

# THE OECD TAX-BENEFIT MODEL FOR ESTONIA

Description of policy rules for 2019



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**OECD team:** Olga Rastrigina (lead author), James Browne, Raphaela Hyee, Herwig Immervoll, Duncan Macdonald, Dirk Neumann, Daniele Pacifico.

**National team:** Ulli Luide, Laura Viilup, Pirjo Turk, Kadi Kanarbik, Kristiina Selgis, Hede Sinisaar from Ministry of Social Affairs of Estonia and Tiina Peterson from Ministry of Education and Research of Estonia.

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## Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2019**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Estonia: Policy rules in 2019

### 1. Reference wages and other reference amounts

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#))<sup>1</sup>. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth<sup>2</sup> to the latest available wage estimate.

The minimum wage **[MIN]** in 2019 is EUR 540 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of 1 January 2019) by 12, i.e. EUR 540 \* 12 = EUR 6 480.

### 2. Unemployment benefits

In Estonia, the risk of unemployment is covered by two-tier system of cash benefits. There is a contributory earnings-related unemployment insurance benefit (the primary form of support), and a non-contributory flat rate unemployment allowance for those who are not covered by unemployment insurance. The unemployment insurance benefit is funded from unemployment insurance contributions paid by employees and employers. The unemployment allowance is funded from general taxation.

In certain cases (e.g. a lay off), an unemployed person can be eligible for benefit upon lay-offs. This benefit is not simulated in the model, but it is described in the Annex.

#### 2.1. Unemployment insurance (*töötuskindlustushüvitis*)

Variable names: **[UI\_p; UI\_s]**

This is an unemployment insurance benefit. It is contributory, not means-tested and is taxable. 

##### 2.1.1. Eligibility conditions

**Age:** Between age 16 years and normal retirement age.

**Contribution/employment history:** The claimant must have made unemployment insurance contributions for a period of at least twelve months during the thirty-six months prior to registration as unemployed.

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<sup>1</sup> Average Wages are estimated by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).

<sup>2</sup> Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

**Behavioural requirements and related eligibility conditions:**  TaxBEN assumes that the required behavioural conditions are satisfied when simulating unemployment benefits.<sup>3</sup> The payment of unemployment insurance benefits is terminated if the claimant:

1. ceases to be registered as unemployed;
2. refuses, without good reason, to comply with their Individual Action Plan;
3. refuses the suitable work;
4. fails to appear for an appointment at the unemployment insurance fund without good reason;
5. does not return to Estonia before the end of the period permitted for search for work in another EEA country or Switzerland.

Unemployment insurance benefit cannot be claimed if the employment contract was terminated by mutual consent or by the employee (with some exceptions). However, it is possible to receive benefits at the end of a fixed term employment contract. An insured person also does not have the right to receive unemployment insurance benefits if their last employment or service relationship was terminated due to a breach of duties of employment or service, loss of confidence, an indecent act or corruption.

#### 2.1.2. *Benefit amount*

**Calculation base:** The amount of an insured person's unemployment insurance benefit per calendar day shall be calculated on the basis of their average remuneration per calendar day during the nine months of employment prior to the last three months of employment on which unemployment insurance premiums have been paid. In calculation of the average remuneration per calendar day, the total sum of the payments shall be divided by 270.

If the beneficiary's average remuneration per calendar day is higher than three times the average remuneration per calendar day in Estonia during the calendar year before the date on which the benefit is claimed, then the benefit is calculated based on this lower amount. The average remuneration per calendar day in 2018 was EUR 33.25 per calendar day.

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

- 50% for the period of 1 to 100 calendar days;
- 40% 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 50% of the minimum wage in the previous calendar year, then the benefit is topped up to this amount. In 2019, this minimum benefit amount per calendar day is EUR 8.33 (EUR 500/30\*50%). The minimum benefit amount per month will depend on the number of calendar days in a given month.

#### 2.1.3. *Benefit duration*

The maximum benefit duration is:

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<sup>3</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

- 180 calendar days if the claimant's insurance contribution record is less than 5 years;
- 270 calendar days if the claimant's insurance contribution record is 5-10 years;
- 360 calendar days if the claimant's insurance contribution record is 10 years or more.

There is a waiting period of 7 days to receive unemployment benefit after submission of an application and documents to the Unemployment Insurance Fund.

After expiration of unemployment benefit, a person can reapply only after unemployment insurance contributions have been made for 12 months a 36 months period.

#### 2.1.4. *Means test*

The benefit is not means-tested.

#### 2.1.5. *Tax treatment*

The benefit is taxable.

#### 2.1.6. *Interactions with other components of the tax-benefit system*

Unemployment insurance benefits cannot be received at the same time as the old-age pension, early-retirement pension or the national pension (though note that these are not simulated in the TaxBEN model). Also, as it is not possible to be employed while claiming unemployment insurance benefits during unemployment, it is not possible to receive unemployment insurance benefit alongside health insurance cash benefits.

If an unemployed person receives unemployment insurance benefits and work ability allowance (a disability benefit which is not simulated in the standard TaxBEN model) at the same time, the work ability allowance is reduced by half of the difference between his or her income and 90 times the daily allowance rate (see also description of Work ability allowance in the Annex).

Unemployment insurance benefits can be received at the same time as social assistance, but are included in the income definition for the means test for social assistance.

Unemployment insurance benefit is an individual benefit and doesn't depend on the employment situation or income of other family members. Also, several household members may receive the unemployment insurance benefit at the same time.

#### 2.1.7. *Combining benefit receipt and employment/starting a new job*

Not possible.

## 2.2. *Unemployment allowance (töötutoetus)*

Variable names: [UA\_p; UA\_s]

This is an unemployment assistance benefit. It is non-contributory, means-tested and not taxable. 

### 2.2.1. Eligibility conditions

**Age:** Between age 16 years and normal retirement age.

**Employment history:** The claimant must have worked for at least 180 days during the twelve months prior to registration as unemployed

**Behavioural requirements and related eligibility conditions:**  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.<sup>4</sup> Claimants must:

- be registered as unemployed,
- attend appointments at the Unemployment Insurance Fund in person at the appointed time and perform the activities agreed upon in the Individual Action Plan.

The payment of the allowance may be suspended if the unemployed person refuses suitable work for the first time without a good reason (for 10 days) or, refuses to comply with the Individual Action Plan (for 10 days) for the first time without a good reason or, does not appear at the Unemployment Insurance Fund for a visit for the first time at the prescribed time without a good reason (for a period beginning on the day following the date of the person's previous visit and ending on the day on which the unemployed person appears at the Unemployment Insurance Fund for the next visit). Also the payment of the allowance is suspended (for 30 days) if the unemployed person receives a one-off income of at least 31 times the daily unemployment allowance rate.

The payment of the unemployment allowance is terminated if the unemployed person fails to appear, without a good reason, at the Unemployment Insurance Fund for a visit for a second time or, refuses, without a good reason, to comply with the Individual Action Plan for a second time or, refuses, without a good reason, to accept suitable work for the second time or the unemployed person has a sustained monthly income of at least 31 times the daily unemployment allowance rate.

### 2.2.2. Benefit amount

Unemployment allowance is a flat-rate benefit. The daily unemployment allowance rate is revised each year. 31 times the daily rate of the benefit must be no less than 35% of the minimum monthly wage rate in force on 1 July of the previous year. In 2019, the amount of the allowance for 31 days is EUR 175.15 (31 times the daily rate of EUR 5.65).

### 2.2.3. Benefit duration

The unemployment allowance is generally granted for up to 270 days, though only up to 210 days for unemployed persons who were dismissed by their previous employer for a breach of duties, incompetence or an indecent act. Unemployment insurance benefit and unemployment allowance cannot be paid simultaneously. If the claimant's unemployment insurance benefit payment period was less than 270 days, the person gets unemployment

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<sup>4</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [Immervoll and Knotz \(2018\)](#), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

allowance for the remaining period up to 270 days (i.e. 270 days minus the number of days on UI).

Unemployment allowance is granted from the eighth day after the date of application (i.e. there is a waiting period of seven days. Unemployed persons who before registering as unemployed were enrolled in daytime or full-time study at an educational institution are granted unemployment allowance from the sixty-first day after the date of application for the unemployment allowance. Unemployed persons who previously received unemployment insurance benefit are entitled to unemployment allowance from the date of application.

An unemployed person who has received unemployment allowance for 270 days and who will reach normal retirement age in less than 180 days shall be paid unemployment allowance until normal retirement age.

#### 2.2.4. Means test

The allowance is withdrawn if the unemployed person's income exceeds the 31-fold daily unemployment allowance rate. The following shall not be included in the income:

- 1) grants, transport and accommodation benefits (*not covered by the model*);
- 2) subsistence benefit (as well as other benefits received on the basis of the Social Welfare Act but not covered by the model);
- 3) child allowance and childcare allowance (as well as other family benefits received on the basis of the Family Benefits Act but not covered in the model, except for the allowance for families with many children for families raising seven or more children);
- 4) social benefits for disabled persons received on the basis of the Social Benefits for Disabled Persons Act (not covered by the model);
- 5) child maintenance support;
- 6) benefits received from the voluntary unemployment fund (*not covered by the model*).

Other sources of income included in the means test (e.g. capital income) are not covered by the model. Thus, in the model the means test is not effective.

Note that it is not possible to combine the benefit with income from employment.

#### 2.2.5. Tax treatment

Unemployment allowance is not taxable.

#### 2.2.6. Interactions with other components of the tax-benefit system

An unemployed person cannot receive unemployment allowance at the same time as unemployment insurance benefits.

Unemployment allowance cannot be received alongside the old-age pension, early-retirement pension or the national pension (though note that these are not simulated in the TaxBEN model). Also, as it is not possible to be employed when receiving unemployment allowance, it is not possible to receive unemployment allowance and health insurance cash benefits at the same time.

Eligibility to unemployment allowance doesn't depend on the employment situation or income of other household members. Also, several household members may receive the unemployment allowance at the same time.

### 2.2.7. *Combining benefit receipt and employment/starting a new job*

Not possible.

## 3. Social assistance and housing benefits

### 3.1. *Subsistence benefit (toimetulekutoetus)*

Variable name: [SA]

This is a non-contributory benefit, means-tested and not taxable.

Subsistence benefit is granted to a person living alone or with a family whose net income after payment of housing costs (up to certain limits, see Section 3.1.2. ) 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. Parliament establishes the minimum subsistence level annually.

#### 3.1.1. *Eligibility conditions*

Subsistence benefit is administered by local authorities, but they can exercise discretion only within certain limits.

The local authority may refuse to grant the benefit or reduce the sum of the granted subsistence benefit if the applicant or a member of a family applying for a benefit is a person of working age with ability to work, but:

- who is not working or studying full time and not on academic leave;
- who is not working and is not registered as unemployed or job-seeker with the Estonian Unemployment Insurance Fund;
- who is not working and is registered with the Estonian Unemployment Insurance Fund, but has refused to comply with an individual action plan or turned down suitable employment without good reason;
- who is not working and has turned down suitable employment offered by the local authority without good reason;
- who is not working and has refused, without good reason, social services organized by the local authority to support the ability to cope independently.

Also if:

- the subsistence benefit applicant or a child entitled to receive maintenance who lives together with the applicant, or other descendant or ascendant who needs assistance and is unable to maintain himself or herself has the right to receive support but the applicant refuses to submit a document certifying the right to receive the support or refuses to claim the support;
- the local authority finds that the property used or owned by the subsistence benefit applicant or his or her family or the lease, rental or sale thereof ensures sufficient funds for coping for the person or his or her family;
- the local authority finds that a benefit applicant or a member of a family applying for a benefit has made no other effort to improve his or her own material situation or the material situation of his or her family.

In the model, we assume that beneficiaries fully comply with necessary conditions.

### 3.1.2. Benefit amount

In 2019, the subsistence level is EUR 150 per month for single person and the first member of a family. The subsistence level for children (below 18) is EUR 180 (i.e. 120% of single rate). For the second and subsequent adult household members, the subsistence level is EUR 120 (i.e. 80% of the single rate). The subsistence level is to provide for a certain minimum guaranteed income, which the person should have after payment of housing costs. There is a supplement for lone parents of EUR 15 per month.

To calculate the subsistence benefit amount, housing costs are taken into account up to the limits of the specified standards for dwellings. The limit of standards for dwelling is 18m<sup>2</sup> per each family member and in addition 15m<sup>2</sup> per family. In case the number of rooms is equal to the number of persons living there, the total area of the dwelling is taken into account. There is an exception considering pensioners and persons with partial or absent work ability. The limit for them, if living alone, is 51m<sup>2</sup>.

Local authorities establish the limits for housing costs to ensure decent subsistence. In the TaxBEN model, the average level of housing costs covered by the subsistence benefit system is used as a proxy for such limit. In 2018, this was EUR 135 per month<sup>5</sup>. In 2019 model, this value is updated by CPI (1.0286).

### 3.1.3. Benefit duration

Benefit entitlement lasts as long as the means test and other conditions are satisfied. Subsistence benefit claims are reviewed monthly.

### 3.1.4. Means test

Household net income reduces benefit entitlement on a one-for-one basis. All income is taken into account including earnings net of income tax and social security contributions (see special exceptions in Section 3.1.7. ), pensions, unemployment and family benefits. However, the following income sources are not included in the income measure (*most of them are not covered by the model*):

- single benefits paid out of the funds of the state budget or local authority budget;
- periodic benefits paid from local authority budgets which are dependent on family income or granted to compensate for the cost of a specific service;
- benefits paid to disabled persons, except for the Disabled Parent Allowance;
- student loan granted with security guaranteed by the state;
- grants, transport and accommodation benefits paid to unemployed persons;
- earned income received by a dependent child;
- basic allowance, need-based study allowance and need-based special allowance for students.

Local authority may also choose not to include the following in the income of a person living alone or a family upon calculating a subsistence benefit (*not covered by the model*):

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<sup>5</sup> The estimate is based on the data from Social Service and Benefits Registry and shows the estimated average subsistence benefit for compensating the dwelling costs.

- grants and benefits supporting studying or working;
- benefits paid to cover specific expenses or loss;
- monetary benefits and gifts received from people close to a person or a family to the extent of one-half the subsistence level per family in one month.

In addition, if a person or a family has been granted subsistence benefit for at least 6 previous months, a local authority may take into account other housing expenses (*not covered by the model*).

### 3.1.5. Tax treatment

The benefit is not taxable.

### 3.1.6. Interaction with other components of the tax-benefit system

Subsistence benefit can be received alongside all other benefits, but most other benefit income is included in the income definition for the means test (see Section 3.1.4. ).

### 3.1.7. Combining benefit receipt and employment/starting a new job

No restriction, but most types of earnings from work are included in the income definition for the means test.

In the event that a subsistence benefit applicant or a member of a family applying for the benefit starts receiving earned income and was granted subsistence benefit for at least two months, the following shall not be included in the income test:

- 1) 100% of earned income during the first two months;
- 2) 50% of earned income during the following 4 months.

It is possible to use this exception once in 24 months per family member.

Also, income earned by dependent children (up to 19 year olds still studying in basic or high school) is not considered as income upon calculating subsistence benefit.

## 4. Family benefits

There are several child benefits in Estonia. Universal child allowance, allowance for families with many children, allowance for multiple birth of three or more children, conscript's (or person in alternative service) child allowance and childcare allowance are described in Sections 4.1. 4.2. Maintenance Allowance is covered in Section 4.3. Means-tested needs-based family benefit (*vajaduspõhine peretoetus*) was discontinued in 2018. A short description of parental benefit, which is not simulated in the model, is provided in Annex.

### 4.1. Child allowances (*lapsetoetus*)

Variable name: `[FB_fixed]`

The child allowances (child allowance, allowance for families with many children, allowance for multiple birth of three or more children, conscript's (or person in alternative service) child allowance, and childcare allowance) are non-contributory benefits, not means-tested and not taxable.

#### 4.1.1. Eligibility conditions

Child allowance is paid from the birth of the child until the age of 16. A child who is enrolled in a basic school or upper secondary school, or a child without secondary education enrolled in formal vocational education has the right for child allowance until the age of 19. When the child turns 19, the allowance is paid until the end of the academic year. Allowance for a family with many children is paid to a parent who has three or more children for whom child allowance is paid in their family.

Allowance for multiple birth of three or more children is a monthly family allowance paid from the children's birth, to a parent, parent of a care family or guardian, who is raising triplets or more children born at the same time. The right to receive this allowance applied until the day that the children turn 18 months old.

Family benefits are not paid in respect of children without parental care who permanently reside in a social welfare institution or a school for students with special needs unless the child does not stay in a social welfare institution due to studying. (Note that this situation is not simulated by the TaxBEN model, which focuses only on private households).

#### 4.1.2. Benefit amount

The benefit amounts for each child are as follows:

	Allowance amount in 2019 (EUR per month)
Child Allowance	
- First and second child in a family	60 (per child)
- Third and subsequent child in a family	100 (per child)
Allowance for families with many children (paid in addition to child allowance since 1 July 2017)	
- Family with 3 to 6 children	300 (per family)
- Family with 7 or more children	400 (per family)
Allowance for multiple birth of three or more children (paid in addition to child allowance since 1 March 2018) – <i>not simulated in the model</i>	1000 (per family)
Conscript's (or person in alternative service) child allowance - <i>not simulated in the model</i>	300 (per child)
Single parent's child allowance	19,18 (per child)

There is also a supplement for lone parent families of EUR 19.18 per month. However, it is applicable only if the other parent is missing. Thus, it is not considered in the model.

Also conscript's (or person in alternative service) child allowance is a monthly allowance paid for a child whose parent is serving in the Estonian Defence Forces, or in alternative non-combatant service. Until 2018, the allowance amount was EUR 50 and from 2019 the amount is EUR 300 per child per month. This allowance is not covered in the model.

#### 4.1.3. Benefit duration

As long as the eligibility conditions hold.

#### 4.1.4. Means test

The benefit is not means-tested.

#### 4.1.5. Tax treatment

The benefit is not taxable.

#### 4.1.6. Interaction with other components of the tax-benefit system

The benefit is universal and can be received together with any other benefit.

#### 4.1.7. Combining benefit receipt and employment/starting a new job

The benefit is universal; employment doesn't affect benefit receipt.

### 4.2. Child care allowance (*lapsehooldustasu*)

Variable name: **[CCB]**

This is a non-contributory benefit, not means-tested and not taxable.

Child care allowance will no longer be paid as of 1 September 2019. Parents who were eligible for child care allowance before September 2019, will receive the payment of child care allowance until they are eligible. Resources of child care allowance will be gradually added to the parent benefit scheme. These changes will be taken into account in the model for 2020.

#### 4.2.1. Eligibility conditions

The child care allowance is universally paid allowance for families with young children. Eligibility of child care allowance does not depend on the child's attendance of child care services, or on the parents' employment situation.

#### 4.2.2. Benefit amount

Child care allowance is a monthly allowance paid to families at the following rates:

- EUR 38.36 per month in 2019 for each child aged under 3;
- EUR 19.18 per month in 2019 for each child between 3 and 8 years of age if the family has children between 3 and 8 years of age as well as children aged 3 or under;
- EUR 19.18 per month in 2019 for each child between 3 and 8 years of age if the family has 3 or more children who are at least 3 years of age.

#### 4.2.3. Benefit duration

As long as eligibility conditions hold. If a child is in their first year at school and reaches the age of 8 during that school year, child care allowance for the child is paid until the end of the school year.

#### 4.2.4. Means test

Not means tested.

#### 4.2.5. Tax treatment

Non-taxable.

#### 4.2.6. Interaction with other components of the tax-benefit system

The benefit is universal but cannot be received alongside parental benefits (see Annex). It is included in the income definition for the means tests for Subsistence Benefit.

#### 4.2.7. Combining benefit receipt and employment/starting a new job

No restrictions.

### 4.3. Maintenance allowance (*elatisabi*)

Variable name: **[MAINT\_PAY]**

This is a non-contributory benefit, not means-tested and not taxable.

The state-funded maintenance allowance forms part of the amount of maintenance the other parent must pay for their child. The allowance is paid during both court proceedings and enforcement proceedings regarding maintenance claims. The state recovers the amount of maintenance paid to the applicant from the other parent, i.e. the maintenance claim debtor.

In the period 2008-2016, maintenance allowance was a short-term benefit paid for a maximum of 90 days and was not covered by the model. Since 2017, the allowance can be paid as a long-term support to single parent if the other parent does not fulfil their obligation. Thus, since 2017 this benefit is included in the model.

#### 4.3.1. Eligibility conditions

If a parent does not meet his or her obligations to provide for his or her children, the court will find in favour of the claimant and order the parent to pay maintenance to the child. If after the court order the parent who is actually obliged to pay the maintenance does not fulfil their obligation, the allowance during enforcement proceedings is paid to minors or children up to the age of 18 or 21 (if they are studying).

#### 4.3.2. Benefit amount

The allowance during court proceedings lasts for up to 150 days, the amount of the allowance for one child is EUR 100 per calendar month.

The advance on maintenance allowance during the enforcement period is up to €100 per month and is paid in accordance with the court decision either until the child reaches the age of 18 or, if the child continues his or her studies, up to the age of 21.

#### 4.3.3. Benefit duration

As long as eligibility conditions hold.

#### 4.3.4. Means test

Not means tested.

*4.3.5. Tax treatment*

Non-taxable.

*4.3.6. Interaction with other components of the tax-benefit system* 

It is included in the income definition for the means tests for subsistence benefit.

*4.3.7. Combining benefit receipt and employment/starting a new job*

No restrictions.

## 5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2019**.

In Estonia the childcare combines both the *preschool child care institutions* (crèches /preschools), which are part of the educational system (in the administrative field of the Ministry of Education and Research, regulated by the Preschool Child Care Institutions Act), and *childcare services* (in the administrative field of the Ministry of Social Affairs, regulated by the Social Welfare Act).

Local municipalities must provide the opportunity to attend preschool child care institutions to all children between 1.5 and 7 years of age who live in their catchment areas if this is requested by their parents. If local municipality does not have enough space in the preschool child care institutions for every child between 1.5 and 3 years of age then local government can offer place through childcare services (municipal or private services) if the parent accepts it. Then the fee for parent must be the same as the fee paid in preschool child care institution by parents. If parent himself chooses to use private childcare service then the parent pays most of the fee, some local municipalities support attending private childcare services.

Mainly, preschool 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 compulsory primary school in Estonia starts at the age of 7. There is no compulsory preschool.

### 5.1. Gross childcare fees

Variable name: `[EEcc_cost]`

The costs of the preschool child care are paid by local municipalities and parents. According to the Preschool Child Care Institution Act<sup>6</sup>, local municipalities decide the child care fee paid by parents, however, the fee per child may not exceed 20% of the minimum wage (the minimum wage in 2019 was EUR 540 per month).

In Tallinn municipality, the fee per child is 12.2% of the minimum wage rate (13.4% if a childcare institution has a swimming pool)<sup>7</sup>. The meal costs are covered by the municipality. However, if the meal cost approved by the director of a preschool child care institution is higher than the limit established by the city government, the difference is covered by parents. In the model, it is assumed that a child resides in Tallinn, attends a preschool childcare institution without a swimming pool, and the meal cost is below the limit.

As an exception, the Social Welfare Act obliges local governments to organize and finance childcare services for children with severe and profound disabilities aged 0-18 in a fixed amount through support fund and with the help of ESF. Parents may use the service either during the day or 24 hours a day. It can also be used on an hourly basis. If the service is required by greater extent than that established in the limit, there can be exceptions to offer service in broader extent.

<sup>6</sup> <https://www.riigiteataja.ee/en/eli/517062014005/consolide>

<sup>7</sup> <https://www.riigiteataja.ee/akt/416122015007>

### *5.1.1. Discounts for part-time usage*

According to the Preschool Child Care Act the rural municipality or city government shall provide all persons interested with the opportunity to obtain a part-time place at a preschool child care institution and provide discounts for part-time users.

Depending on the decisions and needs of the parents and local municipalities, it is possible to use preschool child care institutions part-time. Childcare services are more often used part-time.

In Tallinn municipality, there is no regulation for part-time childcare services fee. Thus, in the model part-time users are assumed to pay the same fees as full-time users.

### *5.2. Fee discounts and free provision*

Local municipalities decide the fee discount of preschool child care institution fee and free provision. There are some special discounts or free provision given to particular families in many local municipalities but specific conditions depend on the decisions and needs of the local municipalities.

In Tallinn municipality, a discount of up to 80% can be granted if the family's net income for the first family member is less than the current minimum wage rate, and for each additional member less than 80% of the minimum wage. Family's net income includes net earnings as well as unemployment benefits and family benefits (except funeral allowance, childbirth allowance, school allowance, subsistence allowance, supplementary social allowance and one-time social benefits). A parent shall also be exempt from payment of the fee for a third (and any subsequent child) attending a preschool child care institution.

### *5.3. Child-care benefits for formal centre-based care*

There are no special childcare benefits targeted to parents whose children attend municipal preschool child care institutions. The child care allowance (*lapsehooldustasu*), which is available to all parent regardless their use of childcare facilities, is modelled as a family benefit and is described in Section 4.2.

### *5.4. Child care allowance for children not using child care centers*

None.

### *5.5. Tax concessions for childcare expenditures*

Preschool child care institution costs are considered to be training costs which can be deductible from income for tax purposes, but no food costs are deductible. Also the costs of childcare services outside the education system (e.g. private childcarer) are exception because they are not considered to be training costs and that is why to be not deductible.

In Tallinn, childcare fees depend on family's net income. At the same time, taxes depend on childcare fees, as childcare costs are tax deductible. This is modelled in the following way:

- first, childcare fees are modelled based on net income
- then, taxes are re-calculated taking into account deduction of childcare costs.

In the model, it is assumed that the adult with the highest taxable income pays for childcare and deducts these expenses from his or her taxable income.

### 5.5.1. Eligibility

All families using preschool child care institutions.

### 5.5.2. Maximum amount

No limit.

### 5.5.3. Variation by income

No variation, though parents must be paying income tax for the deduction to be of value.

### 5.5.4. Impact on overall income tax calculation

Taxable income is reduced by the amount of the deduction.

## 6. In-work benefits

Variable name: **[IW]**

There are no employment-conditional benefits in Estonia.

## 7. Social security contributions and payroll taxes

### 7.1. Social security contributions (*sotsiaalkindlustusmaksed*)

#### 7.1.1. Contributions paid by employees

In 2019, employees pay 2% of earnings and other emoluments as a mandatory funded pension insurance contribution, and 1.6% of earnings as an unemployment insurance premium.

#### 7.1.2. Contributions paid by employers

Employers' social security contribution rates are applied in two parts:

- Unemployment insurance premium: in 2018, 0.8% on gross payroll for employers (with no minimum payment).
- Pension and health insurance: in 2019, pension insurance is 20% of gross payroll and health insurance 13%. The minimum monthly base for these social taxes calculation is EUR 500 per month in 2019 (equal to the monthly minimum wage in the previous year), which made the minimum social tax obligation EUR 165 per month.

## 8. Taxes

### 8.1. Personal income tax (*üksikisiku tulumaks*)

Variable name: **[IT\_p; IT\_s]**

Since 2017, income tax in Estonia is paid individually. However, there is an option for married couples to transfer some unused tax allowances (e.g. basic tax allowance or tax allowance for children).

### 8.1.1. Tax allowances

**Basic tax allowance (non-taxable minimum):** A general (basic) allowance of EUR 6 000 per year is deductible from individual income in 2017. Since 2018, it is income-dependent. It starts declining from income of EUR 14 400 and reaches zero at income of EUR 25 200.

From 1 January 2017, it is possible to transfer one's personal unapplied basic tax allowance to the spouse. The unused allowance can be transferred if person's yearly taxable income is below EUR 2 160 and the family's total yearly taxable income is below EUR 50 400. The maximum transferable amount is EUR 2 160. The actual transferable amount equals to EUR 2 160 minus person's gross income. The total family taxable income plus the transferred allowance cannot exceed EUR 50 400.

**Tax allowance on dependants:** A child allowance of EUR 1 848 is also deductible from income for each of the second and any subsequent children up to and including the age of 16. The allowance can be claimed only by one of the parents. However, the unused part of allowance can be transferred to the other parent.

**Other allowances:** Deductible for income tax purposes are also:

- Employee's compulsory contributions for unemployment insurance and mandatory funded pension insurance;
- Insurance premiums and acquisition of pension fund units up to 15% of the taxpayer's income, but no more than EUR 6 000 annually (*not covered by the model*);
- Housing loan interests up to EUR 300 per year, certain training expenses and gifts and donations to charities are deductible, but all together limited to EUR 1 200 per year, and to not more than 50% of the taxpayer's taxable income. If these 3 types of deductions exceed the limits, the part of the deductions remaining unused, may be transferred to taxpayer's spouse. He or she can deduct these costs taking account own personal limits (*not covered by the model*).

### 8.1.2. Tax base

In the TaxBEN model, the tax base includes earnings from work (net of social security contributions) and unemployment insurance benefits. Most benefits are not taxable including:

1. family benefits;
2. unemployment allowance;
3. subsistence benefit;
4. maintenance allowance;
5. work ability allowance.

However, the following benefits are taxable:

1. unemployment insurance benefit;
2. parental benefit (though note that this is not simulated by the TaxBEN model).

### 8.1.3. Income tax schedule

Estonia has a flat tax rate of 20 % in 2019.

#### 8.1.4. Tax credits

A tax credit was briefly introduced in 2016 and abolished a year later.

### 9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Estonia 2019 (Figure 1). TaxBEN by default produces the following output: net household incomes (**black line**) and its subcomponents (**coloured stacked areas**) for selected family and individual circumstances.

The model and the related web calculator is accessible from the [project website](#). Figure 1 shows outputs for four scenarios:

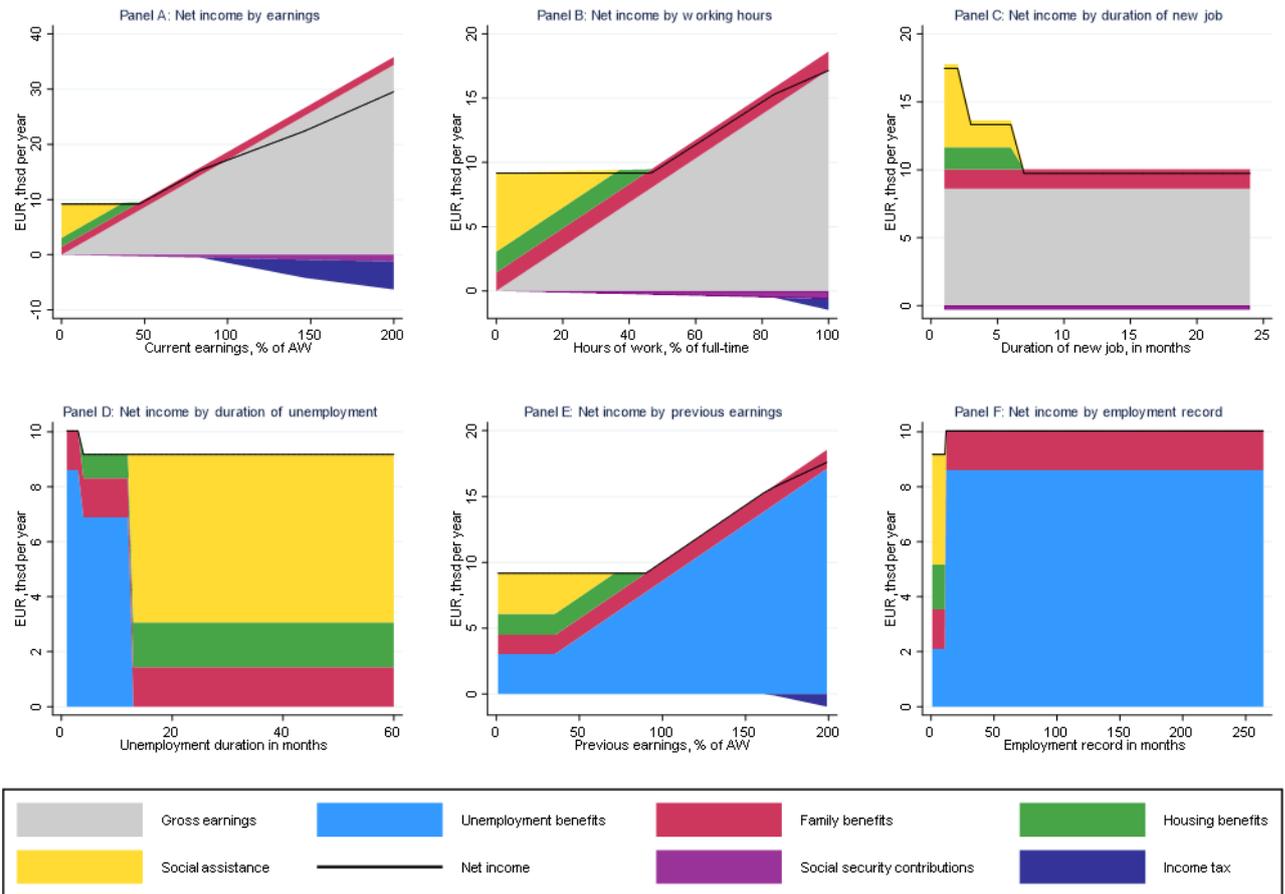
- By percentage of the average wage (**Panel A**);
- By working hours (**Panel B**);
- By duration of a new job (in months) for a person claiming social assistance who started a new employment (**Panel C**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel D**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel E**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel F**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT** = income tax; **FB** = family benefits; **HB** = housing benefits; **SA** = social assistance; **IW** = in-work benefits. Note that each component may contain more than one benefit or tax.

Results in Figure 1 refer to a two-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the six scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

**Figure 1. Selected output from the OECD tax-benefit model**

Two-adult couple with two children.



*Notes:* In Panel A, B, and C the first adult is employed, whereas the second adult is out of work and not eligible for unemployment benefits, e.g. because they have expired (the same is assumed for the first adult when earnings are zero). In Panel A, the first adult works full-time at different wage levels. In Panel B, the first adult earns average (hourly) wage at variable working hours. In Panel C, the first adult has just started a new full-time employment at 50% of the average wage after claiming social assistance.

In Panels D, E, and F the first adult is out of work and claiming unemployment benefits, whereas the second adult is out of work and not eligible to unemployment benefits. In Panel D and F, previous earnings of the first adult equal to the average wage. In Panels D and E, the first adult is assumed to have a 'long' employment record of 264 consecutive months before the job loss. Panels E and F refer to the 2nd month of unemployment benefit receipt.

*Source:* Calculations based on the OECD tax-benefit model

## Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Estonia that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### *Benefit upon lay-offs (kindlustushüvitis koondamise korral)*

Those employees, whose last employment relationship was ended due to a lay-off, employer's failure to provide work, or employer's liquidation, have the right to an insurance benefit upon lay-offs. The amount of the benefit depends on the duration of employment with that employer:

- 5-10 years: one month's average salary;
- more than 10 years: two months' average salary or wages.

Those receiving the benefit upon lay-offs can subsequently claim unemployment insurance benefits. However, there is a waiting period in this case which depends on the duration of employment with that employer:

- 5-10 years: waiting period of 30 calendar days;
- more than 10 years: waiting period of 60 calendar days.

### *Parental benefit (vanemahüvitis)*

Parents have the right to receive the parental benefit from the day following the final day of pregnancy or the end of maternity or adoption leave. Parental benefit is paid starting from the childbirth until the child turns one and a half or for the period of 435 days, if a parent was eligible for maternity or adoption leave. Fathers are eligible for parental benefit when the child is 70 days old. Only one of the parents raising a child may receive parental benefit, also in the case of a multiple birth. It is paid at the parent's average monthly income during the previous calendar year, with a minimum benefit amount of EUR 500 per month for non-working parents and EUR 540 per month for working parents and a maximum benefit amount in 2019 of EUR 3319.80 per month. It is possible to work and to continue receiving parental benefit: if earnings are less than EUR 1659.90 per month (half of the maximum benefit amount), the amount of the benefit is unaffected, but it is reduced by half of the amount by which earnings exceed this threshold. The reduction cannot reduce benefit entitlement below the base rate of the benefit (EUR 500 in 2019).

### *Incapacity for work pension (töövõimetuspension)*

The "Incapacity for Work Pension" is a universal social insurance scheme for all residents financed by social security contributions providing pensions to those with work-limiting disabilities related to the length of the period of activity (up to 1998) and social security contributions (since 1999). The new Work Ability Allowance (see below) is gradually replacing the incapacity for work pension.

***National pension (rahvapension)***

The national pension for those with 100% incapacity for work is EUR 205.21 per month. It is granted to those who have been declared to be permanently incapacitated for work, but have not yet obtained the minimum contribution period required. Claimants must have lived in Estonia for at least one year before applying for the pension.

***Work Ability Allowance (töövõimetoetus)***

The new Work Ability Allowance is paid since 1 July 2016 if partial work ability or no work ability is established by the new assessment system. Those receiving the incapacity for work pension can continue to do so until the end of the period of incapacity for work which has been established by the old system, at which point they will be reassessed by the new system and potentially become eligible to the Work Ability Allowance.

Work Ability Allowance is a flat rate benefit. In 2019, the daily rate of Work Ability Allowance is EUR 12.72 for those who have no ability for work. If person has partial work ability the daily rate is 57% of this rate (i.e. EUR 7.25). Those with partial work ability thus receive EUR 217.51 per month, and those with no ability for work EUR 381.60 per month. The allowance is reduced if the claimant's monthly income exceeds 90 times the daily rate (i.e. EUR 1 580 per month in 2018).

If the income of a person with partial or no work ability during the calendar month preceding the payment of work ability allowance exceeds 90 times the daily rate in force, the amount of his or her allowance shall be recalculated by reducing his or her allowance for the month of payment of work ability allowance by an amount which is half of the difference between his or her income and 90 times the daily rate.