

# Upcoming tax changes in Estonia 1/37/24



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Estonia has drawn up new taxation plans that will considerably change the financial landscape for businesses and people from 2025. This article looks at the proposed defence tax and motor vehicle tax, as well as other significant tax increases affecting various sectors.

## Defence tax

Estonia is introducing a temporary defence tax from 1 January 2025 to 31 December 2028 with three components:

1. VAT rising by another two percentage points to 24% from 1 July 2025 (it has already been raised from 20% to 22% in 2024)
2. Income tax for individuals increasing by two percentage points to 24% from 1 January 2026
3. A tax of 2% of profits applying to companies from 1 January 2026

Most of the income from defence tax will be directed to the development of Estonia's defence capability and security investments. The government taking office after parliament elections in 2027 will decide on the further necessity or change of this tax.

The last two components, i.e. the increases in income tax for individuals and entities, had been decided by the previous coalition and were supposed to come into force on 1 January 2025, together with elimination of the so-called tax hump (i.e. an income-dependent tax-free income system where a uniform tax-free income of EUR 700 is established for everyone). According to the current plan, the new coalition has decided to eliminate the tax hump in 2026.

To be imposed from 2026, corporate income tax will not affect the application of Estonia's double tax treaties. However, the high rate is expected to make it more difficult for foreign owners of companies operating in Estonia to utilise their profits.

In addition to defence tax, the annual rate of excise duty on alcohol, tobacco and petrol will be increased by a further five percentage points to improve the budget situation.

## Motor vehicle tax

The Estonian parliament passed the updated Motor Vehicle Tax Act on 29 July 2024 and sent it to the President for promulgation so it would come into force on 1 January 2025.

Payable into the state budget, motor vehicle tax will consist of two parts:

1. An annual tax collected by the Tax and Customs Board
2. A registration fee collected by the Transport Board

The annual tax will be payable yearly by motor vehicle owners for vehicles entered on the Estonian traffic

register. The rate of motor vehicle tax on passenger cars and vans will consist of the base part, the specific CO<sub>2</sub> emissions part and the gross weight part, and for motorcycles, the engine capacity. The annual tax rate for passenger cars and vans also depends on the age of a vehicle. If a passenger car or van does not have CO<sub>2</sub> data, the calculation is based on the formula prescribed by law, where the power in kilowatts, the unladen weight and the age in years and, if necessary, the type of engine fuel are taken as a basis.

The registration fee must be paid before a passenger car or van can be entered on the traffic register, i.e. the registration fee is a prerequisite for registration. The proportion of CO<sub>2</sub> in the registration fee formula is higher to encourage the purchase of less polluting vehicles. The age of a vehicle will also affect the level of the registration fee. The age reduction decreases linearly each year until 15 years pass from the date of the initial registration, after which the age coefficient is 0.20.

The registration fee must also be paid for the first change of ownership of a vehicle already entered on the traffic register if no registration fee has been paid for it before. The level of the registration fee will on average be less than 10% of the estimated value of a vehicle. The registration fee rates will increase by law in 2028 and 2031.

Under the Motor Vehicle Tax Act, emergency vehicles, vehicles owned by individuals that have been converted or adapted for use by a disabled person and vehicles of foreign missions are exempt from the annual tax and registration fee under foreign agreements.

The registration fee is not payable when you buy a vehicle from a finance company and register it in your own name or when you register an inherited vehicle in your own name. In that case, the registration fee applies to the next sale.

The registration fee may be refunded for vehicles up to ten years old that are taken out of Estonia. The amount of the registration fee and annual tax is reduced by the age of passenger cars and vans for individuals and entities.

To permanently deregister vehicles with a suspended entry, their owners have a transitional period of two years from 1 January 2025 to 31 December 2026, when these vehicles are not subject to motor vehicle tax and individuals have the opportunity to deregister them.