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COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU
Estonia

Country fiche: Estonia

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Estonia performs strongly regarding the digitalisation of its tax administration and is innovative in their practices.** With 98% of tax returns filed electronically (EU average: 75%), and mandatory digital income reporting via employers for personal income tax (PIT), the system ensures minimal taxpayer effort and high levels of compliance. For example, Estonian taxpayers' personal income tax declaration is pre-filled, 97% of all personal income tax declarations are submitted electronically and 32% of them by one click. This digital-first approach has reduced tax compliance costs and ensures high levels of transparency.
- **Estonia maintains a deliberately broad-based VAT system with relatively few exemptions and reduced rates.** As a result, Estonia's VAT policy gap was just 34.9% of notional ideal revenue in 2023 (EUR 2.1 billion), significantly below the EU average of 50.5%. With fewer deviations from the standard rate, Estonia is able to capture more VAT per euro of consumption. Due to its broad VAT base, Estonia's recent increase in its VAT standard rate from 22 to 24 percent is also likely to yield proportionally more revenue with less leakage through reduced rates and exemptions.

Areas for Improvement

- **In light of rising medium-term funding needs (i.e. defence, ageing, health, climate), an evidence-based review of Estonia's corporate tax system could be envisaged, focusing for instance on whether the distributed-profit tax regime is still fit for purpose.** Given that consumption and labour taxes already play a large role in Estonia's tax mix, such a review could offer a more balanced way to mobilise revenue than relying on rate hikes alone. Specifically, Estonia could assess options for strengthening enforcement of the current corporate tax system through capacity-building or gradually transitioning towards broadening the tax base (e.g. towards a standard corporate profit tax with an allowance for corporate equity).
- **Although there is an obligation to report annually tax expenditures currently, Estonia lacks a comprehensive formal framework to evaluate tax expenditures.** Over 30% of these schemes remain unassessed for cost-effectiveness or unintended consequences. By adopting a comprehensive methodology for tax expenditure reporting, Estonia could move towards a more regular, comprehensive and outcome-oriented evaluation of tax expenditures to ensure that tax expenditures are justified compared to direct subsidies. This could also help identify inefficient incentives and redirect resources to more impactful areas.

1. Snapshot of Tax System: Tax Revenues and their Sources

The tax system in Estonia reflects a relatively low tax burden with strong reliance on consumption taxes. In 2023, total tax revenues amounted to 33.7% of GDP, which remains below the EU average (39.0%) ⁽¹⁾. Revenues from labour taxes, including personal income tax and social security contributions, accounted for 52.7% of total revenues in 2023, slightly above the EU average (51.2%). Consumption taxes made up approximately 38.9% of tax revenues in the same year, above the EU average of 26.9%. Capital taxation, on the other hand, including corporate income tax and taxes on property and wealth, is relatively undertaxed, accounting for around 8.5% of total revenues ⁽²⁾, significantly below the EU average of 21.9%. Among the different tax types, VAT amounted in 2023 to 27.0% of total tax revenues (EU average: 18.3%) and 9.1% of GDP (EU average: 7.1%). Revenue from recurrent taxes on immovable property are very low (0.1% of GDP in 2023, compared to 0.9% in the EU-27).

The tax-benefit system contributes only slightly to reducing inequality in Estonia due to low progressivity. The 2024 Gini Index for total disposable income (30.8%) is slightly higher the EU average (29.3%) ⁽³⁾. Overall, the tax and benefit system reduced income inequality (measured as the difference in Gini coefficients before and after taxes and benefits) by 7.2 pp in 2023, slightly below the EU average (7.7%) ⁽⁴⁾. At 22.2% in 2024, the at-risk-of-poverty or social exclusion rate is above the EU average (21.0%) ⁽⁵⁾. A flat-rate tax on labour leads to relatively high taxation of low-wage earners, reducing the redistributive power of the tax system. At 6.2 percentage points in 2024, the difference in the tax wedge ⁽⁶⁾ between high-income (167% of average wage) and low-income earners (67% of average wage) is below the EU average of 7.8 percentage points. Based on the JRC assessment of the distributional effects, PIT reform would have a limited impact on poverty risk and income inequality for low-income groups ⁽⁷⁾.

¹ Data on tax revenues are based on European Commission: [Data on Taxation Trends](#), edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a increase of total tax revenues to 35.2% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.

² In particular, Estonia's unique corporate tax system, which taxes only distributed profits, and its land-only property tax result in low capital tax revenues by EU standards.

³ European Commission, Eurostat [\[ilc_di12\]](#)

⁴ European Commission, DG EMPL calculations based on EU-SILC survey data.

⁵ European Commission, Eurostat [\[ilc_peps01n\]](#)

⁶ The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: [Tax and Benefits Database](#).

⁷ [Labour Taxation and Inclusive Growth](#)

2. Monitoring of Compliance Gaps

2.1. Overview

Estonia has made efforts to estimate tax gaps for seven different types of taxes, including social tax, VAT, PIT, CIT, alcohol excise, tobacco excise and fuel excise. While it does not typically publish estimates of tax compliance gaps, the Estonian Tax and Customs Board has provided estimates of ‘tax losses’ in its 2024 Annual Review ⁽⁸⁾. The report highlights that Estonia had lost tax revenues of EUR 212 million in 2024, with non-compliance being concentrated among a relatively small group of high-risk taxpayers. These tax gap estimation efforts are complemented by regular household surveys that Estonia use to monitor and quantify the personal income tax gap associated with envelope wages, which are undeclared payments to employees in addition to their official salary. In addition, Estonia has participated in international initiatives such as the EU’s Fiscalis tax gap project and has engaged with the IMF to strengthen its analytical capacity with respect to VAT compliance gap estimation ⁽⁹⁾.

2.2. Monitoring VAT Compliance Gap

Overall, Estonia performs moderately in terms of VAT compliance, with a VAT compliance gap ⁽¹⁰⁾ that amounted in 2023 to EUR 400 million, or 10% of the VAT Total Tax Liability (VTTL) ⁽¹¹⁾ ⁽¹²⁾. Data reveals an increasing trend between 2019 and 2023 (more than +4 percentage points), with an exceptional fall to 2% in 2021, followed by a rebound in 2022 and a further increase in 2023. Given that the overall VAT compliance gap in the EU amounted to 9.5% of the VTTL in 2023, Estonia had the 9th largest VAT compliance gap among EU Member States.

At the same time, several other factors are likely to have contributed to increased non-compliance in Estonia. The country saw an increase in the share of services in its economy (+3 percentage points), which can be associated with a higher risk of non-compliance, as services are typically harder to tax effectively compared to traditional goods. Together with the significant increase in bankruptcy declarations, which grew by 52% in 2023, these factors are likely to have exerted upward pressure on the VAT compliance gap.

⁸ <https://www.emta.ee/eraklient/maksu-ja-tolliameti-aastaraamat/maksulaekumine>

⁹ [Republic of Estonia: Technical Assistance Report-Revenue Administration Gap Analysis Program-The Value-Added Tax Gap](#)

¹⁰ The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

¹¹ 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.

¹² See European Commission, Syntesia, Poniowski, 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>.

In 2023, VAT losses due to Missing Trader Intra-Community (MTIC) fraud ⁽¹³⁾ were estimated at around EUR 160 million in Estonia. While experiencing some fluctuations over time, the VAT losses due to MTIC fraud did not exhibit any discernible trend between 2010 and 2023 ⁽¹⁴⁾.

2.3. Corporate and Personal Income Tax Compliance Gaps, and Measures of the Shadow Economy

Estonia has been making efforts to estimate its corporate income tax (CIT) compliance gap since 2022, however, the results have not been made public so far. Estimating how much in CIT revenue is lost due to non-compliance, avoidance or administrative errors could help policy makers understand the nature and magnitude of the problems related to CIT collection.

European Commission estimates suggest a low CIT tax gap in Estonia. Based on a methodology developed by the Joint Research Centre which relies on a top-down approach using statistical data, the CIT compliance gap of Estonia was at around 5% of collected CIT revenues in 2016 (using the GVA-based methodology) ⁽¹⁵⁾. Based on the same methodology, the (unweighted) average for the CIT gap is 10.9% of collected CIT revenues based on available estimates for 23 Member States.

There are no official estimates of the personal income tax (PIT) gap in Estonia, but its size is related to the country's shadow economy, where practices, such as envelope wages, diminish the personal income tax base and social security contributions.

The size of the shadow economy in Estonia is well above the EU average. In 2022, the shadow economy in Estonia represented 22.7% of GDP, according to estimates by Schneider, F. and Asllani, A. for the European Parliament ⁽¹⁶⁾. This ratio is 5.1 percentage points above the EU-27 unweighted average, despite the declining trend in recent years (28.2% of GDP in 2012). A different methodology estimated the shadow economy in Estonia at 19.5% of GDP in 2024, with a sizeable 10-year increase from 14.9% in 2015 ⁽¹⁷⁾.

¹³ Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

¹⁴ European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, <https://data.europa.eu/doi/10.2778/6433841>.

¹⁵ European Commission: Directorate-General for Taxation and Customs Union (2025), *The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues*, Publications Office of the European Union, <https://data.europa.eu/doi/10.2778/0541549>. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to Gross Operating Surplus (GOS), Gross Value Added (GVA) and Gross Domestic Product (GDP), that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

¹⁶ See: [Taxation of the Informal Economy in the EU](#)

¹⁷ Stockholm School of Economics and SSE Riga, Shadow Economy Index for Baltic Countries 2009-2024, available at https://www.sseriga.edu/sites/default/files/2025-06/Shadow_Economy_Index_2009_2024.pdf

Envelope wages, which refer to undeclared income received in cash off the books (sometimes in addition to the official salary), are significant drivers of the shadow economy in Estonia.

According to some studies, envelope wages make up about 44% of the total shadow economy in Estonia in 2024 ⁽¹⁸⁾. In terms of sectors, the share of envelope wages is the highest in construction with 38% of respondents to a survey conducted by the Estonian Tax and Customs Board (ETCB) reporting that in this particular sector the envelope wage share exceeds 20% of total payouts ⁽¹⁹⁾. Moreover, the ETCB has commissioned studies of the shadow labour market to quantify tax losses due to envelope wages, with the latest available estimate valuing the envelope-wage tax gap in Estonia at EUR 97.4 million in 2021 ⁽²⁰⁾. This represents a decrease from 7% to 4% of employees receiving envelope wages compared to 2019. A complementary population survey on the shadow economy commissioned by the ETCB finds that about 4% of wage earners say they received envelope wages in 2024, while about a quarter of respondents report knowing someone who receives this kind of undeclared income.

2.4. Other Compliance Gaps

There is currently no public information of other tax compliance gap estimates ⁽²¹⁾. While the ETCB estimates compliance gaps for several tax types, these are treated as confidential.

3. Monitoring of Policy Gaps

3.1. Tax Expenditures

Estonia regularly reports on tax expenditures, which are reported annually with the budget with time coverage $t, t+1$, i.e. the fiscal year of the budget and one year ahead ⁽²²⁾. Tax expenditures are categorised based on tax base and their purpose. However, information is limited and fragmented regarding tax expenditures related to CIT, environmental taxation etc.

Tax expenditures in the area of PIT have limited budgetary impact in Estonia. A recent simulation study based on EUROMOD analysed PIT and VAT related tax expenditures ⁽²³⁾. In Estonia, the majority of PIT-related tax expenditures is related to employment and family. Foregone revenues due to tax expenditures related to PIT amounted to 4% of total PIT revenues in 2022. 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. The tax cost figures (*maksukulu*) in the national spring forecast quantify foregone revenue but are not paired with assessments of whether each measure achieves its

¹⁸ See: [Shadow Economy Index for the Baltic Countries | Stockholm School of Economics in Riga](#)

¹⁹ See: [Factsheet on undeclared work - ESTONIA](#)

²⁰ See: [Ümbrikupalga saajate osakaal on langenud 4% ni töötasu saajatest | Maksu- ja Tolliamet](#)

²¹ Annex Table 11.A.13 and Annex Table 11.A.14 of OECD Tax Administration Report 2024

²² See: [Tax expenditures in direct taxation in EU Member States](#)

²³ Turrini, A., Guigue, J., Kiss, Á., Leodolter, A., Van Herck, K., Neher, F., Leventi, C., Papini, A., Picos, F., Ricci, M., Lanterna F.; (2024). [Tax Expenditures in the EU: Recent Trends and New Policy Challenges](#). European Economy-Discussion Papers, (212).

policy objectives or delivers value for money. 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 benefits remain unevaluated in terms of efficiency, equity, or effectiveness. IMF and OECD have recently recommended Estonia a review of the tax system to identify and implement reform options to generate additional revenues. Those recommendations implicitly suggest evaluating several tax expenditures ⁽²⁴⁾.

In terms of tax policy gap, Estonia's CIT system privileges competitiveness and simplicity over a broad tax base. Estonian corporate taxpayers are subject to a flat-rate distribution tax on distributed profits and no tax is levied on any retained and reinvested earnings, thus narrowing the base relative to a standard CIT system. While this supports reinvestment, it also helps explain why CIT revenues are markedly lower in Estonia (1.9% of GDP in 2023, third lowest in the EU) compared to the rest of the EU (3.2% GDP in 2023). In this context, the IMF has recently recommended Estonia to review its corporate tax regime, considering alternative options and potential implications for revenue mobilization and long-run investment ⁽²⁵⁾. The government has already removed the preferential 14% rate on regularly paid dividends from 2025, though the underlying base-narrowing remains.

Estonia's PIT policy gap largely stems from a basic allowance that will be expanded in the near future. On the personal income side, Estonia combines a single 22% rate with a basic allowance that is phased out over a middle-income band, producing an inverted-U marginal rate profile ('the hump'). This design contributes to a lower level of PIT revenue (18.6% of total tax revenues in 2023) compared to the EU average (23.9% of total tax revenues in 2023) and weakens progressivity by keeping marginal rates of high-income earners relatively low. From 2026, Estonia will make the basic exemption universal and larger (from EUR 7 848 to EUR 8 400 a year), thus removing the so-called hump. However, because every taxpayer will keep the full allowance, the tax base will narrow across the entire income distribution, which, according to IMF estimates, will reduce PIT revenue by approximately 0.5% of GDP ⁽²⁶⁾.

3.2. VAT Policy Gap

The VAT policy gap ⁽²⁷⁾ in Estonia was markedly lower than the EU average in 2023. The VAT policy gap in Estonia was estimated that year at 35% of the notional ideal revenue ⁽²⁸⁾ (EUR 2.1 billion), while the EU VAT policy gap was 51%. It has remained stable compared to 2022, and saw a small decrease of almost 1 percentage point compared to 2019. Estonia did not implement major changes

²⁴ See: [OECD Economic Surveys: Estonia 2024](#) and [IMF, 2025, Options to Strengthen the Tax System in Estonia](#).

²⁵ [Republic of Estonia: 2025 Article IV Consultation-Press Release; and Staff Report](#)

²⁶ Ibidem.

²⁷ 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.

²⁸ 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.

to VAT rates or exemptions in 2023, suggesting that small changes in the VAT policy gap likely reflect structural changes in consumption ⁽²⁹⁾.

The VAT exemption gap ⁽³⁰⁾ was lower in Estonia compared to the EU estimate in 2023. It amounted to 32% of the notional ideal revenue (EUR 1.9 billion), while for the EU-27 overall it was 38%. This constitutes a minor increase compared to 2022 (less than +0.5 percentage points). The VAT exemption gap has fluctuated slightly over time, having decreased by ca. 0.5 percentage points since 2019.

The national policy-driven VAT exemption gap ⁽³¹⁾ of EUR 620 million, was estimated in 2023 at 10% of the notional ideal revenue, while the overall EU estimate was 11%. This represents an increase compared to 2022 (+1 percentage point), and a smaller increase of ca. 0.5 percentage points since 2019.

The VAT rate gap ⁽³²⁾ in 2023, which amounted to EUR 150 million, was estimated at 3% of the notional ideal revenue, while for the EU-27 overall it was 12%. It has remained broadly stable compared to 2022, and also when looking at a longer horizon from 2019.

Estonia maintains a deliberately broad-based VAT system with relatively few exemptions and reduced rates. Recent VAT rate changes, however, may contribute to widening the policy gap somewhat. Estonia's standard VAT rate increased from 22 to 24 percent in mid-2025, while reduced rates for medicines and medical devices, representing the largest single tax expenditure item, remained unchanged at 9 percent. As a result, the revenue foregone on this item automatically grows, widening the gap to the benchmark standard rate. At the same time, Estonia raised its reduced rates on accommodation services from 9 to 13 percent and on press publications from 5 to 9 percent, which may partially offset the expected increase in the VAT policy gap.

4. Effectiveness of Tax Collection and Recovery Systems

4.1. VAT Collection

Estonia's VAT collection effectiveness is closely tied to its advanced digital infrastructure and proactive compliance strategies.

Estonia demonstrates efficiency in VAT registration, deregistration, and identification processes through its digital platforms ⁽³³⁾. The tax administration has implemented systems for online

²⁹ 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>.

³⁰ The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

³¹ 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 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.

³² 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.

registration and provides clear information regarding VAT obligations. However, there is an opportunity to enhance the current system by undertaking systematic cross-checks with third-party information sources to maintain a complete and accurate VAT database. In this context, Estonia is currently reforming its system to register taxpayers via TSI (i.e. a central repository of identified risks that potentially pose a threat to the continuity of tax administration operations) The deliverables are expected to further assist the Estonian Tax and Customs Board (ETCB) in improving the long-term sustainability of its register of taxpayers.

Estonia is efficient in updating the status of VAT identification numbers to "invalid" for both domestic and intra-EU transactions when significant indicators of VAT fraud are detected, such as Eurofisc risk signals. This process is completed within a time span of 15-30 days.

Since 2020, Estonia has made changes in enhancing the accuracy of its VAT database. However, Estonia had adopted also many measures to comply with the recommendations (CSR) adopted by the Council. The country embarked on systemic cross-referencing of registration data with third-party information sources to maintain a comprehensive and precise register of taxpayers, demonstrating robust advancements in ensuring data integrity. The incorporation of the Taxpayer Service Interface (TSI) reform is expected to further solidify these gains by the 2025.

In addition, it is planned to establish a taxonomy of data-based reporting in cooperation with State institutions. The reporting obligations of companies will be simplified by providing the possibility to transfer reporting data automatically from accounting or business.

Estonia is effective in VAT filing and assessment, utilising online channels to manage tax returns efficiently. The proactive approach in reminding VAT payers of filing deadlines supports timely submissions (by email). Nonetheless, there remains potential to optimize the dispute resolution process and refine assessment procedures, ensuring a seamless experience for taxpayers.

Estonia employs comprehensive compliance risk management strategies, leveraging data exchange to monitor VAT compliance. Increasing the coverage and depth of data analysis and maintaining continuous improvement in information exchange quality can further enhance Estonia's ability to manage compliance risks and VAT collection.

Estonia exhibits a strong audit and enforcement framework, utilising sector-specific manuals and inter-agency cooperation to conduct effective audits based on advanced risk analysis. Regular updates to audit plans have been maintained regularly throughout the year even before 2020, strengthening the efficiency of VAT audits. The audit and enforcement framework in Estonia is supported by detailed sector-specific manuals and inter-agency collaboration.

Estonia efficiently manages VAT payments and collection, minimising cash transactions (incentivising the use of e-payments and e-invoicing) and ensuring prompt processing of legitimate tax refunds. Since January 2014, businesses must submit detailed transactional data (e.g., invoice date, number, VAT amounts) for transactions exceeding EUR 1 000. During the transition period

³³ Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, [EUR-Lex - 52022DC0137 - EN - EUR-Lex](#). / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

until 20 January 2016, a taxable person had the right to reflect the amounts of the invoices by transaction partners. Recent tax reform provides (as from July 2025) that all customers in Estonia can demand structured e-invoices.

In addition, Estonia plans to make e-invoicing in B2B transactions mandatory, fully aligning with EU standards (EN 16931 standard). Estonia also intends to introduce mandatory B2B VAT transaction reporting with no threshold, which would replace the current EUR 1 000 reporting rule. By linking refund processes more closely to compliance risk management systems, Estonia aims to further mitigate the risk of fraudulent claims and ensure effective VAT collection.

Tax arrears can be reduced by focusing on on-time payment performance. Estonia put effort in promoting voluntary tax compliance through clear guidance and effective communication. They also provide seamless administrative processes that facilitate tax payment such as, prefilled tax returns, direct payment links in an e-tax system and the possibility to pay online using a payment app ⁽³⁴⁾. In Estonia, 83.7% of the CIT payments due, 83.7% of the PIT payments due and 75.3% percent of the VAT payments due are paid on time ⁽³⁵⁾, each of which is above the EU average.

Estonia's enforcement and debt collection practices are robust, supported by a flexible IT system for managing VAT arrears. Implementing a well-structured penalty system for late VAT submissions and payments could enhance overall enforcement. Estonia should continue to prioritise and manage outstanding debts more effectively (limited information/publication) on outstanding debts.

Overall, Estonia continues to advance its efforts in digitalising tax administration, aligning with ongoing reforms and RRF commitments aimed at improving technological infrastructure and VAT collection efficiency. These reforms are crucial for mitigating compliance risks and ensuring timely VAT collection. Focusing on advanced data analysis and expanding information exchange frameworks will be key to Estonia's success in achieving efficient VAT collection.

4.2. Tax Recovery

The Estonian tax administration has adopted a tax recovery strategy to steer its recovery activities. Estonia applies a risk-based approach to its tax recovery system. This strategy involves distinguishing between different profiles of debtors, such as fraudsters, debtors experiencing temporary financial difficulties etc. By classifying taxpayers based on their risk of non-payment, the Estonian tax administration can tailor their recovery efforts appropriately, focusing resources on areas where they will be most effective. Recovery of different types of taxes is attributed to the same authority, which also contributes to the efficiency of the tax recovery process.

Estonia effectively employs digital tools and real-time data to enhance tax recovery. Estonia leverages its advanced digital infrastructure, including automated reminders and early detection of

³⁴ Business Client/Estonian and Customs Board.

³⁵ OECD, Tax administration, 2024

payment issues, to monitor and manage tax arrears. These digital tools enable faster identification of non-compliance and streamline tax recovery processes, thus improving overall collection efficiency.

Currently, Estonia does not systematically report or monitor the cost of recovery actions/compliance, nor does it extensively employ cost-benefit analyses or performance indicators to assess these actions' efficiency. Implementing such measures could provide valuable insights into the effectiveness of different recovery strategies and ensure that resources are utilized in the most efficient manner.

Estonia utilises specific and transparent criteria to determine when debts are deemed non-collectible. Considerations include the insolvency status of the taxpayer, the absence of recoverable assets, and issues related to fraud, such as the disappearance of the debtor. These criteria guide the tax administration's decision-making process on whether to continue pursuing recovery actions. Estonia's policies on writing off tax arrears involve analysing the likelihood of debt recovery and applying thresholds and procedures to determine when a debt is considered non-recoverable.

Tax arrears in Estonia are well below the EU average and have remained in recent years ⁽³⁶⁾. The level of outstanding tax arrears for Estonia was stable over 2020-2023. At 4.9% percent in 2023, Estonia stood among the best EU performers (IE, LT, FI, SI, DE, SE) in 2023. This is the closing stock of arrears at year end as percentage of total revenue collected. The percentage suggests that the tax administration is capable to collect the taxes owed. Of the closing stock of arrears, Estonia considers 89,3% to be collectible in 2023. This percentage is nearly the same as in 2021 indicating the best performance in the EU.

Cooperation between tax authorities and administrators of insolvency proceedings can be improved. According to Estonia's replies to the survey ⁽³⁷⁾, the national legislation does not allow tax authorities to exchange information with administrators of insolvency procedures on assets in Estonia or other Member States that could be used for the recovery of unpaid claims in the insolvency proceedings.

Administrative contestations of tax claims are generally dealt with in a very short period in Estonia, nevertheless Court proceedings about disputed tax claims may take more than 2 years. Tax recovery possibilities are negatively affected if the claims concerned are contested. Such tax disputes (at administrative level or before a court) cause delays in the effective recovery, both at national level as in the execution of recovery assistance requests from other Member States. Estonia is encouraged to ensure that court proceedings are concluded as quickly as possible.

Estonia largely respects the deadlines for communication on the follow-up of recovery assistance requests from other Member States, and there is no complaint of other Member States on this point.

³⁶ Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", <http://isoradata.org>

³⁷ Survey for the preparation of the report on the use of recovery assistance (Directive 2010/24/EU)

Estonia's ongoing tax reforms focus on enhancing digital capabilities and infrastructure, aligning with RRF commitments to improve administrative efficiency and transparency. These reforms (e.g. registration of taxable persons) are crucial to facilitate better tax recovery practices and addressing outstanding CSRs related to reducing tax avoidance and evasion. Continued investment in digital solutions and performance measurement frameworks will be pivotal in maximising tax recovery outcomes. Moreover, ensuring consistent follow-up and utilisation of advanced analytics could further optimise Estonia's debt recovery process, reducing non-collectible arrears and enhancing the overall effectiveness of the tax administration system.

4.3. Use of Directive on Administrative Cooperation DAC⁽³⁸⁾ Instruments and Data⁽³⁹⁾

Estonia use DAC1⁽⁴⁰⁾ and DAC2⁽⁴¹⁾ data for assessing taxation on individuals on an annual basis. DAC1 (categories of income)⁽⁴²⁾ and DAC2 (financial accounts) data are currently used for awareness campaigns, voluntary compliance programs and domestic risk assessment analysis⁽⁴³⁾. Data is mainly used in the field of personal income tax..

DAC data matching is systematic⁽⁴⁴⁾, but rates concerning individuals are slightly under the EU average: for the year 2024, the average matching rate measuring success in identifying taxpayers with DAC data is close to 76% for DAC1⁽⁴⁵⁾, and 80% for DAC2, the EU-average being at 85% and 87% respectively. In order to improve the identification of taxpayers, Estonia plans to establish new methods of matching.

Estonia uses DAC3⁽⁴⁶⁾ data (rulings) and DAC4⁽⁴⁷⁾ (country-by-country report) data for risk-analysis purposes in the field of corporate income taxation. The reports including DAC3 and DAC4

³⁸ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended.

³⁹ Yearly Assessment 2025; EU AIAC Statistics 2024 – Subject to confidentiality clause on DAC art. 23a

⁴⁰ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

⁴¹ 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

⁴² Income from employment, Director's fees, Pensions, Immovable properties

⁴³ Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators 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. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

⁴⁴ 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

⁴⁵ Average rate for Income from employment, Director's fees, Pensions, Immovable properties

⁴⁶ 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

data are used for assessing risks on transfer pricing, base erosion and profit shifting matters, economic and statistical analysis; general audits and audits limited to specific categories of transactions (e.g. transfer pricing). The percentage of reports identified successfully in 2024 is 100% for DAC3 and for DAC4.

The use of DAC6⁽⁴⁸⁾ data (reportable cross-border arrangements) follows the same approach of DAC3 and DAC4 but with lesser success in the identification of taxpayers. DAC6 data is mainly used for risk assessment, including assessing high-level risk of tax-harmfulness of arrangements reported.

Estonia makes limited use of the advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits. While the synergies between participating Member States derived from these coordinated activities lead to increase tax assessed and reduce the tax gap, Estonia was involved in only 2 cases initiated by other Member States in 2024.

In conclusion, Estonia uses the data obtained from the automatic exchange of information in coherence with the objectives of the DAC.

5. Digitalisation and Compliance⁽⁴⁹⁾

5.1 Digital Transformation, Skills, and Culture

The advancement of digital transformation in the tax administration of Estonia is notable, with significant strides being made towards a fully integrated digital system⁽⁵⁰⁾. Estonia stands out as one of the leading EU Member States in terms of digital transformation, having developed a comprehensive digital transformation strategy. The strategy encompasses a holistic approach whereby tax administrations embrace digital opportunities to enhance operational efficiency and taxpayer compliance through advanced technology. According to a recent Eurobarometer survey, 79% of citizens in Estonia find it very easy or fairly easy to complete their tax return, placing them 2nd among EU Member States⁽⁵¹⁾.

Estonia has identified the future skills necessary for a successful digital transformation across the whole administration⁽⁵²⁾. This development ensures that staff members are equipped and capable of utilising digital tools effectively. The focus on upskilling staff is crucial to maintaining the

⁴⁷ 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

⁴⁸ 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

⁴⁹ www.emta.ee

⁵⁰ OECD Inventory of Tax Technology Initiatives 2024. <https://data-explorer.oecd.org/>, Note that data is self-reported by tax administrations and therefore not 100 % objective or comparable.

⁵¹ European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>

⁵² Source: OECD Inventory of Tax Technology Initiatives 2024. <https://data-explorer.oecd.org/> Notes: (1) Data is self-reported by tax administrations and therefore not 100 % objective or comparable.

efficiency and integrity of tax administration processes. Furthermore, the tax administration has made improving digital literacy and data analysis skills of employees is a priority in 2025.

Estonia has actively worked on fostering a digital culture within the tax administration ⁽⁵³⁾. This cultural shift is reflected in the administration encouraging staff to adopt digital tools as standard practice, aiming to improve their interactions with taxpayers and address non-compliance with enhanced efficiency.

Estonia has implemented the concept of "once only" in its digital government framework, which ensures that citizens and businesses are required to provide standard information only once to authorities. This principle is applied across various services, including the taxation system, minimising the administrative burden placed on taxpayers. In addition, Estonia's digital identity system, which includes tools like the ID card, Mobile-ID, and Smart-ID, allows individuals and businesses to securely access and manage digital services, including tax-related activities.

5.2. Front end Digitalisation

5.2.1 Pre-filling

Estonia offers comprehensive pre-filling facilities for PIT ⁽⁵⁴⁾. As one of the pioneers in digital taxation, Estonia has implemented a robust system where most of the data required for PIT returns is pre-filled based on information collected from employers, banks, and other relevant sources. Estonian taxpayers typically confirm the pre-filled data and submit their returns, making the process highly efficient and user-friendly.

Pre-filling for CIT in Estonia is not as comprehensive as for PIT ⁽⁵⁵⁾. While certain data elements might be pre-filled based on prior submissions, most of the burden for CIT returns still lies with the taxpayers and their accountants. Estonia is working towards enhancing this facility, but as of now, it remains less developed compared to PIT.

Similar to CIT, pre-filling of VAT returns in Estonia is limited ⁽⁵⁶⁾ (only to specific categories of SMEs and self-employed). The complexity and variability of VAT-related transactions pose challenges, and full pre-filling requires advanced systems like e-invoicing and real-time reporting. Estonia's ongoing efforts to digitalise VAT processes could improve this area in the future.

5.2.2 E-filing

Estonian taxpayers benefit from a system that facilitates the quick and easy e-filing of PIT returns. In practice, Estonia is often cited as having one of the fastest and most straightforward tax

⁵³ Ibidem.

⁵⁴ International Survey on Revenue Administration data.
https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

⁵⁵ Ibidem.

⁵⁶ Ibidem.

systems in this respect (PWC). In 2023, 97.4% of PIT returns in Estonia were filed online, compared to the EU average of 87.1%. This figure rose by 1.4pp in Estonia compared to 2018 ⁽⁵⁷⁾.

In Estonia, the e-filing rate for CIT and VAT returns has consistently been high, reflecting the digital transformation of Estonian businesses and the user-friendly nature of the ETCB's digital platforms. The 2023 figure in Estonia was 99.9%, compared to the EU average of approximately 97.1%. In Estonia, this figure rose by 0.1pp since 2018 ⁽⁵⁸⁾. For VAT returns, in 2018 Estonia reported that 99.5% of VAT returns were filed electronically. By 2023, this figure was 99.9%. compared to the EU average of approximately 99.2% ⁽⁵⁹⁾.

Estonia's high e-filing rates suggest several positive factors. The user-friendly e-filing facilities likely have clear, intuitive instructions that significantly enhance the administrative ease of tax compliance. Reduced time and effort for taxpayers in preparing and filing returns point to efficiencies that benefit both taxpayers and the tax administration. Fully digitalised systems and pre-filled information reduce errors in submissions of tax returns, enhancing the accuracy of tax collections.

Feedback mechanisms and public reports often highlight user satisfaction with Estonia's digital service offerings, further encouraging electronic filings and supporting Estonia's policy of seamless service provision. Estonia's tax administration remains committed to regularly updating their e-filing systems based on technological advances and taxpayer feedback to maintain their status as leaders in digital tax services. All in all, Estonia's high rates of e-filing across various tax categories underscore the country's commitment to leveraging technology as a tool for effective governance and indicate a robust framework to foster taxpayer compliance through digital means.

5.2.3 Provision of other online Services

The Estonian Tax and Customs Board provides an extensive array of other online services that cater to individuals, businesses, and tax professionals. Key services include an e-Tax/e-Customs Portal, which allows taxpayers to file tax returns, make payments, and access tax information. The portal is user-friendly and available 24/7. The tax administration also ensures timely communication through digital channels, providing updates, notifications, and reminders, which help taxpayers stay informed and compliant. Self-Service Options for Businesses are also available, such as registering for VAT, applying for tax incentives, and managing taxpayer accounts are available online, allowing businesses to manage their tax affairs without the need for physical interactions.

The adoption of these online services allows for enhanced efficiency as digital services significantly reduce the administrative burden on both taxpayers and the tax administration itself. There is also the effect of increased compliance as a result of providing easy-to-use platforms and pre-filled data. Taxpayers and the government benefit from reduced costs that would normally be associated with paper-based processes and physical interactions. The convenience of online services leads to time savings and lower transaction costs. There is also higher levels of transparency and trust as the ability to easily access tax information and the transparency of the electronic system foster trust

⁵⁷ Ibidem.

⁵⁸ Ibidem.

⁵⁹ Ibidem.

between the tax administration and taxpayers. According to a recent Eurobarometer survey, 62% of citizens in Estonia believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing them 3rd among EU Member States ⁽⁶⁰⁾.

5.3. Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

The Estonian Tax and Customs Board (ETCB) has been integrating Artificial Intelligence (AI) into its operations mostly since 2025, using advanced technologies to enhance efficiency, accuracy, and compliance. In Estonia, AI technologies are primarily employed in areas like consultation and risk analysis. In consultation, the use of AI helps to provide autonomous support to taxpayers via a chatbot. In risk analysis, AI has been important in allowing the tax administration to focus its resources on high-risk cases, streamlining enforcement actions, and minimising taxpayer burden through targeted checks.

Specifically, the ETCB employs the following AI tools across different areas of their activities:

- Estonia has effectively integrated AI solutions into its daily operations, particularly in the realm of public consultation. 'Bürokratt', a virtual assistant powered by artificial intelligence, was developed by the Information System Authority to enhance user experience on Estonian public sector websites. This assistant has been successfully deployed on the Tax and Customs Board website, where it addresses basic inquiries and directs users to relevant pages, streamlining the information retrieval process.
- In the area of fraud detection, Estonia is using AI through network-based risk analysis. This innovative approach involves constructing a network based on interpersonal relationships, incorporating risks identified from various risk models, and applying a graph neural network model to uncover anomalies and hidden patterns. The initiative aims to equip auditors with a visual tool to expedite audits, with a pilot project specifically targeting VAT fraud.

Regarding data, specifics on the datasets used for the risk detection model remain undisclosed. Conversely, TBR processes 12 data categories, including unpaid taxes, tax declarations, tax offences, proceedings, managing directors' backgrounds, average wages, sales, purchases, payments, employment, taxable expenses, and other notifications. Additional data is added in existing categories when new data are available or new risks are identified.

5.4 Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

Estonia's Tax and Customs Board has a formal CRM strategy (regularly updated) in place, reflecting its commitment to systematically dealing with compliance risks ⁽⁶¹⁾. This strategy

⁶⁰ European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>

encompasses protocols for identifying, assessing, and prioritizing key compliance risks. Although specific details of recent reports on the CRM strategy they are not always publicly available, Estonia is known for its transparent approach and utilization of technology to optimise compliance processes (several OECD reports.).

Estonia's CRM approach includes a data-driven strategy that uses advanced analytical tools to detect patterns and anomalies in taxpayer behaviour. This approach allows the tax administration to identify high-risk areas promptly. Once risks are identified, they are carefully prioritized based on their potential impact on tax compliance. This ensures that resources are allocated effectively towards the most significant threats. The CRM strategy includes both preventive measures, such as education (online courses) and support for taxpayers (call centres and via email contacts), and corrective actions like audits and investigations. Estonia is taking steps to understand and verify whether and to what extent AI can help with compliance management and risk identification.

5.4.2 Audit Types

The types of post-filing audit activities in Estonia include desk audits, limited scope audits, single issue audits, comprehensive audits, and avoidance and evasion investigations ⁽⁶²⁾. Other interventions before formal audits include the provision of guidance and advisory services via the tax behaviour rating e-service to help educate taxpayers on their obligations, potentially mitigating the need for post-filing audits.

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

A considerable share of tax administration personnel in Estonia is engaged in audit procedures. Concretely, 44.39% of full-time equivalents (FTEs) in Estonia's tax administrations worked on these tasks in 2023, above the EU average of 32.2% ⁽⁶³⁾. This represents an increase of 1.05 percentage points since 2018 in Estonia. It is recognized (included in mission statement of Estonian Tax Administration) that Estonia places significant emphasis on digitisation and automation to complement its audit functions. Estonia had the lowest level of full-time staff per million of inhabitants (555) caused mainly by the advancements in digitalisation of their public services. By leveraging technology, Estonia has improved resource efficiency without compromising compliance effectiveness. The majority of the tax administration's FTE resources has been strategically redirected towards high-value tasks that require complex human judgment and intelligence, such as audits.

5.4.4 Additional Revenue from Audits as a Share of Total Revenue

The percentage of additional revenues from audits to Estonia's total net revenue is below the EU average, but has increased between 2018 (0.63%) and 2023 (0.8%). Comparatively, the EU27 average has decreased (from 2.77% in 2018 to 1.6% in 2023) ⁽⁶⁴⁾. Estonia's high level of digital

⁶¹ [ISORA Database](#) – tab “CRM Strategy”

⁶² [ISORA Database](#) – tab “Post filing enforcement actions”

⁶³ Own elaboration based on ISORA Database

⁶⁴ Ibidem.

compliance, and extensive use of automated models for risk detection might lead to fewer instances of deliberate non-compliance detectable through audits compared to other EU Member States, thus impacting audit revenues.

5.5 Tax Complexity

Estonia ranks 1st out of the 27 Member States in the Tax Complexity Index ('TCI') ⁽⁶⁵⁾, where a higher rank corresponds to lower tax complexity. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Estonia as global leader, thanks to its outstanding performance with regards to Tax Code Complexity (1st place among Member States and also at global level). Meanwhile, the country ranks 4th among Member States in the Tax Framework Complexity Rank. Both features suggest a tax system largely favourable to growth and investment, both in terms of structure of the tax regulations (particularly in the areas of minimum tax and capital gains, according to the authors) and in tax processes carried out by the authorities (notably, in the area of enactment).

⁶⁵ See: <https://www.taxcomplexity.org/> The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.