

Assessing Estonia's Security Tax Act

Supplementary material

The supplementary material compares the fiscal and distributional effects of a 2% Security tax on income versus a 2 percentage points increase in the PIT rate.

1. Comparing distributional effects of two alternative revenue-raising options

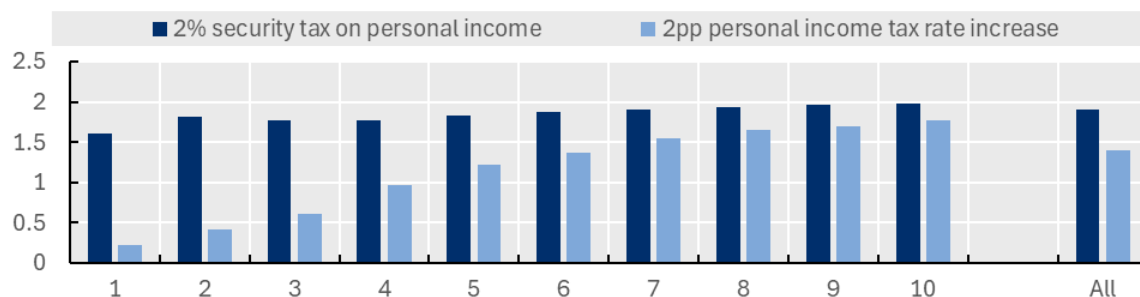
This section compares the fiscal and distributional effects of two revenue-raising reform options that were considered by parliament: a 2% security tax on personal income versus a 2-percentage point increase in the personal income tax (PIT) rate. Both reforms were eventually repealed.

The 2-percentage point increase in the PIT rate would raise less revenues than the reform initially proposed security tax (EUR 347 million vs EUR 469 million¹). However, it would place a higher burden on top income groups while the security tax would have applied to a broader base with fewer exceptions, resulting a flatter and more regressive distribution of the tax burden (Figure 1).

The higher progressivity of the selected reform would stem from the structure of the PIT system, which would include exemptions and allowances that would mitigate the effective tax burden for lower-income households. By contrast, the security tax would apply to a broader tax base, including income components such as foreign salaries and second and third pillar pensions, which are usually tax exempt. Moreover, exemptions and allowances under the PIT system would not apply, resulting in an evenly distributed tax burden.

Figure 1. PIT rate increase places burden at the top, unlike flat security tax

Impact of the security tax vs the increase in PIT rate on the effective tax burden (PIT+SIC) across deciles of equivalised disposable income, as % of gross income (original income + benefits)



Note: Deciles are based on equivalised disposable income distribution in the baseline (pre-reforms) scenario, using the OECD modified equivalence scale. Original income consists of income from work plus income from capital.

Source: Calculations using the EUROMOD J1.0+ model, EU-SILC 2022 and HBS 2015 data.

¹ The estimate does not consider the other reforms.

Further information

The reforms described in this note were carried out as part of the 2025 Technical Support Instrument (TSI) project “Boosting the Usage of Distributional Impact Assessments through Microsimulation”, funded by the European Commission. The beneficiary authority in Estonia was the Ministry of Finance. The reforms implemented during the project implementation, including those described in this note, were for capacity building purposes only.

More information on the Estonia’s tax and benefit system is available in the [OECD Descriptions of Tax and Benefit systems](#).

How do taxes and benefits affect disposable household income, benefit replacement rates, benefit adequacy, and financial work incentives? Find it out using the [OECD tax-benefit web calculator](#).

More information on the EUROMOD microsimulation model: [here](#).

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