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CONTENTS

ESTONIA HAS EUROPE'S LOWEST PROPERTY TAXES	1
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Estonia has Europe's lowest property taxes

Estonia has the lowest property taxes in the European Union, a short report by the Riigikogu Foresight Center reveals. Hiking property tax rates to the European average would yield over €500 million for the state budget in Estonia.

"The Estonian tax system is largely based on labor and consumption taxes, while property taxes only play a modest part in funding social expenses," expert for the center Magnus Piirits said in a press release.

"Property taxes are responsible for 5 percent of tax revenue in the EU on average. European average tax rates would have yielded another €530 million euros for the 2019 state budget in Estonia," Piirits noted.

The report "Property taxes in Estonia and other European Countries" points out that while property taxes yield over 1 percent of GDP in most EU member states, up to 4 percent in France, the indicator for Estonia is 0.2 percent.

Property taxes cover real estate taxes, net worth taxes, estate taxes, gift taxes and taxes on financial and capital transactions, such as securities and holdings. Piirits said that real estate taxes make up the lion's share of property taxes in most EU countries, including Estonia.

The main property tax in Estonia is land tax revenue of which goes to local governments. "The share of real estate taxes in tax revenue was 0.6 percent in Estonia and 3 percent as the EU average in 2019. Land tax revenue has not exceeded €60 million since 2012," Piirits notes.

The expert said that tax structure will inevitably change in the future. "Population aging, digital development and new forms of working will render labor taxes less effective in the future. In the conditions of recent or ballooning expenses, avenues of covering costs must be found," he added.

Piirits said that it needs to be kept in mind in terms of global tax trends that income equality has deepened in recent decades. "The 1 percent of the wealthiest people own 45 percent of all assets in the world. Quantitative easing also contributes to inequality as it keeps pushing prices up," the analyst said.

New IT solutions and international cooperation will also make it more difficult to hide assets in the future. "All of this creates fertile ground for increased use of property taxes. On the other hand, we are also seeing the

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emergence of new property classes, such as cryptocurrency calculating the value of which is very difficult," Piirits added.

The report was written as part of the Foresight Center's "Future-proof Tax Structure" research project that looks for ways of covering costs in an aging society and ways of amending the tax system in the next 15 years.

The report gives examples of how estates and net worth are taxed in Finland and Switzerland respectively.

The Foresight Center is a think tank at the Estonian parliament, its tasks include analyzing long-term developments in society, identifying new trends and development avenues and drafting development scenarios. The Foresight Center bases its studies on a variety of possible developments and outlines alternative scenarios.

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