Threshold calculation from 1 January 2025

From 1 January 2025, the following is included in the 40,000 euro threshold for registration for VAT purposes:

- ✓ taxable supply of goods and services, including 0 per cent taxable supply, except the transfer of fixed assets;
- ✓ supply of real estate transactions (**clauses 2, 3 and 6 of subsection 2 of § 16 of the VAT Act**), except the transfer of fixed assets and occasional transactions;
- ✓ supply of insurance services (**clause 1 of subsection 2 of § 16 of the VAT Act**) and financial services (**subsection 2^1 of § 16 of the VAT Act**), except occasional services.

Only supply the place of creation of which is in Estonia is included in the threshold.

If a person's total supply is either exempt from tax or subject to 0% VAT (and it does not include intra-Community supply of goods), the registration obligation does not apply regardless of the amount of the supply.

All transactions specified in clauses 2, 3 and 6 of subsection 2 of § 16 of the VAT Act are included in real estate transactions – sales transactions, lease and rental transactions as well as, for example, membership in a building association.

Reinsurance and insurance intermediation services are also included in the insurance services to be included in the threshold.

The financial services included in the threshold include the services referred to in **subsection 2^1 of § 16 of the VAT Act**:

1. deposit transactions for the receipt of deposits and other repayable funds from the public;
2. borrowing and lending operations, including consumer credit, mortgage credit and other transactions for financing business transactions;
3. leasing transactions;
4. payment services within the meaning of the Payment Institutions and E-Money Institutions Act, with the exception of transactions with commemorative coins within the meaning of Regulation (EU) No 651/2012 of the European Parliament and of the Council on the issuance of euro coins (OJ L 201, 27.07.2012, pp 135–137) or with commemorative coins of third countries (hereinafter

commemorative coins) that are not investment gold;
5. issue and administration of non-cash means of payment, such as electronic payment instruments, electronic money, traveller's cheques and bills of exchange;
6. guarantees and commitments and other transactions creating binding obligations to persons;
7. transactions for their own account or for the account of clients in traded securities provided in **clauses 1–7 of subsection 1 of § 2 of the Securities Market Act** and in foreign exchange and other money market instruments, including transactions in cheques, exchange instruments, certificates of deposit and other such instruments;
8. transactions and acts related to the issue and sales of securities specified in clause 7;
9. money broking;
10. negotiation services related to the services specified in clauses 1–9;
11. management of investment funds provided for in the Investment Funds Act and other investment funds of a Contracting Party to the EEA Agreement and subject to financial supervision, including the provision of services related to the management of funds to the funds in the case of transfer of duties of a management company.

In order to assess whether a financial transaction constitutes supply within the meaning of the VAT Act, it is necessary to pay attention to whether it is a supply of services in the course of an independent economic activity of a person, i.e. whether a person can have a say in determining the price of his or her service. For example, deposit interest is in principle a consideration for money lent to a bank, but since the recipient of deposit interest cannot determine the amount of interest itself, it cannot be regarded as supply within the meaning of the VAT Act. If one company grants a loan to another, interest is agreed upon, the service provider sets the price and it is a business that generates supply.

The supply of financial services must therefore include, for example, the sale of various securities and the interest yielded by the granting of loans, provided that these are not occasional transactions. In addition to interest on deposits, interest on bonds, receipt of dividends and redemption of bonds, for example, are not included in the supply of financial services.

Other tax-exempt services, such as health care or education services, will remain excluded from the calculation of the threshold from 1 January 2025.

In addition, sales of fixed assets and real estate, financial and insurance transactions as occasional transactions are not included in the threshold. Occasionality cannot be judged on the basis of frequency, amount or proportion alone. A transaction is usually occasional if a company has invested its available funds, granted a loan, etc., but the company has been created for some other activity.

The Ministry of Finance has explained an occasional transaction as follows:

"A transaction is occasional when the transaction concerned is not related to the principal activity, the day-to-day business of the taxable persons. For example, an occasional transfer occurs when securities are transferred by a company that had acquired them for investment purposes but does not carry out

*securities transactions as its principal activity, or when a loan is granted by a company whose activity is not the granting of loans, etc. When defining an occasional transaction, account must also be taken of whether and to what extent input VAT is used for that transaction (**C-378/15**).”*

Example 1

An Estonian company generates supply in the amount of 42,000 euros within a year only by renting out dwellings.

Since only tax-exempt supply is generated, there will be no obligation to register as a VAT payer from 2025.

Example 2

Since the beginning of the calendar year, an Estonian company has tax-exempt supply of 38,000 euros from renting out a dwelling as a main activity and, in addition, taxable supply of 2,500 euros from the provision of training services.

The company has both taxable supply and tax-exempt supply related to immovable property (which is not an occasional transaction) and as of the day when the total supply of the calendar year exceeds 40,000 euros, the obligation to register as a taxable person for VAT purposes arises. In addition, it is necessary to start taking into account the proportion upon deducting input VAT.

Example 3

A company manufactures toys. Their supply is 38,000 euros in a calendar year. The company creates extra resources with which it will grant a one-time loan and earns 3,000 euros of interest. Next year, the company plans to use the loan paid back and the interest received to invest in the development of a toy factory.

In this case, the financial transaction can be considered as occasional and although the 40,000 threshold was exceeded with the tax-exempt supply generated by the interest, there is no registration obligation.

Example 4

A company's area of activity is the purchase and sale of securities. The tax-exempt supply from the sale of shares is 300,000 euros and the taxable supply from consulting services is 1,000 euros.

Starting from 1 January 2025, it is mandatory to register as a VAT payer if the threshold of 40,000 euros is met. If the company has only tax-exempt supply since the beginning of the calendar year, the registration obligation arises from the day on which taxable supply arises.

Example 5

A company provides tax-exempt health care services in the amount of 500,000 euros and, in addition, it sells training services in the amount of 2,000 euros.

There will also be no obligation to register for VAT in 2025, as healthcare is included in the exemption for goods and services of social nature, which is not included in the threshold.

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