The ABCs for a self-employed person

Table of contents

Tax incentives for self-employed persons **3**
Special account **3**
Additional agricultural deduction **5**
Sales revenue of timber and Natura 2000 support **5**

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.

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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.

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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**).

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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

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