
ESTONIA 2007

1. Overview of the tax-benefit system

There is a flat rate income tax. The tax unit is the individual with the exception of non-taxable income level for spouses. Benefits are provided individually with the exception of social assistance which is provided for a household. There exists a two-tier system of unemployment benefits: earnings related benefit and flat rate benefit. Family benefits are paid universally to residents. There is a social assistance scheme which guarantees a minimum income for every inhabitant of the country. Social assistance scheme also covers housing costs.

1.1. *Average worker wage (AW)*

The 2007 AW earnings level is EEK 139871¹.

¹ AW refers to the Average Worker Wage estimated by national experts in accordance with the Centre for Tax Policy and Administration guidelines. For more information on methodology see Taxing Wages 2006-2007, OECD, 2008, part 5, sections 2 and 3.

2. Unemployment insurance

Unemployment benefits in Estonia:

In Estonia, the risk of unemployment is covered by two-tier system of cash benefits: contributory earnings-related unemployment insurance benefit (primary protection) and non-contributory flat rate unemployment allowance (secondary protection).

The unemployment insurance benefit is funded from unemployment insurance contributions paid by employees and employers. The unemployment allowance is funded from the state budget.

2.1 *Conditions for receipt*

Right to receive unemployment insurance benefit:

An insured person is an employee, a public servant, a natural person providing services on the basis of a contract under the law of obligations, or a non-working spouse accompanying an official serving in a foreign mission of the Republic of Estonia who has paid the unemployment insurance premiums pursuant to the procedure provided for Unemployment Insurance Act.

Insured persons have the right to receive unemployment insurance benefits if:

1. they are registered as unemployed and
2. their unemployment insurance period is at least twelve months during the thirty-six months prior to registration as unemployed.

The following persons are not insured

1. sole proprietors;
2. notary, bailiff, sworn translator or another independent person engaging in a profession in public law, or a creative person engaged in a liberal profession within the meaning of the Creative Persons and Artistic Associations Act who, for the purposes of taxation, is deemed to be a sole proprietor;
3. members of the management or controlling bodies ;
4. persons who have attained the pensionable age;
5. persons to whom an early-retirement pension is granted.

2.1.1 *Employment conditions*

An insured person does not have the right to receive an unemployment insurance benefit if the person`s last employment or service relationship was terminated:

1. on the initiative of the employee or public servant, except in the case of termination of the service relationship based on § 82 of the Republic of Estonia Employment Contracts Act or if, based on subsection 29 (2) of the Individual Labour Dispute Resolution Act, a labour dispute resolution

body has, upon declaring the termination of the employment contract unlawful, deemed the employee to have left employment on his or her own initiative;

2. due to a breach of duties of employment or service, loss of confidence, an indecent act or act of corruption;
3. by agreement of the parties.

An insured person who has received unemployment allowance based on the Labour Market Services and Benefits Act has the right to receive unemployment insurance benefit if, after the termination of the payment of the unemployment allowance, the person has been engaged in public service or provided a service based on a contract under the law of obligations, and the person complies with the other terms and conditions for receipt of unemployment allowance provided by this Act.

The right to the benefit is granted to the unemployed person for each calendar day after the lapse of 7 days from a day of registration in a labour office.

Termination of payment of unemployment insurance benefit

The payment of an unemployment insurance benefit shall be terminated before the end if:

1. registration of the insured person as unemployed is terminated ;
2. the insured person refuses, without good reason, to comply with the Individual Action Plan provided of the Labour Market Services and Benefits Act or the suitable employment provided of the same Act;
3. the insured person fails to appear for a visit at the Labour Market Board Department at the time appointed to him or her;
4. as of the final date of the end of the period for search for work in an EEA country or the Swiss Confederation specified in subsection 12¹ (1) (suspension for up to three months as of the date following the date on which the insured person leaves Estonia) if the insured person does not return from the search for work before the end of such period;
5. as of the date of submission of the application if the insured person submits a written application to this effect

2.1.2 Contribution conditions

The employees' contribution rate is currently 0,6%, employers' contribution rate 0.3% on payroll.

- contributions must be paid for at least 12 months within the period of last 36 months prior loss of employment. It is employer's obligation to deduct, transfer and declare contributions.
- one insurance month is credited per each month per which the contributions were paid regardless of the number of working days or received earnings. The qualification period requirement is renewed after each event of unemployment and payment of the unemployment insurance benefit.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

Amount of unemployment insurance benefit:

The amount of an insured person's unemployment insurance benefit per calendar day shall be calculated on the basis of the average remuneration of the insured person per calendar day during nine months based on the information in the unemployment insurance database. The average remuneration of the insured person per calendar day shall be calculated on the basis of the payments made to the insured person during the nine months of employment prior to the last three months of employment from which unemployment insurance premiums have been withheld. In calculation of the average remuneration per calendar day, the sum total of the payments shall be divided by 270.

If the average remuneration per calendar day of an insured person calculated is higher than three times the average remuneration per calendar day in Estonia during the calendar year before the date of commencement of the calculation of the benefit, then the benefit shall be calculated based on such amount.

The rate of unemployment insurance benefit is the following percentage of remuneration:

1. 50 per cent for the period of 1 to 100 calendar days;
2. 40 per cent for the period of 101 to 360 calendar days.

If the amount of the insured person's unemployment insurance benefit per calendar day is less than the current daily unemployment allowance rate, then the amount of the unemployment insurance benefit per calendar shall be equal to the current daily unemployment allowance rate.

2.2.2 Income and earnings disregards

2.3 Tax treatment of benefit and interaction with other benefits

The income tax rate for 2007 is 22 per cent . The Unemployment Insurance Fund pays social tax (at the rate of 13% for health insurance) and contribution to the mandatory pension fund of 2% on behalf of recipients of unemployment insurance benefits.

2.4 Benefit duration

Conditions for receiving of unemployment insurance benefit:

An insured person has the right to receive an unemployment insurance benefit during the whole period when he or she is registered as unemployed, but not longer than:

1. 180 calendar days if the insurance period of the insured person is shorter than 56 months;
2. 270 calendar days if the insurance period of the insured person is 56–110 months;
3. 360 calendar days if the insurance period of the insured person is 111 months or longer.

2.5 Treatment of particular groups

2.5.1 Young persons

None

2.5.2 Older workers

People who have reached pensionable age are not covered by the unemployment insurance scheme.

2.5.3 Others if applicable

None

3. Unemployment allowance

The unemployment allowance is paid to the unemployed who do not qualify or have exhausted the right to unemployment insurance benefit. Unlike the insurance benefit, unemployment allowance is paid also in the event of voluntary unemployment. The benefit is means-tested: the allowance is paid only if the person's income is lower than the rate of the allowance 1019.9 EEK=65 Euros per month).

3.1 Conditions for receipt

3.1.1 Employment conditions

The unemployment allowance is granted to a person:

- who is registered as unemployed -and is looking actively for work
- whose income is lower than the rate of the unemployment allowance (1019.9 EEK = 65 Euros per month)
- who has been employed or engaged in an activity equal to work for at least 180 days during 12 months (activity as a sole proprietor, daytime or full-time study in an educational institution, performance of conscript service obligation, receiving the allowance of accompanying spouse of a diplomat or an administrative official.

Periods of employment or engagement in an activity equal to work are not required from the person who prior registration as unemployed has at least 180 days:

- raised an under 8 years old child or a child of 8 years of age until the child completed year one at school or up to 18 years old child with disability
- been on in-patient treatment
- cared for a sick person, a person who is permanently incapacitated for work or an elderly person or received a caregiver's allowance
- not been employed due to declaration as permanently incapacitated for work
- been held in custody or served a sentence in a prison or house of detention.

3.1.2 *Contribution conditions*

The unemployment allowance is funded from the state budget.

3.2 *Calculation of benefit amount*

3.2.1 *Calculation of gross benefit*

Unemployment benefit is a flat-rate benefit. The daily unemployment allowance rate is established by the state budget. In 2007 the allowance rate is 32.9 EEK (2.1 Euros) per day.

The unemployment allowance is appointed, calculated and paid by the Labour Market Board. Allowance is calculated retroactively for the calendar days between the unemployed person's visits to the Labour Market Board - For 30 days the allowance is 987 EEK (63 Euros).

3.2.2 *Income and earnings disregards*

The unemployment allowance is not paid to unemployed persons who receive an income higher than the amount of unemployment allowance (1019.9 EEK = 65 Euros). The following shall not be included in the income: subsistence benefits, family benefits, benefits for disabled persons, funeral benefit, benefits received from the voluntary unemployment fund.

3.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable.

3.4 *Benefit duration*

The unemployment allowance is granted as a rule up to 270 days. Unemployment insurance benefit and unemployment allowance are not paid simultaneously. If the unemployment insurance benefit payment period was shorter than 270 days, the person would get unemployment allowance up to 270 days (270 days – UIB days).

Unemployment allowance is granted as a rule of the eighth day of the date of application. To unemployed, who studied in an educational institution in a diurnal or full-load tuition or who left their previous work on the initiative of the employer for a breach of duties, loss of confidence or indecent act, allowance is granted of the 61 day. Unemployment allowance is paid up to 210 days if the waiting period is 60 days.

An unemployed person who has received benefit for 270 days and who will attain pension age in less than 180 days shall be paid unemployment allowance until the pension age.

3.5 *Treatment of particular groups*

An unemployed person participating in labour market training (at least of 40 hours) has the right to receive grants. The grants payable for training are calculated on single hourly rate established by the state budget for each budgetary year. In 2007 the grants rate is 3.75 EEK = 0.24 Euros per hour.

An unemployed person who participates in work practice or in coaching for working life has the right to receive a grant. During the first month of practice, the amount of grant shall be calculated on single hourly rate of the grant, during the second month on one and half times the hourly rate, and during the third

month on two times the hourly rate of the grant. The amount of grant payable for coaching for working life shall be calculated based on one half of the hourly rate of the grant.

A person who participates in labour market training or in work practice has the right to receive transport and accommodation benefits. Transport benefits are calculated on the distance between residence and the place of the training or work practice. The accommodation benefits are compensated on relevant expense receipts. The monthly upper limit for transport and accommodation benefits shall be established by the state budget. In 2007 the upper limit is 1200 EEK = 77 Euros per month.

3.5.1 Young persons

None

3.5.2 Older workers

People who have reached pensionable age are not covered by Unemployment allowance

3.5.3 Others if applicable

None

4. Social assistance

Social assistance benefit is a state support to needy persons paid by a local municipality government. Social assistance benefit is financed from the state resources. The amount of subsistence level is established by the Riigikogu in the state budget.

4.1 Conditions for receipt

Social assistance benefit must be granted to the single person or household whose income after **payment of housing costs** (up to certain limit) is below the subsistence level. The subsistence level is calculated to cover minimum expenditure on consumption of food, clothing, footwear and other goods and services.

Housing costs covered by social assistance in 2006 were in average 712 EEK (€ 46) (in the first half of 2007 were in average 808 EEK (€ 52)) per household monthly.

Social assistance benefit is granted and renewed on a monthly basis. The need for social assistance is evaluated each time case by case.

Municipality can exercise discretion only within the limits set out by the Social Welfare Act. For example, the local municipality may refuse to grant the benefit to those capable of work and aged between 18 and pensionable age, who are neither working nor studying and have repeatedly refused, without due cause, offers of suitable work or participation in rehabilitation or education programmes arranged by the local municipality.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

In 2007, subsistence level stood on 900 EEK (58 Euros) per month for single person, for the second and each following household member equivalence scales 1:0.8:0.8 are used. Subsistence level is to stand for a certain minimum guaranteed income, which the person should have remaining after payment of housing costs.

Upon calculation of a social assistance benefit take into account the limits of the socially justified standards for dwellings established on the basis of clause 7 (1) 2) of the Dwelling Act. The limit of standards for dwelling is 18m² per each family member and in addition 15m² per family.

In order to grant subsistence benefit, local government councils shall establish the limits for the expenses of specified in Social Welfare Act, which ensure decent subsistence for persons.

4.2.2 *Income and earnings disregards*

All income is taken into account including taxable income, pensions and State benefits, housing expenses within established limits. With the exception of lump sum State benefits, social benefits for disabled persons, Student loan granted with security guaranteed by the state and Scholarship, transportation benefit and accommodation benefit for the unemployed, the Allowance for Families with 3 or more Children or with Triplets aren't taken into account as income when determining entitlement and benefit amount. As of the second half of the year 2007 the Allowance for Families with 3 or more Children or with Triplets were abolished and replaced with higher child allowances for families with 3 or more children, which are taken into account as income.

4.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable.

4.4 *Benefit duration*

As long as the means-test is satisfied.

4.5 *Treatment of particular group*

4.5.1 *Young persons*

4.5.2 *Older workers*

4.5.3 *Others if applicable*

State grants supplementary benefit (200 EEK=13 EUR) to recipients with a sole grown-up person and child/children under 18 yrs in the household.

The limit of standards for dwelling for single pensioners is 51m².

5. Housing benefits

Housing costs are covered by social assistance benefit. (*section 4*)

6. Family benefits

Residence-based system, all children have right to child allowance.

6.1 *Conditions for receipt*

To have a dependent child under 16 years old or when continuing studies under 19 years old.

6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

Till 30th June 2007

Rates of child allowance	
	Rate per child (per month)
Each child	300 EEK=19.2 EUR
Family with three children	100 EEK= 6.4 EUR
Family with four or more children	150 EEK= 9.6 EUR

Allowance for families with three or more children or triplets is added to child allowance

Starting from 1st July 2007

Rates of child allowance	
	Rate per child (per month)
First and second child in a family	300 EEK=19.2 EUR
Third and subsequent child in a family	900 EEK= 57.5 EUR

6..2.2 Income and earnings disregards

Universal, not means-tested.

6.3 Tax treatment of benefit

Not taxable.

6.4 Treatment of particular groups

6.4.1 Young persons

None

6.4.2 Older workers

None

6.4.3 Others if applicable

Lone parents: Additional allowance of 300 EEK=EUR 19.2 per child per month.

7. Childcare for pre-school children

ENROLMENT RATIO IN PRESCHOOL INSTITUTIONS (1.1.2008)

Boys and girls	
Age	Per cent
1	10.0
2	56.5
3	82.6
4	88.2
5	87.2
6	86.7

Source: Statistics Estonia

Compulsory school age is 7 years.

7.1 Out-of-pocket childcare fees paid by parents

Local municipality decides upon the child care fee paid by parent. The fee may not exceed 20% of the minimum wage. (Minimum wage in 2007 was 3600 EEK=230 EUR.) Average fee paid by parents in 2007 was 425 EEK per month=27.2 EUR².

Child care institutions meet the needs of a parent working 40 hours per week. The institutions are open 10-12 hours per weekday and provide children 3 meals per day. The child care institution can decide upon the amount paid by parent for food costs including making individual decisions concerning children from low-income families.

Child care expenditures per child per month in EEK (2007)

	Minimum	Maximum	Average
Expenditures borne by local municipality	779	24689*	3778
Expenditures borne by parent	0	919	425

*includes also special constructional investments

Child care fee (excluding food costs) can be deducted from the parent's taxable income. Average food costs paid by parent in 2007 were 329 EEK per month=21 EUR.

7.2 Child-care benefits

Parental benefit is paid until 455 days starting from Maternity leave or until child attains 14 months of age.

Child care benefit is universal lump-sum benefit paid both to working and non-working parents.

² Data based on the survey „Local government family benefits to families with children in 2007”. Ainsaar ja Soo 2008, Table 4

7.2.1 *Conditions for receipt*

Parental benefit - a child under 14 months of age.

Until 01.09.07 fathers were eligible for parental benefit when the child attains 6 months of age and from 01.09.07 fathers are eligible for parental benefit when the child attains 70 days of age.

Child care benefit - child aged less than 3 years, parent not receiving parental benefit.

7.2.2 *Calculation of benefit amount*

7.2.2.1 *Calculation of gross benefit*

Parental benefit is a monthly benefit paid at parent's average monthly income of a previous calendar year. Minimum benefit in 2007 is the benefit rate (2690 EEK= 171.8 EUR) paid for non-working parents. Minimum benefit for working parents is the minimum wage (3600 EEK=230 EUR). Maximum benefit was 21 624 EEK=1381 EUR.

Child care benefit is 600 EEK = 38.5 EUR per month.

7.2.2.2 *Income and earnings disregards*

Parental benefit is reduced when parent receives income that exceeds benefit rate. Benefit is reduced according to a formula: new benefit = (income + benefit – benefit rate)/1.2 – (income – benefit rate). Benefit is not paid when the income exceeds 5 x benefit rate (13 450 EEK= 859 EUR).

Childcare benefit is universally paid regardless of income.

7.2.2.3

7.2.3 *Tax treatment of benefit and interaction with other benefits*

Parental benefit is taxed with income tax.

Child care benefit is not taxable.

7.2.4 *Treatment of particular groups*

None

8. **Employment-conditional benefits**

None

9. **Lone-parent benefits**

Lone parents: single parent child allowance is 300 EEK=19.2 EUR per child per month.

See family benefits

9.1 *Conditions for receipt*

Lone parents having a child under 16 years or when continuing education 19 years.

9.2 *Calculation of benefit amount*

9.2.1 *Calculation of gross benefit*

300 EEK=19.2 EUR

9.2.2 *Income and earnings disregards*

None

9.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable

9.4 *Benefit duration*

9.5 *Treatment of particular group*

None

9.5.1 *Young persons*

9.5.2 *Older workers*

9.5.3 *Others if applicable*

10. **Tax system**

10.1 *Income tax*

The tax rate 2007 has been 22 per cent of the taxable income.

10.1.1 *Tax allowances and credits*

10.1.1.1 *Standard allowances*

The basic exemption deductible from the income of a resident natural person during a period of taxation is 24,000 EEK (1 EUR=15.6466 EEK; 24,000 EEK=1,534 EUR).

One resident parent or guardian of a child or other person maintaining a child, who maintains two or more minor children may deduct increased basic exemption (equal to the basic exemption minus any income the child may have) from his or her income in the period of taxation for each child of up to 17 years of age, starting with the second child (up to 2005 starting from the third child).

If a resident natural person receives a pension paid by an EEA state pursuant to an Act or a mandatory funded pension or a pension on the basis of a social security convention, increased basic exemption shall be deducted from the income of the person in the amount of those pensions but not more than 36,000 EEK (36,000 EEK=2300 EUR) during a period of taxation.

The basic exemption deductible from the income of a resident natural person during a period of taxation is 24,000 EEK (or 2000 EEK in month); pensioners enjoy the additional exemption deductible from the pension up to the sum of 36,000 EEK (3000 EEK in month). Working pensioner may choose to have a basic exemption as a resident natural person in calculating payment or pension making a respective note to the employer or to the Social Insurance Board.

If a resident natural person receives compensation for an accident at work or an occupational disease, increased basic exemption shall be deducted from the income of the person in the amount of that compensation but not more than 12,000 EEK during a period of taxation. If compensation for an accident at work or an occupational disease is paid as insurance indemnity, increased basic exemption shall not apply.

10.1.1.2 Standard tax credits

10.1.2 Income tax schedule

Estonia has a flat tax rate.

10.1.3 State and local income taxes

Estonian income tax is a state tax, no local income tax exists

10.2 Treatment of family income

Income tax is usually paid individually, yet there is an option to file joint tax return for spouses and thereby the overall situation of the family is taken into account. There is also an allowance described in p 10.1.1.1: one resident parent or guardian of a child or other person maintaining a child, who maintains two or more minor children may deduct increased basic exemption from his or her income in the period of taxation for each child of up to 17 years of age, starting with the second child. The increased basic exemption is applicable for the second and each subsequent child in so far as the taxable income of the child is lower than the basic exemption for the period of taxation.

10.3 Social security contributions and payroll taxes

10.3.1 Contributions paid by employees

The mandatory funded pension insurance contribution in 2007 is 2% of earnings and other fees for employees.

The unemployment insurance premium in 2007 is 0.6% of earnings and other fees for employees.

10.3.2 Contributions paid by employers

Social security insurance contributions are also paid by employers on behalf of their employees. The taxable base and the assessment period are the same as for employees' contributions. The employers' contribution rates are applied in two parts:

- Unemployment insurance - 0,3% of employee earnings.
- Pension and health insurance – as follows for monthly earnings above 2000 EEK.

Scheme name	Rate of contribution (%)
Pension insurance	20.00
Health insurance	13.00
Total	33.00

In addition there is a lump sum payment for each employee of 660 EEK per month (split between pensions and health insurance on a 20:13 basis)

The social tax which is the source of income of health and pension insurance is 33% of the employee's gross salary paid by the employer.

The unemployment insurance premium in 2007 is 0.3% on gross payroll for employers.

10.3.3 Payroll taxes

The income tax rate in 2007 is 22% of the taxable income. The basic exemption deductible from the income of a resident natural person during a period of taxation is 24,000 EEK.

10.4 Treatment of particular group

One of Estonian tax system's main principles is to have as few exceptions as possible; therefore there are only few tax incentives for certain groups. In addition to the aforementioned additional exemptions the taxable income derived by a self-employed person from the realisation of self-produced, unprocessed agricultural products up to the amount of EEK 45,000 is not subject to income tax.

10.4.1 Young persons

No exceptions.

10.4.2 Older workers

Pensioners enjoy the additional exemption deductible from the pension up to the sum of 36,000 EEK (3000 EEK in month). Working pensioner may choose to have a basic exemption as a resident natural person in calculating payment or pension making a respective note to the employer or to the Social Insurance Board.

10.4.3 Others if applicable

Self-employed persons are not covered by the unemployment insurance scheme (neither on compulsory base nor may they join the scheme voluntarily). In respect of unemployment, the self-employed are however covered by the non-contributory State unemployment allowance scheme. Self-employed persons are covered by the general schemes of health insurance (benefits in kind and in cash in case of sickness and maternity) and pension insurance (invalidity, old-age, and survivors) on compulsory base.

11. Part-time work

11.1 Special benefit rules for part-time work

None

11.2 Special tax and social security contribution rules for part-time work

None

12. Policy developments

12.1 Policy changes introduced during 2007

Child benefit starting from the third child in the family was raised to 900 EEK from 1st of July 2007. Until 01.09.07 fathers were eligible for parental benefit when the child attains 6 months of age and from 01.09.07 fathers are eligible for parental benefit when the child attains 70 days of age.

ANNEX

DEFINITION OF SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES.

The following text has been adapted from Annex A of the OECD Revenue Statistics.

Social security contributions to general government

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors' pensions, family allowances, reimbursements for medical and hospital expenses or provision of hospital or medical services. Contributions may be levied on both employees and employers.

Social security contributions paid to institutions outside general government

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasicompulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

Payroll taxes

This heading covers taxes paid by employers, employees [...] either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.