The ABCs for a self-employed person

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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.

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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.

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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).

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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.

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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.

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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

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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.

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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

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