

The ABCs for a sole proprietor

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Sole proprietors' tax liabilities

Information about changes in taxes and tax rates provided by law can be found under [Tax rates](#).

Social tax

PRINCIPLES

- ✓ Sole proprietors 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;
- ✓ sole proprietor'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;
- ✓ sole proprietors are requested to pay advance payments of social tax during the year;
- ✓ sole proprietors 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 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 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 sole proprietor can indicate the periods, pursuant to sick leave certificates, when he/she was on sick leave during the year. The periods when the sole proprietor is on sick leave are taken into account on calculating the annual

final social tax obligation. A tax notice is issued by the Tax and Customs Board on the additional amount of social tax due to a sole proprietor 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 Tax and Customs Board will not issue a tax notice. In 2024, the sole proprietor has to pay the amount of social tax indicated in the tax notice into the bank account of the Tax and Customs Board not later than by **2 October**. If, during the year, the sole proprietor has paid more social tax as advance payments than the actual social tax obligation in a year, the sole proprietor will be refunded the overpaid amount of social tax.

Further information

[Social Tax Act](#)

Payment of advance payments of social tax

PAYMENT OF ADVANCE PAYMENTS OF SOCIAL TAX

Sole proprietors 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 15 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 2024 is 725 euros, on the basis of which the calculated social tax obligation for one quarter is 717.75 euros ($725 \times 3 \times 33\%$). The tax liability is paid with the accuracy of a euro cent.

CALCULATION, DECLARATION AND PAYMENT OF SOCIAL TAX FOR THE SPOUSE OF A SOLE PROPRIETOR

The sole proprietor (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 sole proprietor, ensuring thus social insurance cover to the spouse.

When advance payments need not be paid

Sole proprietors need not make advance payments of social tax, if:

1. they are receiving a state 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 sole proprietor starts or terminates business during the quarter, they are required to make advance payments for these days when they are registered as a sole proprietor.

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: $717.75 \text{ euros} \div 91 \times 50 = 394.37 \text{ euros}$.

4. social tax for the person is paid by the employer or the state or the local government

If social tax for a sole proprietor 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 2024 the amount is not less than 717.75 euros per quarter, the sole proprietor need not make advance payments of social tax.

If the employer, state, city or rural municipality pays social tax for the sole proprietor less than 717.75 euros, the sole proprietor 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 sole proprietor'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 2024 are being verified. Let us assume that the total amount of social tax paid is 350 euros, then the sole proprietor'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 sole proprietor'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 2024 are being verified. Let us assume that the amount of social tax paid is 50 euros, then the sole proprietor'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-MTA.

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 5¹ 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.

Sole proprietors pay advance payments of social tax in proportion to:

- ✓ **the number of days** of registration as a sole proprietor, if the sole proprietor 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: $\text{quarterly payment} \div \text{the number of days in the quarter} \times \text{the number of days of tax liability}$.

The number of days in each quarter is different:

I qtr: $31 + 29 + 31 = 91$ 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: $717.75 \text{ euros} \div 91 \times 50 = 394.37 \text{ euros}$.

EXAMPLES

Examples on the daily-based calculations of advance payments in the I quarter of 2024 (the number of days = the number of days of tax liability in the quarter):

1. sole proprietor's starting date 1 January 2024 (or earlier) and final date 31 January 2024 → the number of days = 31 → I qtr payment: $717,75.46 \text{ euros} \div 90 \text{ days} \times 31 \text{ days} = 247.23 \text{ euros}$
2. sole proprietor's starting date 31 January 2024 and final date 28 February 2024 → the number of days = 29 → I qtr payment: $717.75 \div 90 \times 29 = 231.28 \text{ euros}$
3. sole proprietor's starting date 1 January 2024 (or earlier), suspension from 10 January 2024 to 5 February 2024 (27 days) and a student from 10 February to 5 March 2024 (24 days), the final date of being a sole proprietor 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: $717.75 \div 90 \times 39 = 311.03 \text{ euros}$.

Taking into account social tax paid by employer

If social tax for a sole proprietor 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 sole proprietor 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 15.03.2024, in the calculation of the first quarter payment, the forms TSD or ESD for December 2023 and for January and February 2024 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 2024 natural person income tax return.

EXAMPLES

1. Tax liability for the first quarter is 717.75 euros. The amounts of social tax on forms TSD/ESD for December 2023 and January and February 2024 are being verified. Let us assume that the total amount of social tax payable by the employer is 100 euros, then the sole proprietor's final payment for the first quarter is $717.75 - 100 = 617.75$ euros.
2. Tax liability for the second quarter is 717.75 euros. The amounts of social tax on forms TSD/ESD for March, April and May 2024 are being verified. Let us assume that the total amount of social tax payable by the employer is 795 euros, then the sole proprietor's final payment for the second quarter is $717.75 - 717.75 = 0$ euros and the unused balance of social tax according to forms TSD or ESD is $795 - 717.75 = 77.25$ euros for covering the following quarters.
3. Tax liability for the third quarter is 717.75 euros. The amounts of social tax on form TSD for June, July and August 2024 are being verified. Let us assume that the total amount of social tax payable by the employer is 50 euros, then the final payment for the third quarter is $717.75 - 77.25$ (balance) – 50 (new) = 590.50 euros.
4. Tax liability for the fourth quarter is 717.75 euros. The amounts of social tax declared on form TSD for September, October and November 2024 are being verified. Let us assume that the total

amount of social tax is 800 euros, then the final payment for the fourth quarter is $717.75 - 717.75 = 0$ euros and although, according to forms TSD or ESD, 82.25 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 2024 natural person income tax return in 2025 and the amount of social tax on forms TSD or ESD for January – December 2024 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 2024 are taken into account if the sole proprietor has such an account.

Income tax

PRINCIPLES

Sole proprietors 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 sole proprietor.

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 2024, the rate of income tax is 20%.

Sole proprietors may not deduct the income tax paid (including advance payments of income tax) from their business income.

A sole proprietor 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

Sole proprietors 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 Tax and Customs Board not later than by **30 April** of the year following the period of taxation. (Through the **e-MTA** it is

possible to file an income tax return from 15 February.)

Sole proprietors 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 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 sole proprietor 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. Sole proprietors must pay the amount indicated in the tax notice no later than by **1 October**.

The Tax and Customs Board refunds the overpaid amount of income tax by the same date.

MAKING ADVANCE PAYMENTS OF INCOME TAX

A sole proprietor starting a business need not make advance payments of income tax during the first period of taxation.

A sole proprietor 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 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 2024, the person makes advance payments in total 2/4 of the amount of income tax calculated on the business income derived in 2023.

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 sole proprietor's taxable business income for the year 2023 was 6200 euros and the tax rate was 20%.

In 2024, the amount of one advance payment is thus: $6200 \times 0,20 \div 4 = 310$ euros.

The due dates and amounts for advance payments of income tax in 2024:

310 euros for the third quarter by 15 September;

310 euros for the fourth quarter by 15 December.

Totally 620 euros in the year.

A SOLE PROPRIETOR 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 sole proprietor 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 Tax and Customs Board has the right to reduce the amount of advance payments or exempt a sole proprietor from making advance payments if the sole proprietor's estimated business income during the period of taxation is considerably smaller than the income of the previous period of taxation and if the sole proprietor 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.

Contribution to mandatory funded pension

PRINCIPLES

If a sole proprietor 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 Tax and Customs Board calculates the amount of the payment based on the taxable income adjusted by social tax that is declared on the sole proprietor'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.

Sole proprietors are obliged to transfer the payable amount indicated in the tax notice into the bank account of the Tax and Customs Board not later than by 1 October.

The contributions to the mandatory funded pension paid for sole proprietors 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%**.

If a sole proprietor has not received taxable income, the contribution to the mandatory funded pension need not be paid.

Funded Pensions Act

Unemployment insurance premium

Sole proprietors are not required to pay an unemployment insurance premium for themselves.

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