

THE OECD TAX-BENEFIT DATABASE

Description of policy rules for
Estonia 2023



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Preface

This report provides a detailed description of the tax and benefit rules in Estonia as they apply to working-age individuals and their dependent children. It also includes output from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families (“vignettes”), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click [here](#) for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)



[TaxBEN web calculator](#)



[Methodology and user guide](#)



[OECD tax-benefit data portal](#)



[Network of national experts](#)


Guidelines for updating this report (for national experts)



[General guidelines](#)

Detailed [guidelines for updating Section 5](#) “Net costs for Early Childhood Education and Care”

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **1 January 2023**.
- The symbol  in the text provides a link to the glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- **TaxBEN** variables are indicated in the text using the format `[variable name]`.
-

The OECD tax-benefit model for Estonia: Policy rules in 2023

1. Reference wages and other reference amounts

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#))¹. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth² to the latest available wage estimate.

The minimum wage **[MIN]** in 2023 is EUR 725 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of 1 January 2023) by 12, i.e. $\text{EUR } 725 * 12 = \text{EUR } 8\,700$.

Minimum wage is an agreement between social partners – the Estonian Trade Union Confederation and the Estonian Employers Confederation - and approved by the Government. The amount of the minimum wage for the next year is agreed upon in each autumn. There is no automatic indexation.

¹ Average Wages are estimated by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).

² Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).


2. Unemployment benefits

In Estonia, the risk of unemployment is covered by two-tier system of cash benefits. There is a contributory earnings-related unemployment insurance benefit (the primary form of support), and a non-contributory flat rate unemployment allowance for those who are not covered by unemployment insurance. The unemployment insurance benefit is funded from unemployment insurance contributions paid by employees and employers. The unemployment allowance is funded from general taxation.

In certain cases (e.g. a lay off), an unemployed person can be eligible for benefit upon lay-offs. This benefit is not simulated in the model, but it is described in the Annex.

2.1. Unemployment insurance (*töötuskindlustushüvitis*)


Variable names: [UI_p; UI_s]

This is an unemployment insurance benefit. It is contributory, not means-tested and is taxable. 

2.1.1. Eligibility conditions

Age: Between age 16 years and normal retirement age.

Contribution/employment history: The claimant must have made unemployment insurance contributions for a period of at least twelve months during the thirty-six months prior to registration as unemployed.

Behavioural requirements and related eligibility conditions:  *TaxBEN assumes that the required behavioural conditions are satisfied when simulating unemployment benefits.*³ The payment of unemployment insurance benefits is terminated if the claimant:

- ceases to be registered as unemployed;
- refuses, without good reason, to comply with their Individual Action Plan;
- refuses the suitable work;
- fails to appear for an appointment at the unemployment insurance fund without good reason;
- does not return to Estonia before the end of the period permitted for search for work in another EEA country or Switzerland.

Unemployment insurance benefit is paid only in case of involuntary unemployment. Unemployment insurance benefit cannot be claimed if the employment contract was terminated by mutual consent or by the employee (with some exceptions⁴). However, it is possible to receive benefits at the end of a fixed term employment contract. An insured person also does not have the right to receive unemployment insurance benefits if their last

³ Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [How demanding are activation requirements for jobseekers? - OECD](#).

⁴ E.g. if an employer reduces wage upon failure to provide work or due to a fundamental breach of the employer's obligation

employment or service relationship was terminated due to a breach of duties of employment or service, loss of confidence, an indecent act or corruption.

2.1.2. *Benefit amount*

Calculation base: The amount of an insured person's unemployment insurance benefit per calendar day shall be calculated based on their average remuneration per calendar day during the nine months of employment prior to the last three months of employment on which unemployment insurance premiums have been paid. In calculation of the average remuneration per calendar day, the total sum of the payments shall be divided by 270.

If the beneficiary's average remuneration per calendar day is higher than three times the average remuneration per calendar day in Estonia during the calendar year before the date on which the benefit is claimed, then the benefit is calculated based on this lower amount. The average remuneration per calendar day in 2022 was EUR 43.64 per calendar day.

Benefit amount: The rate of unemployment insurance benefit is the following percentage of remuneration:

- 60% for the period of 1 to 100 calendar days;
- 40% for the period of 101 to 360 calendar days.

The maximum amount of the benefit is 60% and 40%, respectively, of three times the average remuneration per calendar day. In 2023, the benefit can be received for the first 100 days in a maximum amount of EUR 78.55 per day (i.e. $60\% * 3 * 43.64$); starting from day 101, the maximum amount is EUR 52.37 per day (i.e. $40\% * 3 * 43.64$). The maximum benefit amount per month depends on the number of calendar days in a given month.

If the amount of the insured person's unemployment insurance benefit per calendar day is less than 50% of the minimum wage in the previous calendar year, then the benefit is topped up to this amount. In 2023, this minimum benefit amount per calendar day is EUR 10.90 (i.e. $EUR\ 654/30 * 50\%$).⁵ The minimum benefit amount per month depends on the number of calendar days in a given month.

2.1.3. *Benefit duration*

The maximum benefit duration is:

- 180 calendar days if the claimant's insurance contribution record is less than 5 years;
- 270 calendar days if the claimant's insurance contribution record is 5-10 years;
- 360 calendar days if the claimant's insurance contribution record is 10 years or more.

There is a waiting period of 7 days to receive unemployment benefit after submission of an application and documents to the Unemployment Insurance Fund. (*not modelled*)

After expiration of unemployment benefit, a person can re-apply only after unemployment insurance contributions have been made for 12 months in a 36-months period.

⁵ To find the minimum amount per calendar day, the minimum wage is always divided by 30 (regardless of the number of actual calendar days in a given month).

If the payment of unemployment insurance benefit granted to a person is terminated before the end of the period of payment of the benefit specified in the decision on grant of unemployment insurance benefit, the person has the right to receive the unused part of the benefit, if the person:

- 1) is re-registered as unemployed within 12 months as of the termination of payment of unemployment insurance benefit;
- 2) has worked on the basis of a contract of employment, has been engaged in public service or in compulsory military service, alternative service or reserve service, or has provided a service based on a contract under the law of obligations after termination of the person's registration as unemployed;
- 3) complies with the other terms for receipt of unemployment insurance benefit except for the insurance period requirement (12 months during 36 months).

2.1.4. Means test

The benefit is not means-tested.

2.1.5. Tax treatment

The benefit is taxable.

2.1.6. Interactions with other components of the tax-benefit system

Unemployment insurance benefits cannot be received at the same time as the old-age pension, early-retirement pension or the national pension. It is not possible to receive unemployment insurance benefit alongside health insurance cash benefits. *These benefits are outside the scope of the TaxBEN model.*

If an unemployed person receives unemployment insurance benefits and work ability allowance (*a disability benefit which is not simulated in the standard TaxBEN model*) at the same time, the work ability allowance is reduced by half of the difference between his or her income and 90 times the daily allowance rate (see also description of Work ability allowance in the Annex).

Unemployment insurance benefits can be received at the same time as social assistance, but are included in the income definition for the means test for social assistance.

Unemployment insurance benefit is an individual benefit and doesn't depend on the employment situation or income of other family members. Also, several household members may receive the unemployment insurance benefit at the same time.

2.1.7. Combining benefit receipt and employment/starting a new job

From September 2020, an unemployed person who receives unemployment insurance benefits is entitled to work temporarily. Temporary work means work performed based on a contract for services, authorisation agreement or contract under the law of obligations for the provision of other services or employment in the public service the single duration of which does not exceed eight days during the time the person is registered as unemployed. During the time a person is registered as unemployed, the person may work on a temporary basis up to eight days in a calendar month but not more than during 12 calendar months over a period of 24 months. The 24 calendar months preceding each temporary work shall be regarded as the period of 24 months. The remuneration paid for temporary work in one

calendar month and for each temporary work shall not exceed 40% of the minimum monthly wage of the calendar year. If all the above conditions are met, the person can receive unemployment insurance benefit together with the remuneration paid for temporary work.


The model assumes that a person after unemployment starts a regular job, thus combining employment and unemployment benefit receipt in the model is not possible.

2.1.8. Indexation

Unemployment insurance benefit is calculated based on previous average remuneration of recipient. The maximum amount depends on the national average remuneration. National average remuneration calculations are based upon the total amount of payments deposited into the unemployment insurance fund in the previous calendar year. The minimum benefit amount is linked to the minimum wage in the previous calendar year (see Section 1.). There are no other monetary parameters subject to regular indexation in this policy.

2.2. Unemployment allowance (töötutoetus)


Variable names: [UA_p; UA_s]

This is an unemployment assistance benefit. It is non-contributory, means-tested and not taxable. 

2.2.1. Eligibility conditions

Age: Between age 16 years and normal retirement age.

Employment history: The claimant must have worked for at least 180 days during the twelve months prior to registration as unemployed.

Behavioural requirements and related eligibility conditions:  *TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.*⁶ Claimants must:

- be registered as unemployed,
- attend appointments at the Unemployment Insurance Fund in person at the appointed time and perform the activities agreed upon in the Individual Action Plan.

Unlike unemployment insurance benefit (see Section 2.1.1. unemployment allowance is available for the unemployed person regardless of the reason for termination of employment.

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);
- refuses to comply with the Individual Action Plan for the first time without a good reason (for 10 days);

⁶ Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [Immervoll and Knotz \(2018\)](#), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

- does not appear at the Unemployment Insurance Fund 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 previous visit and ending on the day on which the unemployed person appears at the Unemployment Insurance Fund for the next visit);
- receives a one-off income of at least 31 times the daily unemployment allowance rate (for 30 days).

The payment of the unemployment allowance is terminated if the unemployed person:

- fails to appear, without a good reason, at the Unemployment Insurance Fund for a visit for a second time
- refuses, without a good reason, to comply with the Individual Action Plan for a second time
- refuses, without a good reason, to accept suitable work for the second time
- has a sustained monthly income of at least 31 times the daily unemployment allowance rate.

2.2.2. *Benefit amount*

Unemployment allowance is a flat-rate benefit. The daily unemployment allowance rate is revised every year automatically in line with the amount of the minimum wage. The monthly amount of unemployment allowance, i.e. 31 times the daily rate of the benefit, must be no less than 50% of the minimum monthly wage rate in force on 1 July of the previous year. In 2023, the amount of the allowance for 31 days is EUR 327.05 (31 times the daily rate of EUR 10.55).⁷

2.2.3. *Benefit duration*

The unemployment allowance is generally granted for up to 270 days, though only up to 210 days for unemployed persons who were dismissed by their previous employer for a breach of duties, incompetence or an indecent act. Unemployment insurance benefit and unemployment allowance cannot be paid simultaneously. If the claimant's unemployment insurance benefit payment period was less than 270 days, the person gets unemployment allowance for the remaining period up to 270 days (i.e. 270 days minus the number of days on unemployment insurance).

Unemployment allowance is granted from the eighth day after the date of application, i.e. there is a waiting period of seven days (*not modelled*). Unemployed persons who before registering as unemployed were enrolled in daytime or full-time study at an educational institution are granted unemployment allowance from the sixty-first day after the date of application for the unemployment allowance. Unemployed persons who previously received unemployment insurance benefit are entitled to unemployment allowance from the date of application.

⁷ The calculation of the monthly benefit is always based on 31 days, regardless of the actual number of days in a particular month.

An unemployed person who has received unemployment allowance for 270 days and who will reach normal retirement age in less than 180 days shall be paid unemployment allowance until normal retirement age (*not modelled*).

2.2.4. Means test

The allowance is withdrawn if the unemployed person's personal income exceeds the 31-fold daily unemployment allowance rate. The following shall not be included in the income:

- 1) grants, transport and accommodation benefits (*not covered by the model*);
- 2) subsistence benefit (as well as other benefits received on the basis of the Social Welfare Act but *not covered by the model*);
- 3) child allowance and childcare allowance (as well as other family benefits received on the basis of the Family Benefits Act but *not covered in the model*, except for the allowance for families with many children for families raising seven or more children);
- 4) social benefits for disabled persons received on the basis of the Social Benefits for Disabled Persons Act (*not covered by the model*);
- 5) child maintenance support;
- 6) benefits received from the voluntary unemployment fund (*not covered by the model*);
- 7) remuneration paid for temporary work;
- 8) degree study allowance paid by the Estonian Unemployment Insurance Fund on the basis of the employment programme or co-financed from the funds of the European Union.

Other sources of income included in the means test (e.g. capital income) are not covered by the model. Thus, in the model the means test is not effective. However, it is not possible to combine the benefit with regular employment (see Section 2.2.7), thus in the model unemployment allowance cannot be combined with income from work.

2.2.5. Tax treatment

Unemployment allowance is not taxable.

2.2.6. Interactions with other components of the tax-benefit system

An unemployed person cannot receive unemployment allowance at the same time as unemployment insurance benefits.

Unemployment allowance cannot be received alongside the old-age pension, early-retirement pension or the national pension. Also, it is not possible to receive unemployment allowance and health insurance cash benefits at the same time. *These benefits are outside the scope of the TaxBEN model.*

Eligibility to unemployment allowance doesn't depend on the employment situation or income of other household members. Also, several household members may receive the unemployment allowance at the same time.

2.2.7. Combining benefit receipt and employment/starting a new job

It is not possible to combine the benefit with income from employment, except form temporary work. From September 2020, an unemployed person who receives unemployment allowance is entitled to work temporarily. Temporary work means work performed based on a contract for services, authorisation agreement or contract under the law of obligations for the provision of other services or employment in the public service

the single duration of which does not exceed eight days during the time the person is registered as unemployed. During the time a person is registered as unemployed, the person may work on a temporary basis up to eight days in a calendar month but not more than during 12 calendar months over a period of 24 months. The 24 calendar months preceding each temporary work shall be regarded as the period of 24 months. The remuneration paid for temporary work in one calendar month and for each temporary work shall not exceed 40% of the minimum monthly wage of the calendar year. If all the above conditions are met, the person can receive unemployment allowance together with the remuneration paid for temporary work.

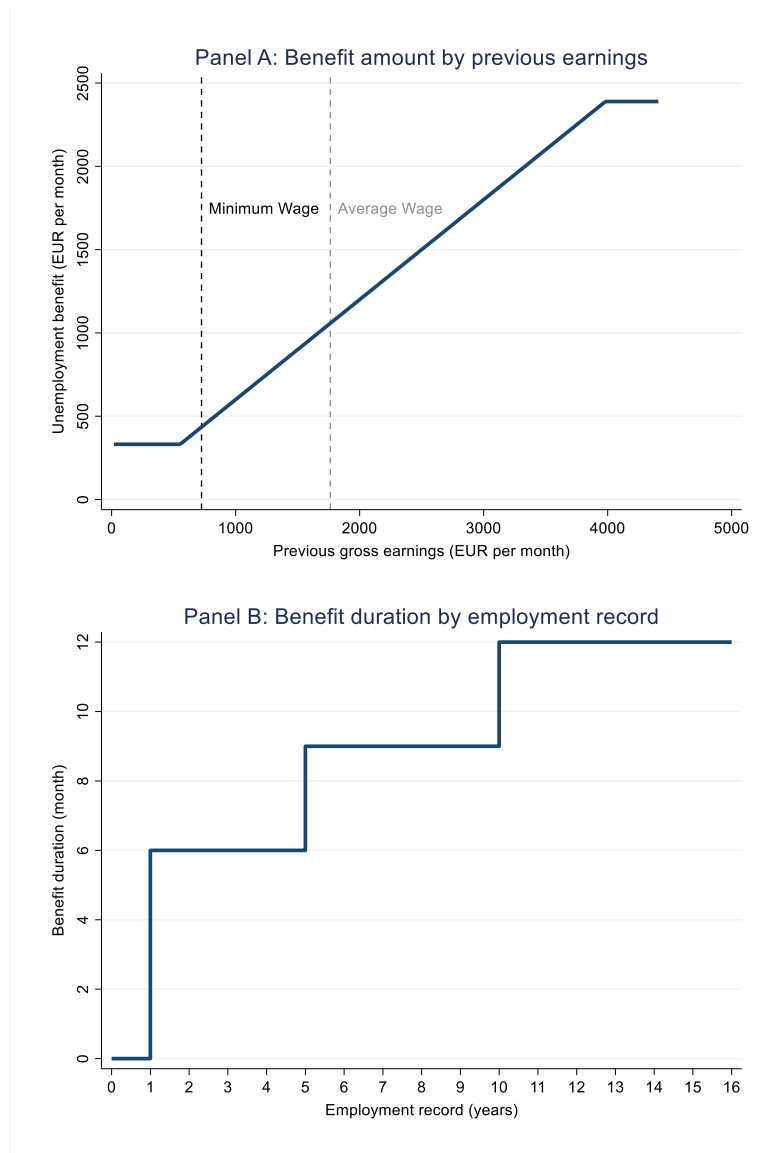
The model assumes that a person after unemployment starts a regular job, thus combining employment and unemployment benefit receipt in the model is not possible.

2.2.8. Indexation

The daily remuneration, which is the basis for calculating the unemployment allowance, is established by the state budget for the fiscal year and is based on the minimum wage in force on 1 July of the previous year. The 31-fold daily remuneration cannot be less than 50% of the minimum wage in force on 1 July of the previous year (See Section 1.).

Figure 1. Unemployment insurance benefit

40-year old single person without children



Note: Benefit rules do not depend on family structure. Panel A assumes a long and continuous employment record and shows benefit amount in the 2nd month of benefit receipt.

Source: OECD Tax-Benefit Model.

Figure 2. Unemployment insurance and assistance benefits

40-year old single person without children



Note: The figure shows amounts and duration of unemployment insurance and assistance benefits received by a person with different past employment record and previous earnings at the average wage. Four cases (6, 12, 60, and 120 months of previous employment record) are selected to show different outcomes. Persons with employment record below 6 months (180 days) are not eligible to unemployment insurance and assistance benefits.

Source: OECD Tax-Benefit Model

3. Social assistance and housing benefits

3.1. *Subsistence benefit* (*toimetulekutoetus*)

Variable name: [SA, HB]

This is a non-contributory benefit, means-tested and not taxable.

Subsistence benefit is granted to a person living alone or with a family whose net income after payment of housing costs (up to certain limits, see Section 3.1.2.) 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. Parliament establishes the minimum subsistence level annually.

3.1.1. *Eligibility conditions*

Subsistence benefit is administered by local authorities, but they can exercise discretion only within certain limits.

The local authority may refuse to grant the benefit or reduce the sum of the granted subsistence benefit if the applicant or a member of a family applying for a benefit is a person of working age with ability to work, but:

- who is not working or studying full time and not on academic leave;
- who is not working and is not registered as unemployed or job-seeker with the Estonian Unemployment Insurance Fund;
- who is not working and is registered with the Estonian Unemployment Insurance Fund, but has refused to comply with an individual action plan or turned down suitable employment without good reason;
- who is not working and has turned down suitable employment offered by the local authority without good reason;
- who is not working and has refused, without good reason, social services organized by the local authority to support the ability to cope independently.

Also if:

- the subsistence benefit applicant or a child entitled to receive maintenance who lives together with the applicant, or other descendant or ascendant who needs assistance and is unable to maintain himself or herself has the right to receive support but the applicant refuses to submit a document certifying the right to receive the support or refuses to claim the support;
- the local authority finds that the property used or owned by the subsistence benefit applicant or his or her family or the lease, rental or sale thereof ensures sufficient funds for coping for the person or his or her family;
- the local authority finds that a benefit applicant or a member of a family applying for a benefit has made no other effort to improve his or her own material situation or the material situation of his or her family.

The model assumes that beneficiaries fully comply with necessary conditions.

3.1.2. *Benefit amount*

Since 1 June 2022, the subsistence level is EUR 200 per month for a single person and the first member of a family. The subsistence level for children (below 18) is EUR 240 (i.e. 120% of single rate). For the second and subsequent adult household members, the

subsistence level is EUR 160 (i.e. 80% of the single rate). There is a supplement for lone parents of EUR 15 per month.

To calculate the subsistence benefit amount, housing costs are taken into account up to the limits of the specified standards for dwellings. The limit of standards for dwelling is 18m² per each family member and in addition 15m² per family. In case the number of rooms is equal to the number of persons living there, the total area of the dwelling is taken into account. There is an exception considering pensioners and persons with partial or absent work ability. The limit for them, if living alone, is 51m².

Local authorities establish the limits for housing costs to ensure decent subsistence. In the TaxBEN model, the average level of housing costs covered by the subsistence benefit system is used as a proxy for such limit. In 2022, this was EUR 207.35 per month⁸. *In 2023, this is further updated by forecasted CPI (1.092).*

In TaxBEN, the basic subsistence benefit is classified as Social Assistance [SA], whereas the supplement to subsistence benefit that covers housing costs is classified as Housing Benefit [HB].

3.1.3. Benefit duration

Benefit entitlement lasts as long as the means test and other conditions are satisfied. Subsistence benefit claims are reviewed monthly.

3.1.4. Means test

Income Test

Household net income reduces benefit entitlement on a one-for-one basis. All income is taken into account including earnings net of income tax and social security contributions (see special exceptions in Section 3.1.7.), pensions, unemployment and family benefits. However, the following income sources are not included in the income measure (*most of them are not covered by the model*):

- single benefits paid out of the funds of the state budget or local authority budget;
- periodic benefits paid from local authority budgets which are dependent on family income or granted to compensate for the cost of a specific service;
- benefits paid to disabled persons, except for the Disabled Parent Allowance;
- student loan granted with security guaranteed by the state;
- grants, transport and accommodation benefits paid to unemployed persons;
- earned income received by a dependent child;
- basic allowance, need-based study allowance and need-based special allowance for students.

⁸ The estimate is based on the data from Social Service and Benefits Registry and shows the estimated average subsistence benefit for compensating the dwelling costs based on the satisfied applications which included dwelling costs. In 2022, these housing costs are calculated excluding the subsistence benefit paid to Ukrainian war refugees, who have the right to subsistence benefit on equal basis with all Estonian residents but on average receive higher benefit amounts due to different characteristics.

Local authority may also choose not to include the following in the income of a person living alone or a family upon calculating a subsistence benefit (*not covered by the model*):

- grants and benefits supporting studying or working;
- benefits paid to cover specific expenses or loss;
- monetary benefits and gifts received from people close to a person or a family to the extent of one-half the subsistence level per family in one month.

In addition, if a person or a family has been granted subsistence benefit for at least 6 previous months, a local authority may take into account other housing expenses (*not covered by the model*).

Asset Test

Legal framework: [Social Welfare Act](#)

In the event of the first application for subsistence benefit or a change in the composition of the property owned, a written list of the movable property⁹, dwellings, and securities owned by the applicant and his/her family must be submitted.

The social worker of the local municipality checks from the state information system databases whether the person and his/her family members own vehicles and real estate in order to clarify the financial situation of the person and his/her family and the possibility of ensuring sufficient means of subsistence. The social worker also assesses the need for assistance.

The main residence is not included in the assets when determining the subsistence benefit. Assets include real estate and movable property that are not used as the applicant's residence.

If the living space is too big (see standards for dwellings in Section 3.1.2. for the applicant or his family and the housing costs are high, the local municipality social worker recommends changing the living space to a smaller one. If the living space is not used as one's main residence, it is possible to either sell it or rent it out. The received money can be used for ensuring a livelihood. The rent received is included in the household's income, and thus the amount of benefit given is lower.

During the needs assessment, it is determined whether the owned land is used for personal use or rented, and if there is unused land, whether it is possible to rent it out or sell it. Rent money is included in income and can be used to meet basic needs.

When processing the subsistence benefit, the financial value and power of the vehicles are not taken into account, but rather whether the vehicles are used (e.g. for going to work, school, kindergarten, etc.). If the vehicles are not being used, it is assessed whether there is a possibility to sell them and to ensure a livelihood.

Household appliances and personal belongings are not counted as assets when processing subsistence benefit.

The subsistence benefit may not be determined or the amount of subsistence benefit to be determined may be reduced if the local government finds that:

⁹ Applicants have to submit information on all movable property. The local municipality has the right to decide which movable property can be used to cover everyday living costs. In the future, it is planned to amend the regulation to similar in all Estonia. Pension accounts are not considered as movable property because they are meant for use in pensionable age.

- the property used or owned by the subsistence benefit applicant or his/her family, renting, leasing or selling it ensures sufficient means of subsistence for him/her or his/her family;
- the applicant for benefit or a member of the family applying for benefit has not tried to improve the material situation of him/herself and his/her family in any other way.

The local government must take into account the special features of the region when requesting housing for rent or sale. For example, there are areas where the rental market is very sparse, prices are low, a person may not be able to sell the property, so it is not reasonable for the local government to demand that the apartment be sold, for example, in a couple of months. It must also be assessed whether the transactions with the assets have not been completed by the agreed deadline due to objective reasons or unwillingness, etc. Due to transactions delayed for objective reasons, the subsistence benefit shall not be reduced. Agreements must be recorded in the STAR data register of benefits and services.

3.1.5. Tax treatment

The benefit is not taxable.

3.1.6. Interaction with other components of the tax-benefit system

Subsistence benefit can be received alongside all other benefits, but most other benefit income is included in the income definition for the means test (see Section 3.1.4.).

3.1.7. Combining benefit receipt and employment/starting a new job

No restriction, but most types of earnings from work are included in the income definition for the means test.

In the event that a subsistence benefit applicant or a member of a family applying for the benefit starts receiving earned income and was granted subsistence benefit for at least two months, the following shall not be included in the income test:

- 1) 100% of earned income during the first two months;
- 2) 50% of earned income during the following 4 months.

It is possible to use this exception once in 24 months per family member.

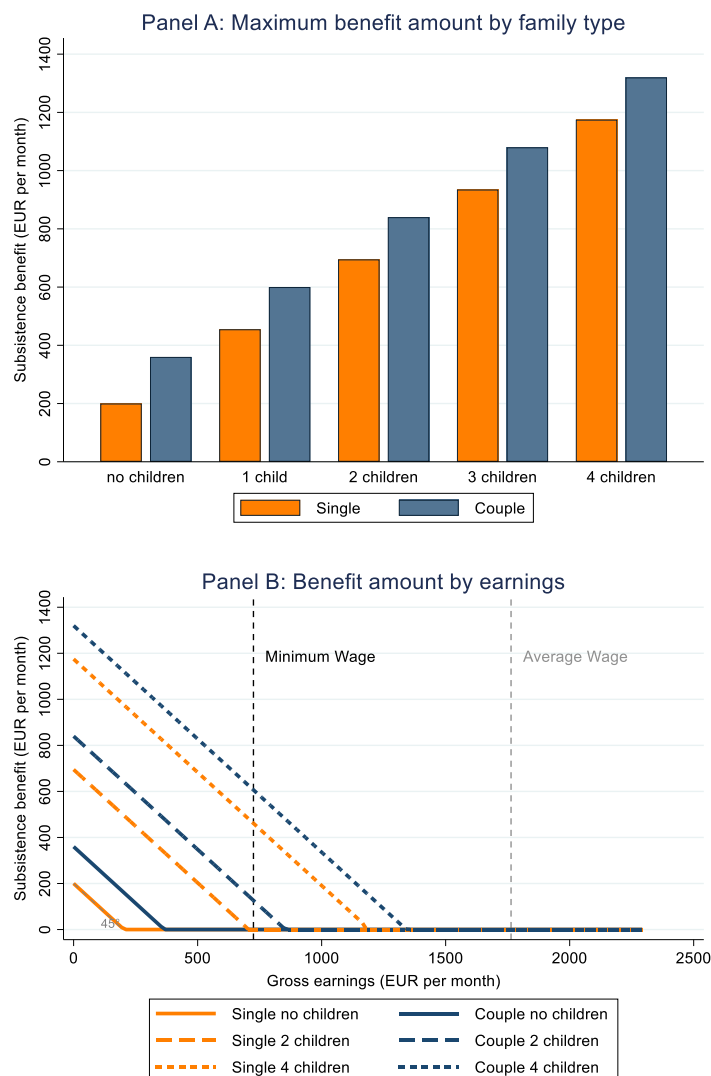
Also, income earned by dependent children (up to 19 years old and still studying in basic or high school) is not considered as income upon calculating subsistence benefit.

3.1.8. Indexation

The subsistence level is calculated to cover minimum expenditure on consumption of food, clothing, footwear and other goods and services. It is established by the Parliament for each budgetary year. There is no automatic indexation. Housing expenditure norms are also not indexed automatically.

Figure 3. Subsistence benefit (without housing component)

40-year old single person and couple with or without children

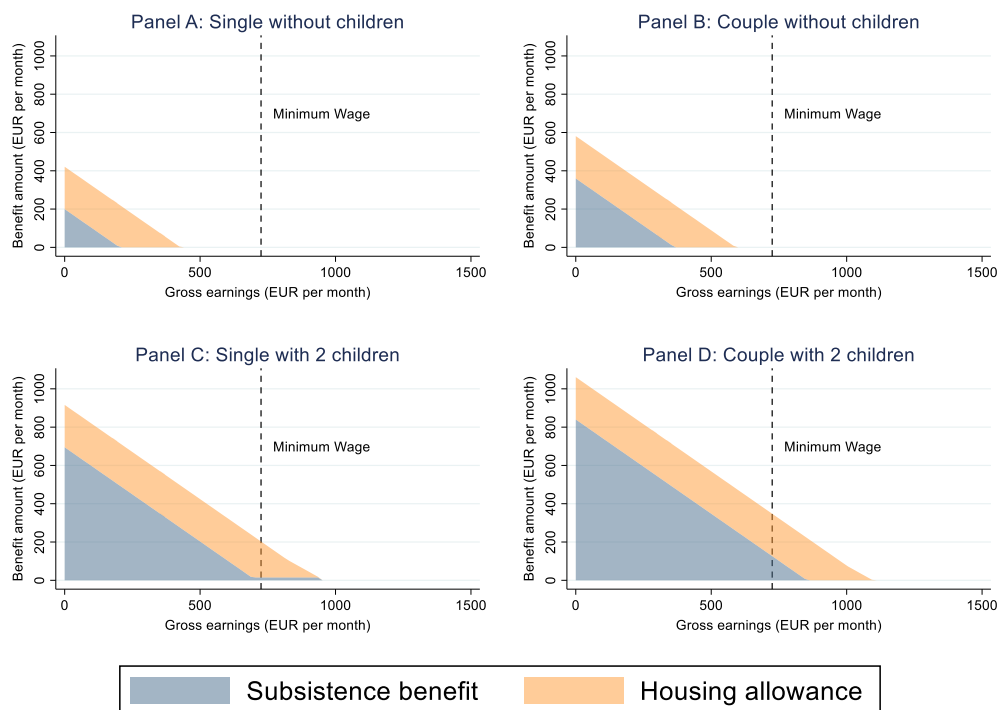


Note: Results assume no receipt of child allowance, maintenance allowance, as well as other benefits, which are usually included in the means test for subsistence benefit. The family has no housing costs and thus does not receive the housing component of the subsistence benefit. Children are below 18 years old. Panel A shows maximum subsistence benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount as one adult starts working. 45° line shows how the benefit for a single person without children would decrease if the benefit would have been reduced by 1 Euro for every Euro earned. This is indeed how the benefit is withdrawn in Estonia unless a person has just started a new job, the case that is not considered in the figure.

Source: OECD Tax-Benefit Model.

Figure 4. Subsistence benefit (with housing component)

40-year old single person and couple with or without children



Note: Results assume no receipt of child allowance, maintenance allowance, as well as other benefits, which are usually included in the means test for subsistence benefit. Children are below 18 years old. The family pays a rent (assumed to be 20% of average wage for all family types) and thus receives the housing component of the subsistence benefit. Figures show reduction in benefit amounts as earnings increase. It is assumed that, first, the main component of subsistence benefit decreases, and then the housing component decreases. A supplement for a single parent (Panel C) is paid as long as the total benefit amount is positive.

Source: OECD Tax-Benefit Model.

3.2. *Housing benefit*

OECD note: This section provides information on housing benefit (HB) schemes that aim to reduce the rental costs for people living in privately rented accommodations. Cash support for housing costs other than rent, e.g. for heating and water bills, is outside the scope of this section. Similarly, this section does not include other housing benefits such as those for the construction of housing, the purchases of owner-occupied housing, or the repayment of interests on owner-occupied housing. In-kind support for families in social housing through below-market rents is also excluded.

Based on this definition, Estonia and the representative municipality considered in this report (Tallinn) do not currently provide a national stand-alone housing benefit that is within the scope of this section. However, subsistence benefit (see Section 3.1.) covers housing costs up to certain limits. This supplement to subsistence benefit that covers housing costs is classified in TaxBEN as Housing Benefit [\[HB\]](#).

4. Family benefits

There are several child benefits in Estonia. Section 4.1. describes universal child allowance, allowance for families with many children, allowance for multiple birth of three or more children, and conscript's (or person in alternative service) child allowance. Maintenance allowance is covered in Section 4.2. A short description of parental benefit, which is not simulated in the model, is provided in Annex.

4.1. Child allowances (*lapsetoetus*)

Variable name: `[FB_fixed]`

The child allowances (child allowance, allowance for families with many children, allowance for multiple birth of three or more children, conscript's child allowance, and childcare allowance) are non-contributory benefits, not means-tested and not taxable.

4.1.1. Eligibility conditions

Child allowance is paid from the birth of the child until the age of 16. A child who is enrolled in basic school or upper secondary school, or a child without secondary education enrolled in formal vocational education has the right for child allowance until the age of 19. When the child turns 19, the allowance is paid until the end of the academic year. Allowance for a family with many children is paid to a parent who has three or more children for whom child allowance is paid in their family.

Allowance for multiple birth of three or more children is a monthly family allowance paid from the children's birth to a parent, parent of a care family or guardian, who is raising triplets or more children born at the same time. The right to receive this allowance applied until the day that the children turn 18 months old. (*not modelled*)

Family benefits are not paid in respect of children without parental care who permanently reside in a social welfare institution or a school for students with special needs unless the child does not stay in a social welfare institution due to studying. (*This situation is not simulated by the TaxBEN model, which focuses only on private households*).

4.1.2. Benefit amount

The benefit amounts for each child are as follows:

	Allowance amount in 2023 (EUR per month)
Child Allowance	
- First and second child in a family	80 (per child)
- Third and subsequent child in a family	100 (per child)
Allowance for families with many children (paid in addition to child allowance since 1 July 2017)	
- Family with 3 to 6 children	650 (per family)
- Family with 7 or more children	850 (per family)
Allowance for multiple birth of three or more children (paid in addition to child allowance since 1 March 2018) – <i>not simulated in the model</i>	1 000 (per family)
Conscript's (or person in alternative service) child allowance - <i>not simulated in the model</i>	900 (per child)
Single parent's child allowance (in case of a missing parent) – <i>not simulated in the model</i>	80 (per child)

4.1.3. *Benefit duration*

As long as the eligibility conditions hold.

4.1.4. *Means test*

The benefit is not means-tested.

4.1.5. *Tax treatment*

The benefit is not taxable.

4.1.6. *Interaction with other components of the tax-benefit system*

The benefit is universal and can be received together with any other benefit.

4.1.7. *Combining benefit receipt and employment/starting a new job*

The benefit is universal; employment doesn't affect benefit receipt.

4.1.8. *Indexation*

There is no automatic indexation.

4.2. *Maintenance allowance (elatisabi)*

Variable name: **[MAINT_PAY]**

This is a non-contributory benefit, not means-tested and not taxable.

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 both court proceedings and enforcement proceedings regarding maintenance claims. From 1 July 2022, the allowance is extended to those children whose debtor's parent is declared bankrupt and bankruptcy proceedings are initiated. The state recovers the amount of maintenance paid to the applicant from the other parent, i.e. the maintenance claim debtor.

In the period 2008-2016, maintenance allowance was a short-term benefit paid for a maximum of 90 days and was not covered by the model. Since 2017, the allowance can be paid as a long-term support to single parent if the other parent does not fulfil their obligation. Thus, since 2017 this benefit is included in the model.

4.2.1. *Eligibility conditions*

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 and order the parent to pay maintenance to the child. If after the court order the parent who is actually obliged to pay the maintenance does not fulfil their obligation, the allowance during enforcement proceedings is paid to minors or children up to the age of 18 or 21 (if they are studying). From 1 July 2022, the allowance is extended to those children whose debtor's parent is declared bankrupt and bankruptcy proceedings are initiated.

4.2.2. *Benefit amount*

The allowance during court proceedings lasts for up to 150 days, the amount of the allowance for one child is EUR 100 per calendar month. From 1 January 2024, the amount

will be raised to EUR 200 per month (*this higher amount will be included in the model in policy year 2024*).

The advance on maintenance allowance during the enforcement period is up to EUR 100 per month and is paid in accordance with the court decision either until the child reaches the age of 18 or, if the child continues his or her studies, up to the age of 21.

The maintenance allowance during the bankruptcy proceedings will be paid throughout the bankruptcy proceedings, the amount of the allowance for one child is EUR 100 per calendar month.

4.2.3. *Benefit duration*

As long as eligibility conditions hold.

4.2.4. *Means test*

Not means tested.

4.2.5. *Tax treatment*

Non-taxable.

4.2.6. *Interaction with other components of the tax-benefit system*

It is included in the income definition for the means tests for subsistence benefit.

4.2.7. *Combining benefit receipt and employment/starting a new job*

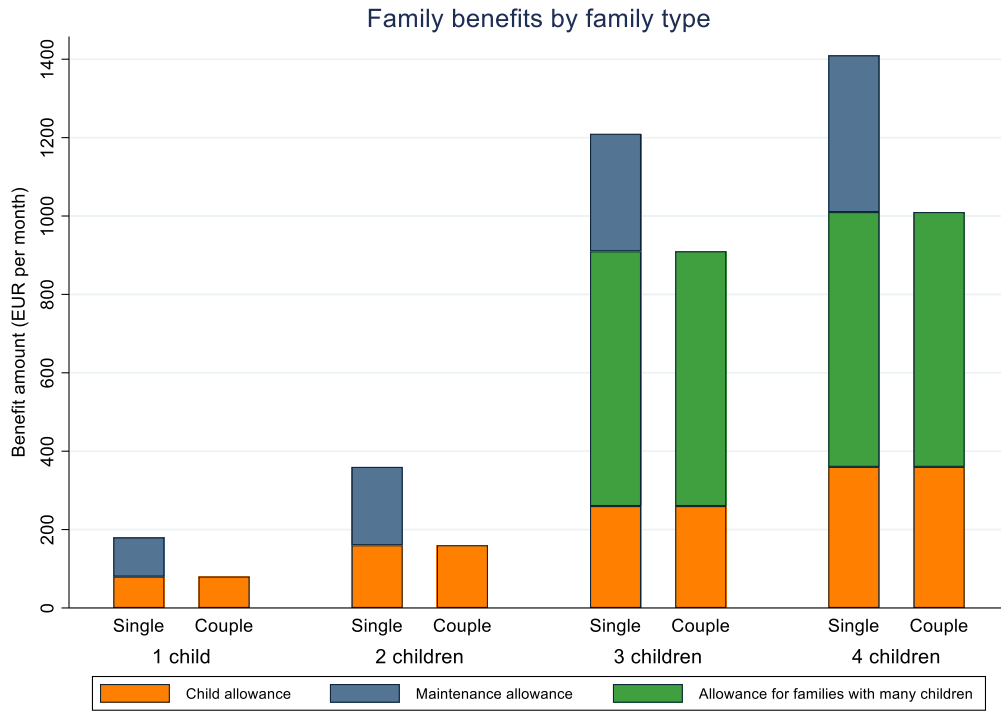
No restrictions.

4.2.8. *Indexation*

There is no automatic indexation.

Figure 5. Family benefits

40-year old single person or couple with children



Note: Children are below 18 years old. Benefit amounts do not depend on family income. A supplement to child allowance for single parents (with a missing parent) is not included, however, the maintenance allowance is.

Source: OECD Tax-Benefit Model.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2023**.

In Estonia, the childcare combines both the *preschool child care institutions* (crèches /preschools), which are part of the educational system (in the administrative field of the Ministry of Education and Research, regulated by the Preschool Child Care Institutions Act), and *childcare services* (in the administrative field of the Ministry of Social Affairs, regulated by the Social Welfare Act).

Local municipalities must provide the opportunity to attend preschool child care institutions to all children between 1.5 and 7 years of age who live in their catchment areas if this is requested by their parents. If local municipality does not have enough space in the preschool child care institutions for every child between 1.5 and 3 years of age then local government can offer place through childcare services (municipal or private services) if the parent accepts it. Then the fee for parent must be the same as the fee paid in preschool child care institution by parents. If parent himself chooses to use private childcare service then the parent pays most of the fee, some local municipalities support attending private childcare services.

Mainly, preschool 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 compulsory primary school in Estonia starts at the age of 7. There is no compulsory preschool.

5.1. Gross childcare fees

Variable name: `[EEcc_cost]`

The costs of the preschool child care are paid by local municipalities and parents. According to the Preschool Child Care Institution Act¹⁰, local municipalities decide the child care fee paid by parents, however, the fee per child may not exceed 20% of the minimum wage (the minimum wage in 2023 is EUR 725 per month).

In Tallinn municipality, the fee per child is 12.2% of the minimum wage rate (13.4% if a childcare institution has a swimming pool)¹¹. The meal costs are covered by the municipality. However, if the meal cost approved by the director of a preschool child care institution is higher than the limit established by the city government, the difference is covered by parents. *In the model, it is assumed that a child resides in Tallinn, attends a preschool childcare institution without a swimming pool, and the meal cost is below the limit.*

Childcare fees paid by parents are calculated as a percentage of the minimum wage and therefore change over time in line with minimum wages (see Section 1).

As an exception, the Social Welfare Act obliges local governments to organize and finance childcare services for children with higher care needs, aged 0-18, in a fixed amount through support- and stabilisation fund. Parents may use the service either during the day or 24

¹⁰ [Preschool Child Care Institutions Act–Riigi Teataja](#).

¹¹ See the regulation of Tallinn City Council: [Rate of parental coverage of the expenses of municipal preschool child care institutions –Riigi Teataja](#)

hours a day. It can also be used on an hourly basis. If the service is required by greater extent than that established in the limit, there can be exceptions to offer service in broader extent.

5.1.1. Discounts for part-time usage

According to the Preschool Child Care Act the rural municipality or city government shall provide all persons interested with the opportunity to obtain a part-time place at a preschool child care institution and provide discounts for part-time users.

Depending on the decisions and needs of the parents and local municipalities, it is possible to use preschool child care institutions part-time. Childcare services are more often used part-time.

In Tallinn municipality, there is no regulation for part-time childcare services fee. Parents can use childcare part time but to secure a place in a preschool they still need to cover full-time fees. *Thus, in the model part-time users are assumed to pay the same fees as full-time users.*

5.2. Fee discounts and free provision

Local municipalities decide the fee discount of preschool child care facility fee and free provision. There are some special discounts or free provision given to particular families in many local municipalities but specific conditions depend on the decisions and needs of the local municipalities. Pursuant to the Preschool Child Care Act, the rate of the parent's part (the so-called place fee) can be up to 20% of the minimum salary established by the Government of the Republic.

In Tallinn, the place fee is an amount that is 12.2% of the minimum salary established by the Government of the Republic and 13.4% fee in pre-school institution with swimming pool. Certain discounts apply depending on the income of family and other circumstances. Since 1 January 2016¹², the parent is exempted from paying the co-payment if:

- the net income¹³ of the parent(s) per month for the first family member is less than the applicable minimum salary and for each subsequent family member less than 80% of the applicable minimum salary (before 1 September 2020 the discount up to 80% was granted)¹⁴.
- three or more children of the same family attend the Tallinn child care facility (i.e. the exemption is applied to the 3rd and every subsequent child attending the

¹² See the regulation of Tallinn City Council: [Rate of parental coverage of the expenses of municipal preschool child care institutions –Riigi Teataja](#).

¹³ Family's net income includes net earnings as well as unemployment benefits and family benefits (except funeral allowance, childbirth allowance, school allowance, subsistence allowance, supplementary social allowance and one-time social benefits).

¹⁴ See [Amendment of Regulation No. 27 of the Tallinn City Council of 10 December 2015 "The rate of coverage by parents of the expenses of municipal preschool child care institutions" –Riigi Teataja](#). In the model, the full discount (instead of 80% discount) is applied from policy year 2021 as the policy reference date is 1 January of the respective year.

childcare facility); since 1 September 2021¹⁵, the exemption is applied for the 2nd and every subsequent child;

- the out-of-school counselling team recommends to apply such exemption for a child attending or waiting for a place in an integration or special group (*not covered by the model*).

If a child care facility or a part of child care facility in which the child attends is closed due to the epidemic spread of infectious diseases, the parents are released from the obligation to pay the costs covered by the parent. The exemption is applied for the period of closure of a childcare facility or a part of childcare facilities.

There is also a possibility to apply for exemption from payment of food expenses in full if the family's net income for the first family member is less than the applicable minimum wage and for each subsequent family member less than 80% of the applicable minimum wage. (*In the TaxBEN model, the meal costs are already assumed to be covered fully by the municipality, so this exemption is not simulated*).

In all cases, the residence of parent(s) and the child(ren) must be at the same address in the city of Tallinn according to the population register.

5.3. Child-care benefits for formal centre-based care

There are no special childcare benefits targeted to parents whose children attend municipal preschool child care institutions.

5.4. Child care allowance for children not using child care centers

None.

5.5. Tax concessions for childcare expenditures

Preschool child care institution costs are considered to be training costs which can be deductible from income for tax purposes, but no food costs are deductible. Also the costs of childcare services outside the education system (e.g. private childcarer) are exception because they are not considered to be training costs and that is why to be not deductible.

In Tallinn, childcare fees depend on family's net income. At the same time, taxes depend on childcare fees, as childcare costs are tax deductible. This is modelled in the following way:

- *first, childcare fees are modelled based on net income*
- *then, taxes are re-calculated taking into account deduction of childcare costs.*

In the model, it is assumed that the adult with the highest taxable income pays for childcare and deducts these expenses from his or her taxable income.

5.5.1. Eligibility

All families using preschool child care institutions.

¹⁵ See [Amendments to the regulations of Tallinn City Council – Riigi Teataja](#). In the model, the the discount for the 2nd child is applied from policy year 2022 as the policy reference date is 1 January of the respective year.

5.5.2. Maximum amount

A taxpayer may deduct training expenses in the total amount of EUR 1200 per year, but not more than 50% of the taxpayer's income during the same period of taxation. Expenses exceeding this limit can be transferred to the spouse.

5.5.3. Variation by income

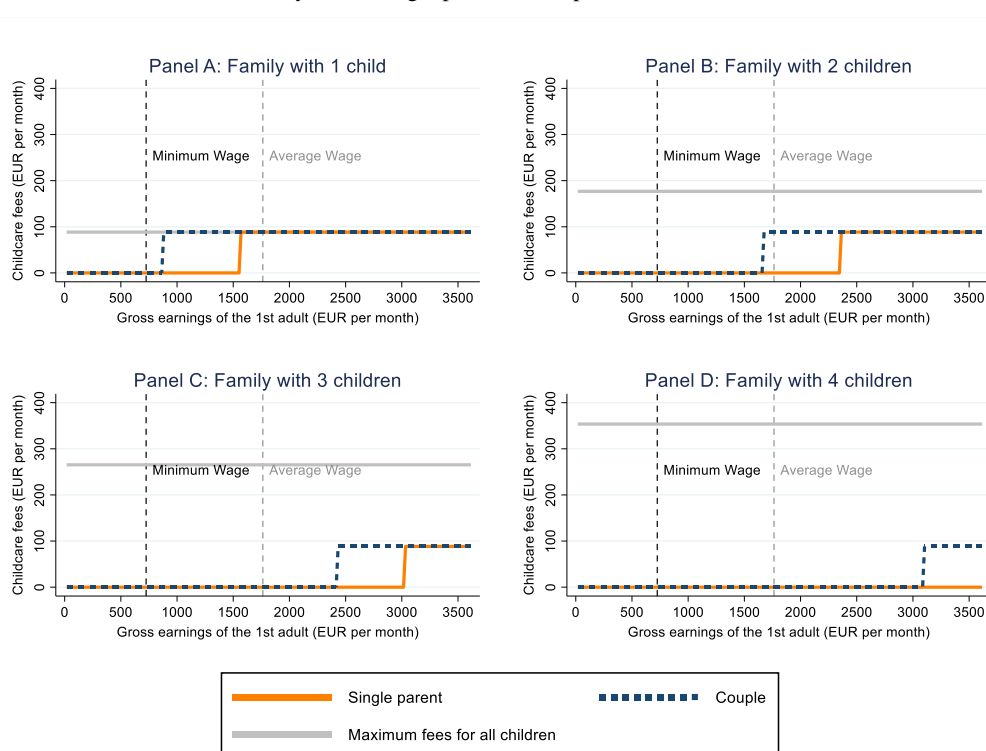
No variation, though parents must be paying income tax for the deduction to be of value.

5.5.4. Impact on overall income tax calculation

Taxable income is reduced by the amount of the deduction.

Figure 6. Childcare fees paid by parents (no receipt of other benefits)

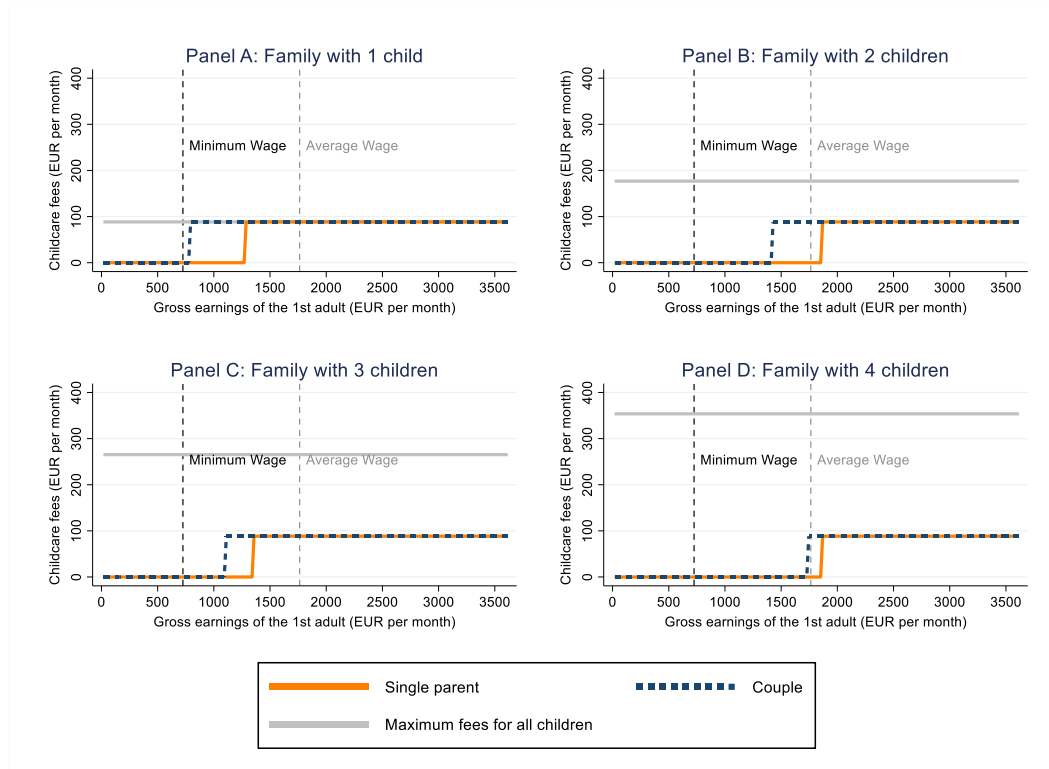
40-year old single person or couple with children



Note: Results assume no receipt of unemployment benefits, child allowance, maintenance allowance and other benefits, which are usually included in the means test for childcare fee reductions. Both parents are working full time and use childcare for all children for the full day. In a couple, the second adult earns 67% of the average wage. Horizontal axis shows gross earnings of the first adult only. Children are 2, 3, 4, and 5 years old. Family lives in Tallinn municipality. Parents are exempt from fees for the second and any subsequent child.
Source: OECD Tax-Benefit Model.

Figure 7. Childcare fees paid by parents (with receipt of family benefits)

40-year old single person or couple with children



Note: Results assume no receipt of unemployment benefits. However, the family may receive child allowance and maintenance allowance, which are usually included in the means test for childcare fee reductions. Both parents are working full time and use childcare for all children for the full day. In a couple, the second adult earns 67% of the average wage. Horizontal axis shows gross earnings of the first adult only. Children are 2, 3, 4, and 5 years old. Family lives in Tallinn municipality. Parents are exempt from fees for the second and any subsequent child.

Source: OECD Tax-Benefit Model.

6. In-work benefits

Variable name: **[IW]**

OECD note: This section provides information on employment-conditional (“in-work”) benefits for employees, i.e. benefits whose eligibility is conditional on the following key requirements: 1) being regularly employed (in either the private or public sector); 2) working a certain number of hours and/or earning more than a certain minimum. This definition notably excludes ‘workfare’ programmes and related ‘work-first’ policies that make out-of-work benefits conditional on participation in work activities.

This section provides information also on *one-off* and/or *temporary* payments for benefit recipients who are out of work and make a transition into employment. These type of benefits are referred to as *transitional “into-work” benefits* in order to differentiate them from the “regular” in-work benefits that do not have any predefined maximum duration after moving into work.

Based on this definition, Estonia does not have an “in-work” benefit programme. However, earnings disregards granted to recipients of subsistence benefits who start working are classified as an *into-work benefit* (see Section 3.1.7.).

7. Social security contributions and payroll taxes

7.1. Social security contributions (*sotsiaalkindlustusmaksed*)

7.1.1. Contributions paid by employees

In 2023, employees pay 2% of earnings and other emoluments as a voluntary funded pension insurance contribution to the so-called second pillar of the pension system. These payments became voluntary since 1 January 2021 (with automatic enrolment).

In addition, employees pay 1.6% of earnings as a mandatory unemployment insurance premium.

The TaxBEN model simulates only mandatory contributions and non-tax compulsory payments, therefore voluntary contributions to funded pension schemes are not included in the model since 2021.

7.1.2. Contributions paid by employers

Employers' social security contribution rates are applied in two parts:

- Unemployment insurance premium: in 2023, 0.8% on gross payroll for employers (with no minimum payment).
- Pension and health insurance: in 2023, pension insurance¹⁶ is 20% of gross payroll and health insurance is 13%. The minimum monthly base for these social taxes calculation is EUR 654 per month in 2023 (equal to the monthly minimum wage in the previous year), which makes the minimum social tax obligation EUR 215.82 per month. The minimum contribution requirement applies to both full-time and part-time workers.
- There are some exceptions, where social tax is paid on remuneration paid to employees and where monthly minimum is not provided. These exceptions are for example:
 - employees or officials regarding whom reduced working time is applied for the given month (*not modelled*);
 - employees or officials who raise as parent or guardian a child below 3 years of age or three or more children below 19 years of age;
 - municipal council members (*not modelled*);
 - employees or officials who receive pension or who have been established to have partial or no work ability (*not modelled*).

Second pillar social tax suspension:

From 1 July 2020 until 31 August 2021, Estonia temporarily suspended the payment of voluntary employer contributions to the second pension pillar, except for employees born between 1942 and 1960. Members also had an option of stopping their contributions by

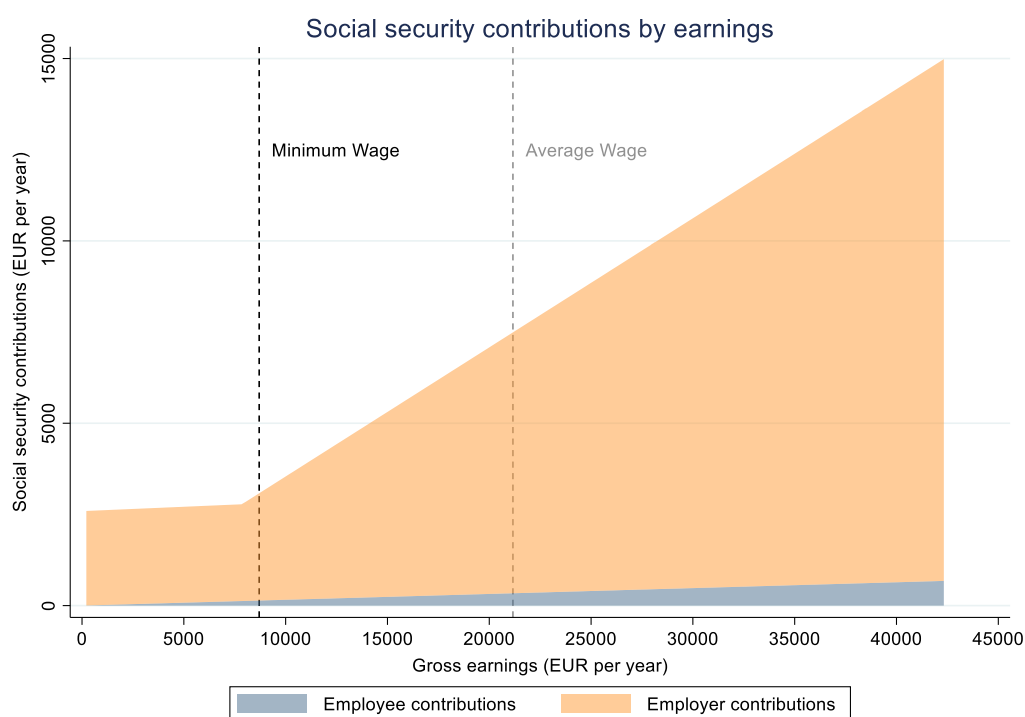
¹⁶ In case a person participates in the funded pension insurance scheme (voluntary since 1 January 2021), 4 percentage points from the pension insurance are shifted from the state pension insurance scheme to the private pension scheme.

applying for a suspension in October 2020. In this case, the suspension of employee contributions applied between 1 December 2020 and 31 August 2021.

In 2023, the state budget financed the missing 4% employer contributions for every month employees continued to make their 2% contributions between 1 July 2020 and 31 August 2021. This amount is paid into second pillar pension plans. The state will also finance an average return of 8.9% on these missing contributions. This 8.9% return corresponds to the average return of second pillar pension plans between 1 July 2020 and 31 December 2022.

Figure 8. Social security contributions

40-year old single person without children



Note: Social security contributions do not depend on family structure. Calculations include only mandatory contributions and non-tax compulsory payments. Voluntary contributions to funded pension schemes are not covered.

Source: OECD Tax-Benefit Model.

8. Taxes

8.1. Personal income tax (*üksikisiku tulumaks*)

Variable name: `[IT_p; IT_s]`

Since 2017, income tax in Estonia is paid individually. However, there is an option for married couples to transfer some unused tax allowances (e.g. basic tax allowance or tax allowance for children).

8.1.1. Tax allowances

Basic tax allowance (non-taxable minimum): A general (basic) allowance of EUR 7 848 per year is deductible from individual income in 2023. The allowance is income-dependent. It starts declining from income of EUR 14 400 and reaches zero at income of EUR 25 200.

From 1 January 2017, it is possible to transfer one's personal unapplied basic tax allowance to the spouse. The unused allowance can be transferred if person's yearly taxable income is below EUR 2 160 and the family's total yearly taxable income is below EUR 50 400. The maximum transferable amount is EUR 2 160. The actual transferable amount equals to EUR 2 160 minus person's gross income. The total family taxable income plus the transferred allowance cannot exceed EUR 50 400.

Tax allowance on dependants: A child allowance is also deductible from income: EUR 1 848 for the second child and EUR 3 048 for the third child and any subsequent children up to and including the age of 16. The allowance can be claimed only by one of the parents. However, the unused part of allowance can be transferred to the other parent.

Tax allowance for persons in pensionable age: For a person who has reached the pensionable age or reaches the pensionable age during 2023, the basic exemption is EUR 8 448 per year, that is EUR 704 per month. Unlike the basic tax allowance, tax allowance for persons in pensionable age does not depend on the person's annual income. In 2023, pensionable age in Estonia is 64 years and 6 months both for men and women. *Persons in pensionable age are outside the scope of the model.*

Other allowances: Deductible for income tax purposes are also:

- Employee's compulsory contributions for unemployment insurance and mandatory funded pension insurance;
- Insurance premiums and acquisition of pension fund units up to 15% of the taxpayer's income, but no more than EUR 6 000 annually (*nor covered by the model*);
- Housing loan interests up to EUR 300 per year, certain training expenses (e.g. preschool childcare institution costs, see Section 5.5.) and gifts and donations to charities are deductible, but all together limited to EUR 1 200 per year, and to not more than 50% of the taxpayer's taxable income. If these 3 types of deductions exceed the limits, the part of the deductions remaining unused, may be transferred to taxpayer's spouse. He or she can deduct these costs taking into account own personal limits.

Amounts of tax allowances are not subject to automatic indexation.

8.1.2. Tax base

In the TaxBEN model, the tax base includes earnings from work (net of social security contributions) and unemployment insurance benefits. Most benefits are not taxable including:

- family benefits;
- unemployment allowance;
- subsistence benefit;
- maintenance allowance;
- work ability allowance.

However, the following benefits are taxable:

- unemployment insurance benefit;
- parental benefit (*outside the scope of the TaxBEN model*).

8.1.3. Income tax schedule

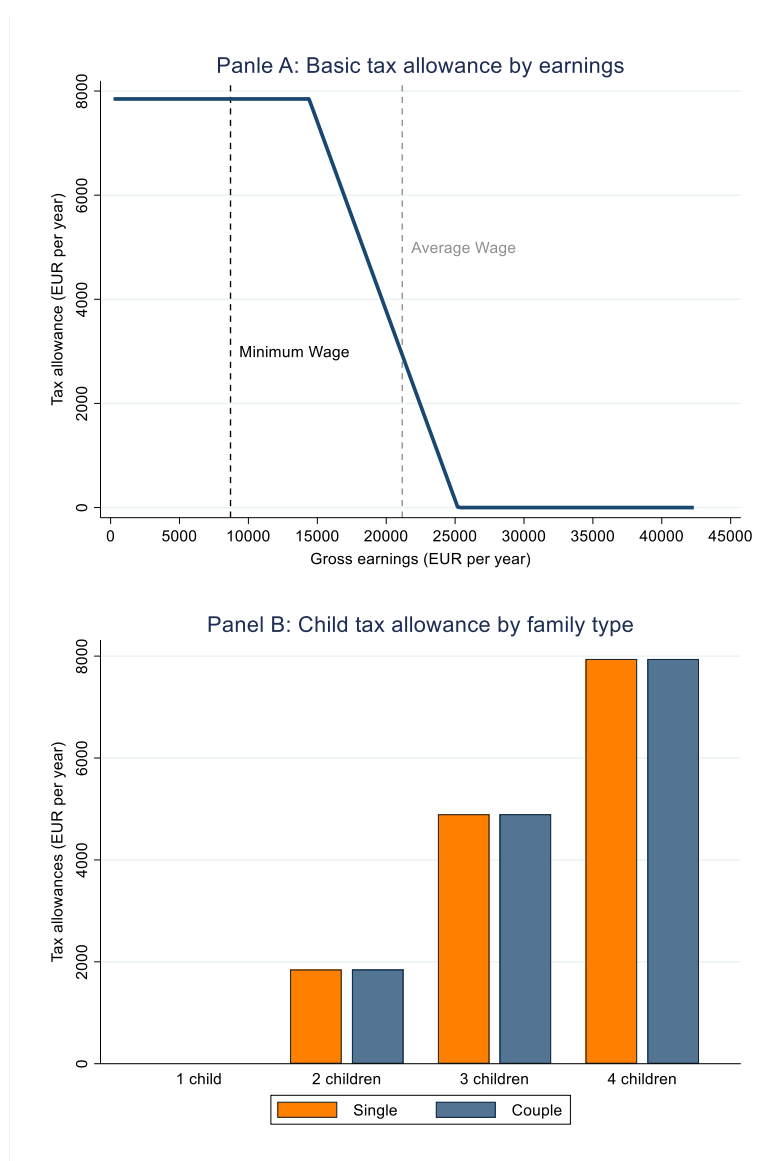
Estonia has a flat tax rate of 20 % in 2023.

8.1.4. Tax credits

There are no tax credits in Estonia. A tax credit was briefly introduced in 2016 and abolished a year later.

Figure 9. Maximum tax allowances

40-year old single or couple with or without children



Note: The figure shows the maximum amounts of basic and child tax allowances that a person is eligible to. The actual amount of allowance that a person can use is limited by taxable income (not shown in the figure). In Panel A, basic tax allowance does not depend on family structure, but it decreases with earnings. In Panel B, child tax allowance does not depend on earnings. The amount of child tax allowance depends on the number of children, but it does not depend on whether a person is single or married. In a couple, working spouses can split child tax allowance between themselves.

Source: OECD Tax-Benefit Model.

Figure 10. Actual tax allowances

40-year old single or couple with two children



Note: The figure shows basic tax allowance, child tax allowance and basic tax allowance transferred from the spouse. Light shaded areas show tax allowances that cannot be used because taxable income of a person is lower than tax allowances. Parents have two children 4 and 6 years old. Horizontal axis shows gross earnings of the first adult only. In Panel B, the second adult is out of work and not eligible to unemployment benefits. Panels C and D show a two-earner couple. The earnings of the first adult vary as shown on the horizontal axis. The second adult earns the average wage. It is assumed that parents split child allowance to maximize their total net household income. First, the allowance reduces the tax liability of the primary earner; then, the remaining allowances are transferred to the secondary earner.

Source: OECD Tax-Benefit Model.

Figure 11. Income tax

40-year old single or couple with or without children



Note: A person has no other sources of income but earnings from work. Income tax is calculated at the individual level. The amount of tax allowances subtracted from the tax base depends on family structure.
Source: OECD Tax-Benefit Model.

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Estonia 2023. TaxBEN by default produces the following output: net household incomes (**black line**) and its subcomponents (**coloured stacked areas**) for selected family and individual circumstances.

The model and the related web calculator is accessible from the [project website](#). The figure shows outputs for four scenarios:

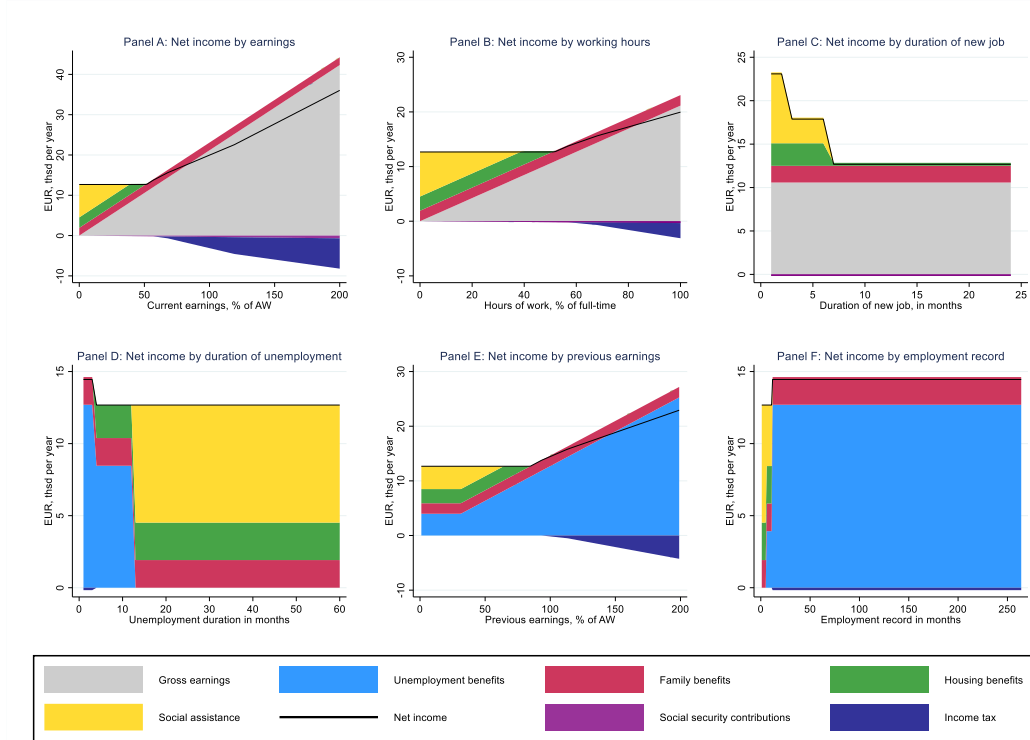
- By percentage of the average wage (**Panel A**);
- By working hours (**Panel B**);
- By duration of a new job (in months) for a person claiming social assistance who started a new employment (**Panel C**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel D**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel E**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel F**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT** = income tax; **FB** = family benefits; **HB** = housing benefits; **SA** = social assistance; **IW** = in-work benefits. Note that each component may contain more than one benefit or tax.

Results in the figure refer to a two-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the six scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Figure 12. Selected output from the OECD tax-benefit model

40-year-old one-earner couple with two children



Note: In Panel A, B, and C the first adult is employed, whereas the second adult is out of work and not eligible for unemployment benefits, e.g. because they have expired (the same is assumed for the first adult when earnings are zero). In Panel A, the first adult works full-time at different wage levels. In Panel B, the first adult earns average (hourly) wage at variable working hours. In Panel C, the first adult has just started a new full-time employment at 50% of the average wage after claiming social assistance.

In Panels D, E, and F the first adult is out of work and claiming unemployment benefits, whereas the second adult is out of work and not eligible to unemployment benefits. In Panel D and F, previous earnings of the first adult equal to the average wage. In Panels D and E, the first adult is assumed to have a 'long' employment benefit receipt of 264 consecutive months before the job loss. Panels E and F refer to the 2nd month of unemployment benefit receipt.

Source: OECD Tax-Benefit Model.

Annex A: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Estonia that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

Benefit upon lay-offs (kindlustushüvitis koondamise korral)

Those employees, whose last employment relationship was ended due to a lay-off, employer's failure to provide work, or employer's liquidation, have the right to an insurance benefit upon lay-offs. The amount of the benefit depends on the duration of employment with that employer:

- 5-10 years: one month's average salary;
- more than 10 years: two months' average salary or wages.

Those receiving the benefit upon lay-offs can subsequently claim unemployment insurance benefits. However, there is a waiting period in this case which depends on the duration of employment with that employer:

- 5-10 years: waiting period of 30 calendar days;
- more than 10 years: waiting period of 60 calendar days.

Parental benefit (vanemahüvitis)

One of the parents have the right to receive the parental benefit. The right to receive parental benefit for the period of 435 days arises as of the date following the final date of the maternity leave or adoption leave. If the mother of a child does not have the right to receive maternity benefit, the right to receive parental benefit for the period of 545 days shall arise as of the birth of the child. The right to receive additional parental benefit for fathers arises for a father 30 days before the estimated date of birth of the child. Fathers are eligible for parental benefit when the child is 70 days old.

The parental benefit may be used until the child attains three years of age. It means that the payments of the parental benefit may, depending on the parent's request, be suspended and resumed by calendar months until the child reaches 3 years of age.

Benefit is paid at the parent's average monthly income during the calculation period - it is 21 calendar months prior to the birth month of the child less nine calendar months prior to the birth of the child. In 2023, the minimum benefit amount is EUR 725 per month (equal to the minimum wage) and a maximum benefit amount of EUR 4 291.29 per month. During receiving the parental benefit, it is allowed to earn income. If monthly income is smaller than half of the maximum benefit amount, then parental benefit amount will not decrease.

The following changes affecting parental benefit entered into force on 1 April 2022:

- Parental benefit and additional paternity benefit became maternity benefit, paternity benefit, and shared parental benefit.
- Maternity leave is transferred from the Health Insurance Fund to the Social Insurance Board, for which the maternity benefit shall be paid.

- An employed mother is entitled up to 100 consecutive calendar days of the maternity benefit, based on the expected date of birth of the child. An employed mother can use the maternity benefit up to 70 days before the child's expected date of birth and 30 calendar days after the child's expected date of birth.
- A mother who is considered as a non-active person (not employed) receives the mother's parental benefit for 30 consecutive calendar days starting from the birth of the child.
- The father is still entitled to paternity benefit 30 days before the child's expected date of birth, for a total of 30 days. This benefit can be withdrawn by the father every day until the child is 3 years old or until the father begins to receive shared parental benefit. The father is also not allowed to work while receiving the paternity benefit - the father is on paternity leave, which is reflected in the employment register.
- The parent can use the shared parental benefit according to their wishes by calendar days.

After the end of the maternity benefit period, it is up to the mother and the father to decide which of them will continue to receive parental benefit. This benefit is called shared parental benefit. Shared parental benefit can be withdrawn within 475 days. This benefit may be interrupted and continued by calendar days. If the mother did not have an employment or service relationship subject to the payment of social tax prior to the birth of the child, and was therefore entitled to only 30 days of maternity leave, the duration of parental benefit to be divided is 515 days.

NB: If one of the parents is on parental leave after the child reaches 30 days of age, that parent is entitled to shared parental benefit.

In addition, parents can take shared parental benefit for 60 days at a time. The number of days taken at the same time is deducted from the total duration of the payment of parental benefit. At this time, both parents receive parental benefit.

A new type of parental benefit will be created for adoptive families – parental benefit for adoptive parents. This benefit is payable to a working adoptive parent who is on adoptive parent leave or to a foster parent who is entitled to receive the benefit for temporary incapacity for work under the Health Insurance Act. The adoptive or foster parent is entitled to receive parental benefit for 70 calendar days within a period of six months from the date of entry into force of the court judgment on adoption or the date of the conclusion of the foster parent contract.

Incapacity for work pension (töövõimetuspension)

The “Incapacity for Work Pension” is a universal social insurance scheme for all residents financed by social security contributions providing pensions to those with work-limiting disabilities related to the length of the period of activity (up to 1998) and social security contributions (since 1999). The new Work Ability Allowance (see below) has in large part replaced the incapacity for work pension.

National pension (rahvapension)

The national pension for those with 100% incapacity for work is EUR 295.34 since 1 January 2023. It is granted to those who have been declared to be permanently incapacitated for work, but have not yet obtained the minimum contribution period

required. Claimants must have lived in Estonia for at least one year before applying for the pension.

Work Ability Allowance (töövõimetoetus)

The new Work Ability Allowance has been paid since 1 July 2016, provided that partial work ability or no work ability is established by the new assessment system. Those receiving the incapacity for work pension can continue to do so until the end of the period of incapacity for work, which has been established by the old system, at which point they will be reassessed by the new system and potentially become eligible to the Work Ability Allowance.

Work Ability Allowance is a flat rate benefit. In 2023, the daily rate of Work Ability Allowance is EUR 16,33 for those who have no ability for work. If the recipient has partial work ability the daily rate is 57% of the aforementioned rate (i.e. EUR 9.31). Those with partial work ability thus receive EUR 279.24 per month, and those with no ability for work EUR 489.90 per month. The allowance is reduced if the claimant's monthly income exceeds 90 times the daily rate (i.e. EUR 1 469.70 per month in 2023).

If the income of a person with partial or no work ability during the calendar month preceding the payment of work ability allowance exceeds 90 times the daily rate in force, the amount of his or her allowance shall be recalculated by reducing his or her allowance for the month of payment of work ability allowance by an amount which is half of the difference between his or her income and 90 times the daily rate. This means that claimants with partial work ability stop receiving the allowance once their income exceeds EUR 2 028.19. Claimants with no ability for work stop receiving the allowance when their income exceeds EUR 2 449.50.

Annex B: Measures to assist households in the cost-of-living crisis

Several benefits were introduced in Estonia to assist households in the cost-of-living crisis.

Benefits effective in 2021, 2022 and 2023:

From October 2021 to March 2022, the state compensated energy price increase for families and individuals with the following measures:

- 1) Reimbursement of 50% of the electricity network fee to all household consumers (*elektri võrgutasu hüvitamine kõigile*). Compensation period: for bills from October 2021 to March 2022;
- 2) Reimbursement of district heating for domestic consumers (*kaugkütte hüvitamine kodutarbijatele*) Compensation period: February to March 2022. In February and March 2022, the state will automatically compensate the home consumer for 65% of the part of the district heating bill that exceeds the unit price level of October 2021.
- 3) 100% reimbursement of gas network charges to all household and commercial customers (*Gaasi võrgutasu hüvitamine kõigile*). Compensation for bills from December 2021 to March 2022).
- 4) Compensation for up to 80% increase in electricity, gas and central heating bills (*Elektri-, gaasi- ja kaugküttearvete hüvitamine kuni keskmise sissetulekuga peredele*). Compensation for bills from September 2021 to March 2022 for families whose net income in 2021 was less than EUR 1 126 per month for the first household member. For each additional member of the household who is at least 14 years old, the same amount is multiplied by 0.5 (i.e. EUR 563 per month) and for children under 14 by 0.3 (i.e. EUR 338 per month).
- 5) Reimbursement of the part of the electricity and gas bills exceeding the price ceiling within the limits set for all household consumers (*Elektri- ja gaasiarvete hinnapiir kodutarbijatele*). A price limit was established for electricity and gas bills, the remaining part of which is automatically compensated by the state to the private consumer:
 - a) price ceiling for household consumers of EUR 0.12 per kWh (+ sales tax) for electricity consumption up to 650 kWh per month. This means that if the price of electricity, either on the stock exchange or in a fixed-price package, exceeds EUR 0.12/kWh, the state pays for this part of the electricity bill. The price ceiling is set for the cost of electricity as a commodity and VAT is added to it, EUR 0.12/kWh does not include the cost of network service, excise duty or renewable energy fee.
 - b) price ceiling for domestic consumers of EUR 0.065 per kWh or EUR 0.6792/m³ (+VAT) for gas consumption up to 2.75 MWh per month. The part exceeding the price floor was compensated.

More information: <https://www.fin.ee/energiakulude-huvitamine>

From 1 October 2022 to 31 March 2023 Estonia introduced temporary subsidies to mitigate the effects of rising energy prices on household consumers. They apply to bills issued to consumers for energy consumed during abovementioned period. Subsidies are automatic, i.e. the seller already reduces the unit price of electricity, gas or district heating from the energy bills received by household consumers.

1) Electricity price compensation (*elektrihinna hüvitamine*)

Home consumers of electricity are compensated from the monthly average price of electricity without VAT, which exceeds EUR 0.08 per kWh, up to EUR 0.05/kWh.

2) Gas price compensation (*gaasihinna hüvitamine*)

The state compensates the domestic consumer of gas with 80% of the part of the average monthly gas price that exceeds EUR 80 /MWh without VAT, or EUR 0.8264 per cubic meter. At the same time, the maximum consumption of up to 2.6 MWh (or 251.7 cubic meters) is compensated.

3) Reimbursement of the district heating price (*kaugkütte hinna hüvitamine*)

Similarly to gas, district heating home consumers are compensated for heat consumption exceeding the price of EUR 80 /MWh (without sales tax) to the extent of 80%.

More information: <https://mkm.ee/energiakulude-huvitised>