REPUBLIC OF ESTONIA
TAX AND CUSTOMS BOARD

Fringe benefits

Table of contents

Transporting employees to work and home

TRANSPORT OF EMPLOYEES TO WORK AND HOME PURSUANT TO SUBSECTION 5[1] OF § 48 OF THE INCOME TAX ACT

An employee is:

- a person employed under an employment contract
- an official (**subsection 1 of § 13 of the Income Tax Act**)
- a member of a management or controlling body (**§ 9 of the Income Tax Act**)
- a natural person who sells goods to an employer during a period longer than six months
- a natural person who works or provides services based on a contract for services, authorisation agreement or any other contract under the law of obligations

Expenses for employee transportation to and from work are not considered a fringe benefit if:

1. it is impossible to make the journey using public transport with a reasonable expenditure of time and money
2. disabled employees are unable to use public transport or if use of public transport causes a material decrease in the persons' ability to move or work
3. the employer arranges transportation of an **employee employed under an employment contract** using a vehicle with at least eight seats or with a bus for the purposes of the Traffic Act
4. the place of residence of the **employee employed under an employment contract** is located at a distance of at least 50 kilometres from the place of work

Since the tax incentive does not automatically extend to all expenses incurred by the employer for arranging transportation between the employees' home and workplace, it is necessary to define the compliance of the incurred expenses with the principles set forth in **subsection 5[1] of § 48 of the Income Tax Act**.

Beginning from 1 January 2020, the cost of public transport tickets used for transportation between employees' home and workplace are not taxed as fringe benefit.

The tax incentive is extended to all employees (an employee working on the basis of an employment contract, an official, a person who works or provides services on the basis of a contract under the law of obligations, a member of a management or controlling body and a natural person who sells goods to the employer during a period longer than six months).

When reimbursing the cost public transport tickets:

1. the distance between the place of residence and the place of work is irrelevant
2. costs can be reimbursed only based on cost documents

Last updated on 08.01.2025

Transport organised by employer

To apply the tax incentive, it is necessary to keep records, and the records must reveal all the important facts for the application of the tax incentive. The introduction of the term "using public transport with a reasonable expenditure of time and money" plays an important role in the implementation of this provision.

Unreasonable expenditure of time or money may be due to the following circumstances:

- the employee does not have the opportunity to travel by public transport between work and home, because the working day starts or ends at a time when public transport does not operate (both in the case of work in shifts and in a situation where the working day has been extended based on overtime);

- the workplace is located in an area (place) that is not accessible by public transport;

- public transport is accessible, but an unreasonable expenditure of time or money occurs in a situation where public transport does not have a direct route between the workplace and home, and the journey has, for example, numerous transfers. There may also be situations where, for example, bus schedule during the day is such that using public transport would take an unreasonable amount of time (the employee has to go to work significantly earlier before the start of a working day, or gets home significantly later after the end of a working day, or transfers cause a significant time

- ✓ loss compared to the time required to travel the entire distance and due to the nature of the employee's work, it is not possible to start or end the working hours flexibly).

The fact that the destination is reached significantly later when using public transport compared to driving by car cannot be considered decisive. The comparison is not made between the time spent travelling by car and public transport, but the comparison is based on the usual time spent travelling by public transport (e.g., if it is an inner-city route, it should be considered that it takes significantly more time to travel 10 kilometres using public transport in the city than when travelling a long-distance bus). Public transport makes stops, therefore the time required for travelling by public transport cannot be considered as a circumstance causing unreasonable time consumption. Therefore, when assessing if the time to be spent is reasonable, only a comparison with the fastest possible means of transportation (e.g., car, plane) is inappropriate. If compared to the fastest means of transport, the tax incentive would extend to most employers operating in Estonia, but the purpose of this provision was to give a tax exemption to those employers who organise the transport of employees who have had limited opportunities to find a job at their place of residence (primarily in a rural area) and getting to a job located in another area is accompanied by unreasonable costs of time or money due to poor public transport arrangements.

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Benefits for employees with disabilities

The employer can pay compensation to an employee with a disability for the use of a motor vehicle only if this employee is unable to use public transport to travel between the place of work and residence, or the use of public transport causes a significant decrease in mobility and work ability.

The conditions and limits established for a personal car also apply to a motor vehicle used by a person with a disability: the tax-exempt limit of compensation paid to one person is 0.50 euros per kilometre when records are kept, but no more than 550 euros per calendar month per each employer paying the compensation. A person with a disability can be paid compensation for the use of a motor vehicle only if their passenger car or motor vehicle is not in the ownership or possession of the employer.

Rides between the place of residence and the place of work can only be compensated when records are kept. It is not possible to pay tax-exempt compensation for the use of a motor vehicle without keeping records.

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Personal car is used for transport

If the employee is reimbursed for the costs of traveling to work by personal car, because it is not possible to reach the workplace from their place of residence using public transport by the start of the working day, the rules for reimbursement of the costs of using a personal car must be followed, i.e. records must be kept of rides related to work duties (including rides to/from work), if it is desired to reimburse up to 550 euros exempt from tax in a calendar month.

The cost reimbursement procedure does not require submitting cost documents to employer to prove actual costs.

In addition to the compensation, additional compensation for gasoline costs is not provided for the employee when driving to work in a personal car, and in such a case these costs are considered a fringe benefit.

However, it is possible to reimburse parking fees exempt from tax if the parking was related to the performance of work duties.

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Employer’s car is used for transport

If it is impossible to make the journey between home-workplace-home using public transport with a reasonable expenditure of time and money, these rides are considered business-related and are not considered a fringe benefit.

There is no obligation to keep driving records, etc., but the taxpayer must be able to prove and explain in each specific case that the employee's journey to work and home is not considered a fringe benefit. The decision of the board of the company that the company covers the travel expenses of the employees between home and workplace is not a sufficient circumstance for applying the tax exemption.

If the vehicle is not allowed to be used by employees for private rides and the company car is used only for business purposes (including rides to work-home-to work, which are considered business-related), a corresponding notation must be made at the Transport Administration.

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Transport of employees employed under employment contracts

There are additional tax incentives for the transport of employees working based on employment contracts.

The tax incentive extends only to employers engaged in business, non-profit associations, foundations, and legal persons in public law. The tax incentive does not extend to the public sector.

An employer has the option to choose whether:

1. a bus or a vehicle with at least eight seats is used for transportation between the employees' residence and workplace. The distance of the employees' place of residence from the workplace is not decisive (i.e., employees can be transported by bus, for example, even within one settlement)
2. a car in the ownership or possession of the employer is used (the employee's place of residence is at least 50 kilometres from the workplace)
3. transport costs are reimbursed based on a cost document, regardless of the type of transport (the employee's place of residence is at least 50 kilometres from the workplace)
4. the employee uses a personal car (the employee's place of residence is at least 50 kilometres from the workplace)

If the employer and the employee agree that the employee will use a personal car, the employer has a choice whether:

- ✓ rides between work and home are reimbursed based on the regulation on compensation for the use of a personal car (based on driving records, up to 550 euros per month) or

- based on expense documents (fuel checks)

The above also extends to the situation when an employee with an employment contract travels to work, for example, from Kyiv and from Tallinn back to his place of residence in Kyiv.

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Declaration and payment

DECLARATION

The compensation paid for the use of a personal car above the limit is declared in annex 4 of the tax declaration form TSD which is submitted by the 10th of the following month. The tax liability on fringe benefits is usually paid based on form TSD.

In declaration INF 14, the employer must indicate the amounts of benefits actually paid (including those declared as a fringe benefit) for the use of a personal car to a natural person during the calendar year when keeping records. The declaration is submitted by 1 February of the following year.

TAX LIABILITY

Tax liability arises when an employee is paid a (business-related) compensation, exceeding the limit, for rides to work and home when using a personal car.

Example
The employee submitted her driving records to the accountant, according to which the employee has used her personal car for work (including business-related rides between work and home) and travelled 1500 km (1500 × 0.50 = 750) in one month. The amount of 750 − 550 = 200 euros exceeding the tax-exempt threshold must be declared as a fringe benefit granted to the person, on which both income and social tax must be paid.

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Transport of employees - FAQ

1. Is taking a taxi home from work at night, if the nature of the job requires it, a fringe benefit or not?

Covering transport costs of coming to work by taxi based on documentation is not considered a fringe benefit, if, due to the working regime, it is not possible for the employee to use public transport to come to work or go home.

2. If a person lives in a place where there is no public transport, is driving to work and home from work not considered a fringe benefit? Which documents should be formalised for it?

If the workplace is in a place that is not connected to public transport or due to the work regime, the hours are not suitable, then it is possible to use the employer's car, exempt from tax, for rides between home and workplace. But in this case, if necessary, it must be proved to the tax authority that it was not possible to get to work or home from work using public transport at that time of day.

3. If a company organises and compensates for the transport of its employees to work, for whom using public transport for going to work and home would cost 2/3 of their salary (an unreasonable amount for the employee, it would be more rational not to go to work at all), is it a fringe benefit or not?

Whether the expense is considered a fringe benefit or not does not depend on the salary of the individual employee.

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