

Working in a foreign country

WORKING IN A FOREIGN COUNTRY

The following are not subject to income tax:

- ✓ compensation for expenses related to official travel or business travel, daily allowances during assignments abroad and remuneration for business travel abroad paid to an official, an employee or a member of the management or controlling body of a legal person by the employer or a third person instead of the employer,
- ✓ compensation for such expenses paid for a family member of an official,
- ✓ compensation for relocation expenses arising from appointment to a position located in another area

within the limits in force in the place where the work is performed if the work is performed in a foreign state (clause 1¹ of subsection 3 of § 13 of the Income Tax Act).

Therefore, if the location of the work is in a foreign country and the employee is sent on a business trip from there, the taxation of reimbursement of the expenses of the business trip must be based on the applicable limits in the country where the work is performed.

CERTIFICATE A1

If the employee's work in a foreign country is short-term (up to 2 years), the employer must request the certificate A1 for the employee from the Social Insurance Board ([more information on the website of the Social Insurance Board](#)). With this, a person temporarily working abroad certifies to the authorities of that country that all social security contributions are paid for them in their home country, where they are guaranteed all social rights and benefits.

Based on form A1, the daily allowance for a business trip cannot be automatically paid exempt from tax, as it is not a business trip within the meaning of the Employment Contracts Act. A business trip would be the case if the employee goes to a foreign country to perform the same tasks that they perform in Estonia for the benefit of their employer, continuing to be under the supervision and control of the employer here.

Example

An Estonian company has signed a fixed-term employment contract with an employee, according to

which the employee's place of work is Finland. The company applied for an A1 certificate for the employee. In this case, it is not a business trip, but a job abroad, and the company cannot pay the employee a daily allowance exempt from tax.

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