
Reference date for all information is July 1st 2008

ESTONIA 2008

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 2008 AW earnings level is EEK 157 030¹.

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.
- There is no right to claim/receive unemployment insurance benefit if the unemployment is “voluntary”, i.e. the employment contract has been terminated by the agreement between an employee and an employer or o employee initiative. Although, the person is eligible of the benefit in case the fixed term employment contract expires.

The pre-condition for being entitled to the benefit is the status of registered unemployed. According to the Article 7 of the Labour Market Services and Benefits Act² a person loses the registration if he/she fails to appear in the office of the Labour Market Board at least once within 30 days or fails to appear third time at the prescribed time (both without a reason) or starts studies or private business, contractual work or refuses the individual action plan (for job-search) or refuses to comply with the individual action plan or refuses to accept suitable job for the third time.

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:

6. 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;
7. due to a breach of duties of employment or service, loss of confidence, an indecent act or act of corruption;
8. 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

² For English translation see:

<http://www.legaltext.ee/et/andmebaas/tekst.asp?loc=text&dok=XX00039&keel=en&pg=1&ptyyp=RT&tyyp=X&query=t%F6%F6turuteenuste>

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:

9. 50 per cent for the period of 1 to 100 calendar days;
10. 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 2008 is 21 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 and waiting periods*

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:

11. 180 calendar days if the insurance period of the insured person is shorter than 56 months;
12. 270 calendar days if the insurance period of the insured person is 56–110 months;
13. 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 assistance**

The unemployment allowance is paid to the registered unemployed who are actively looking for work and 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).

A person, who is less than sixteen years of age or has reached the pensionable age, can not be registered as unemployed and therefore become entitled to the benefit.

The payment rates, durations or aspects of means testing do not depend on the family members of the claimant.

3.1 *Conditions for receipt*

The pre-condition for being entitled to the allowance is the status of registered unemployed. According to the Article 27 of the Labour Market Services and Benefits Act³ a person has to appear at the Labour Market Board Department in person at an 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 Labour Market Board Department 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 last visit and ending on the day on which the unemployed person appears at the Labour Market Board Department for the next visit (inclusive)). Also the payment of the allowance is suspended (for 30 days) if the unemployed person receives a one-time income in the amount at least equal to the employment benefits.

The payment of the unemployment allowance is suspended prematurely, if the unemployed person fails to appear, without a good reason, at the Labour Market Board Department for a visit for the second time or, refuses, without a good reason, to comply with the Individual Action Plan for the second time or, refuses, without a good reason, to accept suitable work for the second time or if the person's registration as unemployed is terminated.

Unemployment allowance is paid also in the event of voluntary unemployment. The eligibility does not depend whether the job loss is "voluntary" or not. The benefit duration depends on it. (See more under section 3.4.)

3.1.1 *Employment conditions*

The unemployed persons who have been employed or engaged in work or an activity equal to work for at least 180 days during the twelve months prior to registration as unemployed (except for the cases listed below) and whose income is less than the amount of the unemployment allowance (1019.9 EEK = 65 Euros per month) have the right to receive unemployment allowance.

Previous employment or engagement in an activity equal to work is not required of an unemployed person, who for at least 180 days during the twelve months prior to registration as unemployed:

- raised as a parent or a guardian, a child of up to 18 years of age with a moderate, severe or profound disability, a child under 8 years of age or a child of 8 years of age until the child completed year one at school;
- undergone 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;
- was unemployed due to declaration as permanently incapacitated for work;
- was held in custody or served a sentence in a prison or house of detention.

³ For English translation see:

<http://www.legaltext.ee/et/andmebaas/tekst.asp?loc=text&dok=XX00039&keel=en&pg=1&ptyyp=RT&tyyp=X&query=t%F6%F6turuteenuste>

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 for each budgetary year. A new daily unemployment allowance rate is not lower than the daily allowance rate in force. In 2008 the allowance rate is 32.9 EEK (2.1 Euros) per day.

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

3.2.1.1 Irregular additional payments [NEW ITEM]

There are no irregular additional payments paid by the Labour Market Board.

3.2.1.2 Obligations of family members [NEW ITEM]

There are no such obligations or requirements for family members. Job-search or work-availability conditions do not extend to the spouse of the benefit claimant or other family members.

3.2.2 Income and earnings disregards for benefit recipients and those starting a new job

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: grants, and transport and accommodation benefits and remunerations for public work received on the basis of Labour Market Services and Benefits Act, subsistence benefits, family benefits, benefits for disabled persons, support received by the unemployed person based on a court judgement, agreement confirmed by a court ruling or a notarised agreement between the parties pursuant, 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 and waiting periods

The unemployment allowance is granted as a rule up to 270 days (unemployment allowance is paid for a period of up to 210 days to unemployed persons who left their previous work or service on the initiative of the employer for a breach of duties, loss of confidence or indecent act). Unemployment insurance benefit and unemployment allowance are not paid simultaneously. If the unemployment insurance benefit payment period was shorter than 270 days, the person gets unemployment allowance up to 270 days (270 days – UIB days).

Unemployment allowance is granted as of the eighth day of the date of application. Unemployed persons who, before registration as unemployed, were enrolled in daytime or full-time study at an educational institution and the unemployed persons who left their previous work on the initiative of the employer for a breach of duties, loss of confidence or indecent act, are granted unemployment allowance as

of the sixty-first day after the date of application for the unemployment allowance. Unemployed persons who have received unemployment insurance benefit (according to article 8 of the Unemployment Insurance Act⁴) shall be granted unemployment allowance as of the date of application for unemployment allowance.

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.

An unemployed person who has received benefits according to the reasons listed under section 3.1.1 (list of conditions, that do not require previous employment or engagement in an activity equal to work in order to qualify for unemployment allowance) has the right to receive the benefits repeatedly if:

- at least five years have passed from the grant of the benefits based on the list provided under section 3.1.1;
- the unemployed person has worked for at least 180 days during 24 months prior to application for repeated grant of benefits, and has not received unemployment allowance for such period (based on: work performed in Estonia or as an employee sent from Estonia on assignment abroad on the basis of an employment contract or in public service; work performed in Estonia based on a contract of employment, contract for services, authorisation agreement or contract under the law of obligations for the provision of other services; activity in Estonia as a sole proprietor.).

An unemployed person has the right to re-apply for the unemployment allowance also in certain cases when the payment of unemployment allowance has been terminated before the end of the rightful period.

Re-applying for unemployment allowance is not very widespread due to its relatively low rate. At the same time, people who need the unemployment allowance in order to re-enter the labour market try to fulfil the preconditions in order to qualify again for the allowance.

3.5 Treatment of particular groups

An unemployed person participating in labour market training (at least of 40 hours), in work practice or in coaching for working life has the right to receive grants. The grants are calculated by the Labour Market Board Departments. The hourly rate of the grant is established by the state budget for each budgetary year. A new hourly rate of grant cant not be less than the rate in force. In 2008 the grants rate is 3.75 EEK = 0.24 Euros per hour.

The grants payable for labour market training are calculated for every hour during which, based on the data submitted by the training provider, a person participated in the training. The amount of grants payable for labour market training are calculated based on single hourly rate of the grant.

The grant payable for work practice is calculated for every hour during which, based on the data submitted by the employer, a person participated in the practice. During the first month of training, the amount of grant payable for labour market training is calculated based on single hourly rate of the grant, during the second month of training, based on one and half times the hourly rate of the grant, and during the third month of training, based on two times the hourly rate of the grant.

The grant payable for coaching for working life is calculated for every hour during which, based on the data submitted by the person conducting the coaching for working life, the unemployed person participated in the exercise. The amount of grant payable for coaching for working life is calculated based on one half of the hourly rate of the grant.

⁴ For English translation see:

<http://www.legaltext.ee/et/andmebaas/tekst.asp?loc=text&dok=X50053K5&keel=en&pg=1&ptyyp=RT&tyyp=X&query=t%F6%F6tuskindlustus>

An unemployed person who participates in labour market training or in work practice has the right to receive transport and accommodation benefits. Transport and accommodation benefits are calculated based on the distance between the place of the labour market training or work practice and the residence of the unemployed person, and on relevant expense receipts (in case of accommodation). For one day, an unemployed person receives compensation for either the transport or accommodation expenses. The monthly upper limit for transport and accommodation benefits is established by the state budget for each budgetary year. In 2008 the upper limit is 1200 EEK = 77 Euros per month.

3.5.1 Young persons

People who are under 16 years of age are not covered by Unemployment allowance.

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 2007 were in average 763 EEK (€ 49) and in 2008 were in average 902 EEK (€ 58) per satisfied application. 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, in 2008 subsistence level per month - 1000 EEK (from MISSOC) for single person. 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 and waiting periods*

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

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 and interaction with other benefits

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 (1.1.2009)

Boys and girls	
Age	Per cent
1	13.0

2	61.2
3	87.6
4	91.1
5	92.2
6	90.0

Source: Statistics Estonia (data as from 27.07.09)

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 2008 was 4350 EEK=278 EUR.) Average fee paid by parents in 2008 was 467 EEK per month=29.8 EUR⁵.

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 (2008)

	Minimum	Maximum	Average
Expenditures borne by local municipality	1782	27568*	4769
Expenditures borne by parent	0	1530	467

*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 2008 were 310 EEK per month=19.8 EUR.

7.2 *Child-care benefits*

Parental benefit is paid until 575 days starting from Maternity leave or until child attains 18 months of age.

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

7.2.1 *Conditions for receipt*

Parental benefit - a child under 18 months of age.

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*

⁵ Data based on the survey „Local government family benefits to families with children in 2008 and child day care 2008-2009”. Ainsaar, M., Soo, K. (2009), Table 5

Parental benefit is a monthly benefit paid at parent's average monthly income of a previous calendar year. Minimum benefit in 2008 is the benefit rate (3600 EEK= 230 EUR) paid for non-working parents. Minimum benefit for working parents is the minimum wage (4350 EEK=278 EUR). Maximum benefit was 25209 EEK=1611 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 (18000 EEK= 1150.4 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*

1. Lone parents: single parent child allowance is 300 EEK=19.2 EUR per child per month (is included in the model).

2. Maintenance allowance is a short-term benefit paid by the state to children whose parents are not meeting their obligation to provide for them.

The Maintenance Allowance Act was established (in 2008) with the aim of encouraging parents to lawfully claim maintenance, which should improve the situation of the child or children they are providing for.

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 court proceedings regarding maintenance claims, and after the judgement of the court enters force the state recovers the amount of maintenance paid to the applicant from the other parent, i.e. the maintenance claim debtor.

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 (the other parent, or a guardian or individual in whose interests the claim was lodged by a guardianship authority) and order the parent to pay maintenance to the child.

If the state does not oblige the other parent to pay maintenance to the child, the applicant must pay back the maintenance received from the state.

The recipient of maintenance allowance is a child, although the person who applies for it is the child's parent, who has lodged a claim for maintenance in court and who meets the conditions set out in the Maintenance Allowance Act.

The following people are eligible for maintenance allowance:

- permanent residents of Estonia; and
- foreigners residing in Estonia on the basis of a temporary residence permit or residential rights.

People do not have the right to obtain maintenance allowance if a similar benefit is already being paid to them by another country.

The state supports applicants for maintenance allowance over a period of 90 days, with the daily rate being one-third of the child allowance rate.

The maximum amount of the maintenance allowance is $90 \times 50 = 4500$ EEK

Maintenance allowance represents taxable income.

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*

Lone parent benefit is 300 EEK=19.2 EUR

The maximum amount of the maintenance allowance is $90 \times 50 = 4500$ EEK

9.2.2 *Income and earnings disregards*

None

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

Lone parent benefit is not taxable

Maintenance allowance is 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 2008 has been 21 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 27,000 EEK (1 EUR=15.6466 EEK; 27,000 EEK=1,725 EUR).

One resident parent or guardian of a child or other person maintaining a child, who maintains one 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 (in 2008 starting with the first child, in 2009 starting with the second 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 27,000 EEK (or 2250 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 one 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. The increased basic exemption is applicable for 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 2008 is 2% of earnings and other fees for employees.

The unemployment insurance premium in 2008 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 2700 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 891 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 2008 is 0.3% on gross payroll for employers.

10.3.3 Payroll taxes

The income tax rate in 2008 is 21% of the taxable income. The basic exemption deductible from the income of a resident natural person during a period of taxation is 27,000 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*

Estonian system does not differentiate full-time and part-time work regarding benefits.

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

Estonian system does not differentiate full-time and part-time work regarding benefits.

12. Policy developments

12.1 *Policy changes introduced during 2008*

According to the changes made into the Labour Market Services and Benefits Act (changes came into force on the 23rd of November 2008):

- One criterion of the concept of 'suitable work' was changed: among other conditions, a work is considered suitable in case of which the journey from the place of residence to the place of work of the person by public transport will not cost more than 15% of the person's monthly wage (The cost has been increased from 10% to 15% in order to be able to count a work that is further away also a 'suitable work'. This in turn widens the possibilities of the person to find a job.).
- The range of service providers who have the right to offer labour market training service and coaching for working life service was widened. The labour market training service can be carried through by any employer. The coaching for working life service can be carried through by any person.
- The number of people, how many one instructor can supervise during the labour market training service, is adjusted by four.
- The preconditions for giving a business start up subsidy were specified: the changes exclude the possibility for members of the management or supervisory body of a company, who are operating as entrepreneurs and who own at least 51% of the business association, to receive the business start up subsidy. Also, business start up subsidy is not given to an already operating entrepreneur for expanding its current enterprise.
- It is possible to receive business start up subsidy also in the sectors of agriculture and fishery under the conditions settled down in the European Commission's foundation agreement.
- In order to reclaim sums that were received without legal basis, the Labour Market Board has the right to make a prescription with a warning to the person under consideration. If the person does not fulfil the prescription, the Labour Market Board has the right to give the prescription for compulsory enforcement (according to the criterion settled down in the Code of Enforcement Procedure). The unemployed person, who finds that the prescription violates his/her rights, can submit the complaint to the administrative court. (Administrative Procedure is implemented)

The income tax rate in 2008 decreased to 21% of the taxable income.

12.2 *Future policy changes announced in 2008*

According to the changes made into the Labour Market Services and Benefits Act (changes will come into force on the 1st of May 2009):

- One criterion of the concept of 'suitable work' will be changed: when a person becomes unemployed again within six months after the last unemployment-period – when matching a suitable work for him/her, the previous 12-month-period is taken into account (this is done so only in cases, when the person in-between the two unemployment periods was not engaged in employment and activity equal to work). Unemployed persons who have been working or were engaged in an activity equal to work, in-between the two unemployment periods, might have gained new working abilities, skills, different salary etc. For that reason, when matching a suitable job, the skills, salary etc that were acquired in the last working place will be taken under consideration here (and therefore the previous unemployment-period is not taken into account).
- People who are on an academic leave (have suspended their studies) can be registered as unemployed (until the time their academic leave ends). The labour market services that the registered unemployed person (who is on an academic leave) can have are: provision of information on the situation on the labour market and of the labour market services and benefits, job mediation and career counselling).
- The unemployed people participating in the coaching for working life service have the right to receive transport and accommodation benefits.
- The termination of registration as a job seeker will take place 90 days after the person's last visit to the Labour Market Board Department (currently this is done after 30 days).
- The changes into the Labour Market Services and Benefits Act exclude the possibilities for an unemployed person to receive unemployment benefit twice for the same time period.
- The unemployed persons who left their previous work or service on the initiative of the employer for a breach of duties, loss of confidence or indecent act will not have a 61-day waiting period (after the date of application for unemployment allowance) to be granted the unemployment allowance.
- Starting from the 1st of February 2009, labour market benefits shall be paid only to the bank account of an unemployed person (currently this can be done also by post).

According to the changes made into the Social Welfare Act (changes will come into force on the 1st of May 2009):

Upon calculating a subsistence benefit, the transport and accommodation benefits received by the person participating in the coaching for working life service, will not be included in the income of a person living alone or a family.

The measures taken or under consideration in order to mitigate the negative impact of the current financial crisis and economic downturn on national social security systems and strengthen social protection against the crisis for the most vulnerable population groups:

The global financial crisis had had an effect also on the situation in Estonia. The macroeconomic environment has changed – the high growth has turned into a decrease in economic activity and unemployment has grown fast.

In this changed financial situation, the Parliament has adopted two restrictive supplementary budgets – the first in February 2009 and the second in June 2009. The measures adopted include:

- cut by 10,6% in operational expenditure of the central government, including the wage bill by 9,6% and administrative costs by 12%;
- central government expenditure reductions where the financing is fixed with certain earmarked tax revenues or as percentage of the GDP (road maintenance, defence, grants for cultural activity);

- measures limiting expenditure by local governments, in particular through stricter limits on new borrowing and lower transfers from central government.

In the budget there has been made some changes concerning the social security benefits as follows:

- lowering of the annual pension increase from 14% (that was foreseen by the relevant regulation before) to 5%;
- suspending contributions to the second pillar pension system for until the end of 2010;
- as of 1st July 2009 sickness benefit is paid from the 4th day of sickness (until 30.06.2009 from the 2nd day) and the employer is obliged to pay for the forth to eighth day of sickness. Onwards the sickness benefit is paid by the Health Insurance Fund. In addition, incapacity benefit was decreased from 80% of the salary to 70% of the salary in case of temporary relief from the performance of duties of employment or quarantine. Made changes contribute strongly to long-term sustainability of the health insurance system. In the same time the social protection of pregnant women has been increased. From July 1, 2009, the Health Insurance Act stipulates that pregnant women are considered to be equal to insured persons from the moment of medical confirmation of pregnancy (previously from the 12th week of pregnancy). This measure enlarges the amount of the persons covered with health insurance;
- the funeral grant is not any more payed to the individual persons. Funeral grant shall be paid only to the rural municipality or city government to cover partially the expenses of funeral arrangement. A rural municipality or city government shall organise the funeral if the deceased was unidentified or had no relatives;
- up to the present the state partially wrote off study loans of the parents who were raising child of up to 5 years of age. As of 1st July 2009 the new applications to assume the study loans are not any more admitted;
- the budget for subsistence benefits has been increased.

Prevention of unemployment is main policy objective for the Government. The aim is to address all target groups (including people who are still employed but at the risk of losing their job) and focus on measures that help preventing unemployment.

Enforced from 01.07.2009 the new labour law package enhances the labour market flexibility and improves social safety of workers.

In order to ensure fiscal sustainability of Unemployment Insurance Fund, implementation of following measures increasing social benefits for unemployed were postponed:

- increase of unemployment insurance benefits from 50% to 70% (first 100 days) and from 40% to 50% (101 days – 360 days), the current system has remained – 50% and 40% respectively;
- widening the unemployment insurance benefits to workers voluntarily leaving the job (postponed until 2013).

Despite of the aim of not increasing taxes on labour and income, the increases in unemployment insurance fees have been decided. From the 1st of June the unemployment insurance fees were increased to 3% (of which 1% is for employer and 2% for the employee) and from the 1st of August to 4.2% (of which 1,4% is for employer and 2,8% for the employee).

Delaying increased social benefits is compensated with increased investments to the adult training and active labour market measures as well as continuous widening of the opportunities for unemployed to participate in labour market measures.

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.