

Government Amends Draft Laws Implementing Tax Hikes, Links Draft Laws to Vote of Confidence

19 June 2023

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On 12 June 2023, the government decided to present tax hike proposals (see [Government Submits Draft Laws Implementing Tax Hikes to Parliament \(15 May 2023\)](#)) for discussion in the parliament in connection with a vote of confidence. When the government associates the discussion of draft laws with a vote of confidence and the parliament does not adopt the legislation, the government must resign. Furthermore, compared to the previously known information, certain proposed tax rates have been changed.

According to the amendments to the Value Added Tax Act, the standard VAT rate shall increase from 20% to 22% starting from 1 January 2024. The VAT rate for accommodation services shall increase from 9% to 13% starting from 2025, which is significantly lower than originally proposed. The VAT rate for the press publications shall increase from 5% to 9%, starting from 1 January 2025.

According to the amendments to the Income Tax Act, from 2024, the additional increased basic tax-exemption upon the provision of maintenance to a child and spouse shall be abolished, as well as the right to deduct mortgage interest from taxable income. From 2025, the individual and corporate income tax rates shall increase from 20% to 22%. Additionally, the draft law eliminates the reduced tax rate of 14% for regularly distributed profits of companies, including the 7% withheld tax on dividends paid to individuals. From 2025, a unified tax-free income threshold of EUR 700 per month or EUR 8,400 per year shall be established. An exception applies to pensioners, whose tax-free income shall equal the average pension.

Currently, credit institutions pay a corporate income tax of 14%. Originally, a tax increase to 22% was planned, but the draft law was revised, and the new tax rate shall be 18%. The amendment shall come into effect on 1 January 2025.

Originally, the parliament was supposed to discuss the draft laws on 14 June 2023, but the opposition has obstructed the process, and the parliament is likely to adopt the legislation by 23 June 2023.

The draft laws are scheduled for the parliament's agenda on 19 June 2023, but the opposition is delaying the discussion of the drafts.

Further information on the amendments regarding the VAT Act can be found [here](#) and the amendments regarding Income Tax Act can be found [here](#) (in Estonian only).

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