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Mind the Gap 2026: Country fiche – Estonia

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Mind the Gap 2026: Boosting public finances through joint efforts to reduce tax gaps and improve compliance

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Country fiche: Estonia

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Estonia's tax administration operates advanced digital compliance systems.** It uses digital reporting and risk-based control to provide near real-time oversight, with automated alerts for filing inconsistencies. Data reuse from public authorities and third-party sources reduces redundant submissions and AI-powered tools enhance the service provided to taxpayers. Personal income tax (PIT) pre-filling is extensive, but VAT pre-filling has not yet been implemented. In Estonia, 79% of taxpayers report that completing their tax return is easy, compared with the EU average of 49%. In addition, Estonia ranks as the least complex tax system in the EU according to the Tax Complexity Index. Together, these features minimise compliance costs for taxpayers and businesses.

- **Estonia has stepped up its work on estimating the compliance tax gap and carrying out compliance risk analysis in recent years.** This includes developing of bottom-up approaches drawing on audit data and risk-based methods, particularly for corporate income taxes (CIT), alongside producing targeted estimates of specific compliance risks in other areas.

Areas for Improvement

- **Estonia's VAT compliance gap has increased considerably since 2019, though it remained close to the EU average in 2023, at 10% of the VAT Total Tax Liability (VTTL).** Specifically, the VAT compliance gap has increased by around 4 percentage points since 2019. However, several recent and planned measures (e.g. mandatory e-invoicing for all B2B transactions, real-time transaction data submission, expansion of the Taxpayer Service Interface, faster invalidation of VAT numbers for suspicious traders) are expected to help improve VAT compliance in the future.

- **The transparency and detail of tax expenditure reporting could be improved.** Estonia publishes a basic overview of tax expenditures, as part of its national budget documents, but provides limited additional information such as benchmark provisions, the type and number of beneficiaries or the underlying policy objective. No systematic evaluation framework for tax expenditures appears to be in place, and no recent evaluations of the efficiency, equity or effectiveness of specific provisions could be identified.

- **Estonia could review whether its distributed-profits corporate income tax model remains fit for purpose.** The system taxes profits when they are distributed, supporting corporate liquidity and reducing reliance on debt financing. At the same time, given the relatively low revenue yield, the potential for extended tax deferral and the limited evidence of a sustained effect on investment, may warrant a review the model's overall fiscal and economic performance to assess whether its benefits continue to justify the associated costs. The model would also benefit from continued monitoring to assess whether the system creates incentives for profit extraction through deemed-distribution channels that require close administrative scrutiny.

1. Introduction and policy context

1.1. Snapshot of the tax system

The tax-to-GDP ratio is increasing lately in Estonia, although capital taxes remain underused. Tax revenue (including social contributions) increased to 35.2% of GDP in 2024 (from 33.7% in 2023), but it remains 4.2 percentage points (pps) below the EU average ([1]). Estonia obtains more than a half of its tax revenue from labour taxes (51.5% in 2024, same as the EU average). Consumption taxes accounted in 2024 for 38.5% of total tax revenue, one of the largest in the EU (26.8% on average); VAT revenues are relatively high and amounted to 9.6% of GDP, 2.5 pps above the EU average. By contrast, at 10.0%, capital taxes represent the smallest shares on total tax revenue among all the Member States (average: 21.6%), due to a friendly tax environment for businesses – including the distributed-profit tax regime, and a residual use of property taxes.

Despite limited progressivity of Estonia's labour tax system, the redistributive effect of the tax-benefit system is in line with the EU average. Personal income tax system in Estonia is based on a 22% flat rate for all income groups. A uniform tax-free allowance of EUR 8 400 per year allows a reduced tax wedge ([2]) for lower-income earners. In 2025 it was 32.8% for single workers earning 50% of the average wage (31.6% on EU average), while it stood at 42.6% for single workers earning 100% or more of the average wage. As a result, the difference in the tax wedge between high-income (167% of average wage) and low-income earners (50% of average wage) was of 9.8 pps, 2.7 pps below the EU average. The ability of Estonia's tax-and-benefit system to reduce the Gini coefficient ([3]) has increased in recent years and, at 7.7 pps in 2024, was only marginally below the EU average (7.8 pps). However, income concentration is high in Estonia, as the income quintile share ratio (S80/S20) was 5.07 in 2025 (income reference year 2024), compared to 4.62 EU-wide ([4]). In addition, the at-risk-of-poverty or social exclusion rate (AROPE) is above the EU average (21.8% vs. 20.9%) ([5]).

In 2026, Estonia has received the following country-specific recommendations (CSRs) in the area of taxation ([6]):

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[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2026 (reference year 2024), which are produced by DG Taxation and Customs from ESA table 9 and National Tax List data, as collected and validated by Eurostat. The 2027 edition (reference year 2025) will be published in the first quarter of 2027. Recent Eurostat release shows a tax-to-GDP ratio of 36.2% in 2025, compared to an EU average of 39.7% (data of 30/10/2026 on [GOV_10A_TAXAG]).

[2] The tax wedge is an indicator of the tax burden on labour that can be assessed at different earnings levels. It is calculated as the sum of personal income tax, employee social-security contributions, employer social-security contributions and other mandatory contributions, net of cash family benefits where relevant, expressed as a percentage of total labour costs (composed of the gross wage plus employer social-security contributions). Data are based on the EUROMOD model, calculated by the Joint Research Centre of the European Commission. Unless indicated differently, values indicated in this country fiche refer to single earners.

[3] European Commission, DG ECFIN calculations based on EU-SILC survey data. A Gini coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income. The difference between the "gross" (excluding pensions from social transfers) and the "net" Gini coefficient, i.e. before and after application of the tax-benefit system, reflects the difference between market income and disposable income.

[4] The income quintile ratio (S80/S20) is a headline indicator in the EU Social Scoreboard used to monitor income inequality. It measures the ratio between the total equivalised disposable income received by the top 20% of the population and the bottom 20%.

[5] Share of people living in households experiencing at least one of the three poverty and social exclusion risks: risk of poverty, severe material and social deprivation, and/or living in a household with very low work intensity.

[6] https://data.consilium.europa.eu/doc/document/ST-11118-2026-INIT/en/pdf.

- *Ensure sustainable financing for spending needs, including defence, by broadening the tax base, tapping into taxes that are less detrimental to growth, including property taxation, and directing spending to priority areas based on public spending reviews.*

1.2. Tax complexity and simplification measures

1.2.1. Measures of tax complexity

Estonia's tax system appears comparatively simple by EU standards, particularly from the perspective of taxpayers and administrative procedures. Survey-based evidence from the Tax Complexity Index (TCI) places Estonia as the least complex system in the EU, ranking first among Member States ([7]). The underlying components of the TCI suggest that both the tax code and the tax framework are comparatively simple, consistent with Estonia's reputation for digitalisation and streamlined taxation. Citizen perceptions reinforce this picture: 79% of respondents report that completing their tax return is easy, by far one of the highest shares in the EU and well above the EU average of 49%, while only 1% rely on professional assistance ([8]).

Legislative activity appears limited. Estonia recorded 3 tax changes entering into force or announced in 2025, compared with an EU average of around 14 ([9]). This follows 15 tax changes in 2024 (of which 2 were not implemented), 20 in 2023 (of which 1 was not implemented) and 3 in 2022. With the exception of 2023, legislative activity has remained below the corresponding EU average, suggesting a relatively stable tax policy environment. The reforms adopted in 2025 are narrowly focused and primarily concern environmental and other specific taxes, including adjustments to the recently introduced motor vehicle tax and a gradual reduction in the gambling tax rate for remote gambling. While these measures require some adaptation by affected taxpayers, they are limited in scope and do not represent broad changes to the tax system. The relatively small number of legislative changes is consistent with the picture emerging from the other indicators, suggesting that Estonia's comparatively low tax complexity is supported not only by a simple tax structure and highly digitalised administration, but also by a relatively stable tax policy environment.

Demand-side indicators are broadly consistent with a relatively low-complexity environment. The accounting, bookkeeping and tax consultancy sector accounts for around 0.6% of gross operating surplus, below the EU average of 0.9% ([10]). While this indicator is influenced by several factors, it does not point to a particularly sizeable professional services sector or unusually

[7] The Tax Complexity Index (TCI), developed under the Global MNC Tax Complexity Project, measures the complexity of countries' corporate income tax systems as faced by multinational firms. Based on survey data from tax professionals, it captures both the complexity of tax rules (tax code) and administrative procedures (tax framework), with values ranging from zero (not complex) to one (extremely complex).

[8] European Commission (2025), Flash Eurobarometer 562: Citizens' attitudes towards taxation, fieldwork conducted between 9 and 17 April 2025. Available at: https://europa.eu/eurobarometer/.

[9] The information is based on the tax measures reported by national administrations in the Joint OECD-European Commission Annual Tax Policy Reform Questionnaire, by aggregating and processing the responses received to the 2026 questionnaire. Responses to the 2026 questionnaire are relative to tax policy measures self-reported by the Member States that were implemented, legislated, or announced in each country between 1 January and 31 December 2025. While comprehensive, the list of tax measures is non-exhaustive.

[10] A higher share of gross operating surplus indicates that the accounting, bookkeeping and tax consultancy sector generates a relatively larger share of operating profits and value added in the economy. While not a direct measure of tax complexity, it may point to a comparatively important professional services sector and, indirectly, to greater demand for specialised tax and accounting expertise.

strong demand for specialised tax and accounting expertise ([11]). Taken together, the evidence consistently points to Estonia as one of the least complex tax systems in the EU. The combination of a simple tax structure, highly digitalised administration, limited legislative change and relatively modest demand for specialised tax advice results in comparatively low compliance burdens for taxpayers and businesses.

1.2.2. National simplification efforts

Estonia introduced a universal basic allowance from 1 January 2026, replacing the previous income-dependent basic allowance system. Under the new rules, the basic allowance is set at EUR 700 per month and no longer decreases as income rises. From an administrative perspective, this simplifies the personal income tax system by removing the need to calculate a tapered allowance based on annual income and by making payroll withholding more predictable for employers and employees. The measure therefore reduces complexity by lowering the need for later corrections where income fluctuates over the year.

Estonia also changed the procedure for adjusting input VAT on fixed assets from 2025. When a fixed asset is first put into use, input VAT must now be adjusted in full according to the actual proportion of the asset's use for taxable supplies during that first period of use. This replaces a situation where discrepancies between estimated and actual use could lead to gradual and repeated corrections over several years. The change reduces long-running adjustment complexity and aligns the input VAT deduction more closely with actual use at the outset, although taxpayers must still monitor later changes in use during the normal adjustment period of ten years for immovable property and five years for other fixed assets.

1.3. Measures of the non-observed economy and the shadow economy

Estimates of economic activities outside the formal economy are relevant for gauging tax gaps. The non-observed economy (NOE) is an official figure provided by national statistical authorities estimating all economic activities that may not be captured in the basic data sources used for compiling national accounts. It includes underground, informal, illegal, and household self-use production, as well as activities missed due to imperfect data collection ([12]). The shadow economy is an analogous but narrower concept— used in the economic literature and measured via macroeconomic models — that usually encompasses only legal, market-based productive activities deliberately concealed from public authorities to evade taxes or regulations. Due to limitations and methodological differences between the two approaches, model-based estimates of the shadow economy paradoxically often turn out to be considerably higher than NOE-based estimates.

[11] While some cross-border provision of accounting, tax consultancy and related services may be captured through imports and exports of services, available evidence suggests that such flows are relatively limited. In particular, data from the Eurostat's EU inter-country supply table at basic prices (reference year 2023) indicate that cross-national transactions in these services represent only a small share of overall activity, if any, suggesting that their impact on the interpretation of domestic sector size is likely to be limited.

[12] Statistical deficiencies (N7) are related to incomplete, not collected or not directly collectable data. See Fernandes, A. (2025), The non-observed economy in the national accounts: New evidence for EU and EFTA Member States - available at https://www.sciencedirect.com/science/article/pii/S0313592625000712 - for the definitions of the other components of NOE: Producers deliberately not registering (N1); Illegal economy (N2); Producers not required to register (N3); Registered legal persons not surveyed (N4); Registered entrepreneurs not surveyed (N5); Producers deliberately misreporting (N6). Informal economy = N3+N4+N5. Underground economy= N1+N6. In other words, the informal economy specifically covers unregistered or small-scale unincorporated enterprises run by households.

Specifically, recent data from official sources ([13]) allow to estimate the size of the non-observed economy (NOE) in Estonia at 4.6% of GDP for 2021. The NOE comprises the deficiencies (2.1%) and underground economy (1.9%), while informal economy and illegal economy only represent 0.34% and 0.26% of GDP, respectively. Estonia thus records a NOE below the EU average (7.1% of GDP) ([14]). The largest part of non-observed economy is concentrated in 'Information and communication' (0.9% of total gross value added (GVA)) and 'Construction' (0.8%). At industry level, the highest shares of NOE are presented by 'Activities of households as employers' (100% of its GVA), 'Information and communication' (13.2%) and 'Construction' (12%).

Different models produce substantially different estimates for the shadow economy, reflecting the complexity of such estimation. As in most EU Member States, model-based estimates of the shadow economy for Estonia are higher than the non-observed economy estimate discussed above. In 2022, the shadow economy in Estonia represented 22.7% of GDP, according to estimates by Schneider and Asllani for the European Parliament ([15]). This ratio is 5.1 pps above the EU-27 average and is had decreased compared to 2003 (30.7% of GDP). The report indicates that unemployment are the main drivers of the shadow economy in Estonia. Several other studies provide estimates of similar magnitude for the size of the shadow economy ([16]). However, using a currency demand approach (CDA), a recent study by EY ([17]) reports lower estimates for the Estonian shadow economy at 7.4% of GDP in 2023, (EU average 7.9%), down from 14.4 % in 2000 (EU average 13.2%).

2. Compliance tax gaps

2.1 Overview

In Estonia, tax gap estimation and related compliance-risk analysis are conducted by the Estonian Tax and Customs Board (ETCB), which operates under the Ministry of Finance. While Estonia does not generally publish a regular set of official compliance tax gap estimates, it has made efforts to estimate for several tax types, including social tax, VAT, personal income tax (PIT), corporate income tax (CIT) and excise duties on alcohol, tobacco and fuel. The ETCB's 2025 annual review ([18]) presents these mainly as operational estimates of 'tax losses', in particular those resulting from high-risk taxpayer segments ([19]). Annual tax losses are estimated at around EUR 300-350 million, representing 1.9-2.3% of total annual tax revenue collected in 2025, with the largest risks linked to VAT and labour taxes. Methodologically, Estonia appears to rely mostly on risk-based audit data and increasingly sophisticated machine learning to estimate tax losses.

[13] For data and documents used for calculations by TAXUD, see Section 1.3 "Measures of the non-observed economy and the shadow economy" in Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).
[14] The (unweighted) EU average does not include Luxembourg.
[15] This study uses a MIMIC approach (Multiple Indicator Multiple Cause). European Parliament (2022), Taxation of the informal economy in the EU. Study available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf.
[16] See Fernandes op. cit. (2025) for an overview of various studies.
[17] The report is available at https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf.
[18] Tax and Customs Board Yearbook 2025. Available at https://emta.ee/eraklient/amet-uudised-ja-kontakt/maksu-ja-tolliamet/aastaraamat.
[19] Estonia's tax loss estimates are based on risk-based assessments of potential revenue losses rather than a comprehensive estimation of the difference between all tax liabilities legally due and taxes actually collected. They therefore may not capture the full compliance tax gap.

Estonia participates in the TADEUS/Fiscalis project on estimating tax gaps. The Fiscalis Project Group on Tax Gap Estimation, a collaborative initiative launched with the support of the European Commission, aims to develop a harmonised approach to estimating tax gaps across EU Member States ([20]). Estonia is participating in the second cycle of the project, launched in 2026.

2.2 Compliance tax gaps in VAT

For 2023, the VAT compliance gap ([21]) in Estonia was estimated at around 10% of the VAT Total Tax Liability (VTTL) ([22]), 0.5 percentage point above the EU average. After falling from around 6% in 2019 to 2% in 2021, it increased sharply in 2023, surpassing the 2019 level by around 4 percentage points ([23]). This rise was linked to a decrease in the growth in consumption of easily taxable, low risk goods (such as food and non-alcoholic beverages), an increase in the share of services in GDP, and a rise in bankruptcy declarations.

To combat VAT non-compliance, Estonia has recently implemented or announced several measures under its digitalisation and anti-fraud strategy. Estonia will introduce mandatory e-invoicing for all B2B transactions, replacing the previous EUR 1 000 reporting threshold, as part of future amendments aligned with the EU's VAT in the Digital Age (ViDA) requirements (at the latest by 1st of July 2030). This measure, coupled with real-time transaction data submission (implemented as from 1st of April 2027), aims to reduce fraud by enhancing traceability and automating risk detection. Additionally, Estonia is expanding its Taxpayer Service Interface reform, which centralises risk indicators (e.g., unusual payment patterns, links to high-risk sectors) to improve audit targeting. To address MTIC fraud, Estonia has strengthened cooperation with Eurofisc and accelerated the invalidation of VAT numbers for suspicious traders, reducing the average processing time to 15–30 days. However, the rising share of services in GDP and persistent envelope wages (especially in construction) underscore the need for continued vigilance and sector-specific enforcement ([24]).

2.3 Compliance tax gaps in corporate and personal income tax

Estonia has strengthened its CIT compliance gap work in recent years. The ETCB has been working more intensively on CIT gap estimation since 2020, using a bottom-up methodology based on risk-based audits where audit results are extrapolated to non-audited companies through probabilistic resampling, the training of random forest models and the training of regression models. In its 2025 annual review, the ETCB estimates that around 16 500 companies face CIT-related compliance risks, corresponding to an estimated tax loss of approximately EUR 131.5 million ([25]). This amounts to approximately 11.7% of collected CIT revenues in 2025. The ETCB also reports that CIT violations of around EUR 67.4 million (6.0% of collected CIT revenue) were identified in 2025 and that around EUR 35.6 million (3.2% of collected CIT revenue) in future tax

[20] For details, please refer to the TADEUS website, the FISCALIS programme website and the Final Report of the Project.
[21] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.
[22] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.
[23] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.
[24] IMF, 2023. Republic of Estonia: 2023 Article IV Consultation-Press Release; and Staff Report, https://doi.org/10.5089/9798400251047.002.
[25] Tax and Customs Board Yearbook 2025. Available at https://emta.ee/eraklient/amet-uudised-ja-kontakt/maksu-ja-tolliamet/aastaraamat.

losses were prevented. The main CIT risks identified relate to non-business expenses, artificial profit reduction, hidden profit distributions, transfer pricing, permanent establishments and the concealment or transfer of profits earned in Estonia.

A specific feature of Estonia's deferred CIT model is that corporate profits are generally taxed only when they are distributed. While this design aims to support reinvestment, it may also create specific compliance risks where profits earned in Estonia are extracted before a formal dividend distribution takes place. This is closely linked to some of the risks identified by the ETCB, including artificial profit reduction, hidden profit distributions, transfer pricing and the concealment or transfer of profits earned in Estonia. Potential channels include intra-group financing arrangements, non-arm's-length transfer pricing and excessive charges for intra-group services. For example, in debt-pushdown structures, acquisition debt may be allocated to an Estonian operating company, which then makes interest payments to foreign group entities or financing vehicles. Where such payments are excessive, insufficiently linked to genuine business activity or not in line with arm's-length conditions, they may reduce the profits available for future taxable distribution and function economically as a substitute for dividends. The key compliance challenge is therefore to ensure effective scrutiny of intra-group financing, service charges and transfer pricing arrangements, so that hidden profit distributions or non-business-related payments are appropriately identified and taxed ([26]).

For PIT, Estonia's compliance gap work appears to be mainly targeted and risk-based rather than centred on aggregate PIT gap estimates. In its 2025 annual review, the ETCB identifies partially undeclared wages as the main form of labour tax evasion, estimating that envelope wages alone could account for tax losses of around EUR 118 million annually. This amounts to a compliance gap of 3.8% of collected PIT revenues in 2025, within a wider estimated labour-tax loss of 4.1% (EUR 126 million). In addition, the ETCB reports targeted PIT risk estimates for undeclared income in foreign accounts, estimated at EUR 3.2 million (0.10% of collected PIT revenue) annually, and real-estate disposal transactions, estimated to cause EUR 4.5 million (0.15% of collected PIT revenue) in annual income tax losses.

2.4 Other compliance tax gaps

The Commission continues its work on excise gap estimation, developing and scrutinising methodologies with experts from over 20 Member States, with the aim of delivering more robust estimates that better support policy and operational work. This work also illustrates Member States' growing engagement in the field.

Estonia is continuously estimating and calculating tax gaps for alcohol, tobacco and fuels. The estimation is used internally for risk assessment and not published. Estonia also demonstrates an interest in strengthening EU cooperation on excise matters through its participation in the FISCALIS project group on Excise gap and Risk.

Estonia does not publish any information on possible other compliance tax gap estimates. There are no official programmes or published figures for compliance gaps related to Estonia's land tax, motor vehicle tax or gambling tax.

[26] Bunda, Irina and Tibor Hanappi (2025), "Options to Strengthen the Tax System in Estonia," IMF Selected Issues Paper.

3. Policy Tax Gaps

3.1 Tax expenditure reporting and evaluation

Estonia reports tax expenditures annually in its national budget documents, specifically under the section *Maksukulu* ('Tax Costs'). The Ministry of Finance publishes estimates in the State Budget Strategy, the annual State Budget Explanatory Memorandum and its economic forecasts, covering major tax expenditure provisions and their estimated fiscal costs over several years ([27]). The format is primarily consisting of tables categorising tax expenditures by tax type (e.g., PIT, CIT, VAT) and policy objective (e.g., employment, family support, environmental incentives). Estimates are calculated using a revenue-forgone approach without fully accounting for behavioural effects or interactions between provisions. The reports meet basic transparency requirements, but contrast with more comprehensive frameworks for tax expenditure reporting in other EU Member States (moderate Global Tax Expenditures Transparency Index (GTETI) scores).

Estonia does not have in place a systematic evaluation framework. The existing tax expenditure report lacks detailed qualitative and quantitative analysis, such as evaluations of policy effectiveness, distributional impacts, or beneficiary profiles. Structural provisions (e.g., VAT exemptions) are included, but non-quantifiable expenditures are not explicitly flagged. Broader budgetary evaluation instruments, such as spending reviews or regulatory impact assessments do not seem to extend to tax expenditures. As a result, most tax expenditures remain unevaluated in terms of efficiency, equity, or effectiveness.

In 2026, Estonia listed 27 provisions covering PIT, CIT as well as VAT and excise duties (applied reduced rates) with forgone revenues estimated to be around EUR 461.5 million (1% of GDP in total) down from EUR 520.2 million (1.2% of GDP) in 2025 ([28]). The largest shares of forgone revenue stem from PIT-related measures (e.g., basic allowances, family benefits) and VAT reductions (e.g., reduced rates for pharmaceutical, accommodation), which have a regressive distributional effect. The third largest tax expense is the more favourable excise duty rate for marked diesel fuel with EUR 41.5 million. In 2026, tax expenditures have decreased by 11.3%. This reduction is primarily due to:

- The abolition of the 14% reduced CIT rate on regularly distributed profits (effective 2025), which eliminated a fiscal cost of EUR 15.8 million in 2025.
- The replacement of the income-dependent basic allowance with a universal EUR 700/month allowance (2026), which simplified the system but reduced the estimated tax expenditure for this relief (from EUR 123.4 million in 2025 to EUR 42.8 million in 2026 for the pension-age allowance).

The 11.3% decrease in total tax expenditures in 2026 compared to 2025, is expected to be followed by a projected average annual increase of 3-4% in subsequent years (2027–2030), driven by

[27] Ministry of Finance Estonia (2026), State Budget Strategy 2027-2030, Available at: https://fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/riigi-eelarvestrateegia; 2027 State Budget Draft Explanatory Memorandum, Available at: https://www.fin.ee/2027-riigieelarve#2027-aasta-riigieelarve-materjalid; Summer 2026 Economic Forecast, Available at: https://www.fin.ee/sites/default/files/documents/2026-09/RM%202026%20Summer%20Forecast%20-%20English.pdf.

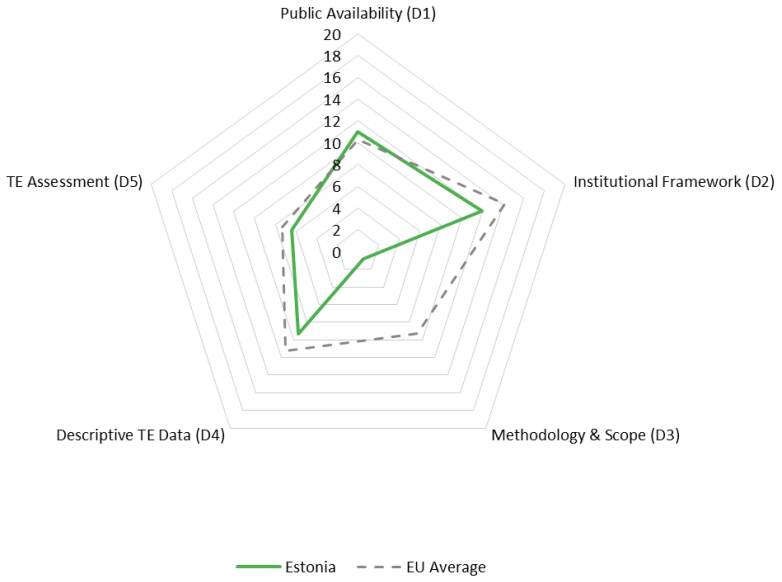
[28] Ministry of Finance (2026), Summer 2026 Economic Forecast, Available at: https://www.fin.ee/sites/default/files/documents/2026-09/RM%202026%20Summer%20Forecast%20-%20English.pdf.

economic recovery and indexed social benefits ([29]). The ratio of tax expenditure to GDP will not change much in these years and will remain close to 1%.

CIT-related expenditures (e.g., R&D incentives, reinvested profits exemption) are less transparent, with fragmented data on their fiscal cost and economic impact. Notably, Estonia's lack of a formal evaluation framework leaves most tax expenditures unevaluated for efficiency or equity, a gap highlighted by the IMF and OECD in recent recommendations ([30]). CIT's narrow base (1.9% of GDP in 2023) stems from untaxed retained profits, a structural tax expenditure (TE) not fully captured in current reporting.

Compared to other Member States, transparency and comprehensiveness of tax expenditure reporting in Estonia shows room for improvement (overall ranked 20th according to the GTETI score). According to the GTETI analysis, transparency in TE reporting in Estonia is below the EU average overall. Figure 1 depicts the GTETI results for the five dimensions analysed in comparison to EU averages ([31]). Maximum value for each dimension is 20. Estonia is on par with the EU average on Public Availability and Tax Expenditure Assessment. However, Institutional Framework is below the EU average (12.00 vs 14.19), Methodology and Scope is critically deficient (0.80 vs EU average 9.28), and Descriptive Tax Expenditure Data is below the EU average (9.33 vs 11.28), indicating incomplete coverage of tax types, no benchmark definition, no treatment of structural provisions, no estimation methodology disclosure, no data source disclosure.

Figure 1: Estonia vs EU average — GTETI v2.1 dimension scores (max 20 per dimension)



Source: GTETI v2.1.

[29] Ministry of Finance Estonia (2026), State Budget Strategy 2027-2030, Available at: https://fin.ee/riigi-rahandus-ja-maksud/riigieelarve-ja-eelarvestrateegia/riigi-eelarvestrateegia.

[30] See: OECD Economic Surveys: Estonia 2024 and IMF, 2025, Options to Strengthen the Tax System in Estonia.

[31] See the Global Tax Expenditures Transparency Index (GTETI) companion paper (2026) and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches) for details. The GTETI summarises information in five dimensions. These are (1) Public availability — whether a TE report exists and is accessible; (2) Institutional framework — its legal mandate, periodicity, and integration into the budget process; (3) Methodology and scope — the benchmark definition, estimation method, and coverage of taxes; (4) Descriptive tax expenditure data — the granularity and classification of reported provisions; and (5) Tax expenditure assessment — the quality of revenue-forgone estimates and whether TEs are evaluated for effectiveness.

No public impact assessments for tax expenditures in Estonia could be identified. IMF recommendations (2024–2025) ([32]) urge Estonia to adopt cost-benefit analyses and ex-post evaluations, particularly for CIT incentives and VAT exemptions. All in all, their impact on reducing income inequality however is limited. Meanwhile, reduced VAT rates seem to have a regressive effect in Estonia. Estonia does not seem to have a dedicated framework to systematically review tax expenditures beyond estimating their fiscal cost.

3.2 Policy tax gaps in VAT

From 1 July 2025, the standard VAT rate in Estonia is 24% (increased from 22%).

Revenues forgone due to the application of reduced rates and national policy-driven exemptions reached almost EUR 770 million in 2023 ([33]). The national policy-driven VAT exemption gap ([34]) was estimated at around EUR 620 million in 2023, or 10% of the notional ideal revenue ([35]), while the EU average was 11%. The VAT rate gap ([36]) was estimated at around EUR 150 million in 2023, or 3% of the notional ideal revenue, lower than the EU average of 12%.

Tax-simulations indicate that Estonia's reduced VAT rates in 2025 are concentrated in a small number of categories, led by 'health' ([37]). 'Health' accounts for the largest share of forgone revenues at 63.8%, more than double the EU mean share of 10.4%. 'Recreation, sport and culture' comes second at 19.3%, well above the EU mean share of 13.3%. 'Restaurants and accommodation' rank third at 16.9%, below the EU mean share of 20.4%. These three categories account for 100.0% of Estonia's total forgone revenue. Estonia's reduced VAT rates have very limited distributional implications**.**

3.3 Policy tax gaps in corporate income tax

Estonia’s CIT policy gap has narrowed as the main CIT-related tax expenditure has been abolished. From 2025, the reduced 14% CIT rate on regularly distributed profits no longer applies. A small residual fiscal cost remained in 2025, estimated by the Ministry of Finance in its 2026 summer forecast at EUR 15.8 million ([38]). However, the abolished measure entails no further tax

[32] Republic of Estonia: 2025 Article IV Consultation-Press Release; and Staff Report 6.
[33] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., VAT gap in Europe – Report 2025, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.
[34] The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations. The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.
[35] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.
[36] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.
[37] The VAT rate gap is analysed here using EUROMOD's household consumption tool. No behavioural adaptation is considered. Note that VAT rates are mostly not an efficient tool for redistributive policies, in part due to incomplete pass-through to consumer prices, in part due to limited targeting of reduced rates. For more details on assessing the impacts of reduced VAT rates with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Ricci et al. (2026), Fiscal Costs and Redistributive Effects of Reduced VAT Rates in the EU, European Commission, European Economy Discussion Paper 244; Trzcinski and Amores (2026), The VAT Policy Gap and Redistribution in the European Union 2025, European Commission, Seville, JRC14876; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).
[38] Ministry of Finance (2026), Summer 2026 Economic Forecast, Available at: https://www.fin.ee/sites/default/files/documents/2026-09/RM%202026%20Summer%20Forecast%20-%20English.pdf.

expenditure costs as from 2026. While this reform thus reduces the CIT policy gap, Estonia's distribution-based system leaves a substantial share of accrued corporate profits outside the current tax base as companies can defer taxation by retaining rather than distributing earnings. This creates a strong bias towards retaining profits and financing companies through equity, which entails a fiscal cost through delayed or forgone CIT revenue and may lead to inefficient capital allocation by keeping surplus funds tied up in incumbent firms ([39]). Together with a CIT yield of only 2.4% of GDP in 2024 compared with an EU average of 3.3%, this suggests that Estonia's broader structural CIT policy gap remains significant when assessed against a conventional annual tax on accrued corporate profits ([40]).

3.4 Policy tax gaps in personal income tax

Estonia's PIT-related tax expenditures are mainly linked to social protection, savings, education and selected employment objectives. The largest current item is the tax-free allowance for people of pensionable age, estimated at EUR 123.4 million in 2025 ([41]). Other sizable PIT-related expenditure provisions in 2025 include supplementary pension contributions (EUR 26.1 million), second-pillar pension contributions (EUR 21.8 million), employee-health promotion expenses (EUR 22.4 million) and training expenses (EUR 18.4 million). While these figures give an indication of revenues forgone, the Ministry of Finance notes that they should be interpreted with caution as they do not capture behavioural effects or interactions between provisions.

Since 2025, the main PIT policy gap development has been the shift from an income-dependent basic allowance to a universal allowance of EUR 700 per month from 2026. As already discussed in section 1.2.2, this reform simplifies the system and removes the previous 'tax hump', but entails a large fiscal cost, estimated by the Ministry of Finance at around EUR 461 million in 2026 and EUR 524 million in 2027 ([42]). At the same time, Estonia has removed several narrower PIT deductions, including mortgage interest, child-related additional allowances and the transfer of unused allowances to a spouse ([43]). Overall, the PIT policy gap has therefore shifted away from multiple targeted deductions towards a broad, costly tax-free allowance justified by simplification, predictability and work incentives.

Tax-simulations for 2025 suggest that PIT-related tax expenditures in Estonia have a very limited effect on inequality ([44]). PIT-related tax expenditures imply revenue forgone equal to 3.9% of actual PIT revenues (below the EU average of 19.1%) ([45]). They reduce the Gini

[39] Süleyman Bolat and Marcin Jamroży "Impact of Estonian Distributed Profits Tax on Corporate Finances: A Literature Review," Journal of Management and Financial Sciences, Vol. XVIII, Issue 58 (2025).
[40] According to the OECD, Estonia's distributed-profit tax regime "may lead to 'under taxation'". Available at: https://read.oecd-ilibrary.org/en/publications/oecd-economic-surveys-estonia-2026_2514521c-en.html.
[41] Ministry of Finance (2026), Summer 2026 Economic Forecast, Available at: https://www.fin.ee/sites/default/files/documents/2026-09/RM%202026%20Summer%20Forecast%20-%20English.pdf.
[42] Ibidem.
[43] Tax and Customs Board Yearbook 2025. Available at https://emta.ee/eraklient/amet-uudised-ja-kontakt/maksu-ja-tolliamet/aastaraamat.
[44] Simulations are based on EUROMOD and do not account for behavioural changes. For more details on assessing the impacts of tax expenditures in the PIT with EUROMOD, see Turrini et al. (2024), Tax Expenditures in the EU: Recent Trends and New Policy Challenges, European Commission, European Economy Discussion Paper 212; Leventi et al. (2026), Personal Income Tax Expenditures in the EU, European Commission, Seville, 2026, JRC148748; and Annex A to this report (Methods, Data and Assessment Framework of the Country Fiches).
[45] According to the European Commission's taxation trends data, PIT revenues in Estonia amounted to approximately EUR 2.6 billion in 2024. This would imply revenue forgone of approximately EUR 0.1 billion due to PIT tax expenditures according to the microsimulation (3.9% of EUR 2.6 billion).

coefficient by 0.07 pps compared to an EU average reduction of 0.46 pps. Family-related TEs account for the largest share of revenue forgone (3.4% of PIT revenue).

4. Effectiveness of tax administration

4.1 Registration/identification of taxpayers

Estonia's tax identification and registration system is highly unified and digitalised, integrating all tax types under a centralised framework. Individuals use a single taxpayer account number (covering PIT, VAT, and other taxes), while companies receive a registry code and a separate VAT ID, both linked to Estonia's centralised taxpayer register. The reform of the Taxpayer Service Interface, implemented with support from the EU Technical Support Instrument (TSI), has contributed to the modernisation and improved reliability of the taxpayer register ([46]).

The e-MTA portal ([47]), operated by the Estonian Tax and Customs Board, enables electronic registration, management, and real-time updates of VAT, PIT, and CIT obligations. The system uses the X-Road/X-tee framework for automated data exchange across public databases, ensuring accurate, up-to-date records with minimal administrative burden. Automatic registration triggers include company registration in the Business Register (with VAT numbers published and synchronised instantly), while secure digital authentication allows taxpayers to access and modify tax-related information online ([48]).

E-commerce oversight relies on fragmented data sources rather than a dedicated register. Estonia has not established a separate e-commerce taxpayer register, citing insufficient data to ensure accuracy. Instead, it monitors e-commerce activity like any other economic activity through disparate sources, such as One Stop Shop-registered users and companies listed in the Commercial Register under e-commerce related activities.

Estonia's risk-based registration relies on automated cross-checks across tax and third-party databases. Its risk management system systematically cross-checks VAT registration data against third-party sources and other tax databases, including CIT and labour tax records. This automated validation detects inconsistencies or fraud risks by comparing applicant information with external datasets (e.g. commercial registers) and internal tax records ([49]).

Estonia's VAT taxpayer qualification is handled through a particularly efficient administrative process. Since 2023, the Estonian tax authorities have also reinforced control capacity by creating a dedicated audit team to deregister MTIC fraudsters in close coordination with Eurofisc, and its local offices. Invalidation follows a similarly structured but relatively longer process, reflecting the checks needed before deregistration is finalised. Compared with qualification, invalidation therefore takes longer but Estonia has significantly accelerated the removal of suspected fraudsters.

[46] Redesigning the Estonian Tax Administration´s register of taxpayers - Reforms and Investments.
[47] Signing in to e-MTA.
[48] emta.static.live.vportal.ee; emta.ee.
[49] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

4.2 Tax filing and assessment

Estonia's tax system prioritises digital accessibility across all tax types. Estonia's tax system is highly digitalised through the user-friendly e-MTA portal, supporting online filing for PIT, CIT, and VAT. The portal provides a centralised platform for tax procedures, with PIT filing particularly efficient thanks to its integration with other government systems. While VAT data has been accessible and modifiable online since 2014, CIT processes currently offer less digital support.

Estonia's pre-filling system excels for PIT but does not prefill VAT declarations. Estonia provides comprehensive pre-filling for PIT, using data from employers, banks, and other sources to auto-populate returns, making the process highly efficient and user-friendly. For VAT, no pre-filling is applied. While Estonia's system uses interconnected registers and third-party data (including transactional data from business registers), currently it does not employ a fully mandatory real-time e-invoicing clearance system for all domestic B2B transactions ([50]).

Estonia excels in e-filing rates, **with 97.9% for PIT (vs. EU average of 88.4%), 99.9% for CIT (above EU average), and 99.9% for VAT (above EU average) in 2024.** These high rates reflect a mature digital tax system, where user-friendly e-filing facilities, clear instructions, and pre-filled data reduce errors and administrative burdens, benefiting both taxpayers and the tax administration ([51]).

The Tax and Customs Board (EMTA) provides a highly developed digital tax service, centred on convenience and automation. Taxpayers can use online calculators for tax computations, access services through the e-MTA portal, and receive support via automated tools like chatbots. The system offers personalised portal views, displaying individual tax obligations, filing history, and reminders for deadlines. This user-focused approach aligns with Estonia's broader e-governance model, ensuring efficient and accessible tax compliance.

Estonia makes broad use of the data obtained through automatic exchange of information (AEOI), under the Directive on administrative cooperation in the field of taxation (DAC) ([52]), namely DAC1 ([53]), DAC2 ([54]), and DAC7 ([55]) for PIT and CIT purposes. The identification of taxpayers concerned in Estonia is carried out systematically with various results: in 2025, the matching rate ([56]) measuring success in identifying registered taxpayers with DAC data is close to 71% for the main categories of DAC1 ([57]) - the EU-average being 84% - and 96% for DAC2, above the EU average (92%). In this respect, the TIN validation tool envisaged in the

[50] Data-based reporting | Estonian Tax and Customs Board.
[51] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.
[52] Sources: Yearly Assessment 2026.
[53] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC: automatic exchange of information on income from employment, pensions, director's fees, immovable properties, life insurance products, royalties.
[54] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on financial accounts.
[55] Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation: automatic exchange of information on income from digital platforms.
[56] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.
[57] Income from employment, pensions, director's fees, immovable properties.

DAC recast proposal will support the matching process to approach a 100% automatic matching rate, ultimately allowing Estonia for a more efficient and targeted deployment of resources.

Once the taxpayers concerned have been identified, Estonian tax authorities use the available data for awareness campaigns, voluntary compliance programs, tax risk assessment ([58]) to detect possible undeclared income and, if relevant, notification to disclosure and tax assessments or tax audits. In Estonia, this use is not only relevant for personal income tax, but also for detection of undeclared professional activities, CIT and VAT, as tax authorities take into account the most recent exchange of information on income from digital platforms (DAC7). Moreover, Estonia monitors the fiscal impact of using DAC data, which leads to substantial additional tax revenues. In this context, it would be beneficial for Estonia to complete this process by providing the matching rates for DAC7.

Estonia has relatively high activity in VAT administrative cooperation ([59]). In 2024, Estonia sent 66 requests for information ([60]), representing a decline from 2023 (-10.8%). The number of requests received by Estonia reached 514 in 2024. Based on a standardised measure, taking into account the relative size of the Estonian economy, Estonia is in line with the EU weighted average on the number of requests sent and well above the EU weighted average on the number of requests received ([61]).

Estonia records limited results in automated exchange of VAT information. It reported 190 VAT identification numbers allocated to taxable persons not established in the Member State. For information on new means of transport, it forwarded 5 cases. Based on a standardised measure, taking into account the relative size of the Estonian economy, Estonia is below the EU weighted average on both VAT identification numbers allocated to taxable persons not established in Estonia and the volume of information on new means of transport ([62]).

4.3 Compliance risk management

Estonia's compliance risk management follows a structured, data-driven approach. Estonia's Tax and Customs Board (EMTA) operates a formal, regularly updated CRM strategy covering CIT, PIT, and VAT. The system uses 12 data categories (e.g. unpaid taxes, declarations, tax offences, sales/purchases, employment data) from EMTA records, e-Business Register, Statistics Estonia, and EU-level sources such as customs or VIES data. For transparency, taxpayers can view

[58] Tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify situations that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions.

[59] Based on Council Regulation (EU) No 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax (VAT), as subsequently amended, the EU and Member States' national tax authorities cooperate to help ensure the correct application of VAT rules on cross-border transactions.

[60] The data is assessed based on the annual statistics, provided pursuant to Commission Implementing Regulation 79/2012 (Annex IV) and presented to the Standing Committee on Administrative Cooperation (SCAC).

[61] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Estonia sent 1.66 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.60 requests sent per EUR 1 billion of GDP; and received 12.90 requests per EUR 1 billion of GDP compared to an EU weighted average of 1.59 requests received per EUR 1 billion of GDP.

[62] The standardised measure normalises the number of requests per EUR 1 billion of GDP, allowing for comparison relative to the size of the economy. In 2024, Estonia reported 4.77 VAT identification numbers allocated to taxable persons not established in the Member State per EUR 1 billion of GDP compared to an EU weighted average of 7.77 VAT identification numbers per EUR 1 billion of GDP; and new means of transport 0.13 requests per EUR 1 billion of GDP compared to an EU weighted average of 0.95 new means of transport per EUR 1 billion of GDP.

their risk categories 24/7 in the e-tax/customs portal. The related strategy favours a data-driven approach allowing risk assessment, prioritisation, and targeted interventions - from taxpayer education to audits ([63]).

Estonia uses AI to enhance risk segmentation and fraud detection. The system integrates AI since 2025 for prioritising high-risk cases. Network-based risk analysis, applying graph neural networks and predictive models to detect anomalies in taxpayer relationships, will be implemented from November 2026 and will support VAT fraud detection ([64]).

Estonia's compliance approach combines digital tools with targeted behavioural-based interventions. While pre-filled PIT returns drive compliance (e.g. for forestry and real estate sales), nudges complement this. A tax behaviour assessment application provides targeted compliance support ([65]).

Estonia also uses reports exchanged automatically under the DAC, i.e. DAC3 ([66]), DAC4 ([67]) and DAC6 ([68]) for risk-analysis purposes in the field of CIT, however there is no systematic consultation of DAC6 reports. The Estonian tax authorities identified successfully 100% of the taxpayers concerned by DAC3, 98% of the taxpayers concerned by DAC4 and 100% of the taxpayers concerned by DAC6 reports, the EU average being 98%, 94% and 90% respectively. In practice, these reports are used for identifying tax risks, including on transfer pricing, base erosion and profit shifting, harmful tax practices, and risk of non-compliance by certain entities, followed up by tax audits, where relevant. However, the lack of systematic consultation of DAC6 reports by auditors and their insufficient use in identifying potential loopholes limits the effectiveness of this instrument.

Estonia uses Central Electronic System of Payment Information (CESOP) data ([69]) for case-by-case compliance risk assessment, with ongoing efforts to improve data quality and integration. Current usage is limited due to data quality issues, requiring manual analysis. Estonia is informing Payment Service Providers about low-quality submissions and testing bulk uploads to enrich CESOP data with VAT/IOSS numbers and merged payee records. A working group (VAT risk manager, CESOP service owner, international exchange specialists) is developing a risk methodology to compare CESOP data with VIES, national VAT returns, and OSS/IOSS declarations.

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[63] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Estonia, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/6553856.

[64] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

[65] Ibidem.

[66] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on rulings and advanced pricing arrangements.

[67] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation: automatic exchange of information on country-by-country reports of multinational entities.

[68] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.: automatic exchange of information on potentially tax-harmful cross-border arrangements.

[69] The Central Electronic System of Payment Information (CESOP) is an EU-wide system established under Directive (EU) 2020/284 to support the fight against VAT fraud in e-commerce. It requires payment service providers to report cross-border payment data on a quarterly basis to national tax authorities, which then transmit the information to CESOP. The system centralises and analyses this data, enabling Member States to detect undeclared online sales, identify fraudulent traders, and enhance administrative cooperation in combating cross-border VAT fraud.

Automation remains pending due to persistent data quality challenges, but a centralised risk analysis approach is planned for the future ([70]).

4.4 Audits

Estonia's audit system combines traditional and technology-enhanced risk management. Estonia conducts a range of post-filing audit activities, from desk audits to comprehensive investigations ([71]). In addition, as explained above, the system uses analytics and technology for audit targeting and fraud detection. In Estonia 49.4% of the staff is allocated to audit, investigation and other verification.

Estonia does not have a Large Taxpayer office or High Net Worth Individual programme. In 2024, there was neither a Large Taxpayer office nor a High-Net-Worth Individual programme in Estonia ([72]).

Estonia is a regular user of advanced instruments of cooperation provided for in Directive on administrative cooperation in the field of taxation and Regulation 904/2010 to facilitate cooperation on specific cross-border VAT issues. Such instruments entail multilateral controls (MLCs) such as simultaneous controls, joint audits and presence in administrative offices and administrative enquiries (PAOEs). The synergies between participating Member States derived from these coordinated activities usually lead to an increase in the tax assessed and, therefore, contribute to reduce the tax gap. Between 2023 and 2025 Estonia has initiated 4 PAOE, and has participated in 2 MLC and 6 PAOE, representing respectively 6.2%, 0.7% and 4.7% of the total of EU activities. However, Estonia has not initiated any MLC during this period.

In Estonia, the tax authorities – and in particular the audit departments – do not have automatic access to the financial data of their tax residents. Automatic access to this information would strengthen the effectiveness of the Estonian tax administration in targeting non-compliance while streamlining the reconciliation of domestic and cross-border taxpayer data.

4.5 Payment and collection

Estonia achieves near-universal electronic payments but faces on-time compliance challenges. In 2024, 99% of payments were electronic, maintaining a ~99% trend over five years. However. The on-time payment rate for CIT (83.3%) falls below the EU averages (89.8%) and PIT (80.8%) is around the EU average (79.6%), while VAT (73.6%) also trails the EU average (83.7%), indicating room for improvement in individual and corporate compliance ([73]). Cash tax payments are still accepted although only at customs border crossing points with a third country**,** with a set threshold of EUR 10 000. No other restrictions apply to payment methods ([74]).

[70] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).
[71] European Commission: Directorate-General for Taxation and Customs Union, Mind the Gap – Challenges and opportunities for tax compliance and tax expenditures in the EU – Estonia, Publications Office of the European Union, 2025, https://data.europa.eu/doi/10.2778/6553856.
[72] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB.
[73] IIbidem.
[74] Findings based on Member States' annual reports (mostly 2025-2026) under Article 12, Regulation (EEC, Euratom) No 1553/89 (VAT own resources collection).

Estonia's VAT refund process is linked to taxpayer registration and compliance risk management. The system verifies taxpayer identities to prevent fictitious traders from entering the VAT system, integrating refund processing with registration checks. Estonia's VAT system applies penalties and interest as defined in national legislation ([75]).

4.6 Tax debt recovery

Estonia maintains a robust tax arrears management system, marked by low arrears levels and high collectability. The closing stock of tax arrears at the end of the year in % of total revenue has remained relatively stable in recent years. In 2024, it amounted to 4.5%, slightly decreased from the previous year (4.9%) and much lower than - the EU average of 30.7%. The closing stock of collectable arrears as percentage of the closing stock arears has slightly improved - compared to 2023, standing at 86.8% in 2024 compared to 89.3% in 2023 ([76]). Estonian legislation on cooperation between the administrator of insolvency proceedings and tax (recovery) authorities does not allow these tax authorities to exchange information with the administrator of the insolvency proceedings concerning assets that could be used for the recovery of the unpaid claims in the insolvency proceedings ([77]).

As regards the write-off of tax debts, Estonia applies strict rules ensuring that debts are written off when enforcement is definitively no longer possible. In addition, under specific legal conditions, tax debt may be cancelled in the context of approved compositions in insolvency proceedings, restructuring and debt adjustment proceedings, where this supports a more effective overall outcome for creditors and the continuation of viable economic activity. Tax debt may also be remitted where recovery would be unfair due to circumstances beyond the taxpayer's control. Estonia collects information on how long it takes to solve tax disputes (at administrative level or before a court) and the duration of (administrative or judicial) appeal stages is under control ([78]). The Estonian law allows the tax administration to take precautionary measures before there is an assessment or title, but a prior court order is required.

Regarding cross-border recovery assistance within the EU, Estonia submits compliant requests to other Member States. Estonian recovery requests to other Member States generally comply with requirements ([79]), focusing on well-established claims. Only 1 recovery request was suspended in 2025, while 251 requests for recovery were sent to other Member States in the same year ([80]).

Estonia has integrated the AEOI in its tax recovery strategy. DAC data (DAC1, DAC2 or DAC7) is automatically fed into the reports used by debt enforcement officers in their daily work. Based on this information, Estonia can consider submitting a request for assistance with tax recovery.

[75] Ibidem.
[76] ISORA Data - closing stock and collectable arrears.
[77] Estonia's replies to questions 35-36 of the 2025 survey on tax recovery.
[78] Estonia's replies to questions 12 and 13 of the 2025 survey on tax recovery.
[79] Statistics on rejections of requests, reported by Estonia as applicant State, relating to recovery assistance in 2025.
[80] Statistics on the suspension of recovery requests, sent by Estonia as applicant State, following contestation of the claim, for 2025.