ make **advance payments of social tax** during the period of taxation;

- ✓ make **advance payments of income tax** during the period of taxation beginning from the second business year;

- ✓ self-employed persons whose business is registered in the commercial register as temporary or seasonal and who have indicated the starting date and final date of the business in their registration application are not required to inform of the start or termination of business activities for each case. Self-employed persons have the right to notify the commercial register of the suspension of the activities in advance specifying the period of time when the business is suspended. During the period of suspension, the person concerned is not a self-employed person for taxation purposes.

PAY ATTENTION

If a self-employed person fails to pay taxes by the due date prescribed by law (including advanced payments), the person is required to calculate and pay interest on the amount of tax outstanding at the rate of 0.06% per day by the due date. Interest is calculated as of the day following the day on which payment of the tax was due pursuant to law until the date of payment or set-off, inclusive of the latter (**subsections 115** and 117 of the Taxation Act).

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Obligations of self-employed person as an employer

SELF-EMPLOYED PERSON AS AN EMPLOYER IS OBLIGED TO:

- ✓ register the employees in the employment register – this obligation arises to self-employed persons if they employ people under the employment contract or the law of obligations act (contract for services, authorisation agreement or any other contract concluded for the provision of services) and have to pay taxes on the employees' earnings;

- ✓ enter in the employment register also persons working for them voluntarily without remuneration

- (see more information in section "**Employment register**");
- withhold income tax, unemployment insurance premium and contribution to the mandatory funded pension (if the employee has joined the second pension pillar) from the payments made to the employees;
- calculate and pay social tax;
- pay unemployment insurance premiums on the payments made to the employees;
- submit a **tax return for income tax, social tax, contribution to the mandatory funded pension and unemployment insurance premium (form TSD)** together with the corresponding annexes to the Estonian Tax and Customs Board not later than by the 10th date of the month following the month when the payments were made, and transfer the above-mentioned taxes and payments into the bank account of the Estonian Tax and Customs Board not later than by the same deadline.

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Registration as a person liable to value added tax

If the taxable supply of a self-employed person has exceeded 40,000 euros as of the beginning of a calendar year, they are obliged to register themselves as a **person liable to value added tax**. Self-employed persons can register as a person liable to value added tax also before their supply reaches 40,000 euros.

If self-employed persons fail to register for VAT purposes on time, they will be registered retroactively. In such a case, self-employed persons will have to issue new invoices that include VAT to clients to whom they issued invoices after their supply had exceeded 40,000 euros.

SELF-EMPLOYED PERSONS WHO ARE LIABLE TO VAT ARE OBLIGED TO:

- submit to the Estonian Tax and Customs Board a **value added tax return (form KMD)** by the 20th day of the month following a period of taxation (calendar month);
- transfer the value added tax into the bank account of the Estonian Tax and Customs Board by the same date;

- submit to the Estonian Tax and Customs Board also a **report on intra-Community supply (form VD)** by the 20th day of the month following a period of taxation (calendar month), if the person liable to value added tax, i.e. the self-employed person, sells goods to the other persons liable to value added tax of the Member States of the European Union.

For more information, please see "**Self-employed person and value added tax**".

Last updated on 08.01.2025

Self-employed person's tax calendar

Obligatory for all self-employed persons

NB! If the payment date falls on a public holiday or some other holiday, the working day following the holiday is considered a payment date.

Due date	Event
16 March	Advance payment of self-employed person's social tax
30 April	Submission of income tax return for a resident natural person (form A) and income tax return of business income for a resident natural person (form E)
15 June	Advance payment of self-employed person's social tax
15 September	Advance payment of self-employed person's social tax Advance payment of self-employed person's income tax*
1 October	Payment of additional amounts of income tax, social tax and contribution to the mandatory funded pension to be paid on the basis of the 2025 income tax return
15 December	Advance payment of self-employed person's social tax Advance payment of self-employed person's income tax*

Obligatory if	Due date
a self-employed person is an employer and makes payments to another natural person:	

Obligatory if	Due date
submission of the tax return on income tax, social tax, contribution to the mandatory funded pension and unemployment insurance premium (**form TSD** together with the corresponding annex), transfer of the taxes and payments declared into the bank account of the Estonian Tax and Customs Board	The **10th** day of the month following the month when the payment was made
registration of a self-employed person's employees in the **employment register**	Not later than at the time when the employee is taking up employment
certificate on payments, withholdings and calculated social tax in 2025 (forms **TSM**, **TSM MR**) issued at the person's request**	**2 February**
submission of tax return on compensation for private car **INF 14*** **	
certificate on the amounts paid for the acquisition of a supplementary funded pension insurance contract and units of the voluntary pension fund on behalf of an employee (**form TPS**) issued at the person's request	**1 December**
self-employed persons who are employers and have covered the expenses made for improving their employees' health within the given limit (**subsection 5^5 of § 48 of the Income Tax Act**) during a calendar year, submit to the Estonian Tax and Customs Board the tax return **INF 14** and fill in part III by 1 February of the following year	
a self-employed person pays social tax for his/her spouse:	
declaring social tax calculated for the spouse (**form ESD**)	The **10th** day of the month following the period of taxation (month)
a self-employed person is a person liable to VAT:	
submission of value added tax return **(form KMD and form KMD INF**) and payment of VAT	The **20th** day of every month
a self-employed person is a person liable to VAT and sells goods or provides certain services to persons liable to VAT in the member states of the European Union:	
submission of the report on intra-Community supply (**form VD**)	The **20th** day of every month
a self-employed person owns a heavy goods vehicle:	
payment of heavy goods vehicle tax, payment of road tolls for trucks with the tonnage exceeding 3.5 tonnes, if they move on public roads	**15 January, 15 April, 15 July, 15 October**
a self-employed person is an owner of a passenger car or van:	
motor vehicle tax is paid by all owners or authorised users of motor vehicles registered in the motor register	**15 June, 15 December**

Obligatory if	Due date
a self-employed person is a land owner:	
payment of land tax	**31 March****** **1 October**
a self-employed person is a packaging operator:	
payment of packaging excise duty	**15 January, 15 April,** **15 July, 15 October**

ADDITIONAL INFORMATION

If the payment date falls on a public holiday or some other holiday, the working day following the holiday is considered a payment date.

***** A self-employed person need not make advance payments of income tax:

- during the first year of business activities;
- if the quarterly payment does not exceed 300 euros (**§ 47 of the Income Tax Act**);
- after the date when the self-employed person has been deleted from the commercial register;
- if the business is registered in the commercial register as temporary or seasonal or is suspended.

****** A self-employed person will grant a relevant certificate at a person's request, if he/she has made payments subject to income tax and social tax to the said person.

******* A self-employed person will submit the return, if he/she as an employer has paid compensation for the use of a private car for business purposes.

******** Land tax of up to 100 euros must be paid by 31 March. At least half of the land tax exceeding 100 euros must be paid by 31 March, but not less than 100 euros. The rest of the land tax must be paid by 1 October at the latest (**subsection 1 of § 7 of the Land Tax Act**).

Last updated on 06.01.2026

Self-employed persons' tax liabilities

Information about changes in taxes and tax rates provided by law can be found under **Tax rates**.

Last updated on 08.01.2025

Social tax

PRINCIPLES

- Self-employed persons pay social tax on their business income after deductions relating to enterprise and permitted in the Income Tax Act have been made, taking into consideration the minimum and maximum rates established in the Social Tax Act;
- self-employed person’s taxable period for social tax is one calendar year, as the taxable income is determined once a year on the basis of an income tax return;
- the rate of social tax is 33 per cent;
- the social tax is deducted from the business income on the accrual basis, dividing the business income by the number of 1.33 after deducting the expenses;
- self-employed persons are requested to pay advance payments of social tax during the year;
- self-employed persons cannot indicate neither social tax nor advance payments of social tax in their expenses related to business.

DECLARATION, CALCULATION AND PAYMENT OF SOCIAL TAX

Social tax is calculated on the basis of business income received during the taxable period. Business income is declared on an income tax return once a year (form E), which must be submitted to the Estonian Tax and Customs Board together with the income tax return of a natural person (form A) not later than by **30 April** of the year following the period of taxation.

The maximum social tax rate of a self-employed person is calculated on the basis of ten times the sum of the minimum monthly wages (**clause 5 of subsection 1 of § 2 of the Social Tax Act**). As the taxable

period is a calendar year, the maximum tax liability is calculated on the amount of the minimum wages of 12 months.

- The maximum amount of self-employed person's social tax liability in **2026** is **36,867.60 euros** (886 × 10 × 3 × 33%) + (946 × 10 × 9 × 33%).

- The maximum amount of self-employed person's social tax liability in **2025** was **35,085.60 euros** (886 × 10 × 12 × 33%).

The Estonian Tax and Customs Board calculates an annual final social tax obligation on the basis of the data indicated on form E. Table 4 is added to form E of the income tax return wherein a self-employed person can indicate the periods, pursuant to sick leave certificates, when he/she was on sick leave during the year. The periods when the self-employed person is on sick leave are taken into account on calculating the annual final social tax obligation. A tax notice is issued by the Estonian Tax and Customs Board on the additional amount of social tax due to a self-employed person at least thirty days prior to the due date for payment of the tax (1 October). The annual calculation of social tax and the additional amount to be paid can also be viewed on the information sheet of the electronically filed income tax return. If no additional payment of social tax is required, the Estonian Tax and Customs Board will not issue a tax notice. In 2026, the self-employed person has to pay the amount of social tax indicated in the tax notice into the bank account of the Estonian Tax and Customs Board not later than by **1 October**. If, during the year, the self-employed person has paid more social tax as advance payments than the actual social tax obligation in a year, the self-employed person will be refunded the overpaid amount of social tax.

Further information

Social Tax Act

Last updated on 14.04.2026

Payment of advance payments of social tax

PAYMENT OF ADVANCE PAYMENTS OF SOCIAL TAX

Self-employed persons are obliged to make the advance payments of social tax four times a year (unless they are receiving a state pension, are persons with partial or no work ability, students within the meaning of subsection 5 (4) of the Health Insurance Act, start/terminate their activities during a quarter or social tax for them is paid by the employer or the state).
Advance payments of social tax are made for the current quarter **by the 15th day** of the last month of

each quarter (for the first quarter by 16 March, for the second quarter by 15 June, for the third quarter by 15 September and for the fourth quarter by 15 December). The monthly rate providing the basis for the payment of social tax is established in the state budget for every year.

The monthly rate for social tax in 2026 is 886 euros, on the basis of which the calculated social tax obligation for one quarter is 877.14 euros (886 × 3 × 33%). The tax liability is paid with the accuracy of a euro cent.

CALCULATION, DECLARATION AND PAYMENT OF SOCIAL TAX FOR THE SPOUSE OF A SELF-EMPLOYED PERSON

The self-employed person (except a notary and bailiff) registered in the commercial register can pay social tax for his/her spouse who participates in the activities of the self-employed person, ensuring thus social insurance cover to the spouse.

Last updated on 05.01.2026

When advance payments need not be paid

Self-employed persons need not make advance payments of social tax, if:

1. they are receiving a state pension (incl. flexible pension), are persons with partial or no work ability or students within the meaning of subsection 5 (4) of the Health Insurance Act (persons acquiring basic education, general secondary education, formal vocational education and students who are permanent residents of Estonia, except for doctoral candidates receiving the doctoral allowance);
2. they are under the age of 19;
3. **they start or terminate their activities during a quarter**.
   If a self-employed person starts or terminates business during the quarter, they are required to make advance payments for these days when they are registered as a self-employed person.
   If the requirements for exemption from advance payment mentioned in clauses 1 and 2 have been met not throughout the whole quarter, but during certain periods of the quarter, the proportional calculation is applied.
   If a person has tax liability for only some days in the quarter, then:
   - the number of days is determined for which the tax liability arose (all the days not covered with tax exemption are added together);
   - the actual number of days in the said quarter is determined;
   - the payment is calculated on a day-basis: the quarterly payment is divided by the number of the days in the quarter and multiplied by the number of the days of the tax liability.

   Example

The tax liability arose for 50 days and there are 91 days in the said quarter — the tax liability is calculated as follows: 877.14 euros ÷ 91 × 50 = 487.50 euros.

4. **social tax for the person is paid by the employer or the state or the local government**.
   If social tax for a self-employed person is paid by the employer or in accordance with § 6 of the Social Tax Act by the state, city or rural municipality, and if in 2026 the amount is not less than 877.14 euros per quarter, the self-employed person need not make advance payments of social tax.
   If the employer, state, city or rural municipality pays social tax for the self-employed person less than 877.14 euros, the self-employed person himself/herself must pay the missing part. The social tax paid is calculated in total from the beginning of the calendar year. If the amount of social tax paid by the employer or state exceeds the quarterly advance payment obligation of the said quarter, the social tax by the employer/state which was not used in this quarter will be carried over to the following quarters for reduction of payment obligation, **but not retrospectively for reduction of previous quarterly tax obligations**.

   Example
   A self-employed person's tax obligation for the second quarter is 200 euros. The amounts of social tax paid by the employer/state for March, April and May in 2025 are being verified. Let us assume that the total amount of social tax paid is 350 euros, then the self-employed person's final advance payment obligation for the second quarter is 0 and the unused balance is 350 – 200 = 150 euros. This unused balance may be used for covering the following quarters.
   The self-employed person's tax obligation for the third quarter is 300 euros. The amounts of social tax paid by the employer/state for June, July and August in 2026 are being verified. Let us assume that the amount of social tax paid is 50 euros, then the self-employed person's final advance payment obligation is 300 – 150 (previous quarterly balance) – 50 (paid in the third quarter) = 100 euros.

When calculating the amount of advance payment of social tax, you can get help in the service bureaus of the Estonian Tax and Customs Board or in the e-services environment e-MTA.

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Proportional calculation of social tax

Proportional calculation of quarterly obligation of advance payments of social tax if tax liability arose during a period shorter than a quarter (**subsections 5 and 5[1] of § 9 of the Social Tax Act**).

If the requirements for exemption from advance payments have been met not **throughout the whole quarter**, but during certain periods of the quarter only, it is required to apply proportional calculation.

Self-employed persons pay advance payments of social tax in proportion to:

- ✓ **the number of days** of registration as a self-employed person, if the self-employed person has been entered in the commercial register or deleted from there during a quarter;

- ✓ **the number of days** of engagement in business, if they have informed the registrar of the commercial register of the suspension of the business activities or the starting and final date of the temporary seasonal activity;

- ✓ **the number of days** preceding the time of becoming a person receiving state pension or a person with partial or no work ability if they have become a person receiving state pension or a person with partial or no work ability during the quarter, and **the number of days** following the termination of the status of a person receiving state pension or a person with partial or no work ability, if their right to receive a state pension or the status of a person with partial or no work ability has terminated during the quarter;

- ✓ **the number of days** preceding the creation of the status of a person considered equal to an insured person on the basis of **clause 5 of subsection 4 of § 5 of the Health Insurance Act**, if their right to be such a person has been created during the quarter, and **the number of days** following the termination of the status of a person considered equal to an insured person on the basis of clause 5 of subsection 4 of § 5 of the Health Insurance Act, if the status has terminated during the quarter;

- ✓ **the number of days** of non-validity of certificate A1 issued by a foreign competent social security authority.

If tax liability arises for a person only for some days in the quarter:

- ✓ the number of days when the tax liability arose is determined (all the days not covered with tax exemption are added up);

- ✓ the actual number of the days of the quarter concerned is found;

- ✓ the payment is calculated on a daily basis: quarterly payment ÷ the number of days in the quarter × the number of days of tax liability.

The number of days in each quarter is different:
I qtr: 31 + 28 + 31 = 90 days
II qtr: 30 + 31 + 30 = 91 days
III qtr: 31 + 31 + 30 = 92 days
IV qtr: 31 + 30 + 31 = 92 days

For example, tax liability arose for 50 days and there are 91 days in the quarter concerned, the tax liability is calculated as follows: 877.14 euros ÷ 91 × 50 = 487.50 euros.

EXAMPLES

Examples on the daily-based calculations of advance payments in the I quarter of 2026 (the number of days = the number of days of tax liability in the quarter):

1. self-employed person's starting date 1 January 2026 (or earlier) and final date 31 January 2026 the number of days = 31 I qtr payment: 877.14 euros ÷ 90 days × 31 days = 302.25 euros
2. self-employed person's starting date 31 January 2026 and final date 28 February 2026 the number of days = 29 I qtr payment: 877.14 ÷ 90 × 29 = 282.75 euros
3. self-employed person's starting date 1 January 2026 (or earlier), suspension from 10 January 2026 to 5 February 2026 (27 days) and a student from 10 February to 5 March 2026 (24 days), the final date of being a self-employed person is not mentioned the number of days = the number of days in the quarter 90 – the number of days of suspension 27 – the number of days of being a student 24 = 39 I qtr payment: 877.14 ÷ 90 × 39 = 380.25 euros.

Last updated on 05.01.2026

Taking into account social tax paid by employer

If social tax for a self-employed person is also paid by the employer or, pursuant to **§ 6 of the Social Tax Act**, by the state, city or rural municipality, the amount of advance payments made by the self-employed person may be less than the amount of tax calculated on the basis of triple the monthly rate of social tax, if the total amount of social tax payable for them by the employer or, pursuant to section 6 of the Social Tax Act, by the state, city or rural municipality and social tax payable by them as advance payments during the taxable period is equal to the amount of tax calculated on triple the monthly rate of social tax. **Social tax paid by the employer or, pursuant to § 6 of the Social Tax Act, by the state, city of rural municipality, shall be calculated in total from the beginning of the calendar year.**

Social tax declared on forms TSD or ESD of tax returns by the employer or, pursuant to **§ 6 of the Social Tax Act** by the state, local government or artistic association reducing the social proprietor's advance payments obligation shall be calculated **in total from the beginning of the calendar year** (**subsection 4 of § 9 of the Social Tax Act**).

The amount of the advance payments obligation of the quarterly social tax (full amount or proportionally calculated) is reduced by the amount of social tax declared on forms TSD or ESD of tax returns. The data of forms TSD or ESD of tax returns are taken into account with a periodic shift in relation to the quarter (–1 month) (i.e. as at 15.03.2026, in the calculation of the first quarter payment, the forms TSD or ESD for December 2025 and for January and February 2026 are taken into account). If the amount of social

tax on forms TSD or EDS for the period concerned exceeds the advance payments obligation of the quarter concerned, the social tax payable by the employer or state that was not used in this quarter will be carried over to the following quarter(s) for reduction of the payment obligation, **but not retrospectively for reduction of previous quarterly tax obligations.** The advance payment obligation arising in the quarters preceding the month in which the employment income was earned is not recalculated on an ongoing basis. Excess payments arising from the advance payment obligation in previous quarters are generally refunded based on the 2026 natural person income tax return.

EXAMPLES

1. Tax liability for the first quarter is 877.14 euros. The amounts of social tax on forms TSD/ESD for December 2025 and January and February 2026 are being verified. Let us assume that the total amount of social tax payable by the employer is 500 euros, then the self-employed person's final payment for the first quarter is 877.14 – 500 = 377.14 euros.
2. Tax liability for the second quarter is 877.14 euros. The amounts of social tax on forms TSD/ESD for March, April and May 2026 are being verified. Let us assume that the total amount of social tax payable by the employer is 995 euros, then the self-employed person's final payment for the second quarter is 877.14 – 877.14 = 0 euros and the unused balance of social tax according to forms TSD or ESD is 995 – 877.14 = 117.86 euros for covering the following quarters.
3. Tax liability for the third quarter is 877.14 euros. The amounts of social tax on form TSD for June, July and August 2026 are being verified. Let us assume that the total amount of social tax payable by the employer is 200 euros, then the final payment for the third quarter is 877.14 – 117.86 (balance) – 200 (new) = 559.28 euros.
4. Tax liability for the fourth quarter is 877.14 euros. The amounts of social tax declared on form TSD for September, October and November 2026 are being verified. Let us assume that the total amount of social tax is 900 euros, then the final payment for the fourth quarter is 877.14 – 877.14 = 0 euros and although, according to forms TSD or ESD, 22.86 euros of the social tax amount was not used, it will not be carried over to the coming year. The final annual social tax liability will be recalculated on the basis of the 2026 natural person income tax return in 2027 and the amount of social tax on forms TSD or ESD for January — December 2026 will be taken into account.

Analogically to social tax payable by the employer, the amounts received to the person's entrepreneur account to cover social tax in 2026 are taken into account if the self-employed person has such an account.

Last updated on 05.01.2026

Income tax

PRINCIPLES

Self-employed persons pay income tax on income derived from their business from which the deductions related to enterprise have been made under the conditions prescribed by law. Deductions from business income can only be made by a natural person **registered** as a self-employed person.

Income tax is charged on income derived from business also during the suspension of the business or received after the termination of engagement in business.

The period of taxation for income tax is one **calendar year**.

Income tax is charged on the income by the tax rate valid during the period of taxation when the income is received.

In 2026, the rate of income tax is 22%.

Self-employed persons may not deduct the income tax paid (including advance payments of income tax) from their business income.

A self-employed person who derived business income during a previous period of taxation is required to make advance payments of income tax.

DECLARATION OF INCOME, CALCULATION AND PAYMENT OF INCOME

Self-employed persons declare the income derived from their business once a year on form E, which is submitted together with an income tax return for natural person on form A to the Estonian Tax and Customs Board not later than by **30 April** of the year following the period of taxation. (Through the **e-services environment e-MTA** it is possible to file an income tax return from 15 February. If 15 February is a non-working day, then from the next working day.)

Self-employed persons are required to submit an income tax return also in the case where business income during a period of taxation was less than the basic exemption, business income was not derived or there was no economic activity at all.

The Estonian Tax and Customs Board calculates the additional amount of income tax due based on the business income adjusted by the social tax indicated on form E and the income and allowed deductions indicated on form A, and sends a tax notice on the additional amount of income tax due to a self-employed person not later than 30 days before the due date for payment, i.e. on 1 September of the year following the period of taxation. The calculation of the income tax liability of the year concerned and the amount of income tax due can also be viewed from the information sheet of the income tax return. Self-employed persons must pay the amount indicated in the tax notice no later than by **1 October**.
The Estonian Tax and Customs Board refunds the overpaid amount of income tax by the same date.

MAKING ADVANCE PAYMENTS OF INCOME TAX

A self-employed person starting a business need not make advance payments of income tax during the first period of taxation.

A self-employed person who derived business income during a previous period of taxation is required to make advance payments of income tax (**subsection 47 (1) of the Income Tax Act**).

Advance payments of income tax must be made into the bank account of the Estonian Tax and Customs Board in equal amounts **by the 15th day** of the third month of each quarter (not later than **by 15 September and 15 December**) starting from the quarter following the due date for submitting the income tax return.

The amount of advance payments of income tax is calculated on the basis of taxable business income derived by the person during the previous year of activity.

The amount of an advance payment to be paid on one due date is 1/4 of the total amount of income tax calculated on the business income derived during the previous business year, i.e. for example, in 2026, the person makes advance payments in total 2/4 of the amount of income tax calculated on the business income derived in 2025.

The amount of advance payment of income tax for one due date is found as follows:
the business income of a previous period of taxation, i.e. the taxable business income adjusted by social tax indicated on form E is multiplied by the tax rate of income tax valid during the previous period of taxation and is divided by the number four.

EXAMPLE

A self-employed person's taxable business income for the year 2025 was 5,455 euros and the tax rate was 22%.
In 2026, the amount of one advance payment is thus: 5,455 × 0,22 ÷ 4 = 300 euros.
The due dates and amounts for advance payments of income tax in 2026:
300 euros for the third quarter by 15 September;
300 euros for the fourth quarter by 15 December.
Totally 600 euros in the year.

A SELF-EMPLOYED PERSON NEED NOT MAKE ADVANCE PAYMENTS OF INCOME TAX:

- ✓ during the first taxable business period (of the year of activity);
- ✓ if the quarterly payment (for one due date) does not exceed 300 euros;
- ✓ if a self-employed person did not receive taxable business income during the previous period of taxation;

- ✓ if the business is registered in the commercial register as temporary or seasonal;
- ✓ if the business is suspended.

The Estonian Tax and Customs Board has the right to reduce the amount of advance payments or exempt a self-employed person from making advance payments if the self-employed person's estimated business income during the period of taxation is considerably smaller than the income of the previous period of taxation and if the self-employed person submits a corresponding **reasoned** application**. In the application, it is necessary to indicate specific reasons for reduction of the business income and add numerical data on the estimated business income.**

The application should be submitted prior to the due date of the advance payment. When submitting the application, it must be borne in mind that the tax authority makes a decision on the reduction or exemption of advance payments only in respect of the forthcoming due dates, therefore no decision is made on the due dates that have already arrived or have expired.

Last updated on 28.04.2026

Contribution to mandatory funded pension

PRINCIPLES

If a self-employed person has joined the mandatory funded pension (II pillar), he/she has to pay a contribution to the mandatory funded pension.

The contribution is paid once a year. The Estonian Tax and Customs Board calculates the amount of the payment based on the taxable income adjusted by social tax that is declared on the self-employed person's business income tax return (form E) and issues a tax notice on the amount to be paid not later than 30 days before the due date (1 October). The payable amount can also be viewed from the information sheet of the income tax return.

Self-employed persons are obliged to transfer the payable amount indicated in the tax notice into the bank account of the Estonian Tax and Customs Board not later than by 1 October.

The contributions to the mandatory funded pension paid for self-employed persons themselves are not allowed to be deducted from their business income and indicated on form E as business expenses, but have to be reflected on form A in table 9.1 ('Unemployment insurance premiums and contributions to

mandatory funded pension').

The tax rate is **2%**, **4%** or **6%**. **Amendment of the funded pension contribution rate as of 1 January 2025**

There is an upper limit (cap) on the contribution to the mandatory funded pension for self-employed persons. The upper limit is calculated based on the cap on the taxation of business income set forth in **clause 5 of subsection 1 of § 2 of the Social Tax Act**, which is ten times the amount of the minimum wage. The taxable period is the calendar year; therefore, the upper limit on the tax liability is calculated based on the amount of the minimum monthly wages for twelve months.

In 2026, the minimum wage changed on 1 April; therefore, the calculation of the maximum contribution to the mandatory funded pension is based on the number of months during which two different minimum wages were in effect.

The maximum mandatory funded pension contribution for self-employed persons in 2026 is:

- ✓ at the 2% rate — 2,234.40 euros (886 × 10 × 3 × 2%) + (946 × 10 × 9 × 2%);
- ✓ at the 4% rate — 4,468.80 euros (886 × 10 × 3 × 4%) + (946 × 10 × 9 × 4%);
- ✓ at the 6% rate — 6,703.20 euros (886 × 10 × 3 × 6%) + (946 × 10 × 9 × 6%).

If a self-employed person has not received taxable income, the contribution to the mandatory funded pension need not be paid.

Funded Pensions Act

Last updated on 19.07.2026

Unemployment insurance premium

Self-employed persons are not required to pay an unemployment insurance premium for themselves.

If a self-employed person is an employer, it is required to pay unemployment insurance premiums on payments made to the employees and these are the self-employed person's business-related expenses.

Last updated on 08.01.2025

Business income and expenses

Income tax is charged on income derived from business, regardless of the time of its receipt. It is required to declare **all** income derived from business (both certified and non-certified).

Last updated on 08.01.2025

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

Expenses related to business

WHAT ARE EXPENSES RELATED TO BUSINESS

Expenses are related to business if they have been incurred for the purposes of deriving income from taxable business or are necessary or appropriate for maintaining or developing such business and the relationship of the expenses with business is clearly justified, or if the expenses have been made for ensuring the occupational health and safety to the employees (in accordance with **subsection 13 (1) of the Occupational Health and Safety Act**).

In order to consider the expenses as expenses related to business, these must be:

- made by taxpayers themselves;
- made during the period of taxation when the expenses are deducted from the business income;
- certified;
- related to the business activity of the taxpayer, not to the business activity of anybody else.

EXPENSES RELATED TO BUSINESS ARE:

- acquisition of fixed assets for business activity (including any commissions and fees paid); fixed assets are assets that a self-employed person uses in production or provision of services for a longer period than one year (for example, land, buildings or civil engineering works, machinery, equipment, animals, patents, licences, etc.);
- costs for renovation and supplementation of fixed assets;

- property which is not fixed assets;
- goods acquired (including materials, raw material, fuel, energy, semi-finished products);
- services acquired (including rental charge paid for facilities used in business);
- wages, salaries or other remuneration that self-employed persons pay to their employees;
- social tax on payments made by self-employed persons to their own employees and unemployment insurance premiums of employers;
- fringe benefits granted by self-employed persons to their own employees, after payment of income tax and social tax thereon;
- social tax paid for the self-employed person's spouse participating in the self-employed person's business activities;
- other state taxes related to business (land tax, value added tax, customs duty, heavy goods vehicle tax, road toll) and local taxes (taxes established by local governments within their administrative territories, for example, sales tax, advertisement tax, entertainment tax, etc.);
- financial costs, interests paid on loans related to business or on other debt obligations (except interests paid on the basis of the Taxation Act);
- interest calculated and paid on the tax arrears to be paid in instalments pursuant to the Taxation Act after approval of the payment schedule (except interest calculated on the tax liability imposed by a notice of assessment);
- in-service training and re-training costs paid by the self-employed person for himself/herself or for the employees, if the existing professional, vocational or occupational knowledge was broadened or new skills needed in the business activities were acquired;

  Example
  A self-employed person participated in a training course on changes in the Accounting Act and acts concerning taxes and paid for the training himself. Whereas the self-employed person keeps his accounting himself, he enters the amount paid for the training into the business expenses.

- insurance premiums for the property used in the business activity;
- costs related to the transfer of the property used in the business activity;

- ✓ fees paid for licences, trading permits or activity licences, etc. used in business activity;

- ✓ social tax paid in a foreign state, if the self-employed person has submitted a certificate from the tax administration of the foreign state to the Estonian Tax and Customs Board (form A1/E101) indicating that he/she has the social insurance in the foreign state and the Estonian Social Tax Act is not applied for taxation by the social tax.

On form E, self-employed persons indicate the expenses related to business together with the value added tax paid.

WHICH EXPENSES ARE NOT RELATED TO BUSINESS

The expenses that are not considered business expenses and thus not deductible from business income are listed in the **Income Tax Act in § 34.** Such expenses are:

- ✓ income tax paid on business income (including advance payments of income tax);

- ✓ fines and penalty payments imposed on the basis of law and paid during the period of taxation, and interests paid on the basis of the Taxation Act;

  Example
  A self-employed person who provides transport services was fined for over speeding. This fine cannot be entered in the expenses related to the self-employed person's business.

- ✓ the cost of property seized from the taxpayer;

  Example
  A self-employed person sells at the market besides his own goods also cigarettes brought illegally into Estonia, for which he has paid to the mediator. The police confiscate the cigarettes. It is not allowed for the self-employed person to enter the amount paid for the cigarettes in the expenses related to business.

- ✓ environmental charges at a higher rate paid pursuant to the Environmental Charges Act and for the breach of the requirements provided by this Act or for the pollution of the environment, and the compensation for damage caused to the third person;

- ✓ expenses incurred on account of benefits not subject to income tax pursuant to the Income Tax Act;

- ✓ any loss from the transfer, at a price lower than the market price, of property to a person associated with the taxpayer, unless income tax on fringe benefits has been paid on such loss;

- any loss from the transfer, at a price higher than the market price, of property purchased from a person associated with the taxpayer;
- gratuities and bribes;
- social security taxes and contributions paid in Estonia or in a foreign country, if the objective of payment was to guarantee pension, health, maternity, unemployment, accident at work or occupational disease insurance to the person, if the Estonian Social Tax Act is applied upon taxation of business income by social tax;
- contributions to a mandatory funded pension;
- the amount paid for services to a natural person, which is taxed on the basis of the Simplified Business Income Taxation Act, i.e. through a business account;
- expenses incurred for receiving business income exempt from income tax (the income earned through a permanent establishment located in a foreign country and taxed in the foreign country) (the income declared in table 1 on form E and 'exemption method' chosen);
- calculated sickness benefit indicated in the Social Tax Act which is exempt from social tax.

Last updated on 08.01.2025

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

Expenses carried forward

If the total amount of the deductions allowed (specified in **subsections 32 (1)–(3) of the Income Tax Act**) exceeds the business income derived by a taxpayer during a period of taxation, the amount by which expenses exceed business income (hereinafter expenses carried forward) may be deducted from business income during up to ten subsequent periods of taxationt (**§ 35 of the Income Tax Act**).

The period of carrying forward the expenses was extended from seven years to ten years beginning from the year 2018. The changeover to ten years takes place step by step:

- ✓ the expenses exceeding the income in 2018 may be carried forward up to 8 years,
- ✓ the expenses exceeding the income in 2019 may be carried forward up to 9 years,
- ✓ the expenses exceeding the income in 2020 may be carried forward up to 10 years.

On adjusting the business income by social tax, the amount of the social tax exceeding the taxable business income is also carried forward to the following periods on the basis of the rules of loss to be carried forward.

Example
The income before adjustment by the social tax is 385 euros. The self-employed person's minimum obligation of the social tax per year is 1,861.20 euros. The loss arising from the adjustment by the social tax is 1,476.20 euros (385 – 1,861.20 = –1,476.20) may be carried forward to the following years.

If the expenses to be carried forward incur during more than one period of taxation, such expenses should be recorded in accounting documents on a yearly basis in the order in which they incur. The records on the expenses carried forward are kept in table 3 on Form E of the income tax return.

If the amount of the expenses carried forward exceeds the business income during a period of taxation, the expenses carried forward are deducted partly from the business income, and the remaining part (or the part not deducted) should be carried forward to the following periods of taxation.

Example
In 2017, the self-employed person earned income in the amount of 10,000 euros. During the same period of taxation, the self-employed person made expenses related to business in the amount of 12,000 euros. The self-employed person declares the expenses exceeding the business income in the amount of 2,000 euros in 2017 as the amount of expenses to be carried forward. In 2018, the same self-employed person earns income in the amount of 5,000 euros and makes expenses 4,500 euros.
The self-employed person covers partly, in the amount of 500 euros, by the total net gain from business the expenses carried forward in 2017 (500 euros).
The part of the expenses (1,500 euros) not deducted from the income will be carried forward to the next period of taxation (for the year 2019). The total net gain of 2019 is 1,000 euros. With this amount, the

self-employed person writes off the loss of 1,500 euros made and not yet used in 2017 by 1,000 euros, and the expenses in the amount of 500 euros, which have not been deducted from the income, are carried forward to the next taxable period, i.e. 2020.

Last updated on 08.01.2025

Tax incentives for self-employed persons

FIE maksuarvestust võivad mõjutada järgmised asjaolud:

- ✓ **erikonto** olemasolu
- ✓ **täiendav põllumajanduslik mahaarvamine**
- ✓ **täiendav mahaarvamine metsamaterjali ja raieõiguse müügitulust ning Natura 2000 erametsamaa toetusest**

Kui erikonto võimaldab koguda raha suuremate investeeringute tarbeks, siis täiendavad mahaarvamised on otseselt seotud põllumajandusliku tootmise, Natura 2000 erametsamaa toetuse ning metsamaterjali ja raieõiguse müügituluga.

Last updated on 08.01.2025

Special account

Self-employed persons 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, whereto 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 self-employed person 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 self-employed person 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), (7^1), (7^2) and (8) of the Income Tax Act**.

The Estonian Tax and Customs Board need not be separately notified about the opening of a special account, a self-employed person 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 Estonian Tax and Customs Board isl 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.

Last updated on 08.01.2025

Additional agricultural deduction

From 2021, a self-employed person who is engaged in agricultural production and receives income from the sale of self-produced agricultural products, may deduct up to 5,000 euros from the income received during taxable period after deducting documented expenses without additional documents (**§ 32 (4) of the Income Tax Act**).

For example, if the income of the sale of self-produced agricultural products in 2021 after deduction of documented expenses is 3,597 euros, then the additional deduction cannot be taken into account for more than 3,597 euros.

Until 2020 included, the deduction was up to 2,877 euros and sold agricultural products were required to be unprocessed. Pursuant to the applicable requirement, cleaning, sorting, cutting, drying, cooling or packaging of agricultural products shall not be deemed to be processing (**§ 32 (5) of the Income Tax Act**).

Last updated on 08.01.2025

Sales revenue of timber and Natura 2000 support

ADDITIONAL DEDUCTION FROM THE SALES INCOME OF TIMBER AND THE RIGHT TO CUT THE STANDING CROP AND NATURA 2000 SUPPORT FOR PRIVATE FORESTS

Self-employed persons may additionally deduct up to 5,000 euros during a period of taxation from their income derived from the sale of timber felled **from an immovable belonging to them** and the transfer of the right to cut the standing crop growing there as well as Natura 2000 support for private forest land after the deductions of the certified expenses have been made (**subsection 32 (4¹) of the Income Tax Act**). Additional exemption cannot cause loss during a period of taxation, just like the part of exemption not used during a period of taxation is not carried forward to subsequent periods of taxation.

For the purposes of the **Forest Act**, the following is timber: felled tree and stem, the part of stem acquired by means of cross-cutting the stem, slash. The basis for the taxation is the concept of timber set out in the Forest Act and resulting from that, the processed timber, for example, crosscut and chopped firewood, as well as wood chips are not considered timber for the purposes of the Forest Act in order to receive benefits provided for in the Income Tax Act.

Additional information

Taxation of income received from the transfer of forest

Declaration of income derived from the transfer of timber or the right to cut the standing crop and Natura 2000 support for private forests

Last updated on 08.01.2025

Self-employed person and value added tax

All taxable persons for value added tax (VAT) purposes, including self-employed persons, shall be subject to VAT accounting on a common basis.

The following shall be subject to VAT:

- ✓ supply (except supply exempt from tax) created in Estonia;
- ✓ import of goods into Estonia (except imports exempt from tax);

- provision of service the place of supply of which is not Estonia (except supply exempt from tax);
- supply exempt from tax which is taxed according to the possibility provided by law;
- acquisition of goods within the European Union (except intra-Community acquisition of goods exempt from tax).

Self-employed persons pay VAT if they are **registered as persons liable to VAT** (hold a VAT identification number) in the Estonian Tax and Customs Board. The obligation to pay VAT may also arise for a self-employed person who is not registered as a person liable to VAT but who acquires a new transport vehicle or excise goods from another Member State of the European Union (except in the case where excise goods are acquired for personal use). VAT must also be declared and paid by self-employed persons who are not registered VAT payers but who add VAT to invoices issued by them. However, it should be taken into account that a person who is not registered for VAT purposes is not entitled to deduct input VAT.

The tax rates for taxable supply are 0%, 9%, 13%, 24%.

The taxable period for VAT is a calendar month.

The value added tax return (form KMD) is to be submitted to the Estonian Tax and Customs Board by the 20th day of the month following a period of taxation. By the same date, VAT is to be paid into the bank account of the Estonian Tax and Customs Board.

Last updated on 03.07.2025

Registration as a person liable to VAT

Obligation to register as person liable to value added tax

If a self-employed person's supply of transactions specified in **subsection 3 of § 19[1] of the Value Added Tax Act (VAT Act)**, the place of supply of which is Estonia, exceeds 40,000 euros as of the beginning of a calendar year, the self-employed person is required to submit an application for registration as a **person liable to VAT** to the Estonian Tax and Customs Board within three working days as of the date of supply in the specified amount. The registration obligation does not arise if the entire supply of a self-employed person is supply exempt from tax and supply taxable at the zero per cent VAT rate (unless the supply arises from intra-Community supply of goods).

EXAMPLE

If the supply of a self-employed person exceeds 40,000 euros on the 2nd day, Friday, the application for registration as a person liable to value added tax is to be submitted to the Estonian Tax and Customs Board within three working days, i.e. on the 7th day, Wednesday. The Estonian Tax and Customs Board will register the person for VAT purposes on the day on which the threshold (40,000 euros) was exceeded. In this example, the self-employed person will be registered for VAT purposes as of the 2nd day of the month.
From the date of receipt of the application, the Estonian Tax and Customs Board has five working days to make a decision on the registration. In this example, the decision on the registration for VAT purposes must be notified to the self-employed person no later than on the 14th day of the month.

The Estonian Tax and Customs Board has the right to request supporting documents to prove the starting or existence of business activities. In such a case, the Estonian Tax and Customs Board makes a decision within five working days as from the submission of supporting documents.

Self-employed persons do not have to register as a person liable to value added tax if their supply arises only from the transfer of fixed assets used in their business. Self-employed persons have the obligation to register for VAT purposes, if they have no other supply since the beginning of the year than the supply from the transfer of goods exceeding 40,000 euros to a person of another Member State of the European Union that is liable to value added tax.

Voluntary registration

If self-employed person's supply of transactions specified in **subsection 3 of § 19[1] of the VAT Act** has not exceeded 40,000 euros or if such supply has not yet arisen, the self-employed person has the possibility to register as a person liable to VAT voluntarily. It is even recommended that self-employed persons should register themselves for VAT purposes earlier, before their supply reaches 40,000 euros. This would help to avoid problems with value added tax obligations, which arise immediately from the day on which the supply of 40,000 euros is exceeded, but the respective decision of the Estonian Tax and Customs Board has not yet reached the taxpayer and the VAT identification number is not yet known.

Should such a situation still occur, value added tax is still to be calculated on the supply generated between the date on which the application for registration as a person liable to value added tax is submitted and the date of the respective decision; if possible, the invoices should be issued later (within seven calendar days). The invoices issued in such a transition period and not meeting the requirements of **§ 37 of the VAT Act** must subsequently be brought into line with the requirements of the law, and this is also in the interests of customers, since input value added tax cannot be deducted on the basis of an incorrect invoice.

The condition of voluntary registration is the fact that a self-employed person is engaged or will be engaged in business that generates or will generate taxable supply. In this case, the self-employed person is registered as a person liable to value added tax as of the date of receipt of the application or a later date indicated in the application by the person.
If a person is not engaged in business or has no intention to start a business, the Estonian Tax and

Customs Board does not register the person for VAT purposes.

Last updated on 30.01.2025

Determination of time of registration obligation

(Reaching supply of 40,000 euros)

If a self-employed person's taxable supply did not exceed 200,000 euros in the previous calendar year or as of the beginning of the current calendar year, he/she can choose (voluntary) whether to act on keeping accounting for taxation purposes according to the general procedure for VAT accounting provided for in the VAT Act (accrual based VAT accounting) or according to the special arrangement set out in **§ 44 of the VAT Act** (cash based VAT accounting).

If the limit mentioned above (200,000 euros) was exceeded during the previous calendar year or at the beginning of the current calendar year, the VAT accounting is to be kept according to the general procedure.

On calculation of the limit of taxable supply, the self-employed person may choose whether to act according to the general procedure provided for in the VAT Act or to the special arrangement provided for in § 44 of the VAT Act.

According to the general procedure, the time of creation of supply is deemed to be the date on which the first of one of the following acts is performed:

- ✓ the goods are dispatched (the services are provided) to the purchaser or
- ✓ money is received for the goods (services).

According to **the special arrangement** the time of supply is deemed to be the date on which the money was received for the goods (services). A self-employed person who applies the special arrangement has to keep records of the registration obligation threshold on the cash basis as well.

Example 1

The goods were dispatched (services were provided) earlier than the money was received.

Invoice 1	January 20	9,835 euros	Payment on 17 February	in the amount of 9,835 euros
Invoice 2	February 10	11,113 euros	Payment on 1 March	in the amount of 11,113 euros
Invoice 3	March 14	9,835 euros	Payment on 20 April	in the amount of 9,835 euros
Invoice 4	April 10	9,835 euros	Payment on 26 May	in the amount of 9,835 euros
		In total: 40,618 euros		

Upon keeping the accounting pursuant to the general procedure, the supply exceeded 40,000 euros on 10 April, and pursuant to the receipt of the money or upon keeping the cash accounting, the supply exceeded 40,000 euros on 26 May. In both cases the self-employed person is required to submit the application for registration as a person liable to value added tax within three working days at the latest. The self-employed person is required to add value added tax on all invoices of the same day (in the example, 10 April or 26 May).

Example 2

The goods were dispatched (services were provided) at the same time when the money was received (for example, in the case of retail business). The payment was made in cash for the goods or services as follows:

January	3,678 euros	
February	3,551 euros	from the beginning of the year 7,229 euros
March	4,317 euros	from the beginning of the year 11,546 euros
Aprill	4,317 euros	from the beginning of the year 15,863 euros

Mai	4,637 euros	from the beginning of the year 20,500 euros
Juuni	4,317 euros	from the beginning of the year 24,817 euros
Juuli	3,998 euros	from the beginning of the year 28,815 euros
August	3,998 euros	from the beginning of the year 32,813 euros
September	4,307 euros	from the beginning of the year 37,120 euros
1 October 2 October 3 October 4 October	696 euros 728 euros 696 euros 765 euros	**In total: 40,005 euros**

Both in the case of the general procedure and in the case of the cash accounting, the supply exceeded 40,000 euros on 4 October.
The self-employed person is required to submit the application for registration as a person liable to VAT within three working days at the latest. The self-employed person is required to add VAT on all invoices of the same day (e.g. 4 October).

Last updated on 08.01.2025

Obligations of persons registered for VAT purposes

As of the date of registration for VAT, persons have to perform the obligations of a person liable to VAT, including to:

- add the amount of value added tax to the taxable value of the goods transferred or services provided;
- submit a value added tax return and its annex (§ 27 of the VAT Act);
- calculate the amount of value added tax due (§ 29 of the VAT Act);
- pay value added tax (§ 38 of the VAT Act);
- maintain records and keep accounts (§ 36 of the VAT Act);
- issuing invoices in accordance with the requirements of § 37 of the VAT Act.

Last updated on 08.01.2025

Input value added tax

Persons registered for VAT are entitled to deduct the input value added tax from their value added tax calculated from the taxable value of their taxable supply, i.e. the value added tax to be paid on goods or services which the taxable person acquires or receives from another person liable to VAT for the purposes of their taxable supply, and the VAT paid or to be paid by the taxable persons on imported goods.

Example
In September, a self-employed person (a person liable to VAT, the general procedure of value added tax accounting) purchased goods in the amount of 64 euros (taxable value), whereto the value added tax 15.36 euros (64 × 24% = 15.36) was added.
The self-employed person resold the goods in September for 96 euros (taxable value of the goods), whereto the value added tax 23.04 euros (96 × 24% = 23.04) was added.
In the value added tax return for this period of taxation the self-employed person may deduct the value added tax (15.36 euros) to be paid on the goods purchased from another person liable to VAT from the value added tax (23.04 euros) calculated on the taxable value (96 euros) of his/her taxable supply.

In this example the self-employed person:

- calculated value added tax in the amount of 23.04 euros (96 × 24%);
- calculated input value added tax in the amount of 15.36 euros (64 × 24%);

- ✓ submitted the value added tax return (for September) by 20 October and by the same time paid 7.68 euros (23.04 – 15.36 = 7.68) into the bank account of the Estonian Tax and Customs Board.

The self-employed person declared the value added tax in the value added tax return as follows:

Acts and transactions taxable at the 22 % value added tax rate, including		1	96.00
Total VAT (24% from box 1 + 22% from box 1^2 + 20% from box 1^1 + 9% from box 2 + 5% from box 2^1 + 13% from box 2^2)	+	4	23.04
Total amount of input value added tax allowed to be deducted by law	–	5	15.36
The value added tax due (box 4 + box 4^1 – box 5 + box 10 – box 11)	+	12	7.68

The value added tax on services received from a foreign person engaged in business in a foreign state, on goods acquired from a person liable to value added tax in another Member State of the EU and on the acquisition of other goods whereon value added tax is calculated pursuant to the Estonian Income Tax Act may be deducted as the input value added tax.

At the same time, a self-employed person shall take into consideration that if he/she uses goods or services both for the purposes of his/her business taxable supply and for the purposes not related to business (the activity as a natural person), then he/she may deduct the input value added tax on the goods or services used for the purposes of transactions related to the taxable supply in business only (**VAT Act, § 29 (4)**).

Input value added tax may be deducted from such goods or services only that have been acquired in the period when the self-employed person is registered as a person liable to value added tax. Input value added tax may not be deducted if goods or services are used for the purposes of supply exempt from tax or for purposes other than business.

Subsections 3–9 of § 30 of the VAT Act provide for the deduction of input VAT on a purchased passenger car and on costs incurred for the purpose of the passenger car. The VAT Act also contains the concept of the passenger car to which the restriction on the deduction of input VAT applies.

In the case of the acquisition of a passenger car, the restriction on deduction of input VAT is applied if the passenger car has been acquired after 1 December 2014. Above all, the restriction means that no more than 50% of the input VAT can be deducted upon the acquisition of a passenger car used for business purposes or the use for business purposes based on a contract of use. This restriction also applies to the purchase of goods and services for the passenger car, even if it was purchased before 1 December 2014. The restriction on input VAT does not apply to the acquisition of passenger cars if the

car is acquired for the purpose of resale.

Last updated on 03.07.2025

Special arrangements for cash accounting for VAT

If a self-employed person's taxable supply did not exceed 200,000 euros in the previous calendar year or as of the beginning of the current calendar year (the transfer of fixed assets and the incidental transfer of immovable as goods are not taken into account), the self-employed person may keep records of value added tax (voluntary) on the cash basis if he/she so wishes. A very important prerequisite for the implementation of the special arrangement is a prior notification in writing of the Estonian Tax and Customs Board whether upon the registration as a person liable to value added tax or at the latest, during the taxation period prior to implementation of the cash accounting for value added tax.

If a self-employed person keeps accounts on a cash basis, the time of supply is deemed to be the date on which full or partial payment is received from the recipient of the goods or services.

Example
The self-employed person notified the Estonian Tax and Customs Board that he would keep his accounts on a cash basis from 1 May. He sold (dispatched) the goods on 25 May. Money for the sold goods was received on 10 June. Thus, the supply was created on 10 June.

The entitlement to the deduction of input value added tax on goods acquired or service provided for the purposes of taxable supply in business activities arises after the partial or full payment for the goods or services, i.e. if the goods acquired and services received are not paid for, there is no right to deduct input value added tax.

Example
A self-employed person acquired goods for taxable supply in business activities on 30 May, which were fully paid for on 6 June. In this case, the right to deduct the input value added tax will arise when submitting the value added tax return for June (the date of submission on 20 July).

A self-employed person who keeps value added tax accounting both on cash basis and using the accrual method has to **submit the value added tax return and appendix** (annex of the VAT return on form KMD INF) thereto by the twentieth day of the month following the taxable period.

WAIVER OF THE VAT ACCOUNTING ON CASH BASIS

Waiver of the VAT accounting on cash basis may be either voluntary or obligatory.

In the case of a voluntary waiver, i.e. a self-employed person's taxable supply did not exceed 200,000 euros as of the beginning of the current calendar year, the self-employed person has to notify in writing the Estonian Tax and Customs Board during the taxation period prior to the waiver at the latest.

Example
A self-employed person wishes to waive the VAT accounting on cash basis beginning from 1 September. In this case, the notification must be submitted not later than within August.

Self-employed persons have the obligation to waive the special arrangement if their taxable supply (the transfer of fixed assets and the incidental transfer of immovable as goods are not taken into account) exceeds 200,000 euros as calculated from the beginning of a calendar year. It is not allowed to apply special arrangement as of the first date of the calendar month following the generation of the supply. Upon obligatory waiving of the special arrangement, the self-employed person must inform in writing the Estonian Tax and Customs Board in the first taxation period from which the implementation of special arrangement was discontinued at the latest.

Example
The threshold of the taxable supply for a self-employed person using the special arrangement reaches in May. In this case, the self-employed person is obliged to submit a notification to the Tax and Customs Board in June at the latest.

Additional information

Data to be entered in a VAT return and instructions of filling out the return
Special arrangements for cash accounting for VAT
Application of the special cash accounting arrangement

Last updated on 08.01.2025

Deletion of self-employed persons from the VAT register

A self-employed person may submit an application for **deletion from the register of persons liable to VAT** if the supply of his or her transactions specified in **subsection 3 of § 19[1] of the Value Added Tax Act**, the place of supply of which is Estonia, has not exceeded 40,000 euros in the current or previous

calendar year and according to the calculations of the person does not exceed 40,000 euros in the following 12 months.

The Estonian Tax and Customs Board has the right to delete a self-employed person from the register of taxable persons:

- ✓ if the self-employed person has failed to submit a value added tax return for the last six consecutive taxable periods or
- ✓ if the self-employed person is not engaged in business in Estonia.

Last updated on 30.01.2025

VAT accounting on termination of business

If a self-employed person terminating business activity is a person liable to value added tax, it is required to submit an application to the Estonian Tax and Customs Board for deletion from the register of taxable persons.
If, at the time of terminating the activities, the self-employed person still has goods not transferred wherefrom the input value added tax has been deducted upon the acquisition, the taxable value of the goods has to be declared in the last value added tax return to be submitted to the Estonian Tax and Customs Board and the value added tax must be paid.

In the case of fixed assets (including immovable) which have been used in the self-employed person's business and wherefrom the input value added tax upon the acquisition has been deducted, the value added tax must not be added to the fixed assets. Instead, it is necessary to recalculate the input value added tax. The recalculation should be made if the fixed assets have been used for business purposes less than five years or the immovable less than ten years. If the fixed assets have been used more than five years or the immovable more than ten years, it is not required to pay value added tax or recalculate the input value added tax (**VAT Act, § 29 (10)**).

Additional information

Value Added Tax Act

Last updated on 08.01.2025

Self-employed person and excise duty on packaging

Self-employed persons are payers of excise duty on packaging and packaging operators, if they package, import or sell packaged goods within their economic or professional activities.

Excise duty on packaging is imposed on packaging of goods placed on the market in Estonia by a packaging operator, these are sales packaging, grouped packaging and transport packaging.

Excise duty is imposed on the packaging of goods if the packaged goods are soled, exchanged, transferred without charge or used for self-consumption. Packaging delivered from Estonia to another Member State and packaging of exported goods are not subject to packaging excise duty.

Excise duty on the packaging of goods packaged in Estonia is paid by the person who places the packaged goods on the market for the first time in Estonia or makes the packaged goods accessible for distribution or use.

Excise duty on packaging acquired in another Member State is paid by the person who acquired the packaging – the person who brings the packaged goods into Estonia from another Member State for commercial purposes.

Excise duty on the packaging of imported goods is paid by the person by whom or on whose behalf the goods are declared for the customs procedure of release for free circulation within the meaning of the Customs Code of the European Union. In other events, excise duty on the packaging of imported goods is paid by the person who incurs a customs debt or who used the packaged goods for self-consumption.

Last updated on 08.01.2025

Exemption and relief from excise duty

THE FOLLOWING IS FULLY EXEMPT FROM EXCISE DUTY:

1. packaging on which a deposit has been established under the Packaging Act, except metal packaging of beverages, and from which at least 85 per cent of each class of packaging material is recovered;
2. metal packaging of beverages, from which at least 50 per cent is recovered;
3. other packaging recovered to the extent provided for in § 36 of the Packaging Act.

§ 36 of the Packaging Act provides for that a packaging undertaking shall recover packaging material types at least to the following extent per calendar year:

- ✓ 70 per cent of the total mass of glass waste by way of recycling;
- ✓ 70 per cent of the total mass of paper and paperboard waste, whereas 60 per cent of the total mass by way of recycling;
- ✓ 60 per cent of the total mass of metal waste by way of recycling;
- ✓ 55 per cent of the total mass of plastic waste, whereas 45 per cent of the total mass of plastic waste by way of recycling and 22.5 per cent of the total mass of plastic waste by way of reprocessing into plastic;
- ✓ 45 per cent of the total mass of wood waste, whereas 20 per cent of the total mass by way of recycling.

In order to obtain a full exemption from excise duty, the percentage of recovering and recycling provided for packaging material must be calculated of the total weight of packaging of the goods placed on the marked and must be complied with to the extent provided for.

THE RELIEF TO OPERATORS WHOSE QUANTITIES OF THE PACKAGING OF GOODS TO BE PLACED ON THE MARKET ARE SMALL

According to clause 8 (2) 5) of the Packaging Excise Duty Act plastic packaging of goods placed on the market in Estonia or acquired in and imported from another Member State with the weight of less than 25 kilograms per quarter and packaging made of another material with the weight of less than 50 kilograms per quarter.

Last updated on 08.01.2025

Taxation and calculation of excise duty

UPON TAXATION, THE RESULT OF RECOVERING IS PROCEEDED FROM

Upon imposing the excise duty on packaging, in the first place, the result of actual recovering shall be proceeded from. A payer of excise duty who has not complied with the recovery rates of packaging shall

pay excise duty for the quantity of the packaging deficiency.

In order to obtain an exemption from excise duty, the recovery rates of packaging must be complied with during the period of taxation and **taxable period is,** in general**, one quarter.**

EXAMPLES ON CALCULATION OF THE RECOVERY AND PACKAGING EXCISE DUTY

Example 1
A self-employed person produces goods and packages its goods into paperboard boxes. He/she places the goods produced in the first quarter on the market. He/she does not deal with the collection or recovery of the packaging of the goods placed on the market.
It means that the obligation to pay packaging excise duty on the total weight of the cardboard packaging placed on the market in the first quarter shall be created by the self-employed person for the 70 per cent of the packaging placed on the market (70 per cent of the total mass of the paper and paperboard waste placed on the market is obliged to be recovered).

Example 2
A self-employed person who has recovered the 65 per cent of the required 70 per cent of the total mass of paper and paperboard waste and thereby recycled the 50 per cent instead of the 60 per cent of the total mass by way of recycling, pays the 10 per cent of the quantity of paper and paperboard waste deficit packaging not recycled.
The energy recovery has been complied with whereas the required 10 per cent (70% – 60%, i.e. the difference between the total mass level and the actual quantity) has been met. The energy recovery of the 65 per cent of the total mass wherefrom 50 per cent has been recycled is thus 15 per cent (65% – 50%).
The excise duty is required to pay for the 10 per cent of the quantities of paper and paperboard waste not recycled.

Example 3
In the case of plastics there are two levels for recovery upon recycling; 45 per cent and 22.5 per cent. This means that at least 22.5 per cent is required to be recycled in such a way that the plastic packaging waste is reprocessed into plastics. This part which remains between the 45 per cent and 22.5 per cent may be recycled in other way as well, for example, producing oil from plastics. But if 45 per cent of the total mass of the plastic packaging waste have been recycled, for example, by way of reprocessing into pellets, then the percentage of recycling is completed.
If, for example, 35 per cent of the total mass of plastic waste is recovered and 15 per cent of this is energy recovery, 10 per cent is recycled by way of material and 10 per cent is recycled in other way, for example, producing oil, then the excise duty shall be paid totally for 25 per cent of plastic waste.
The process of calculation is as follows: the recycling by way of material is not completed by 12.5 per cent (22.5% – 10%) and the recycling in other way is not completed either by 12.5 per cent (22.5% – 10%). The energy recovery is completed, i.e. 15 per cent is recovered, but 10 per cent is required (55% – 45%, i.e. the difference between the total mass and the rate of recycling).
In this case, the excise duty shall be paid for the 25 per cent (12.5% + 12.5%) of the quantity of plastic waste.

Last updated on 08.01.2025

Transfer of obligations to recovery organisation

If a payer of the excise duty has transferred its obligations to a recovery organisation founded by packaging operators, the period of taxation and of record-keeping concerning excise duty is one calendar year.

Pursuant to **§ 11¹ of the Packaging Excise Duty Act**, a payer of excise duty may transfer the obligations provided for in the Packaging Excise Duty Act under a written contract to a recovery organisation.

A payer of excise duty will transfer the obligations to a recovery organisation on a date specified in a written contract. The payer of excise duty cannot retroactively transfer such obligations relating to the period preceding the entry into the contract whose term of performance has expired, regardless of whether the parties have performed the obligations arising from the contract.

A recovery organisation organises the accept of the return and recovery of packaging and packaging waste of packaged goods for the payers of excise duty who have concluded the contract with the organisation and have placed the goods on the Estonian market, pursuant to the rates of recovery established by law. The payers of excise duty submit the necessary information to the recovery organisation and the organisation submits the information concerning the use of packaging to the relevant authorities for the payer of excise duty.

The payer of excise duty who has not transferred its obligations to a recovery organisation must keep quarterly records concerning the sale, transfer without charge, exchange and use for self-consumption of the packaging of goods placed on the market in Estonia or acquired in and imported from another Member State, based on the weight of packaging and type of packaging material. The payer of excise duty is obliged to keep quarterly records on the recovery of packaging as well.

If the tax liability of excise duty on packaging arises, a payer of excise duty must submit an excise duty return to the Estonian Tax and Customs Board by the fifteenth day of the month following the period of taxation.

Last updated on 08.01.2025

Excise duty rates on packaging

PACKAGING SUBJECT TO PACKAGING EXCISE DUTY	EXCISE DUTY RATE PER KILOGRAM IN EUROS
glass	0.6
plastic	2.5
metal	2.5
paper and paperboard, incl. composite paperboard	1.2
wood	1.2

Last updated on 08.01.2025

Use of diesel fuel for specific purposes

IT IS ALLOWED TO USE DIESEL FUEL FOR SPECIFIC PURPOSES AS FOLLOWS:

- ✓ in machinery, tractors and non-road mobile machinery used for agricultural purposes
- ✓ in drying facilities that are used to dry agricultural produce
- ✓ in commercial fishing

Last updated on 08.01.2025

In agriculture

THE USE OF DIESEL FUEL FOR SPECIFIC PURPOSES IN AGRICULTURE

In agriculture the use of diesel fuel for specific purposes is allowed **in agricultural machinery only**. The use of diesel fuel for specific purposes is not allowed in other motor vehicles (for example, trucks) used for agricultural purposes.

Upon the use of agricultural machinery, it is not important to determine the agricultural purposes of the activity whether the agricultural works are made for the own use of the agricultural producer or for providing services to another agricultural producer (for example, a self-employed person making ploughing, sowing and harvesting for himself or for a neighbour as well who is also engaged in producing agricultural products).

Some examples where diesel fuel for specific purposes may be used also in agricultural machinery

- ✓ An agricultural machine is moving on a public road from one field to another for doing agricultural works (ploughing, sowing, harvesting, etc.)
- ✓ An agricultural machine (for example, a tractor) is moving on a public road and transporting cereals from a field to the drying facilities or carrying fertilizer from a store to the field, etc.
- ✓ An agricultural machine is cleaning the road from snow to reach the cowshed or enabling access to a milk tank vehicle for driving to the cowshed, etc.

Whereas diesel fuel for specific purposes may be used in agricultural machinery **for agricultural works only**, it is not allowed to use an agricultural machine consuming fuel for specific purposes for other purposes.

Some examples where using diesel fuel for specific purposes is not allowed

- ✓ A self-employed person uses the agricultural machinery in addition to agricultural works also for works in the woods.
- ✓ An agricultural machine is used for snow-cleaning or road maintenance, which is not related to agriculture.

In drying facilities, the use of diesel fuel for specific purposes is allowed regardless of the fact whether the drying facilities are settled in one place or are mobile.

Last updated on 08.01.2025

In commercial fishing

DIESEL FUEL FOR SPECIFIC PURPOSES USED IN COMMERCIAL FISHING

Diesel fuel for specific purposes may be used in fishing only by **fishers (self-employed person) who have a valid commercial fishing permit**.

It is allowed to use the fuel **for fishing in fishing vessels only**.

Last updated on 08.01.2025

Self-employed person and accounting

SELF-EMPLOYED PERSONS ARE ACCOUNTING ENTITIES

Self-employed persons are accounting entities and they are required to organise their accounting in the cases and pursuant to the procedure provided for in the **Accounting Act**.

A self-employed person may apply either a cash based or an accrual based accounting principle in its business accounting. When choosing the accounting principle, attention should be given to the fact that **in the taxation of business income, the cash basis principle is used** (**Income Tax Act § 36 (1) and (3**)). It means that if a self-employed person keeps accounts on accrual basis, the business income will be adjusted to cash basis for completing form E of the tax return.

The requirements for accounting are provided for in the Accounting Act and in the guidelines of the Accounting Standards Board.

THINGS TO BE FOLLOWED IN A SELF-EMPLOYED PERSON'S ACCOUNTING

Accounting entities are obliged to:

- ✓ organise their accounts in accordance with the principles generally accepted in Estonia and the international financial reporting standards to ensure the provision of up-to-date, relevant, objective and comparable information concerning the financial position, financial performance and cash flows of the accounting entity;
- ✓ document all their business transactions;
- ✓ record all their business transactions in accounting ledgers and journals on the basis of source documents or corresponding summary documents;
- ✓ preserve accounting documents.

Self-employed persons keeping accounts on cash basis have to follow sections 1 to 3, 4 (except clause 4)), 5, 6 (except subsection (3)), 7, 9, 10 and 12 of the **Accounting Act**, and and other requirements from the Estonian financial reporting standard, which regulate the accounting on cash basis.

Self-employed persons keeping accounts on accrual basis have to follow the entire Accounting Act.

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Cash based and accrual based accounting

In the case of the cash based accounting, income and expenses are recorded in chronological order from the beginning of the year, taking into account when the money is actually paid or received. The entries of the income and expenses are made in the accounting journals and ledgers when the money is received in the pay-office or into the bank account and when the money is paid out from the pay-office or from the bank account.

Example
An operator gave goods to the buyer and submitted an invoice in the amount of 639.12 euros in October 2019. The money for the goods transferred in the amount of 639.12 euros was received by the operator in January 2020. The amount 639.12 euros is deemed to be the operator's income of the year 2020.

In the case of accrual based accounting, business transactions are recorded when they occur, regardless of when the money is received or paid for the transactions.

Example
An operator gave goods to the buyer and submitted an invoice in the amount of 639.12 euros in October 2019. The money in the amount of 639.12 euros was received in the bank account of the operator in January 2020. The amount of 639.12 euros is recorded in the operator's accounting as the income of the year 2019. However, 639.12 euros is recorded in the accounting for taxation purposes as the income of the year 2020 on form E of the income tax return.

Self-employed persons are both accounting entities and taxable persons. If a self-employed person applies accrual based accounting, then he/she has to keep supplementary records on circumstances that are important for taxation purposes, it means to keep accounting for taxation purposes. Accounting for taxation purposes is essentially a cash based accounting. Thus, a self-employed person applying accrual based accounting is obliged to keep cash based accounting for taxation purposes in addition.

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Accounting journals and ledgers, source documents

ACCOUNTING JOURNALS AND LEDGERS (DAYBOOKS)

self-employed persons show all their transactions related to business activities in the accounting journals and ledgers (**§ 9 and 10 of the Accounting Act**), whereas each entry made on any transaction must contain the following information:

- ✓ the date of the business transaction
- ✓ reference to the source document constituting the basis for the entry
- ✓ the corresponding amounts
- ✓ a short explanation of the business transaction
- ✓ the name and number of the source document (summary document).

A daybook is the cash based accounting journal/ledger.

ACCOUNTING SOURCE DOCUMENTS

All accounting entries in the daybook (daily journal) must be supported by source documents certifying the corresponding business transactions **(§ 7 of the Accounting Act**) or by summary documents prepared on the basis of source documents. The requirements for source documents have been set out in § 7 of the Accounting Act, according to which a source document must contain the following information:

- ✓ document name and number;
- ✓ date of preparation;
- ✓ economic content of a transaction;
- ✓ figures of a transaction (quantity, price and amount);
- ✓ information enabling to identify the parties to the transaction;
- ✓ a sequential number of the corresponding accounting entry.

Accounting source documents, accounting ledgers, journals, contracts and other documents must be preserved **seven years** as of the end of the financial year when a business transaction was recorded in the accounting journals and ledgers on the basis of the source document (**§ 12 of the Accounting Act**, see also **§ 58 of the Taxation Act**).

Source documents may be converted into another format or carried to another data medium (for example, a computer), if the information of source documents concerning transactions are not changed in the course of the conversion.

If a self-employed person is a person liable to value added tax, then the Value Added Tax Act shall establish its own requirements (see **§ 37 of the Value Added Tax Act**).

FORMATION OF A DAYBOOK (DAILY JOURNAL)

A daybook has no fixed form and operators may choose a suitable form themselves and develop it pursuant to the Accounting Act.

Self-employed persons may:

- draw up a daybook itself whether on paper or on a computer.
  Upon drawing up a daybook, the structure of a business income tax return (form E) can be taken into account dividing the part of income and expenses according to rows in the tax return, which makes the subsequent completion of the tax return simpler. If not all items listed among the income and expenses in the tax return are present, there is no need to enter these in the daybook either.

- use accounting programs that are sold by companies dealing with accounting software.

On the basis of the daybook, self-employed persons have to fill in a business income tax return (form E), where thet enter business income and expenses. Business income tax returns must be submitted to the Estonian Tax and Customs Board not later than by 30 April of the year following the year of the business activities.

On the production and sale of agricultural products, the sale of timber and on the income and expenses concerning other business activities, separate accounts must be kept.

Upon filling in form E, the income and expenses are indicated together with value added tax.

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Personal property and property used for business

DISTINCTION BETWEEN PERSONAL PROPERTY AND PROPERTY USED FOR BUSINESS PURPOSES

- During engagement in business, the property in personal use must be separated from the property used for business purposes.

- If spouses' joint property is concerned, it is important in whose name the property has been acquired. Self-employed persons have the right to deduct certified expenses made by themselves only from their business income, although the expenditure may have been made on the account of the spouses' joint property and the property acquired belongs into the joint property. Therefore, the spouse's name who is the self-employed person must be indicated on the expense receipt certifying the expenditure related to business indicated as the person making the expenditure.

- ※ Income received from transfer of securities is not charged as business income but as gains from the transfer of a natural person's property and must be declared on form A of the income tax return for natural person.

Often the property is related to business only partly. Depending on the property, it may be relatively simple to divide it into legal shares according to the application and find the size of the part used just in business.

Example
An operator uses one room (surface area 12 m^2) as a working room from its apartment (total surface area 63 m^2). The working room is used in business only, i.e. it is not used for personal purposes. Thus, the proportion of the use of the apartment in business is 19 per cent (12 ÷ 63 × 100). If the operator makes repairs in the whole apartment, it is possible to enter 19 per cent of the expenses incurred for the repairs of the apartment into the expenses related to business (according to the proportion of the working room of the total surface area of the apartment).
If the rooms not used for business activities are repaired, the expenses incurred may not be indicated in the expenses related to business.
If the repairs are done only in the room used for business, all the expenses incurred for the repairs are considered the expenses related to business.

In several cases, self-employed persons use their property both in business and for own personal use and the property cannot be divided into legal shares. In such cases, self-employed persons themselves must determine the part of any property to be used in business.

- ✓ First, all assets and goods used exclusively for business purposes must be separated. Such properties and goods may be tools, materials, semi-finished products, etc.

- ✓ Then, it is required to separate the assets and goods which the self-employed person uses in addition to business also for own personal use (the proportions between the business activities and personal use must be determined).

Example
A self-employed person uses its automobile both for private journeys and for business purposes. He/she keeps records of journeys made for business purposes. The total distance run during the period is 50,000 km from where, according to the records kept on driving, 10,000 km had been run for business purposes. Thus, 20 per cent of the expenses incurred for the automobile may be deducted from the expenses related to business (10,000 ÷ 50,000 × 100).

The proportion of the use of the automobile for business purposes may be calculated on the basis of some other method as well.

- ✓ Finally, the proportions of the assets and goods used both by the self-employed person and his/her

- ✓ family members in personal use in addition to the use for business purposes must be determined.

Example
A self-employed person acquired a computer, which is used in business activity 45 per cent of the working time according to the calculations. The self-employed person's spouse and children use the computer during the rest of the time, i.e. it is in use for activities other than business.
The self-employed person deducted 45 per cent of the acquisition cost of the computer from the business income. It is also allowed to deduct 45 per cent of the additional expenses incurred for the computer from the business income (extensions in the hardware, new computer programs, etc.). Upon acquiring a program for the computer, it should be specified whether the program is necessary for the self-employed person's business and if so, then to what extent. If a self-employed person offering accounting services acquires a new accounting program, this will be business-related expenditure. Purchasing a new computer game for the self-employed person's children is not business-related expenditure.

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Transfer of property used in business

TAXATION OF INCOME RECEIVED FROM TRANSFER OF PROPERTY USED IN BUSINESS

If self-employed persons transfer their business-related property the acquisition cost of which has previously been entered in the expenses either partly or in full, the selling price (or the market price of some other property received through the exchange of property) of this property is considered business income and is subject to income tax.

Example
A self-employed person sold a drill acquired for business purposes for the amount of 192 euros, which he had purchased for 3,500 kroons in 2010 (223.69 euros). He had entered the purchase price of the drill in the expenses related to business. He indicated the amount received from the sale (192 euros) in the expenses related to business (line 1.1.4 on form E).

If the acquisition cost of assets or goods are entered in expenses partially, the income received from the transfer or the return on sales should be indicated in the self-employed person's income in the same proportion as the acquisition cost entered in the expenses.

Example
A self-employed person acquired a smoke oven for 1,278 euros. Being aware that the oven will be used

for own personal use as well, the proportion of the use in business was determined as 75 per cent, so 75 per cent (958.50 euros) of the acquisition cost was entered in the expenses related to business.
The same oven was then sold for 1,182 euros. 75 per cent of the sales revenue received (in the same proportion as used on purchasing), i.e. 886.50 euros (1182 × 75 ÷ 100) was added to the business income.

Likewise, based on **subsections 48 and 49 of the Income Tax Act**, self-employed persons may increase the acquisition cost of the taxed property by the amount subject to income tax during the taxable period when the property is transferred or put into use for own consumption.

Example
A self-employed person buys a printing press for a market price, i.e. 15,000 euros from a legal person and pays for it 5,000 euros. The company has paid 20/80 income tax on the remaining 10,000 euros. Later, the self-employed person decides to sell this asset for 30,000 euros. The taxable income upon transfer or use for personal consumption of such an asset is found as follows.
Upon the acquisition of the asset, the self-employed person entered 5,000 euros in business-related expenses. In the event of transfer (or putting into use for personal consumption) of the asset, the selling/market price would be decreased by 10,000 euros and 20,000 euros (30,000 – 10,000) would be entered in the expenses related to business.

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Personal consumption of business assets

TAXATION IN CASES WHERE BUSINESS ASSETS ARE PUT INTO USE FOR OWN CONSUMPTION

If self-employed persons decide to put into use for own consumption the business assets, the acquisition cost of which they have entered in business expenses whether partly or in full, this is equated with the transfer of property and the market price of the property is declared as business income. Any property taken into personal use must be declared as business income regardless of the fact whether it is fixed or current assets, immovable or movable property.

Personal use of business assets means the use of the assets for purposes other than business. Personal use of business assets arises, if either the person himself/herself uses the assets for other purposes than business or the assets have been given for use to somebody else.

It is possible to put business assets into use for own consumption either during engagement in business, in the case of suspension of business activities or when terminating engagement in business.

If business assets are taken into personal use, it is the market price of the assets, not the acquisition cost, that must be added to business income. The market price is added to business income during the taxable period of which the assets are taken into personal use or when the use of the assets for business purposes is terminated.

Example
An asset with a cost of 639 euros has been entered in the business expenses. At the time when the assets are put into use for personal consumption, the market price of the asset is 479 euros. Therefore, 479 euros should be added to the business income.

Taking into personal consumption is not the case if:

- ✓ the property is made available to third parties in return for rent as business income. In this case, the charge received should be added to business income (line 1.1.2 of form E).

- ✓ the use of assets in business is terminated as a result of destruction, deterioration, theft, rendering unusable, etc. and there is evidence thereof.
  In this case, write-off is necessary and evidence must be accompanied by a write-off or certified statement drawn up by the self-employed person.

- ✓ assets belonging to the self-employed person's enterprise are transferred or bequeathed to a person who will continue the business of the enterprise. This means that a self-employed person may transfer his or her assets (both non-monetary and money in a special account) to any person (another self-employed person, company) provided that the person continues the self-employed person's business activities.

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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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Transfer or bequeathing of business property

Self-employed persons wishing to terminate their business must either transfer the property used in business or take it into personal use. In the case of termination of engagement in business, a self-employed person may also transfer or bequeath the property to a person who will continue the business activities of the self-employed person, which is exempt from tax (**subsection 37 (7) of Income Tax Act**). In order to apply tax exemption, the self-employed person's business assets must be transferred to a person entered in the **commercial register** (hereinafter the transferee), i.e. to another self-employed person or company, prior to the termination of the self-employed person's activities.

The following business assets are to be transferred:

- ✓ things,
- ✓ rights relating to the property,
- ✓ obligations relating to the property (tax liabilities cannot be transferred).

Also money in a special account and expenses carried forward from previous periods of taxation belong among the transferable assets. Upon later transfer of the property received by the transferee, the selling price of the property is deemed to be the taxpayer's (transferee's) business income.

Example 1

The self-employed person Malle decides to transfer her business to her son Kalle, who wishes to continue his mother's business. In order that Malle could transfer her property used in business to her son exempt from taxes, Kalle must register his activity in the commercial register either as a self-employed person or a company prior to the transfer. Malle has to terminate her business in the commercial register after the transfer of the property.

As the composition of the assets of the self-employed person changes upon a transfer, it is necessary to draw up a contract and a list of transferred assets. The Income Tax Act does not provide in what conditions, how and in what form the contract and the list shall be compiled. However, it is recommended to compile the required documents according to the conditions provided for in the **Law of Obligations Act**, definitely in a format which can be reproduced and the circumstances concerning taxation be established.

If a business is transferred to another self-employed person, the transferee must also be registered as an undertaking in the commercial register. There are two possibilities:

- ✓ the transferee will register himself/herself in the **commercial register** as a self-employed person by own name, after which a unique registry code is issued to him/her;

- ✓ the transferee will continue the business activities under the present business name of the self-employed person, provided that the undertaking is obtained by transfer (including transfer free of charge) and the transferor has given his/her written consent.

In addition to accounting for taxation purposes, self-employed persons are required to keep their accounts. A self-employed person as an accounting entity is required to document all his/her business transactions. Thus, if a self-employed person transfers the property of his/her undertaking to another person, this operation should be documented. Whereas the transferee must be a person to whom the requirements arising from the Accounting Act extend, the transferee is also obliged to take inventory of the assets received in his/her accounting.

Example 2
Malle, who transferred her business to her son, decides to keep the computer used in business for herself. Malle had entered 80 per cent of the acquisition cost of the computer into the expenses related to business during the purchasing year. Malle purchased the computer for 7,000 kroons in 2009, wherefrom 5,600 kroons was entered in the expenses related to business for the year 2009. Now, the market price of the computer is 255.65 euros. Malle declares 294.52 euros (255.65 × 80%) in line 1.1.5 on form E of the tax return for the year of putting the computer into own personal use.
This asset (the computer) was not transferred and the transferee does not enter the asset in the accounts.

The transfer of assets must be declared in Annex to form E, which is submitted to the Estonian Tax and Customs Board together with form A and form E by 30 April of the year following the period of taxation.

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Money in special account and loss carried forward

Attention should be paid to the transfer of the special account belonging among the self-employed person's business assets and the losses carried forward.

SPECIAL ACCOUNT

Example 1
The special account is a part of the self-employed person's business assets to be transferred to another person. The transferee opens a settlement account in own name with a credit institution, which is a resident of the contracting party to the EEA Agreement. In this case, money should be transferred within ten working days after the formalisation of the transfer of the enterprise at the latest. In this case, decrease in the amount in the special account is not considered the transferor's business income.

The decrease in the amount in the special account is not added to the business income upon the transfer of the special account to the person who will continue the business activities (**subsection 36 (7¹) of the Income Tax Act**).

Example 2
The self-employed person Krista Karu keeps bees and has ten beehives. Krista has entered the acquisition cost of the beehives in her business expenses. In addition to the ten beehives, Krista has 1000 euros of the benefit received last year in her special account. In 2019, she decides to transfer her business to her son Kalle, who is interested in apiculture as well. Kalle has registered himself as a self-employed person in the commercial register. Krista prepares a transfer contract on the assets used in business and the list of the assets transferred (ten beehives and other beekeeping supplies). In the contract, she indicates the amount transferred from the special account and submits form E together with the annex by 30 April of the year following the transfer. The amount in the special account transferred must be declared both in table 2 of form E and in column A of the annex to form E.

THE AMOUNTS CARRIED FORWARD OF EXPENSES EXCEEDING BUSINESS INCOME

As the second specification, the amount by which expenses exceed business income (hereinafter expenses carried forward) may be deducted from business income by the self-employed person during seven, under certain conditions, up to ten subsequent periods of taxation (see "**Carrying forward of expenses exceeding business income**") in order to deduct these from the income derived in the future. These expenses carried forward may also be transferred by a self-employed person upon the transfer of the business. The expenses carried forward are recorded in accounting documents of the transferee (in the case of a self-employed person) on a yearly basis in the order in which they were incurred by the transferor.
Example 1

The transferor had declared the expenses carried forward in the years of 2014 and 2015. All these expenses carried forward must be declared by the transferee in column 5 of table 3 on form E in the lines of the corresponding years. Taking into account that the expenses of these years may be carried forward during seven years, the expenses carried forward for the year 2014 may be used by the transferee as a deduction from its business income in the income tax return even for the year of 2021, but these expenses may not be carried forward to the subsequent period of taxation.

Example 2
The self-employed person Artur Paas has declared the following amounts (hereinafter "the amount of loss carried forward") in column 3 of table 3 on form E:
In 2015 – 500 euros
In 2016 – 50 euros
In 2020, he decides to terminate his business and transfer it to his son Mati, applying the tax exemption provided for in subsection 37 (7) of the Income Tax Act. All the expenses exceeding the business income for the previous years Artur may transfer to Mati, declaring these in column 4 of table 3 on form E (loss carryforwards transferred) in the line of the corresponding year when the part of the expenses not covered but exceeding the business income was incurred. Mati declares losses on 2020 form E in table 3 in the line of 2015 column 5 (loss carried forward received) 500 euros and in the line of 2016 50 euros.

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For information to the transferor

Upon transfer of the assets, it should be taken into account that in the case of the assets entered in the registry, such as immovable property, a motor vehicle, etc., persons may incur additional expenses and actions in relation to necessary documentation and re-registration required for the transference of ownership. All leasing contracts concluded for the acquisition of business assets, under which deductions of business expenses had been made previously, must be re-registered in the name of the transferee so that the transferor will not have a situation of putting the property into use for personal consumption.

- If the activity of an enterprise is terminated after the transfer of property, non-transferred assets the acquisition cost of which has previously been entered in business expenses are declared on form E in line 1.1.5 – market price of property taken into personal use.

- If the transferor has received any charge for the property upon transfer, this is considered the sale of property and declared in line 1.1.4 of form E.

- Any income related to business which is received after the transfer and termination of business must be declared on form E as business income, on which income tax as well as social tax must be paid.

Example
The self-employed person Allan is a farmer, who has entered the acquisition cost of his property acquired within years and used in business into the expenses related to business (including building of the cowhouse with the value of 1.5 million kroons, a used tractor with the purchase price of 50,000 kroons, the hundred-headed dairy cattle with the purchase price of 500,000 kroons, 10,000 euros in the special account collected for future investments, etc.). Now, Allan wishes to stop his engagement in business and decides to transfer his business to his daughter Milvi, who is ready to continue the business as a company. OÜ Kodukana established by Milvi and the self-employed person Allan conclude a contract under the law of obligations on the transfer of the assets and prepare a list of the assets transferred (e.g. as an annex to the contract). Both of them are accounting entities, thus the assets transferred (the money as well) are recorded in accounts by both parties. Allan must also submit an income tax return together with the annex to form E by 30 April of the year following the transfer of the assets.

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Receiving a business by succession

Pursuant to the **Law of Succession Act** with the acceptance of a succession, all rights and obligations of the bequeather transfer to the successor except those which, by their nature, are inseparably bound to the person of the bequeather or which pursuant to law do not transfer from one person to another. **If a successor accepts the succession, the business-related rights and tax liabilities of the bequeather will transfer to the successor.**

The acceptance of the estate by the successor is not subject to income tax, including the property used in business. Since a self-employed person's business is deemed to be terminated upon her/his death, there is no succession of the property used in the bequeather's business, but rather **the succession of the bequeather's personal property.**

Thus, the assets are bequeathed first. The successors now have the right to decide whether to take the inherited property used in the self-employed person’s business into personal use or continue the self-employed person’s business. It is advisable, after the termination of the succession proceedings or together with the formalisation of the succession at the notary’s, to formalise the transfer of the assets to the person who will continue the bequeather’s business.

If no income tax liability arises, the inherited business may be transferred to a company as well. The property may be transferred to a company both as a non-monetary contribution (regulated by the **Commercial Code**) and by the contract for the transfer of the assets. It is required to record the assets in the accounts of the business (money, immovables and movables, obligations, claims, etc.) according to the provisions set out in the **Accounting Act** and in the instructions of the Accounting Standards Board.

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Value added tax specifications

For income tax purposes, there is no difference between the concepts 'transfer of property' and 'succession of property', or to whom the property transfers, whether from an undertaking to a self-employed person or to a company. However, for the purposes of the **Value Added Tax Act**, the transfer and succession of the self-employed person's assets are interpreted differently.

The transfer of a business upon the succession means in general that the property transfers to somebody who is the next of kin who will then continue the similar business. This may be considered as a continuing activity. If the person who continues the activity registers himself/herself as a person liable to value added tax, he/she will take over all the obligations and rights relating to the value added tax on the property transferred to him/her and there is no need to recalculate the input value added tax deducted earlier from the transferable fixed assets. At the same time, it means that the recipient of the estate (a person liable to value added tax) is also obliged to add value added tax to the supply for the transfer of the said property, if not the supply exempt from tax is concerned.

The transfer of the property may be handled likewise **if the self-employed person transfers the fixed assets as a non-monetary contribution to his/her own private limited company and continues himself/herself with the similar business in the private limited company**. It is not required to recalculate input value added tax on the transferable fixed assets. The obligation to add value added tax arises upon the transfer of the property by a private limited company. A problem may arise if fixed assets are immovable property in respect of which the self-employed person has deducted input tax. The period for the recalculation of the input value added tax deducted is ten years in the case of an immovable. If the period for the use of an immovable both by the self-employed person and his/her private limited company is less than ten years for the purpose of taxable supply, the private limited company is required to recalculate the earlier deducted input value added tax upon the transfer of the immovable exempt from tax.

If the property is transferred to another company continuing the self-employed person's business, it can be:

- ✓ the transfer of the business,

- a non-monetary contribution,
- the transfer of goods for money or free of charge.

The transfer of a business or a part thereof for the purpose of the **Law of Obligations Act** does not create supply and there is no need to recalculate the input value added tax on the transferable fixed assets. If a transferee starts to use the property, whether for the purposes of the supply exempt from tax or for the purposes other than business, the rights and obligations will transfer to the acquirer, including the obligation to adjust the input value added tax. If an assignment of a separated property as a non-monetary contribution or the transfer of a separated property is concerned, the assignment or transfer of the property is subject to value added tax. The company receiving the property has the right to deduct the input value added tax on the basis of the invoice. This applies only in cases where the property will be used for the purposes of taxable supply in business. Thus, for VAT purposes, it is irrelevant to whom a fixed asset is given, it is important what will be done with the fixed assets further.

Example
A self-employed person has bought a tractor and deducted input value added tax. The self-employed person assigns it formally to a sewing company. It is believed, that the sewing company will not start using the tractor for the purposes of its taxable supply and the self-employed person has to recalculate the input value added tax or charge the assignment with value added tax.

As to leasing, the leasing under the conditions of operational lease and financial lease should be dealt with separately.

- If it is the **leasing under the conditions of operational lease** , for the purposes of the **Value Added Tax Act**, it is considered a service. If such a leasing contract is discontinued or transferred to a third party, there is no need to recalculate the input value added tax. However, if a leasing company submits a credit invoice according to which it has decreased the taxable supply of the leasing transaction and the value added tax paid thereon, the recipient of the credit invoice has to decrease its deducted input value added tax accordingly.
- If **a leasing transaction is discontinued under the conditions of financial lease**, it is the acquisition of a property by the lessee and upon using the fixed assets less than five years (in the case of an immovable less than ten years), the obligation to recalculate the input value added tax will arise. At the same time, there is no exact scheme how the first lessee should act if the leasing contract is discontinued. If a leasing company submits a credit invoice and the first lessee decreases its input value added tax deducted on the basis of it, there is no need to recalculate the input value added tax on this property. However, if no credit invoice is submitted, the obligation to recalculate will generally arise.
- **If a tripartite contract** is concluded between a lessor, the first lessee and the next lessee, the leasing company will generally not submit a credit invoice. If the first lessee has deducted the entire input and used the fixed assets less than five years (in the case of an immovable less than ten years),

- ✓ upon the termination of the contract or on the transfer, the obligation to recalculate the input value added tax deducted will arise for him/her.

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Suspension and termination of business

Self-employed persons' rights and obligations upon suspension and termination of business

SUSPENSION OF BUSINESS

If persons wish to suspend their activities as a self-employed person, they have to submit a relevant application to the **commercial register** in advance specifying the period of time when the business does not operate (**subsection 3 (3) of the Commercial Code**). The person is not considered a self-employed person for taxation purposes during the period of suspension of the business. Likewise, advance payments of income tax and social tax need not be paid during the suspension period. As long as the business is not suspended, all the obligations prescribed in the legislation concerning taxes apply to the self-employed person.

If a self-employed person's activity has been suspended for more than 12 months, according to the **Taxation Act**, the assets the acquisition cost whereof the taxpayer has deducted from his/her business income are considered to be taken into personal use and the market price of the assets is added to business income (**subsection 36 (7) of the Income Tax Act**).

The business property that was on hold to continue business activities, but after 12 months, for some reason, the activity did not continue, then the moment of personal consumption of the property is 12 months after the start of the suspension. But if such property has been given for use to another person (or taken for the self-employed person's own use) before 12 months have passed as of the beginning of the suspension, the time of giving the property to the other person is the moment of taking it into personal use. The moment of taxation would also have arisen at the time of doing business. The moment of taking the property into personal use is the earliest moment: either when the property started to be used for other purposes or 12 months have passed since the suspension of the activity.

The expenses made during the suspension of the business may not be deducted from the business income. Whereas business income is subject to taxation regardless of the time of receipt, the income received during the suspension of the business is considered the self-employed person's business

income.

Self-employed persons should know that pursuant to **subsection 10 (4) of the Health Insurance Act,** the health insurance cover of the person is suspended two months after the entry in the commercial register of the suspension of the activities. If the person continues business after the end of the suspension period, the commercial register will submit the information of the end of the suspension to the Health Insurance Fund within ten working days. Upon receipt of the data, the insurance cover of the person will continue without a waiting period.

TERMINATION OF BUSINESS

If a person wishes to terminate activity as a self-employed person, it is required to submit an application to the **commercial register** on the termination of the activities and deletion from the register. The deletion is made from the commercial register on the basis of an application by the self-employed person. If the self-employed person is a person liable to value added tax, it is required to apply for deletion from the national VAT register prior to submission of the application for deletion from the commercial register.

A register entry on the termination is made by the person as at the date indicated in the application if the date has not come earlier. The commercial register makes a register entry not later than on the fifth working day after signing a ruling on entry, provided that the application and documents added thereto comply with law and have been submitted within the term permitted or prescribed by law (**§ 33 of the Commercial Code**).

If a person terminates activity as a self-employed person, it is required to submit **form E of the income tax return** on the last financial year by 30 April of the following year. The tax return should also be submitted in the cases when the self-employed person had neither business activities nor any business income, or the income was less than the supply exempt from tax. Upon the termination of a self-employed person’s business, deductions relating to business are made from the business income of the period of taxation and the received amount is divided by 1.33 before it is multiplied by the tax rate. Any amount of income tax and social tax subject to payment additionally must be paid by 1 October of the year following the period of taxation.

The health insurance cover of the person terminates two months after the deletion entry's date in the commercial register (**subsection 10 (3) of the Health Insurance Act**).

If the self-employed person actually terminates business activity, but will not submit an application for the deletion of the entry about it, it is still required to make advance payments concerning income tax and social tax.

Business income may be received after the termination of business as well.

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Taxation of assets on termination of business

Upon termination of business, self-employed persons may either transfer the property used in business or it is deemed to be taken into personal use.

TAXATION OF GAINS RECEIVED FROM TRANSFER OF BUSINESS ASSETS

If a self-employed person transfers business assets the acquisition cost of which has been entered in business expenses in part or fully, the sales price of the assets (or the market price of other assets received by means of exchange of assets) is considered business income and is subject to taxation.

Example
A self-employed person sold a drill acquired for business for 192 euros, which was bought in 2010 for 3,500 kroons (223.69 euros). The purchase price was entered in the business expenses. The self-employed person enters the amount received from the sale (192 euros) in the business income (in line 1.1.4 of form E).

If the acquisition cost had been entered in the expenses in part, the income from the transfer of the asset should be indicated in the self-employed person's income i.e. the income from sale in the same proportion as the acquisition cost entered in the expenses.

Example
A self-employed person acquired a smoke oven for 1,278 euros. Intending to use it for own personal consumption as well, the proportion of the use in business was determined as 75 per cent, so 75 per cent (958.50 euros) of the acquisition cost was entered in the expenses related to business.
The smokehouse was then sold for 1,182 euros. 75 per cent of the sales income received (in the same proportion as used on purchasing), i.e. 886.50 euros (1,182 × 75 ÷ 100) was added to the business income.

Likewise, pursuant to **sections 48 and 49 of the Income Tax Act**, self-employed persons may increase the acquisition cost of the taxed property by the amount subject to income tax during the taxable period when the property is transferred or taken in personal use.

Example
A self-employed person buys a printing press for a market price, i.e. 15,000 euros from a legal person, paying 5,000 euros. The company has paid 20/80 income tax on the remaining 10,000 euros. Later, the self-employed person decides to sell this property for 30,000 euros. The taxable income upon transfer or taking for personal use of the property is found as follows.
On the acquisition of the asset, the self-employed person entered 5,000 euros in the business-related expenses. In the case of transfer of the asset (or upon taking in personal use), the selling/market price would be decreased by 10,000 euros and 20,000 euros (30,000 – 10,000) would be entered in the expenses related to business.

TAKINGASSETS INTO USE FOR PERSONAL CONSUMPTION

If a self-employed person takes into personal use the assets used previously in business and the acquisition cost has been indicated as expenses related to business whether partly or in full, this is equated with the transfer of property and the market price of the assets is declared as the business income.

In the event of later transfer of assets taken for personal consumption, the gain is taxed in accordance with the general procedure and the acquisition cost of the assets is the amount added to business income.

More information: **Taxation of personal consumption of business assets while being engaged in business**

The transfer or bequeathing of the property belonging to business assets to a person who continues the business's activities is not regarded as personal consumption (**subsection 37 (7) of the Income Tax Act**).

More information: **Transfer or bequeath of business assets to a person who continues the business activities of the self-employed person**

DESTROYED ASSETS

The write-off of destroyed and lost assets entered in business expenses is necessary in order to prevent such assets from being considered to have been taken for personal consumption at the time of termination of the business and the market price of the property should not be added to business income.

The write-off of assets in business must be carried out only on the basis of the documentation prepared pursuant to the rules concerning organisation of accounting and the provisions of other legislation.

Whereas in the case of cash-based accounting, there are no accounting policies and procedures establishing the procedure of writing-off of assets, the self-employed person has to make an act or a certified statement on the writing-off of the destroyed or lost assets. The act or statement must contain the type of assets and their full name, acquisition time and acquisition cost entered in business expenses, information about the destruction or loss of the assets, the reason, etc. Where possible, the confirmation of the relevant authorities on the destruction or loss of the assets should be appended to the act or statement.

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Registration of spouses or registered partners and social tax

Self-employed persons registered in the commercial register can register their spouse or registered partner who participates in the business of the self-employed person in the employment register in the e-MTA, even if the spouse or the registered partner is not in the employment relationship with the self-employed person, and pay social tax for the spouse or the registered partner ensuring thus social insurance cover to the spouse or the registered partner (health and pension insurance). The self-employed person registers his or her spouse or registered partner in the e-MTA with the type of employment “Spouse or registered partner of self-employed person with the obligation of social tax”.

The status of a spouse is based on a registered marriage in force. Registreeritud elukaaslase käsitlemise aluseks on kooseluleping, mis on sõlmitud notariaalselt tõestatud vormis.

It is irrelevant what tasks the spouse performs. It is possible to perform both the tasks that are directly necessary to generate business income (e.g. herding animals) and those which are ancillary (e.g. the organisation of self-employed person's accounting). The right to register a spouse extends to all self-employed persons, regardless of the field of activity (except notaries, bailiffs, sworn translators).

Registering a self-employed person's spouse or registered partner to obtain insured status is a self-employed person's right, not an obligation. The law allows self-employed persons and their spouses or registered partners to decide themselves whether this is necessary or not. Registration of self-employed persons' spouses in the register or deleting them from the register is based on a self-employed person's decision to provide or terminate insurance cover for a spouse or a registered partner involved in the business. If a self-employed person registers his or her spouse or registered partner in the employment register, the self-employed person is **obliged** to pay social tax for the spouse or the registered partner.

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Registration of self-employed person's spouse

Self-employed persons registered in the commercial register can **register their spouses who are engaged in their business** in the employment register under the employment type „**Self-employed person's spouse with the obligation of social tax**".

If a self-employed person has registered in the commercial register a temporary activity, it is necessary to indicate start and end dates of the activity in the employment register (the same dates as in the

commercial register).

If a self-employed person **suspends business activity in the commercial register**, it is also required to suspend the registration of a spouse as at the same date. The grounds for suspension to be selected is **„Suspension of employment relationship for other reasons**".

If a self-employed person **terminates business activity in the commercial register**, it is also required to terminate the registration of a spouse in the employment register and the grounds for termination to be selected is **„Other reasons**".

The register entries of self-employed persons' spouses who were registered in the register of taxable persons on the basis of the application by a self-employed person, have been transferred into the employment register as of 1 January 2019.

The history of the register entries of self-employed persons' spouses remain in the register of taxable persons as of 31 December 2018.

The health insurance of spouses who have been registered in the employment register under the employment type „Self-employed person's spouse with the obligation of social tax" is valid from 1 January 2019 on the basis of an entry in the employment register.

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Paying social tax for spouse

CALCULATION OF SOCIAL TAX

By entering a spouse's data in the employment register, a self-employed person is liable to pay social tax for the spouse. self-employed persons calculate the amount of tax payable for their spouse themselves (no tax notices are issued). Social tax is calculated for each calendar month. The calculation of social tax for spouses is based on the monthly rate of social tax. In 2026, the monthly rate was 886 euros – so the amount of one payment is 292.38 euros per month (886 × 33%).

Social tax is calculated on a lower amount than the monthly rate if the social tax liability does not arise for a whole month in the following cases.

1. A spouse is entered in the employment register or deleted from the register in a given month, social tax is calculated in proportion to the number of calendar days of being in the register. For

example, if the spouse was entered in the register on 21 January, social tax for 11 days in January is 886 ÷ 31 × 11 × 33% = 103.74 euros. When a spouse is removed from the register, social tax must be calculated for the days on which the spouse's data were entered in the register during the month of removal.

2. In a given month, a certificate of incapacity for work is issued to the spouse, social tax is calculated in proportion to the number of calendar days preceding and following the period of incapacity for work. For example, if a certificate of incapacity for work is issued for the period from 3 to 12 September, social tax for September is 886 ÷ 30 × (30 – 10) × 33% = 194.90 euros.
3. A spouse retires in a given month, social tax is calculated in proportion to the number of calendar days prior to becoming a recipient of the state pension. For example, if the spouse becomes a pensioner from 10 September, social tax for September is 886 ÷ 30 × 9 × 33% = 87.70 euros.
4. If a self-employed person is not engaged in business, there is no need to pay social tax for the spouse for this period. The reasons for not doing business may be the suspension of business, the temporary or seasonal nature of the activity as well as the termination of activity. In the month in which the above-mentioned event occurs, social tax is paid in proportion to the number of days of activity. self-employed persons do not have to send their data to the Estonian Tax and Customs Board, the tax authority receives those data from the commercial register. For example, if the self-employed person's spouse was entered in the register of taxable persons on 6 August and the self-employed person informs the registrar of the commercial register of the suspension of his activity from 27 August, the self-employed person calculates social tax for his spouse for 21 days in August, i.e. 886 ÷ 31 × 21 × 33% = 198.06 euros.

DECLARATION OF SOCIAL TAX

Self-employed persons have to declare the social tax calculated for their spouse on form ESD of the tax return, which is submitted to the Estonian Tax and Customs Board by the 10th day of the month following the taxable period (calendar month).

Declaration can be submitted on paper form or entered in the **e-services environment e-MTA** under **Tax returns** – **TSD** – **Add a new tax return**, where ESD/year and month should be selected from the drop-down list.

PAYMENT OF SOCIAL TAX

The deadline for the payment of social tax for a spouse is the 10th day of the month following the taxable period (calendar month) (**the deadline differs from the self-employed person's own deadline for advance payment)**.

Social tax is transferred to the bank account of the Estonian Tax and Customs Board, the reference number of the taxable person, i.e. the self-employed person, is inserted in the field of the payment order reference number.

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