

# Estonia

## 1. Government requirements

### Registration requirements

#### Establishing a company

The legal environment for business entities in Estonia is mostly regulated by the Commercial Code.

All Estonian companies are required to be entered into the Estonian Commercial Register. A permanent establishment should be registered in the registry of the Estonian Tax and Customs Board. If a foreign company wishes to offer goods or services in Estonia permanently in its own name, it can establish a branch. The branch will be registered in the Estonian Commercial Register upon submission of an application together with the required documentation. It should be noted that a branch is not a legal person and the foreign enterprise will be liable for obligations arising from the activities of the branch.

### Registration of employment

All natural and legal persons acting as employers in Estonia are required to be registered in the employment register by the Estonian Tax and Customs Board. The requirement applies also to all employees, individual contractors, managers, management and supervisory board members and trainees as well as volunteers who are entitled to remuneration. Registration must have taken place by the time an employee commences work.

As a rule, foreigners who are residing in Estonia on the basis of a residence permit are permitted to work in Estonia. Employment in Estonia is also permitted to foreigners who are staying legally in Estonia on the basis of a visa or on the basis of a visa-free stay, and whose employment has been registered with the Police and Border Guard Board prior to the commencement of work (short-term employment registration).

### Registration as taxpayer

Taxpayers based in Estonia and registered in the Estonian Commercial Register (subsidiaries, branches, etc.) will be recorded automatically in the taxpayers' register maintained by the Estonian Tax and Customs Board.

Foreign companies can only register with the Tax and Customs Board in certain circumstances, e.g., acting as a foreign employer, having a permanent establishment and being a VAT-liable entity

#### Ongoing compliance requirements

### Monthly payroll tax return (TSD)

The period of taxation is a calendar month. The combined corporate income tax and payroll tax return, Form TSD (Declaration of income and social tax, unemployment insurance premiums and contributions to mandatory funded pension) with appendices, must be submitted to the tax authorities, and taxes must be remitted by the 10th day of the month following a taxable distribution or payment.

Social security contributions calculated from the gross employment income are payable by the employer.

Employees are not liable for personal social security contributions. Employee's unemployment insurance contributions, compulsory accumulative pension contributions and income tax are withheld from the gross income by the employer.

### Payroll taxes

#### Social tax

The social tax rate is 33% of the employee's gross earnings.

There is usually a minimum obligation for the social tax to be paid EUR192,72 monthly in 2021, even if there were no salary payments to employee.

### **Unemployment insurance premiums**

According to the Estonian unemployment insurance legislation, the unemployment insurance contributions must be paid by both the employer and the employee. The unemployment insurance premium is 1.6% of the gross salary of an employee and the unemployment insurance premium paid by employers is 0.8% of the amount of gross salary.

Unemployment insurance contributions do not apply to the remuneration paid to members of management boards, members of supervisory boards and procurators.

### **Funded pension payment**

From 2012, the rate of the funded pension payment is 2% of the gross salary of a resident employee, who has joined the funded pension system.

### **Income tax**

Personal income earned by employees is subject to income tax and the employer must withhold and pay income tax on gross wages earned, extra payments, bonus pay, holiday pay and other payments that are regarded as wages. The income tax rate is 20%.

The tax-free minimum of which no deduction of income tax takes place in 2021 is up to EUR500 in a month but decreasing depending on the total income amount.

The tax-free minimum in 2021:

- If annual income amount is up to EUR14,400, the annual tax-free minimum is EUR6,000
- In case annual income amount is between EUR14,400 and 25,200, the annual tax-free minimum amount decreases according to the following formula:  $6,000 - 6,000 \div 10,800 \times (\text{annual income amount} - 14,400)$
- If annual income amount is above EUR25,200, the annual tax-free minimum is EUR0.

If an employee has filed an application to the employer concerning the implementation of tax-free income, the employer can deduct the amount of tax-free income permitted per month (i.e., tax-free minimum) when calculating the amount of income tax to be withheld.

## **2. Pension requirements**

### **Registration requirements**

To apply for the state pension, an application and the additional required documents have to be submitted to the local pension office.

### **Ongoing compliance requirements**

The Estonian pension system is divided into three pillars:

- First pillar — state pensions: State pension is paid for old age, for incapacity for work or loss of provider, to permanent residents of Estonia and foreigners residing in Estonia on the basis of a temporary residence permit or right of residence. The state pension is additionally divided into two: an old age pension depending on work contributions and a national pension. State pensions are paid out on the basis of the social tax calculated on salaries.
- Second pillar — funded pension: Funded pensions are mandatory for persons who were born in 1983 and later. It is a compulsory accumulative pension scheme to which resident employees make contributions at 2% of their gross salary and the state adds 4% of the 33% social tax calculated on the employee's salary.

- **Third pillar — supplementary funded pensions:** A supplementary funded pension can be subscribed to by concluding a pension insurance contract with a life insurance company or by making contributions to the voluntary pension fund.

Employers make contributions (through the national social tax) to the first pillar. Employees make mandatory payments into the second pillar (subject to withholding by the employer) and are free to choose whether or not to contribute to the third pillar by concluding a pension insurance contract with a life insurance company, or making contributions to the voluntary pension fund on a contractual basis with the pension product service provider. The employer can make contributions to the voluntary private pension system on behalf of the employee, exempt from income tax. The tax-exempt limit is 15% of the employee's taxable income, not exceeding EUR6,000 per year, and it applies collectively to the contributions made by the employee and the employer

### **3. Employment obligations**

#### **Labor relations**

Employment and labor issues are regulated by the Employment Contracts Act.

Work relations are also regulated with the Law of Obligations Act, the Individual Labour Dispute Resolution Act, the Occupational Health and Safety Act and other appropriate legal acts.

The employer's obligation is to calculate and withhold all payroll taxes

#### **Holiday**

According to Section 55 of the Employment Contracts Act, an employee's annual paid leave is 28 calendar days, unless the employee and the employer have agreed on a longer annual leave or unless otherwise provided by law.

#### **Rest hours**

According to Section 51 of the Employment Contracts Act, an agreement by which an employee is left, over a period of 24 hours, with less than 11 hours of consecutive rest time is void, unless otherwise provided by law.

An employer shall give an employee who works more than 13 hours over a period of 24 hours additional time off, immediately after the end of the working day, equal to the number of hours by which the 13 working hours were exceeded. An agreement by which work exceeding 13 hours is compensated for in money is void. In general, total working time may not exceed an average of 48 hours per week over a 4-month period.

Certain limits must be observed when working with minors or overtime.

The restriction shall not be applied to health care professionals, welfare workers, agricultural workers and tourism workers, provided working does not harm their health and safety. Drivers' working, driving, break and rest time is regulated in detail with local and EU legislation.

#### **Termination of employment**

Bases for the termination of an employment contract are provided in the Employment Contracts Act (Section 85—94). An employer may not cancel an employment contract ordinarily, but it may be terminated upon agreement between the parties at any time (Section 79 of the Employment Contracts Act).

The extraordinary termination of the employment contract by the employer is allowed for economic reasons (decrease in work volume, reorganization of work or other cessation of work) or for reasons related to the employee (inability to perform their duties, breach of their obligations, etc.).

## **Minimum wage**

According to Section 43 of the Employment Contracts Act, it is presumed that an employee works 40 hours over a period of 7 days (full-time work). In practice, it is presumed that an employee works eight hours a day, unless parties have agreed or it is regulated otherwise by law.

According to Section 29 of the Employment Contracts Act, minimum wages are established by a regulation of the Government of the Republic of Estonia. Wages falling below the minimum wage established by the Government may not be paid to an employee.

The minimum wages in 2021 are EUR3.48 per hour and EUR584 per month. Minimum wage requirements can be higher with collective agreements.

## **4. Payroll requirements**

According to Section 33 of the Employment Contracts Act, an employer shall pay wages to an employee once a month, unless a shorter term has been agreed for payment of remuneration. If the pay day falls on a public holiday or a day off, it shall be deemed that the pay day is the working day preceding the public holiday or day off. The part payable of an employer's economic results (bonus) shall be paid to an employee after determining the part, but not later than six months after approval of the annual report of the employer. An employer shall transfer an employee's wages and other remuneration to the bank account indicated by the employee, unless agreed otherwise.

### **Payslips**

The employer is obliged to provide the employee with information about the wages calculated and paid or payable to them, and provide other notices regarding the employee or the employment relationship on the employee's request. The common practice is that payslips are sent to employees monthly.

## **5. Banking requirements related to payroll**

As mentioned above, an employer shall pay wages to an employee once a month (with the exception of remuneration related to economic results), unless a shorter term has been agreed. An employer shall transfer an employee's wages and other remuneration to the bank account indicated by the employee, unless agreed otherwise

Payroll payments can be made by either, or a combination of:

- Cash
- Electronic funds transfer (bank transfer)

The common practice is that payroll payments are made via bank transfer.