



# Tax Card 2025

Effective from 1 January 2025  
Republic of Estonia

KPMG Baltics OÜ

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# CORPORATE INCOME TAX

In Estonia, corporate income tax is not levied when profit is earned but when it is distributed. In 2025, the standard tax rate is 22% (calculated as 22/78 of the net distribution).

## Exceptions

Under certain conditions, redistribution of dividends is not subject to taxation. Income tax is not charged on dividends that are passed on after being received from a company domiciled in an EEA Member State or Switzerland if at least 10% of the shares or voting rights in that company is held by the Estonian company. The exemption also applies to dividends received from a company domiciled in another country provided that the Estonian company holds at least 10% of the shares or voting rights in that company, and income tax has been withheld or paid on the profits from which the dividend was paid. In certain cases, the exemption also applies to the dividends distributed from profits attributed to a resident company's permanent establishment. However, the exemption does not apply to dividends received from companies in low-tax jurisdictions.

## Fringe benefits and expenses not related to business

Fringe benefits are subject to income tax of 22% (calculated as 22/78 of the net amount at the employer's level) and social security tax of 33% (social security tax is levied on the amount which includes the value of the provided benefit, the income tax calculated on it as well as any non-deductible VAT). Except for the exceptions expressly listed in the Estonian Income Tax Act, all benefits-in-kind provided to employees are taxed as fringe benefits. Share option programmes may not be considered as a fringe benefit under certain conditions.

Expenses and payments not related to the company's business are subject to income tax of 22% (calculated as 22/78 of the relevant net amount).

### **Gifts, donations and entertainment costs**

A resident company must pay income tax of 22% (calculated as 22/78 of the net amount) on gifts and donations made, with certain exceptions granted to non-profit organisations. Expenses incurred for entertaining guests and business partners, including the costs of accommodation, catering, transport and cultural events, are also subject to tax if they exceed certain tax-exempt limits.

### **Transfer pricing**

If the value of a transaction conducted between associated persons (including transactions between a head office and its permanent establishment) differs from its market value, the difference is subject to income tax. Qualifying companies must document their transactions with associated parties to prove that the prices used are at arm's length.

### **Other distributions**

Payments made by a resident company upon the reduction of share capital or contributions from shareholders, or upon the redemption or return of shares or contributions, are subject to income tax at the level of the company that makes the payment. Income tax is paid only on the amount that exceeds the actual contribution made to acquire a holding. These payments must be declared. Similarly, the portion of liquidation proceeds that exceeds the initial monetary or non-monetary contributions is subject to corporate income tax of 22% (calculated as 22/78 of the net amount).

### **Exit tax**

Income tax is levied on the amount that is equal to the difference between the market value and carrying amount of assets at the time they are taken out of Estonia if a resident company or a non-resident company (through its permanent establishment in Estonia)

transfers assets to a permanent establishment in another EU Member State or a third country.

## **Controlled Foreign Companies**

In general, if an Estonian entity has at least a 50% holding in a controlled foreign company (CFC) or has a foreign branch that does not carry out actual business activities, the Estonian CFC taxation rules apply. The portion of a CFC's profits attributable to transactions designed mainly to obtain a tax advantage must be attributed to the resident company and taxed as profits. An exception may apply if certain thresholds for annual profit and financial income earned by the CFC are not exceeded.

## **Loss carried forward**

Losses incurred by a company do not affect corporate taxation.

## **Thin capitalisation**

Income tax is levied on the residual borrowing costs of a resident company, other than a financial undertaking, in excess of 3,000,000 euros and 30% of the interest, tax and profit before depreciation, in the portion exceeding the losses of the resident company, unless:

- the resident company is not part of a consolidated group for the purposes of financial reporting and has no affiliated company or permanent establishment, or
- the loan is used to finance long-term public sector infrastructure projects involving both the project promoter, borrowing costs, assets and income in the European Union, or
- the resident company that is a member of a consolidated group for financial reporting purposes opts not to have its excess borrowing cost taxed (subject to certain conditions)

## Withholding tax on payments to non-residents

In Estonia, withholding tax is imposed on the following payments made to non-residents:

|                                         |             |
|-----------------------------------------|-------------|
|                                         | 0% , 22% *  |
| • interest                              | 0% , 10% ** |
| • royalties                             | 10%         |
| • fees for services provided in Estonia | 22%         |
| • rental payments                       |             |

\* The 22% rate applies to interest exceeding the market interest rate.

\*\* In certain cases, outbound royalty payments are exempt from withholding tax provided that the recipient is an associated company of the paying company and a resident of another EU Member State or Switzerland, or that the recipient is a permanent establishment of such a company situated in another Member State or Switzerland.

Withholding tax rates may be subject to reduction under Double Taxation Treaties (see the list below).

Withholding tax is paid at the time the payment is made.

# PERSONAL INCOME TAX

In Estonia, a flat tax rate of 22% is imposed on personal income.

## Taxable income

Natural persons are subject to general income tax of 22% on income derived from

- employment (monetary payments);
- business (self-employed income);
- property/investment (rental income, royalties, interest, capital gains on disposal of business, movable and immovable property);

- other sources (certain pensions, scholarships, grants, awards, lottery prizes, insurance indemnities and payments from pension funds).

In certain cases, the income tax rate is 10%.

Fringe benefits (i.e. remuneration received in the form of benefits-in-kind) are taxed at the employer's level.

### **Deductions from income**

Under Estonian law, certain amounts may be deducted from personal income, such as:

- the basic exemption of 0 – 7,848 euros per year (see the table below);
- additional deductions for training expenses, gifts, donations, insurance premiums, acquisition of pension fund units, etc.

The total amount of additional deductions allowed is limited to 1,200 euros; however, the amount deducted cannot exceed 50% of the taxpayer's taxable income during the period of taxation (i.e. a calendar year). In addition, amounts paid to acquire units in supplementary pension funds or as insurance premiums under an insurance contract for a supplementary funded pension (the so-called III pension pillar) may be deducted. However, the deductions are limited to 15% of the taxpayer's annual taxable income and to 6,000 euros. Natural persons must submit the personal income tax return annually, by 30 April following the year of taxation.

The amount of the basic exemption deductible from the income of a resident natural person depends on his/her income:

| <b>Annual gross income (EUR)</b> | <b>Basic exemption</b>                                                                                                                                                                    |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Up to 14,400                     | EUR 7,848 (maximum)                                                                                                                                                                       |
| Between 14,400 and 25,200        | Proportional reduction of basic exemption, determined using a specific formula                                                                                                            |
| Over EUR 25,200                  | No entitlement to basic exemption except old-age pensioners, who, as from 1 January 2025, are entitled to a monthly basic exemption of 776 euros, regardless of the size of their income. |

## **Social security**

An employer must pay mandatory social security contributions on gross employment income. No ceiling has been set for social security contributions. The minimum social security obligation per employee per month is 270.60 euros.

For employees working in Estonia, social security and unemployment insurance contribution rates are as follows

- the rate charged to employers: 33.8% (33% of social tax + 0.8% unemployment insurance contribution);
- the rate charged to employees: 1.6% (unemployment insurance contribution).

Funded pension (the so-called II pension pillar) contributions of 2% are withheld on gross salary payments to residents if the employee has joined the funded pension system. Estonian tax residents born in 1983 or later are integrated into the II

pillar automatically. Residents can voluntarily increase the contributions up to 4% or 6%.

Employees may choose, if they contribute to the system or not. The status of an employee may change three times per year (in January, May and September). For employers, this means the obligation to investigate the status of their employees three times per year.

## VAT

The standard VAT rate is 22% and the reduced rates are 9% and 13%. The standard VAT rate is set to increase to 24% from 1 July 2025.

### **The following supplies are subject to VAT of 9%:**

- certain press publications (both physical and electronical).
- books;
- certain medicines and medical devices;

### **The following supplies are subject to VAT of 13%:**

- accommodation services.

### **The following transactions are subject to zero-rate (0%) VAT:**

- export of goods and intra-Community supplies;
- cross-border business-to-business services;
- goods placed in free zones or free warehouses,
- certain goods listed in Annex V of Council Directive 2006/112/EC that are placed in a VAT warehouse;
- certain export and import-related transport services, international passenger services;
- supply of aircraft used by an air carrier operating mostly on international routes;
- supply of sea-going vessels for navigation on high seas;



- provision of services on board vessels or aircraft during international transport;
- supplies of goods under diplomatic and consular arrangements;
- supplies of goods and services to institutions of the EU and NATO forces.

### **The following transactions are exempt from VAT:**

- transactions involving securities and financial services (with an option to tax domestically);
- insurance transactions;
- transactions involving immovable property or parts thereof (with an option to tax);
- rental transactions involving immovable property or parts thereof (with an option to tax);
- universal postal services;
- lotteries and gambling;
- certain education services;
- transactions involving health and welfare.

### **Special arrangements**

- the domestic reverse charge applies to voluntarily taxed immovable property, scrap metal, precious metal and some metal products;
- postponed import VAT payment mechanism;
- VAT grouping;
- Bad debt relief.

## **REAL ESTATE TAX AND LAND TAX**

The only property tax imposed in Estonia is the land tax. As a rule, the annual tax rate is between 0.1 % and 2.0% of the taxable value of the land. The owner (or, in certain cases, the user) of the land has to pay the tax. However, the land under a taxpayer's home is exempt from tax.

# TAX TREATIES

As of 1 January 2025, Estonia has concluded Double Taxation Treaties with the following countries and jurisdictions:

|                    |                 |                      |
|--------------------|-----------------|----------------------|
| Albania            | India           | Serbia               |
| Armenia            | Ireland         | Singapore            |
| Azerbaijan         | The Isle of Man | Slovakia             |
| Austria            | Israel          | Slovenia             |
| Bahrain            | Italy           | Spain                |
| Belarus            | Japan           | Sweden               |
| Belgium            | Jersey          | Switzerland          |
| Bulgaria           | Kazakhstan      | Thailand             |
| Canada             | Kyrgyzstan      | Turkey               |
| The Czech Republic | The Republic of | Turkmenistan         |
| China              | Korea           | Ukraine              |
| Croatia            | Latvia          | The United Arab      |
| Cyprus             | Lithuania       | Emirates             |
| Denmark            | Luxembourg      | The United Kingdom   |
| Finland            | Macedonia       | The United Mexican   |
| France             | Malta           | States               |
| Georgia            | Mauritius       | The United States of |
| Germany            | Moldova         | America              |
| Greece             | The Netherlands | Uzbekistan           |
| Guernsey           | Norway          | Vietnam              |
| Hongkong           | Poland          | Pakistan             |
| Hungary            | Portugal        |                      |
| Iceland            | Romania         |                      |

# INVESTMENT INCENTIVES

Only one investment incentive is available under the Estonian tax system: no tax is levied on retained or reinvested profits. However, profit distributions are subject to taxation. For more information, please see the the corporate income tax section above.

# REAL ESTATE TRANSFER DUTY

The rate of the duty depends on the purchase price of the property. However, if the purchase price cannot be established, the rate depends on the taxable value of the land plus the value of the building (in the case of improved immovable property).

# THE DEFENCE TAX PACKAGE

The Estonian Parliament has introduced a temporary defence tax bill, according to which all accounting profits of the previous financial year will be taxed at the rate of 2%. The first tax base will be 2025 and the first quarterly tax payment will be due in the third quarter of 2026. As part of the defence tax package, the standard VAT rate will also increase from 22% to 24% starting from 1 July 2025.

The defence tax, which is expected to apply from 2026 to 2028, works similarly to the annual corporate and personal income tax that must be paid by all Estonian tax resident companies as well as natural persons. The tax will also be levied on all profits attributed to a permanent establishment of a non-resident company located in Estonia.

Pass-through dividends, which are passed on after being received from a company domiciled in an EEA Member State or Switzerland, given that at least 10% of the shares or voting rights in that company are held by the Estonian company, are exempt from the defence tax.

# FOR FURTHER INFORMATION PLEASE CONTACT:

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This card was prepared in January 2025 as a quick-reference tool for the most common tax rates and amounts. Any exceptional or special regimes have been deliberately omitted.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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