

Baltics, 8th May, 2024

Dear Client,

Significant tax reforms, including those pertaining to VAT, corporate taxation, and personal income tax, have been adopted by the Estonian government. The main cause of these tax changes in Estonia is the growing burden of taxes on both individual and corporate taxpayers.

An overview of Estonia's tax changes from 2025

The personal income tax rate will increase to 22% from the current 20%, the corporate income tax rate will change to 22/78 from 20/80, and the advance payment rate for credit institutions' income tax will increase to 18% from 14%.

Furthermore, the lower tax rate on dividends of 14/86 and the withholding tax of 7% on dividends paid to individuals will be abolished. This means that starting from 2025, all dividends will be subject to a unified tax rate of 22/78.

Most sectors experience a rise in VAT.

The standard VAT rate was already raised by 2 ppts to 22% since the beginning of 2024.

The tourist-related (accommodation-related) VAT will rise from 9% to 13% from January 2025.

Press publications will be subject to 9% VAT instead of the present 5%.

Additionally, the tax on alcohol and tobacco will rise by 5% between 2024 and 2025; an increase in the gambling tax to 6%, and in 2026 to 7%.

Estonian economy has been in a two-year recession already. Early indications of stabilization have been reported recently pointing out a stopped decrease in retail sales and signs of a resurgence in industrial activity. Still, a quick recovery is improbable.

Falling exports have been the main cause of the protracted economic downturn. Information technology services have been exporting like crazy, while poor demand in the Nordic region has suppressed products exports. The volume of retail sales has decreased by almost 10% within last 2 years. Prior unsustainable highs were reached by early pension savings expenditure and advance purchases prompted by inflation fears.

It is still predicted that the weak start to the year will cause the GDP to shrink in 2024 but increased consumer and export spending shall turn the picture positive from 2025.

If you would like to discuss your position towards corporate taxation effective from 2025, please contact me.

Regards,

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CFO