



MAKSU- JA TOLLIAMET

Value added tax rates and supply exempt from tax

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Exempt supply

The goods and services which supply is exempt from VAT are specified in **§ 16 of the Value Added Tax Act** (VAT Act).

Treatment of the transaction as exempt supply means that VAT shall not be added to the sales price of the goods or services and the taxpayer has no right to deduct input VAT of goods and services, acquired for exempt supply.

If the whole supply of a person is exempt from VAT – such person has no obligation to register for VAT liability, has no obligation to submit declarations arising from the VAT Act and has no obligation to fulfill other obligations of the VAT payer.

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Exempt supply of the goods and services of a social nature

Value added tax shall not be imposed on the supply of the following goods and services of a social nature:

1) **universal postal services** within the meaning of the Postal Act and payment of state pensions, benefits, support and compensation by means of post in accordance with the procedure laid down in the State Pension Insurance Act and the Work Ability Allowance Act.

According to the Postal Act, universal postal services mean the continued and high quality provision of postal services provided for in subsection 5 (2) of the Postal Act at an affordable price throughout the whole territory of the Republic of Estonia on the bases and pursuant to the procedure provided by legislation.

Universal postal services include the following domestic and cross-border postal services:

1. the forwarding of items of correspondence weighing up to 2 kilograms as ordinary, registered and insured items;
2. the forwarding of postal parcels weighing up to 20 kilograms as registered and insured items.

Universal postal services do not include the forwarding of postal items as bulk items.

A universal postal service provider is a person to whom a licence for the provision of universal postal services has been issued – it means, only a person with the correspondent license can provide postal services which are exempt from VAT.

The Work Ability Allowance Act has created a new type of allowance – work ability allowance – and ended the determination of percentages of loss of capacity for work and pension for incapacity for work on the basis of the State Pension Insurance Act. Therefore, with effect from 1 January 2022, the VAT Act was supplemented in such a way that the payment of state pensions, benefits, support and compensation by means of post in accordance with both the State Pension Insurance Act and the Work Ability Allowance Act is exempt from VAT.

2) **health services** within the meaning of the Health Service Organisation Act and the supply of an organ or tissue of human origin, human blood or blood product made from human blood and breast milk, as specified in the list approved by a regulation of the Minister of Social Affairs.

According to the Health Services Organisation Act, health services are the activities of health care professionals for the prevention, diagnosis or treatment of diseases, injuries or intoxication in order to reduce the malaise of persons, prevent the deterioration of their state of health or development of the diseases, and restore their health. The Health Board must issue an activity licence for the provision of health services.

Health care professionals are doctors, dentists, nurses and midwives if they are registered with the Health Board. A health care professional may provide health services within the acquired profession or speciality based on which they have been registered in the health administration information system.

Where a person provides treatment and has been registered in the health administration information system, the following persons are equalised with a health care professional:

1. physiotherapist,
2. clinical psychologist
3. speech therapist.

Therefore, for the purposes of applying the tax exemption, it is important that the service provided is a health service, a licence has been issued for the provision of the service and that the service is provided by a health care professional, including a physiotherapist, clinical psychologist and speech therapist treated as a health care professional.

Chocolate therapy, coffee therapy, different massages (excl. therapy massage, prescribed by a doctor) are not acknowledged methods of rehabilitation and the qualification of the rehabilitation specialist is not necessary for the provision of such services. Thus, the implementation of such therapy methods is

the provision of the taxable services, even the provider of the service has the qualification of the rehabilitation specialist.

2¹) service provided by dental technicians in their professional activities and **dental prostheses** transferred by dentists or dental technicians.

According to clause 132(1)(e) of the EU VAT Directive, the supply of services by dental technicians in their professional capacity and the supply of dental prostheses by dentists and dental technicians shall be exempt from VAT.

3) **services provided by a non-profit association** to its members free of charge or for a membership fee, and services provided by a non-profit association or foundation to natural persons relating to the use of sports facilities or sports equipment;

Service provided by a non-profit association is exempt from VAT only if the service is provided free of charge or for a membership fee. If a non-profit association organises events for its members for a consideration, such transaction is treated as taxable supply, even the bargain price was applied.

4) **social services** specified in Articles 8 (since 01.05.2018), 17, 20, 23, 26, 27 (since 01.05.2018), 30 (since 01.05.2018), 33 (since 01.05.2018), 41, 44 (since 01.05.2018), 45⁵, 45¹⁵, 56, 87, 91, 94, 97, 100 and 130¹ and social services financed out of the state or local government budget specified in Article 45¹ of the Social Welfare Act (SWA).

The definitions and provision of social services are regulated in SWA. According to clause 4 of subsection 1 of § 16 of the VAT Act, the social services exempt from VAT are:

the provision of emergency social assistance, for example, making available of clothing, food and temporary accommodation to person in a socially helpless situation (Article 8 of SWA – since 01.05.2018), domestic service (Article 17 of SWA), general care service provided outside the home (Article 20 of SWA), support person service (Article 23 of SWA), curatorship of adults (Article 26 of SWA), personal assistant service (Article 27 of SWA – since 01.05.2018), shelter service (Article 30 – since 01.05.2018), safe house service of adults (Article 33 – since 01.05.2018), provision of dwelling (Article 41), debt counselling service (Article 44 – since 01.05.2018), alternative care service (Article 45⁵ of SWA), continued care service (Article 45¹⁵ of SWA), social rehabilitation service (Article 56 of SWA), everyday life support service (Article 87 of SWA), employment support service (Article 91 of SWA), supported living service (Article 94 of SWA), community living service (Article 97 of SWA), 24-hour special care service (Article 100 of SWA), closed child care institution service (Article 130¹ of SWA).

Childcare service (Article 45¹ of SWA) is exempt from VAT, if it is financed out of the state or local government budget.

The content of social services exempt from tax provided for in clause 4 of subsection 1 of § 16 of the

VAT Act must be interpreted on the basis of the provisions of the relevant sections of the Social Welfare Act. The services specified in the specific provisions of the Social Welfare Act listed in clause 4 of subsection 1 of § 16 of the VAT Act are exempt from tax.

The fact that the service is a so-called project-based service has no impact on the taxation of the service as such. If a service is provided as part of a project, the taxation depends on whether the service is exempt from tax pursuant to § 16 of the VAT Act or the service is taxable.

5) services relating to shelters for the protection of children and young persons;

6) pre-school, basic, vocational, secondary and higher education, including learning materials transferred by the education service provider to the recipient of the services, private tuition relating to general education and other training services, except other training services provided for business purposes.

Only training services of a social nature are exempt from VAT – for example, general education and private tuition relating to general education, but not training services provided in the course of business activities. For the purposes of this provision, general education services cover pre-school, basic, vocational, secondary and higher education as formal education. Formal education is always supply exempt from tax – whether the training is provided by a public, municipal or private school.

Retraining and continuing education is covered by the term “other training services”. Other training for non-business purposes is supply exempt from tax without the right to voluntary taxation. Training services provided for business purposes, if they are not a part of general education, are taxable with the standard VAT rate.

WHEN TRAINING SERVICES ARE PROVIDED FOR BUSINESS PURPOSES

When training service is provided by an economic operator (company, self-employed person), it is always for business purposes.

When training service is provided by a non-profit association or foundation, two main criteria must be considered:

- ✓ whether the training provider seeks to make a profit from providing the training services;
- ✓ whether the training provider competes with other training providers offering similar services, so that non-taxation of the training may distort competition.

Each specific training should be considered separately from this point of view. There is no general rule which training provided by a non-profit association or foundation, which is not formal education, is

exempt from tax and which is taxable. Attention needs to be paid to the competitive aspect – if similar training is provided by economic operators registered for VAT purposes (companies and self-employed persons), it must be regarded as training provided for business purposes by all providers (including non-profit associations or foundations). Pursuant to point (b) of Article 134 of the VAT Directive 2006/112/EC of the European Union, a Member State shall not grant exemption where the purpose is to obtain additional income for the body in question through transactions which are in direct competition with those of commercial enterprises subject to VAT.

If the training is provided by a non-profit association or foundation that does not seek profit from this training and the training is so specific that there is no real competition from other providers offering similar training, then we can say that the training is offered for non-business purposes and the supply is exempt from tax.

If a state, rural municipality or city authority provides training for business purposes, a taxable supply arises.

7) **transportation of sick, injured or disabled persons** in vehicles which are specially designed for such purpose and which correspond to the requirements established on the basis of the Traffic Act.

Transportation of sick, injured or disabled persons in vehicles which are specially designed for such purpose and which correspond to the requirements established on the basis of the Traffic Act is a service exempt from VAT. This provision imposes exemption to so-called taxi service for disabled persons – but only if the service is provided with specially designed vehicles.

8) **service provided by an independent association of persons to their members** provided that the following conditions are met: the service is directly necessary for the main activity of the member, which is exempt from tax or is not subject to value added tax; the fee paid for the service does not exceed the costs incurred upon the provision of the service and the tax exemption of the service does not affect competition significantly.

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Exempt supply in a regular business, incl. services related to immovables

The VAT Act enacts also the list of other services and goods, exempt from VAT, which have no social

nature but are provided in the course of regular business.

The following goods and services are exempt from VAT:

1) **insurance services**, including reinsurance and insurance mediation. Essential point of the insurance mediation is set out in Article 2 of the Insurance Activities Act. Insurance services, including reinsurance and insurance mediation, are exempt from VAT if their content is in accordance with the provisions of the Insurance Activities Act.

For the purposes of the Insurance Activities Act, acting as insurance broker or insurance agent is called “insurance mediation”. Criteria of the insurance mediation which are essential for the determination of the insurance mediation service are stipulated in Articles 174, 175 and 176 of the Insurance Activities Act.

Following the judgment of the Court of Justice in Case C-42/22 – in a situation where an insurance undertaking has fully compensated the normal price of a vehicle in the event of complete write-off or damage to the vehicle and the ownership of the vehicle is transferred to the insurance undertaking, **the realisation of such a vehicle by the insurance undertaking cannot be regarded as part of the insurance business and thus as supply exempt from tax**. The supply of such a vehicle by the insurance undertaking registered for VAT purposes is subject to VAT. Since previously the tax authority was of the opinion that such activity is part of tax-exempt insurance services and the opinion has changed due to the fact that the decisions of the Court of Justice are part of the European Union law, which the Estonian tax authority is guided by in its activities, the new interpretation must be applied no later than 1 July 2024. Read more: [Transfer of written-off vehicles by insurance companies](#)

2) **the leasing or letting of immovables or parts thereof, establishment of a usufruct on immovables or parts thereof**. Tax exemption is not applied on the provision of accommodation services, the leasing or letting of or establishment of a usufruct on multi-storey car parks and premises for parking vehicles, and the hiring or leasing of or establishment of a usufruct on permanently installed equipment or machinery or safes.

As a rule, the leasing or letting of immovables or parts thereof, establishment of a usufruct on immovables or parts thereof is exempt supply. A taxpayer can add VAT to the taxable value of such services (except the leasing or letting of dwellings and establishment of a usufruct on dwellings) if he has notified the tax authority about it. The abovementioned services are treated as services connected with an immovable where the legislation of the country of location of the immovable shall be applied. Thus, if the taxpayer has notified the tax authority about addition of VAT to the taxable value of the services – it’s not important who is the recipient of the service, an Estonian person or a non-resident.

If the taxpayer has notified the tax authority about addition of VAT to the taxable value of the services – he must tax such supply for at least two years as of the first taxable period.

The leasing of immovables shall be distinguished from the **accommodation service** which is taxable supply.

The establishment of a usufruct on immovables is also exempt supply, according to clause 2 of subsection 2 of § 16 of the VAT Act. The taxpayer can add VAT to the taxable value of such service, if he has notified the tax authority about it in writing before the supply was effected, during the same taxable period or earlier.

3) **immovables or parts thereof**. The tax exemption is not applied to the immovable property, the essential part of which is a construction work for the purposes of the Building Code or a part of a construction work, which is transferred before the initial use of the building or its part, or for the first time within one year after the initial use (amendment entered into force 1 January 2025); or to immovable property, the essential part of which is a significantly improved construction work or its part, which is transferred before re-commissioning of the construction work or its part following improvement or for the first time within one year after re-commissioning (amendment entered into force 1 January 2025); or to building land. The construction work or its part is considered to have been significantly improved if the expenses related to the improvements exceed at least 10 per cent of the acquisition cost of the construction work or its part before the improvement.

The costs related to the improvements shall be compared only with the value of the improvable construction work itself, located on an immovable – not with the total value of the immovable (the price of land + construction work).

The definition of immovable in the VAT Act

The definition of **immovable** is enacted in subsection 3 of § 2 of the VAT Act. **Immovables**, as defined in the General Part of the Civil Code Act, right of superficies, utility networks and utility works, as defined in the Law of Property Act, structures as movables, as defined in the Law of Property Act Implementation Act, and apartment ownership and right of superficies in apartments, as defined in the Apartment Ownership Act and the Apartment Associations Act are deemed to be immovable for the purposes of the VAT Act.

As a rule, supply of immovables is exempt from VAT – but supply of new and significantly improved construction works and plots with no buildings is not exempt. Supply of structures as movables is also taxable or exempt according to the rules concerning immovables. According to subsection 1 of § 3 of the Building Code, construction work means a structure that is created as a result of human action and that is attached to or supported by the ground underneath and whose purpose of use, aim, manner of use or durability make it distinguishable from other structures. Construction works are divided to buildings and civil engineering works. A building is a construction work that has an interior space that is separated from the external environment by the roof and other parts of the building envelope. A civil engineering work is any construction work other than a building. The definition of construction work is not directly related to the existence of the use and occupancy permit or to the entry in the register of construction works. As far as a building located on a plot of land is a “versal thing”, i.e. it has roof,

interior space and parts of the building envelope – we have a plot of land where a construction work is located. As a rule, the transfer of a plot of land with a construction work after the commencement of use of the construction work is exempt supply according to clause 3 of subsection 2 of § 16 of the VAT Act.

For the purposes of the VAT Act, right of superficies as defined in the Law of Property Act is also treated as immovable. Thus, for the taxation purposes establishment of superficies to the land is treated like the transfer of the immovable.

The transfer of the new construction work and land under it

If an essential part of an immovable is a construction work or a part thereof which has been significantly improved (the costs related to the improvements exceed at least 10% of the acquisition value of the construction work or the part thereof before the making of the improvements) – such immovable is also taxable as a new construction work.

For example, if the acquisition cost of a construction work or a part thereof (without the cost of the land) was 100,000 euros before the improvement and the expenses related to the improvement were incurred for at least 110,000 euros (acquisition cost 100,000 euros + 10% of it) and the construction work or part thereof is transferred before the re-commissioning following the improvement or for the first time within one year after the re-commissioning following the improvement, the tax exemption does not apply upon the transfer. If the improvement costs are equal to the acquisition cost of the construction work or are less than 110,000 euros in the given example, there is no obligation to tax the supply of the construction work or a part thereof even if the improved construction work or a part thereof is not re-commissioned before the transfer or is re-commissioned within one year before the first transfer following the improvement.

The definition of building land in the VAT Act

According to clause 1 of subsection 3 of § 2 of the VAT Act, building land is deemed to be such immovable within the meaning of the General Part of the Civil Code Act, that does not contain any construction work, except utility networks or utility works, and which is designed for building pursuant to the design specifications, a detailed spatial plan or special spatial plan of the state or local government or for which a building notice has been submitted or the intended purpose of the cadastral unit of which is over 50% residential land or commercial land or these jointly.

According to clause 3 of subsection 2 of § 16 of the VAT Act, tax exemption is not applied to a building land. If there are only such utility networks and utility works, as defined in the Law of Property Act, on the immovable which are already in use – for the purposes of the VAT Act it is a plot of land with no construction works and the transfer of such immovable is taxable. Utility networks and utility works, as defined in the Law of Property Act, are separate immovables, the owner of which is a third party and which can't be transferred by the owner of the plot of land.

4) valid postal payment means of the Republic of Estonia if sold at their nominal value.

Tax exemption is not applied for postage stamps, sold for philately interest, as well as for valid postage stamps, sold at price higher than their nominal value.

5) **securities**, except securities or holdings, which grant the holders thereof the right of ownership or the right to use and dispose as an owner of the immovables or parts thereof specified in the second sentence of clause 3 of subsection 2 of § 15 of the VAT Act, and since 01.05.2018 also except a greenhouse gas emission allowance for the purposes of subsection 1 of § 137 of the Atmospheric Air Protection Act.

The definition of security is enacted in subsection 1 of § 2 of the Securities Market Act. Security is a transferable proprietary right – thus, security is a service.

Upon the transfer of securities, the value of exempt supply is comprised of the total consideration received for the security (incl. the cost of the security itself). Tax exemption is not applied to securities which grant the holders thereof the right of ownership or the right to use and dispose as an owner of a new immovable or a part thereof. The supply of such holdings and securities shall be taxable because its actual economic content is a transaction, similar to the transfer of a new immovable. One such example is the transfer of the holding of a member of a building association. The holding of a building association does not give to a member of this building association the right of ownership of a fixed part of a building (for example, an apartment), but actually a member of a building association can use and dispose his membership, which give him the sole use of the apartment, as the owner – for example, he can transfer and pledge his membership. A bearer security is not issued about the membership, but as a rule, a person can become a member of a building association through the transaction certified by a notary.

If there is only the transfer of the holding or securities (incl. if holding or securities are transferred as non-monetary contribution) which does not involve the transfer to another person of the legal ownership or the ownership in property law of the immovable, i.e. this another person can't use and dispose the immovable as the owner – in such case it's a regular exempt supply of securities.

6) **lottery tickets and the organisation of gambling, except the organisation of commercial lotteries and the organisation of such games of skill the only possible prize of which is the possibility to participate again in the same game.**

The gambling service includes the organisation of a lottery and the transfer of lottery tickets. The organisation of gambling is regulated in the Gambling Act. Only a person who has a correspondent operating permit can organise the gamblings. Tax exemption is not applied to the organisation of commercial lotteries and the organisation of such games of skill the only possible prize of which is the possibility to participate again in the same game.

7) **investment gold**, services relating to the transfer of investment gold or entry into a corresponding transfer agreement, or services relating to the supply thereof which are provided by an agent acting in the name and for the account of another person.

Special arrangements for imposing value added tax on investment gold, specified in Articles 344–356 of the EU VAT Directive, is the basis for exemption from VAT of the investment gold. In subsection 7 of 32 of the VAT Act is specified, input VAT of which goods and services is deductible for a person who supplies investment gold exempt from VAT – irrespective of the fact that the goods and services are acquired for the exempt supply. According to clause 4 of subsection 3 of 16 of the VAT Act, in certain cases a VAT payer can opt for taxation of the supply of the investment gold and the services related to the investment gold.

8) goods, upon the acquisition of which there was no right for deduction of input value added tax, unless the goods were acquired before the registration of the acquirer as a taxable person or if, at the time of acquisition of the goods, the input value added tax had been deducted in part.

Tax exemption is not applied upon the transfer of the goods which were acquired before the registration of the acquirer as a taxable person – in such case the right to deduct input VAT is applicable later (if the goods were acquired for the resale or as a raw material – subsection 5 of 29 of the VAT Act). Tax exemption is also not applied, if the VAT payer had the right of partial deduction of input VAT upon the acquisition of the goods.

Last updated on 01.08.2025

Adjustment of deducted input VAT, if the immovable is used for exempt supply

The transfer of an immovable exempt from VAT or the provision of services exempt from VAT involves the adjustment of deducted input VAT. If a VAT payer acquired an immovable with VAT and deducted input VAT upon the acquisition – he must take into consideration that if he uses the immovable for his exempt supply, he must adjust deducted input VAT.

Upon the acquisition of an immovable, input VAT is not deducted according to the general proportion of taxable supply to total supply but according to the actual use of the particular immovable for taxable supply and for exempt supply (or for purposes other than those related to business). Upon the acquisition of an immovable, input VAT is deductible in the month when the immovable was acquired and the deduction shall be based on the estimated proportion in which the immovable was to be used for the purposes of taxable supply. The period for adjustment of input VAT shall be 10 calendar years in the case of immovables. The period for adjustment means that the actual use of the immovable for the taxable supply shall be monitored during the correspondent period. If the immovable is partly (or entirely) used for exempt supply, a VAT payer must partly or entirely pay back deducted input VAT. Input

VAT shall be adjusted at the end of each calendar year taking into account the actual use of the immovable during the given calendar year.

The period of time between the date of acquisition of the immovable and the last day of the current calendar year is deemed to be the first calendar year. If the actual use of the immovable was in accordance with the estimated use, the adjustment is not necessary for this calendar year. If the immovable is transferred exempt from VAT prior to the commencement of use in business or during the first year of use, the whole input VAT which was deducted upon the acquisition of the immovable shall be paid back.

Input VAT shall be adjusted also for the goods acquired and services received for the immovable which increase the book value of the immovable. In the case of remodelling of an immovable (renovation of a construction work, adding an extension to a construction work etc.), the period for adjustment begins for the remodelled immovable again since the commencement of use of the renovated part.

A VAT payer has the right to adjust input VAT in both directions, i.e. not deducted input VAT is also possible to adjust.

For example, it's possible to deduct proportionally in the course of adjustment (it means, additionally deduct) 1/10 of non-deducted input VAT for each calendar year when the immovable is used entirely for taxable supply. Of course, the prerequisite is that the acquirer of the immovable is a registered VAT payer.

Input VAT need not be adjusted upon transfer of an immovable used for business purposes to a credit or financial institution if the person who transfers the immovable has obtained the use of the immovable from the credit or financial institution on the basis of a contract during the same period of taxation and continues to use the immovable for business purposes for at least 10 calendar years as of the beginning of use of the immovable for the business of the person.

Last updated on 01.08.2025

Exempt financial services

Tax exemption of financial services is related to the essential point of the service – not to the provider. Thus, a person whose main business activity is not the provision of financial services, can also apply tax exemption for financial services. As the exception, input VAT related to the provision of exempt financial services to a non-EU country person is deductible (according to subsection 1 of § 29 of the VAT Act).

According to subsection 2 of § 32 of the VAT Act, the provision of the financial services, in so far as these are incidental transactions, shall not be taken into account upon the calculation of proportion of taxable supply to total supply. For example, financial service is incidental transaction if a business grants a loan to its employee or to a person who is not its employee and the provision of such financial service is not the main business activity of the business. Also, the financial activity has incidental character if a business transfers securities which belong to the business (including money market fund units).

The supply of the following financial services is exempt from VAT:

1) deposit transactions for the receipt of deposits and other repayable funds from the public.

Only a credit institution who has the correspondent authorisation can provide such service, its service fee is supply exempt from VAT.

2) borrowing and lending operations, including consumer credit, mortgage credit and other transactions for financing business transactions.

As a rule, a loan agreement includes the obligation of the recipient of the loan to repay the loan to the lender by agreed deadline and to pay interest, i.e. consideration for the use of the loan. Thus, received loan interests are exempt supply.

Since 1 May 2005, there is directly stipulated in the Credit Institutions Act that consumer credit is also a loan transaction treated as financial service. Interests, paid by a bank from money which is deposited in a bank account, are not treated as loan interests. The receipt of such kind of interests is not exempt supply for a business.

3) leasing transactions.

In the case of leasing transactions, the supply exempt from tax is the leasing interest. Interest is generally a fee for a financial service. If a leasing company provides a financial service to a client in addition to the rental service, the interest is exempt from tax regardless of whether the lessor and the lessee have entered into a leasing agreement under the terms of an operational lease agreement or a financial lease agreement. It should be taken into account that, in accordance with clause 9 of subsection 7 of § 37 of the VAT Act, the invoice submitted to the purchaser of the goods or services must set out, inter alia, the taxable amount broken down by different rates of VAT together with the applicable rates of VAT or the amount of supply exempt from tax – thus, the taxable value of the rental service and the amount of tax-exempt supply of the financial service must be set out separately on the invoice.

4) settlement, cash transfer and other money transmission transactions.

Abovementioned determination means the provision of the service of financial transmissions. As a rule, the provider of the service of financial transmissions is a banking institution. Service fee for financial transmissions, made by a postal institution, is also treated as a financial service exempt from VAT because the postal institution receives cash to carry forward it to third persons.

AS of 01.07.2022, payment services within the meaning of the [Payment Institutions and E-money Institutions Act](#) are not subject to value added tax, excluding transactions in collector coins which 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.

Non-cash means of payments are credit cards, traveller's cheques, bank bills of exchange etc. As a rule, it's a service provided by a bank – including the case when the traveller's cheques are sold by travel agencies.

6) guarantees and commitments and other transactions creating binding obligations to persons.

Guarantee transactions and service fees related to such transactions are both treated as exempt supply.

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.

In this case, service fee is exempt supply. The transfer of security itself is also exempt supply (clause 6 of subsection 2 of § 16 of the VAT Act). **Security** is defined in subsection 1 of § 2 of the Securities Market Act. Security is a transferable proprietary right – thus, security is a service. The following also shall be taken into consideration:

- ✓ if a natural person or any other person not engaged in business transfers securities which belong to him, it's not treated as business;
- ✓ if a business transfers securities which belong to him, the transfer of securities is exempt supply – but it has no influence to the deduction of input VAT of the business because the transfer of securities, in so far as it is incidental transaction, shall not be taken into account upon the calculation of proportion of taxable supply to total supply. The transfer of securities (for example, money market fund units) has incidental character also in the case when the transactions are made every day but the seller is not a financial institution and its main business is something else (not the transfer of securities). Upon the transfer of securities, value of exempt supply is comprised of the total consideration received (incl. the cost of security itself).

A greenhouse gas emission allowance for the purposes of subsection 1 of § 137 of the Atmospheric Air Protection Act, which is also treated as security in the meaning of the Securities Market Act since 03.01.2018, is **taxable** transaction since 01.05.2018.

8) transactions and acts related to the issue and sales of securities specified in clause 7 of subsection 2¹ of § 16 of the VAT Act.

The service related to the issue of securities, the public offer of securities and their admission to trading on regulated securities markets.

9) money broking.

Intermediation of transactions with money and currencies in the meaning of brokerage contract, enacted in Article 658 of the Law of Obligations Act.

10) negotiation services related to the services specified in clauses 1–9 of subsection 2¹ of § 16 of the VAT Act;

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.

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VAT treatment of cryptocurrency exchange transactions

On 22 October 2015, the Court of Justice of the European Union decided in the **Case C-264/14** that the article 2(1)(c) of the Council Directive 2006/112/EC of 28 November 2006 must be interpreted as meaning that transactions consisting of the exchange of a virtual currency (e.g. Bitcoin) for a traditional currency and vice versa, and for which a fee is charged, are considered provision of services for consideration within the meaning of that provision.

Transactions involving non-traditional currencies, i.e. currencies which are not legal tender, are nevertheless to be treated as financial transactions provided that the parties to the transaction accept these currencies as alternatives to legal tender.

The Court of Justice also held that the article 135(1)(e) of the Directive 2006/112 must be interpreted as

meaning that the **exchange of a virtual currency for a traditional currency, and vice versa, is exempt from VAT**, similarly to the exchange transactions of traditional currencies.

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