



Estonia – February 2021

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I do not see property taxes implemented in Estonia

SEB economic analyst Mihkel Nestor told Vikerraadio's morning show "Vikerhommik" that while they are reasonable, he does not believe property taxes will be implemented in Estonia anytime soon, claiming political backlash as the main reason.

On Thursday, prime minister Kaja Kallas' economic adviser and former Bank of Estonia governor Ardo Hansson said Estonia could look at increasing property taxes to exit the coronavirus economic crisis.

Mihkel Nestor said in response on Friday: "I do not know how serious that talk is. I will not believe in property taxes in Estonia before they are truly done. It seems to be this political taboo that has not been bothered yet."

"But there have been discussions on the topic earlier. Economic people tend to say that it should be done if there is a possibility to do so and it is not the worst idea if money runs out, but it seems like Estonian politicians would have a tough time trying to sell it to voters," Nestor added.

He said property taxes would mostly be about taxing real estate and vehicles. "These are the two hot potatoes that have been rolled around in Estonia before, but the discussions never lead anywhere," Nestor said.

Looking at the general tax structure in Estonia, property taxes do have potential, the SEB analyst said. He pointed out that property taxes in Estonia are minimal, making up just 0.6 percent of all taxes. The European average however stands at 3-4 percent.

According to Nestor, a tax on real estate would speed up the process of segregation. "If there is a tax on real estate value, then real estate in mid-town Tallinn for example would become more attractive for people with smaller incomes to sell and to move further away," he explained.

The analyst noted that Estonians would likely not leave the tax unpaid. "For Estonians, home is a very sacred place. I think it is also one of the reasons why it has been very difficult to tax," Nestor said.

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About a tax on vehicles, Nestor said that Estonia is one of the few countries in Europe that does not tax cars. He does not however believe there would political consensus for it.

The analyst pointed out that a billion's worth of cars are bought in Estonia each year, which makes up 5-6 percent of all Estonian imports. "It is a large number. And putting a 10 percent tax on the purchase, we would make more than €100 million," Nestor said.

"But I am a realist. It seems to me that it is something that no Estonian politician would touch. Estonians are of the car faith," he added.

According to Nestor, it would be reasonable to create a balance between highly taxed consumption taxes and property taxes. "If we tax consumption highly and do not tax properties at all, it is not actually a great situation. We could make peoples' lives easier by taking those to more of a balance," he said.

"No-one would pay any taxes with pleasure, but everyone would like some public services. I have not met a person yet who would say that Estonia's public services are all great and we should cut those," he added.

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