REPUBLIC OF ESTONIA
TAX AND CUSTOMS BOARD

Fringe benefits

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Home office

The term home office includes teleworking, sometimes working from home with the employer's consent, working at the employer's location, working at home as a sole proprietor (FIE).

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Teleworking

In the case of **teleworking**, an employer and an employee agree that the employee does work, which is usually done in the employer’s enterprise, outside the place of performance of the work, including at the employee’s place of residence (**§ 6 of the Employment Contracts Act**).

When directing an employee to teleworking, the employer can choose whether to transport the necessary work equipment (e.g. table, chair, monitor) to the employee's home or purchase new equipment for the employee. If the assets do not become the employee's property when installed (the assets are registered with the employer as movable property), then the transfer of the assets is not taxed. If, by agreement with the employer, the employee buys the necessary work equipment themself, the employer can reimburse only those costs as exempt from tax (on the basis of expense documents) that are related to work, i.e. used for the purposes of performing work. If it is decided upon termination of employment or moving back to the office that the assets will remain with the employee, then the market price of the assets must be calculated and the price of the assets must be taxed as a fringe benefit. If the employee reimburses the employer for the cost of the assets, no tax liability arises.

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Company’s office at board member’s or employee’s home

Company’s office is at the board member’s or employee’s home.

The expenses related to home office must be related to business, i.e. necessary to perform work, and documented. If part of an apartment or house or property is used for personal purposes and part for business, then proportions must be found.

Proportions are based on:

1. actual use;
2. area ratio – part used in business and part in personal use;
3. time (if area ratio cannot be applied) – the extent to which it is for business use and for personal use;
4. if determining proportions is difficult, 50% is for business and 50% is for personal use.

It is recommended to determine the respective proportions in a written agreement. Payments made to employees are based on periodic expense documents in which it is recommended to indicate the reimbursable proportions and amounts of the expenses.

If an employee uses personal equipment (furniture, equipment), no tax liability arises. If work equipment is purchased to an office, only the costs of equipment that are used to perform work are exempt from tax. This also applies to interior finishing (only the cost of interior finishing of the space used as a workplace is exempt from tax). If the furnishing elements also have an aesthetic value for the rest of the home, then proportions must be found. If the company bears the total cost, the personal consumption part is taxed as a fringe benefit.

Therefore, home office-related expenses that can be reimbursed exempt from tax must be business-related, i.e. necessary to perform work in home office. The expenses that the apartment/house owner would have to incur even if they did not work at home are the expenses of a private person and cannot be reimbursed exempt from tax by the company. If the company reimburses expenses that do not depend on the use of the living space (dwelling) for work, but arise from owning the living space, these are taxed as a fringe benefit and declared in annex 4 of the form TSD. Such costs of owning a dwelling are, for example, loan payments and interest, land tax, insurance, etc.

If an employee or a board member decides to **rent one room in their home, which they use as a company office, to the company and pay themself a fee for it**, the company must withhold income tax when making the payment and declare the payment in annex 1 of form TSD with payment type 50.

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A sole proprietor (FIE) working from home

When doing business, assets for personal consumption must be separated from assets used in business. Assets are often only partially related to business. Depending on the asset, it can be divided into part interests according to the purpose of use, and the size of the part used in business can be found.

To find/determine the part used in business of each individual asset, you must:

- distinguish all assets and goods used exclusively in business;
- distinguish assets and goods that the sole proprietor uses for personal purposes in addition to business (the proportions of business and private use must be determined);
- determine the proportions of those assets and goods that, in addition to business use, are used for personal purposes by the sole proprietor and their family members (the proportions of business and private use must be determined). The cost of the part of the assets used for personal purposes and/or by family members of the sole proprietor cannot be deducted from income as business expenses of the sole proprietor.

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Home office utility expenses

When working in a home office, in agreement with the employee, the employer can reimburse the costs related to the use of the employee's home for work, such as electricity, communication services, water, etc. Incurring such expenses is not treated as covering the employee's housing expenses and as a fringe benefit, but the proportion of reimbursed expenses must be justified by the employer and the expenses incurred must be documented. Therefore, it is necessary to agree in advance between the employer and the employee, how much of the home expenses are related to home office. Since the expenses related to work are exempt from tax, all expenses must be reviewed by type on the invoice of utility expenses and assessed which expenses and to what extent are related to the performance of work.

For example, internet costs can be reimbursed exempt from tax only in the part of work use, while the amount of apartment association’s repair loan stated on the utility invoice cannot be reimbursed exempt from tax to an employee.

When using home as an office, sole proprietor’s utility expenses can also be included in the expenses related to the use of home for work. The proportion of costs must be justified and documented. On the invoice of utility expenses, all costs must be reviewed and evaluated by type, and the corresponding proportions must be calculated.

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VAT on home office expenses

A company registered as person liable to value added tax (VAT) can deduct input VAT on goods and services if the invoice is addressed to the company and has the company's name on it. If an employee working in home office pays for expenses and the employer reimburses these expenses by agreement, VAT on the expense documents cannot be deducted and the expenses are reimbursed to the employee together with VAT.

If the employer has acquired such assets, which are accounted for as fixed assets in the accounting, and the assets are not returned to the employer after the end of working in home office, the free use or transfer of property must be taxed as self-supply (**clause 2 of subsection 1 of § 4 of the Value-Added Tax Act**). If, upon going back to work to the company’s office, all the assets acquired by the employer, which were used in home office, are returned to the employer, then the usual calculation of input VAT deducted from fixed assets continues.

If the employer has decided to sign some of the contracts necessary for home office work in its own name, for example an internet service contract, then the employer is entitled to deduct input VAT and the part used by the employee for personal use is taxed as self-supply.

If the employer makes expenses related to a specific immovable property in the employee's home office, for example, repairing rooms, permanently fixed lighting, heaters, etc., then there is no right to deduct input VAT from these expenses.

At the employee's request, these costs can be resold to them with VAT – then the input VAT can also be deducted. If a sole proprietor registered as a person liable to VAT acquires goods and services for home office, then input VAT can be deducted according to the proportion of their use in business.

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Occupational health care in home office

When enabling remote work, employers must consider, from the point of view of occupational health and safety, that work must also be done safely in home office, and that employees must comply with occupational health and safety requirements when performing work.

Additional information

Occupational health during teleworking

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