

Are compensations for your former employees taxable in Estonia?

What tax liabilities are created, when an employer terminates their work relationship with the employee e.g. due to layoffs? Often when the working relationship ends, the parties agree that the employer will pay a compensation to the former employee during a certain period. There are several reasons for paying compensations, perhaps most common of them is the restriction of competition clause

In order to avoid creating situations, where the employee can act against the purposes of the compensation, the employer must pay applicable taxes. More directly - if you don't pay the applicable taxes, the restriction of competition might not stand.

Therefore always pay extra attention to if and how is a specific compensation taxable:

- with income tax;
- with social tax;
- with unemployment insurance premium;
- with mandatory funded pension tax.

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