

SIMPLIFIED ENTREPRENEURIAL ACTIVITY IN ESTONIA

Maret Güldenkoh¹

Tallinn University of Technology, Estonian Maritime Academy
Centre for General and Basic Studies

Abstract

The article focuses on the entrepreneurial activities of a natural person. The development of the entrepreneurial activities of individuals in East-European countries and Estonia since the re-establishment of independence will be explained. Similarly, the tax compliance of natural persons as taxpayers and the development of their tax behaviour as well as the possibilities of declaring an individual's business income in Estonia will be discussed. An analysis is provided of the implementation of the Simplified Business Income Taxation Act in 2019-2020 and the profitability of the entrepreneurial activities of sole proprietors in the same period. The discussion will also explore the attitudes of individuals opting for micro-entrepreneurship. The entrepreneurial activities of individuals in 2019-2020 in terms of their number, gender and profitability will also be analysed. The results of the analysis confirmed the theoretical basis and revealed that the number of people active in micro-entrepreneurship has increased and will definitely increase also in the future. The reason lies in reduced bureaucracy allowing natural persons to be tax compliant without additional responsibilities.

Keywords: sole proprietorship, self-employment, micro-entrepreneurship, tax behaviour, business account, business income of a natural person

JEL Classification Codes: D31; H24; H25; H26; K20; K34

1. Introduction

When starting a business, the person must register as an entrepreneur and start an organised economic activity. Every registered entrepreneur will be given a unique registration code and will be automatically entered in the register of taxable persons. The activities of registered entrepreneurs are regulated by various legal acts, for instance, the Commercial Code and the laws regulating the particular area of activity. The entire entrepreneurial activity must be documented and registered with due invoices and contracts issued to clients or suppliers that are subject to a long-term data retention obligation.

The topicality of the article stems from the fact that on 19.06.2017 the Estonian Parliament adopted the Simplified Business Income Taxation Act with the aim of enhancing micro-entrepreneurship and improving the tax behaviour of micro-entrepreneurs. In other words, ever since 2019, natural persons in Estonia can be law-

¹ Maret Güldenkoh, MBA, lecturer, Estonian Academy of Security Sciences and Tallinn University of Technology Estonian Maritime Academy, maretgyldenkoh@gmail.com

abiding and tax compliant without registering themselves as entrepreneurs. The present article will explain the development of micro-entrepreneurship, the tax behaviour of individuals and the possibilities of declaring business income in 2019-2020.

Every state wishes that their citizens declare their entire income, including their business income. Then again, there are new ways established to simplify entrepreneurship and make sure that entrepreneurs make use of them and meet their tax liability. It has been problematic in Estonia and also elsewhere that natural persons often forget to declare their other income (including unregistered entrepreneurship) and do not pay the due income tax. A new Simplified Business Income Taxation Act has been adopted in Estonia that does not make the natural person subject to the entrepreneur's duties of care. Although individuals (natural persons, that is, taxpayers) have the possibility to use the provisions of the Simplified Business Income Taxation Act and thus ensure their due tax behaviour, many people have still opted out of the possibility (of opening a business account). It could be due to people's unawareness or their conscious choice.

The aim of the present article is to explore the use of the Simplified Business Income Taxation Act among natural persons in 2019-2020 and whether the implementation of the law has been accompanied by an increase in the number of sole proprietors and changes in the profitability of their entrepreneurial activity. For the purpose, the following research tasks have been set:

1. To explain the nature of individual entrepreneurial activities, tax behaviour and the Simplified Business Income Taxation Act as well as the various possibilities of declaring business income in Estonia.
2. To analyse the use of the possibilities provided by the Simplified Business Income Taxation Act among natural persons in 2019-2020.
3. To analyse the profitability of the entrepreneurial activity of sole proprietors in 2019-2020.
4. To analyse the attitudes of the business account users and their will and reasons to continue in micro-entrepreneurship.
- 5.

In order to achieve the aim, a comparative analysis of the relevant literature will be conducted and a combined analysis based on a particular case (individuals and their preferences). An analysis of the acquired data is conducted together with an interview in order to establish the reasons for preferring micro-entrepreneurship. The conducted study will include both quantitative and qualitative data and it will be resorted to explanatory and descriptive analysis.

The present article consists of five subdivisions. The first subdivision (the entrepreneurial activities of individuals) will be analysed on the basis of relevant literature on the development of sole proprietorship in Eastern Europe and Estonia. The second part will discuss the tax behaviour and income declaration of individuals. The third part explores the possibilities of earning and declaring business income pursuant to the Simplified Business Income Taxation Act. The fourth part explains the research strategy while the fifth subdivision provides the results of the analysis.

2. An individual's entrepreneurial activity

Entrepreneurial activity dates back to thousands of years, with dynamic business activity giving rise to national economic upturn and thus also increasing the tax revenue. Tax revenue relies on both state and local taxes. State taxes are paid to the state budget while local taxes contribute to the activities of local governments.

For instance, micro-entrepreneurship in the Czech Republic dates back to 1967 (Vecernik 1999, 4), while in Hungary, its current form existed already in 1963 (Machonin 1969). In Estonia, it became conceivable only in 1990s and officially regulated only after Estonia regained its independence in 1991. Similarly to Estonia (Kirsipuu 2012), also in other countries it was first more widely used in agriculture and service sector, especially in rural areas (Vecernik 1999, 3).

Ever since Estonia regained independence, natural persons have had the possibility to become an entrepreneur by registering themselves as sole proprietors. In the early years, most rural entrepreneurs who recovered their land, forest and ancestral farmsteads, registered as sole proprietors (Kirsipuu 2004). During periods of economic recession, the registration of sole proprietors has increased while the periods of economic growth see many enterprises discontinued with the owners taking up paid employment. Many sole proprietors earn their business income in addition to their paid employment. For instance, half of the 75,735 sole proprietors in 2004 earned business income in addition to their employment with 74% of them earning more from employment than from their business income. Then again, it must be added that the number of sole proprietors whose business income exceeded their income from employment increased year by year (Kirsipuu 2006, 3). Self-employed people played an important role in the Estonian entrepreneurship in the first decade of independence. For instance, as of 2005, there were 67,403 sole proprietors registered in Estonia constituting altogether 48.2% of all enterprises (Kirsipuu 2006, 1). Sole proprietors are people who decide to do business under their own name, looking for new ideas and possibilities for earning an income (Kirsipuu 2006). Sole proprietorship is suitable for people taking their first steps in entrepreneurship: they can be their own bosses and choose the work and the time to do it (Zobel, 2001). On the other hand, registering oneself as an entrepreneur is accompanied by various obligations and not all sole proprietors are always prepared to meet the obligations or they fulfil them only partially.

Many researchers in the world have explored the reasons for embarking upon self-employment, similarly the respective age and gender peculiarities. For instance, Mateju (1999) has analysed the age distribution of entrepreneurs, paid employees etc in four countries over ten years, for example, in 1993 altogether 11.1% of individuals (aged 20-65) in the Czech Republic were entrepreneurs, including 0.7% farmers; in Hungary 12.3%, including 1.5% farmers; in Poland 22.5%, including 10.6% farmers and in Slovakia 9.7%, including 0.6% farmers (Vecernik, 1999, 31). In Eastern Europe (Hungary, Poland, Czech Republic), 47.9% of sole proprietors began at the age of 40-49, the number of people to become sole proprietors was the smallest among the age group over 60 years (2.7%). The number was the highest in 1989 when the economic recession in the given countries intensified (Hanley *et al.* 1998, 32). Out of all the

individuals declaring business income in Estonia in 2004, 58.8% were male with their average age 50 years. The most active individuals were between 30-50 years of age. (Kirsipuu 2006, 8)

Compared to the early years of independence, the number of sole proprietors in Estonia has considerably decreased. As of 01.01.2022, there are only 28,027 sole proprietors registered in Estonia (Centre of ... 2022). Compared to 2005, the number of sole proprietors in Estonia has decreased by 58.42%. One of the reasons is that since 2009, they have had the opportunity to transfer their entrepreneurial activity tax-free to a company with no additional tax liability. This opportunity was used by very many sole proprietors. Secondly, after the transfer, the owner's entrepreneurial activity liability extended only to the amount of the equity capital. (Güldenkoh 2014) Those people who did not transfer their entrepreneurial activity or start their business today are liable for the possible business failure with 100% of their personal assets (Commercial Code 2021).

Very many individuals, however, have not registered themselves as entrepreneurs as it is accompanied by additional responsibilities, for instance, accounting. Several countries have made earning business income in some sectors easier for individuals.

In Latvia, for instance, it is allowed under certain conditions not to register individual entrepreneurial activity in case the earned income does not exceed 3000 euros per year, in such cases only the one-time state-prescribed fee or a reduced patent fee must be paid. Similarly, it is possible in Latvia to undertake micro-entrepreneurial activities by opening a business account in the bank with approximately similar general taxation rules as in Estonia, while the taxation is quarterly. Just as in Estonia, also in Latvia a micro-entrepreneur must not be simultaneously registered as a sole proprietor or a payer of the reduced patent fee. (Customer ... 2021) The aim of such distinctions is to encourage small entrepreneurship and improve the tax behaviour of individuals.

3. Tax behaviour and declaration of personal income

The whole society is making an effort to improve the tax behaviour as well as the tax compliance of both entrepreneurs and individuals. Ideally, all members of the society (both individuals, companies and other legal persons) should have high tax morale thus ensuring also national welfare and continuous tax revenue.

Tax behaviour is mainly understood as a common attitude to the tax norms prescribed by laws (Martynova 2018, 685), thus improving taxpayers' understanding of the need for and importance of paying taxes (Randlane 2015, 1). The maintenance of tax behaviour is ensured by taxpayers' tax compliance (Ahmadi; Imankhan 2019, 139). Taxpayers' knowledge about taxes must be increased and their awareness of tax laws allows them to fulfil their obligations best (Okpeyo *et al.* 2019, 5). Individuals must annually inform the state of their earned income, that is, to declare it (Income Tax Act 2021).

The individual tax declaration in Estonia is automatized and most of the data on earned income are systematically added to the pre-filled income declaration, however, information about other income and business income must be added by individuals

themselves. Individuals, that is, natural persons are taxpayers similarly to legal persons. An income tax return on the income received in the previous year must be submitted by the end of April of the next year at the latest (Income Tax Act 2021). In case the individual receives income of temporary nature, for instance, by selling horticultural products or self-made handicraft, the given income must be declared as other income and income tax paid on it (Güldenkoh 2021). It is every person's obligation to submit annually their tax return on the income received in the previous year. In case a person is engaged in business activity without registering themselves as entrepreneurs, they can only declare their income on the tax return but not the respective expenses (Kirsipuu 2013, 97). In case it is not forgotten, it may be presumed that the natural person's tax behaviour is proper.

All taxpayers consider their position in the society as well as the social norms around them important. Many of them rely on the behaviour, convictions and opinions of their friends and family. This, in turn, may bring about the improvement as well as deterioration of tax behaviour. Research has revealed that if the taxpayer and the social group surrounding him or her recognises valid laws by assuming proper behaviour, they tend to be more tax compliant and vice versa. Then again, people's tax compliance is more affected by their personal norms. (OECD 2010, 20; Randle 2015, 7) Taxpayers are considered tax compliant when they fulfil all the main obligations of a taxpayer including the registration of entrepreneurship, due submission of tax returns and true information and the due payment of taxes (OECD 2009, 9).

There is high probability that individuals forget their one-time earnings and leave them undeclared on their tax return. It often happens that taxpayers want to be tax compliant but have forgotten to declare a small income and thus unwillingly find themselves in the list of the non-compliers. There are various possibilities to avoid such a situation: first, to register as an entrepreneur, that is, to become a sole proprietor. This, in turn, will be accompanied by tax liability and also by the obligations of registration, accounting and reporting as well as additional obligations in the particular area of activity, and all earned income must be declared in the digital tax return form (Güldenkoh 2021). That is why many natural persons do not wish to assume the responsibilities of a sole proprietor and do not register themselves. The other option is to write down all your additional income and dutifully declare them in the next calendar year and this way be tax compliant. However, a fair question arises: what is the probability that the person remembers during the tax return declaration period the small monetary or non-monetary income that they made in February last year (Güldenkoh 2021)? The third option is to open a business account in the bank, that is, to start entrepreneurship in a simplified form. In such cases, there will be no disruptions in the person's tax behaviour and there will be no need to write down or remember one's business income.

4. Simplified business income

With the decision no 146 on 29.06.2017, the President of the Republic of Estonia promulgated the Simplified Business Income Taxation Act with the primary aim of enhancing micro-entrepreneurship and improving the tax behaviour of micro-entrepreneurs. For the given purpose, it was decided to simplify the sole proprietor's

service provision and the fulfilment of the tax liability stemming from sales of products by means of a business account. In other words, allowing natural persons to be engaged in micro-entrepreneurship without registering as an entrepreneur. The practical implementation of the act took some time as the business accounts prescribed by the law required cooperation with banks, as the given accounts included the automated data transferral and payments by the bank to the Tax and Customs Board. The act was implemented in 2019.

In order to avoid situations where people forget to declare their business income in their tax return, individuals could now open a business account in the bank. With the opening of the business account, the bank will notify the Tax and Customs Board that the person wishes to do business in a simplified form. All payments made to the business account are automatically taxed by income tax pursuant to the Simplified Business Income Taxation Act (Income Tax Act 2021). Only payments earned from service provision or sales of goods can be made to the business account (Simplified Business Income Taxation Act 2018) and it is the task of the bank to ensure that the due income tax on the sums is paid to the Tax and Customs Board (Simplified Business Income Taxation Act 2018). Natural persons have no obligation to notify anybody of the transactions and the entire information will be included in the pre-filled tax return declaration of the calendar year.

LHV bank came along with the idea of implementing the Simplified Business Income Taxation Act and since 10.01.2019 has offered the business account service for natural persons. None of the other banks in Estonia has so far provided entrepreneurial people with similar possibilities. The business account is basically a regular bank account opened by a natural person in the bank, the only difference is that upon signing the contract, the customer allows the bank to withhold the due tax on all the payments made into the business account and to make the respective payments into the Tax and Customs Board account during the term of contract. The business income tax is withheld on all payments made into the account (Simplified Business Income Taxation Act 2018). The bank does not differentiate between the content of the payments. The business account is particularly useful for those people who provide small services to other persons, that is, they are engaged in micro-entrepreneurship that is not accompanied by direct expenses or they sell goods that are made by themselves or there are no significant production costs on the material or acquisition.

In Estonia, individuals now have an easy way to undertake micro-entrepreneurship without keeping accounts or retaining the documents related to goods or materials. It is clear that expenses related with such activity cannot be deducted. The due obligations of the individual end with the opening of the business account and there is no possibility that the owner of the account may leave some of the business income undeclared as the data are automatically transferred to the tax return declaration with the income tax immediately paid. Only payments for service provision or sales of goods made in euros can be transferred into the account (Simplified Business Income Taxation Act 2018). The taxpayer must not be a VAT payer or be registered as a sole proprietor in the same or similar field of activity (Simplified Business Income Taxation Act 2018). Such a simplified business income possibility was initially meant for transactions between

natural persons only, however, the law was adopted differently. Therefore, the owner of the business account can now provide services or sell goods to both natural and legal persons. (Güldenkoh 2020) Obviously, in such cases, there will be additional tax liabilities for legal persons.

The taxation period of the simplified business income is the calendar month and the credit institution must transfer the income tax of the taxable period into the Tax and Customs Board account by the tenth of the next month. The business income tax rate is 20% of the sum transferred into the business account if the sums do not exceed 25,000 euros in a calendar year and, in case more than 25,000 euros have been transferred, the exceeded amount is taxed 40% in a calendar year. (Simplified Business Income Taxation Act 2018) Pursuant to the law, income from micro-entrepreneurship cannot exceed 40,000 euros per calendar year as according to Value Added Tax Act (2021) this is the limit for registration as a VAT payer and a VAT payer can only be an entrepreneur registered in the VAT payers' register. In case more is earned with micro-entrepreneurship, the natural person must become an entrepreneur. An individual can become an entrepreneur either as a sole proprietor or by establishing a company (Commercial Code 2021).

It all seems very simple and that's why the Simplified Business Income Taxation Act was adopted in the first place. The law states that the business account owner does not have to keep accounts or do tax accounting (Accounting Act 2002) and expenses related to entrepreneurial activity cannot be deducted from such business income, as these can be deducted only by a sole proprietor (Income Tax Act 2021). When undertaking micro-entrepreneurship, for instance, by providing babysitting service at night or selling hand-made products, while remaining a tax compliant taxpayer, the best option is to open a business account.

5. Methodology and analysis

The Simplified Business Income Taxation Act has been implemented since 2019. The aim of the current article is to explore its usage among natural persons in 2019-2020 and whether it has been accompanied by an increased number of entrepreneurs and any change in the profitability of their entrepreneurial activity.

In order to acquire the data for the analysis, an inquiry was made to the Tax and Customs Board on 19.11.2021. The inquiry aimed at receiving information on the number of business account owners, their gender and the income received from micro-entrepreneurship by counties in 2019-2020. It was also aimed to acquire information on the number of sole proprietors, their gender and the positive, negative or "0" results declared in a year of the same period. The requested answer was received on 23.11.2021 and the respective statistical data were summarised in tables. The given data were processed and analysed, with the results given in numbers and percentage points both in tables (see Tables 1, 2, 3, 4 in the Annex) and in the accompanying explanatory texts.

In the first year of its implementation (2019), the Simplified Business Income Taxation Act was used by 1137 individuals and it increased by 52,9% in 2020. There were 27.88%

of women among the business account users in the first year, while the proportion next year (2020) was 24.58%, the proportion of women who registered their business account had decreased (3.3%) but the number of women who opened a business account had increased. The number of opened business accounts was the highest in Harju county (549) constituting 48.28% of all opened business accounts. The total simplified business income in 2019 was around 2,048,876 euros with 67,25% earned in Harju county. The same trend continued also in 2020 with the total simplified business income equalling around 4,210,491 euros and the majority of it (68,12%) again earned in Harju county. (See Tables 1 and 2 in the Annex) The Simplified Business Income Taxation Act has been taken into active use among both men and women. As a result of the analysis, it can be said that the tax behaviour of individuals is improving and if the trend continues also in the following years, an increase in the tax compliance of individuals can be expected.

The simplified business income per person increased a little (8,07%) in the second year (2020). The proportion of women earning simplified business income has decreased 3.3% but at the same time the proportion of the total income earned decreased only by 0.46%. While the above shows the proportion, the number of women owning a business account has increased – if 317 women opened a business account in 2019, then the number of women using a business account in 2020 was already 528. (See Tables 1 and 2 in the Annex) Based on the above, it may be assumed that women do use the simplified business income option and open a business account. Then again, it may be also stated that women tend to wish for a more stable work environment and have less willingness to take risks than men.

The data analysis shows that there is an increasing trend in the number of persons earning simplified business income. The same cannot be said about the number of sole proprietors. Rather, the number of sole proprietors has remained unchanged in the analysed period (2019-2020) and by the time the article is completed, it is known that the number of people declaring business income in 2021 has decreased. In 2019, the digital tax return form was submitted by 31,531 persons and in 2020 by 31,677 persons (see Tables 3 and 4 in the Annex). In December 2021, the number of sole proprietors was 28,148, while in January 2022 it already decreased by 0,43%, in 2021 altogether 1633 sole proprietors were deleted from the register. (Centre of... 2022)

The number of registered sole proprietors in the analysed period was the highest in Harju county, 32.63% in 2019 and 33.22% in 2020. Ending the calendar year with a positive result in 2020 decreased by 7.73% compared to 2019 and the total positive annual income has also decreased by 5.37%. Then again, the positive result earned by one person increased by around 150 euros in 2020. The number of sole proprietors who ended the calendar year with a negative result increased in 2020 by 9.37% and with a “0” result by 6.05%. The inquiry also yielded data on the sums declared as the negative annual income which increased by almost 50% in 2020. The total negative result of the analysed periods (2019-2020) was 29,539,668 euros. The total number of persons declaring negative or “0” result in the analysed period (2019-2020) was 35,145. (see Tables 3 and 4 in the Annex)

It may be assumed on the basis of the analysis that the entrepreneurial activity of sole proprietors is not profitable, as 50% of the registered sole proprietors do not earn a taxable income and their willingness to be an entrepreneur is unclear. It may be speculated that the economic activity was unprofitable or the negative result was due to the economic crisis stemming from COVID-19, or they carried over the losses of previous years or they were registered as sole proprietors only for the health insurance. The exploration of the reasons would require another study.

In addition to the statistical data, the author of the article also wished to know the reasons for opting for micro-entrepreneurship, that is, why they chose to act pursuant to the Simplified Business Income Taxation Act by opening a business account, and what is the business account owners' attitude to the given possibility. In order to find out the reasons, telephone interviews were conducted among business account owners between 17.12-30.12.2021. Convenience sampling was used for the interviews with acquaintances, volunteers and family members assisting in drawing the sample. The principle of simple availability, findability and the cooperativeness of the sample was relied on.

All interviewees were asked the same questions: 1) why they chose the business account rather than becoming a sole proprietor; 2) if it is their additional income or micro-entrepreneurship is their only source of income; 3) if they plan to continue this way or wish to register as an entrepreneur, in case the answer to the latter was yes, the next question was whether it would be sole proprietorship or a company, and in case it was a company, the next question was about the reasons; 4) any additional comments they would like to make.

Altogether six different answers were received to the first questions encoded as follows: 1 (simple); 2 (can immediately use the money); 3 (no need to fill in documents); 4 (income tax is automatically withheld); 5 (less expensive than sole proprietorship); 6 (paying for health insurance is easier). The answers to the second question were divided into two: 1 (micro-entrepreneurship is a side-line); 2 (the only source of income). The answers to the third question were divided into four: 1 (I will continue this way); 2 (I wish to become an entrepreneur); 3 (I will become a sole proprietor); 4 (I will establish a company) (see Table). The last part of the third question and the fourth question were not encoded and will not be featured in numbers.

One telephone interview lasted for about 5-15 minutes and they were conducted with 126 people with 46 of them women. The average time spent in a day on conducting the interviews and recording the answers was three hours, with two to three persons called in an hour. The answers were written down in the course of the discussion and they were reread, specified and set in the table after the discussion. The interviews covered 5.87% of the persons using business accounts in 2020 and 8.7% of women owning a business account. The given results may be considered valid.

6. The results of the analysis

It may be concluded from the analysis of the interviews that the answers to the questions were similar in case of both men and women, with the exception of the second question. The business account formed the additional income for all women (see Table 1, question 2, code 1) and they also had one main job, in some cases they were already retired (revealed as the answer to the fourth question). It also confirms the assumption in the earlier section that women wish to have a more stable work environment and they are less willing to take risks than men. For the sake of clarity, there will be no more references to the Table in the analysis, only to the question and code.

Table 1. The reasons for opening a business account among natural persons (calculations by the author based on the interviews)

Question	code	male	female	total	% total	% female
1						
	1	15	35	50	39,68	76,09
	2	22	5	27	21,43	10,87
	3	15		15	11,90	0,00
	4	5	6	11	8,73	13,04
	5	15		15	11,90	0,00
	6	8		8	6,35	0,00
2	1	17	46	63	50,00	100,00
	2	63		63	50,00	0,00
3	1	67	41	108	85,71	89,13
	2	13	5	18	14,29	10,87
	3	0	3	3	16,67	60,00
	4	13	2	15	83,33	40,00

The use of a business account (question 1) was chosen by 39.68% for its simplicity (code 1), 21.43% chose it because the money transferred into the account could be used immediately (code 2), while 11.9% chose it because it did not require filling in any documents (code 3) and it was less expensive in terms of taxation than becoming a sole proprietor (code 5). The main reasons among women were its simplicity (code 1) and the automatically withheld income tax (code 4).

Micro-entrepreneurship or business account was a side-line (question 2) for 50% of the interviewees, including 100% of women (code 1). The given income formed a side-line only for 21.25% of male interviewees, for the rest of them it was the only source of income (code 2).

Most of the interviewees (question 3) will also continue in the same way (code 1), with only 14.29% expressing their will to become entrepreneurs (code 2) and only 16.67% of them opting for sole proprietorship (code 3). Three out of five women wished to become sole proprietors (code 3), the remaining two wished to establish a company (code 4), all of the men opted for a company (code 4). The reasons for opting for a company were as follows: *“a sole proprietor’s liability is 100% of personal assets”*, *“there is no need for the share capital”* and *“it is simple, that is, registration is quick”*.

Additional comments (question 5) included various justifications as well as explanations to the reasons for opening a business account and registering as an entrepreneur. The most common answer was that the business account *“lacks bureaucracy”* and it is very *“easy to open the account at LHV”*. However, it was also one of the drawbacks, as they would have wanted to use such an opportunity also at their home bank. There were also the following explanations: *“I don’t have to worry, nobody will bother me”* or *“it is a good way to be an honest taxpayer”* or *“my family is really proud of me that I no longer receive envelope wage”*. Then again, it was considered a drawback that the income tax is withheld immediately, but it was also added *“I probably would not be able to retain it for a year anyway”*. It was also revealed that many of them provide services to legal persons who then transfer the payment to their business account adding *“I do everything correctly on my behalf, the employer must be responsible for their tax liability”*.

7. Conclusions

The results of the analysis of both statistics and interviews coincided with the first theoretical parts.

It was revealed by the conducted analysis that people want to undertake self-employment and prefer an option that is not accompanied by additional obligations, with most self-employed people in micro-entrepreneurship (75.42%) and registered entrepreneurship (55.89%) are male. It was also confirmed that the number of sole proprietors is decreasing year by year and one of the main reasons is that they are liable with 100% of their personal assets and the tax liability is substantial. (see the section about individuals’ entrepreneurial activities) The analysis revealed that the awareness of self-employed people about declaring their income has increased and they want to be tax compliant. They are pleased with the fact that they do not have to inform anyone about earning an income and that the income tax is automatically withheld. It was also revealed that they consider it important how people around them behave and what their attitude to them is (see the section about tax behaviour).

Based on the conducted analysis, the following conclusions could be made:

- For men, micro-entrepreneurship (business account) forms the source of their main income, while for women, it provides an opportunity for an additional income.
- The Simplified Business Income Taxation Act has fulfilled its purpose – the tax behaviour and tax compliance of individuals have improved.

The analysis revealed that people are satisfied with the business account giving them freedom to undertake entrepreneurship without burdening them with bureaucracy. They do not have to declare their income and the income tax is automatically withheld and transferred to the tax authority. Individuals are satisfied and will continue micro-entrepreneurship also in the following years.

8. Summary

There are both legal and natural persons undertaking entrepreneurial activities. Natural persons can establish a company or become an individual entrepreneur. Until 2019, the latter was possible in Estonia only by registering oneself as a sole proprietor. Since 2019, natural persons have had the possibility to do business in a simplified form, that is, undertake micro-entrepreneurship by opening a business account in a bank. This option has been taken into active use, and when compared by gender, the number of business account users has increased among both (men and women) but somewhat more among men.

The aim of the article was fulfilled, the use of the Simplified Business Income Taxation Act among natural persons was identified, similarly the change in the number of sole proprietors and the profitability of entrepreneurial activity in 2019-2020.

It was revealed that the number of users of the Simplified Business Income Act is growing while the number of sole proprietors and the profitability of their entrepreneurial activity are in decline.

The main advantages of the business account include lack of bureaucracy and the automatic declaration and payment of taxes on the business income to the Tax and Customs Board. There are no further obligations for the business account owners. Then again, if they worked as sole proprietors, they would have to document their economic activity, register themselves and keep financial accounts, including various reports and data retention. In other words, they would have to assume due diligence obligations.

The business account is a very good and simple way to start entrepreneurship in a situation where entrepreneurship is more like a side-line or a hobby or they are testing the market and the clients are primarily natural persons. Then again, if they wish to use various services meant for entrepreneurs (e.g., allowances, bank products for business customer etc), the business account does not allow that (except a payment terminal that LHV bank issues to business account owners if they wish).

The selection between the business account and sole proprietorship is up to the person and it should not be based solely on their own or their friends'/relatives' emotions or attitudes. Before embarking on doing business, active people should first plan and predict the potential income resulting from their entrepreneurship, similarly calculate the expenses related with the income, and only then make the most suitable choice.

References

1. **Accounting Act**, 2021. RT I 2002, 102, 600, jõustunud 01.06.2021
2. **Ahmadi, M.; Imankhan, N.**, 2019. Presenting the model of tax compliance: the role of socialpsychological factors. *Asia-Pacific Management Accounting Journal*, 14(2), pp. 139-160.
3. **Centre of Registers and Information System**, 2022. Statistika. Juriidilisi isikuid kokku 2021. (11.01.2022)
4. **Commercial Code** 2021. RT I 1995, 26, 355
5. **Customer Service Centre of the Republic of Latvia**. 2021. Individual Entrepreneurs. <https://www.vid.gov.lv/en/individual-entrepreneurs> (16.12.2021)
6. **Güldenkoh, M.**, 2014. Improving conditions for transferring family enterprises in Estonia. *Estonian Discussions on Economic Policy*, 62–79.
7. **Güldenkoh, M.**, 2020. Lihtsustatud ettevõtlus ehk ettevõtluskonto. RP: Raamatupidamise praktik. RP Uudised.
Güldenkoh, M., 2021. Kuidas olla oma raha peremees. *Verbis Aut Re*, 13 (2), 32–33.
8. **Hanley, E., Mateju, P., Vlachova, K. and Krejci, J.**, 1998. The Making of Post-Communist Elites in Eastern Europe, Working Papers of the project Social Trends No. 4 (01.12.2021)
9. **Income Tax Act** 2021. RT I 1999, 101, 903
10. **Kirsipuu, M.**, 2004. Sole trader`s Role in Economy and the Regulation of Their Activity. Dissertatsioon. Tallinn: Tallinna Tehnikaülikooli Kirjastus.
11. **Kirsipuu, M.**, 2006. Füüsilisest isikust ettevõtjate rollist Eesti majanduses ja nende tegevuse reguleerimine. *IV Ettevõtetmajanduse Konverentsi ettekanded-artiklid: Eesti Majandusteaduse Seltsi aastakonverents 20.-21.01.2006 Pärnus*. Toim. Mattimar OÜ, 37–58.
12. **Kirsipuu, M.**, 2012. Sustainability of Rural Family Enterprises. *Discussions on Estonian Economic Policy. Developments in the EU Member States 1/2012*, 83–104.
13. **Kirsipuu, M.**, 2013. Hakkaks õige füüsilisest isikust ettevõtjaks? Hille Pungas (Toim.). *Kalender 2014* (97–102). Tallinn: Gondo Olevsoo.
14. **Martynova, V. S.**, 2018. Налоговое поведение различных типов налогоплательщиков. *Молодёжь третьего тысячелетия*, pp. 684-688.
15. ***Mateju, P.**, 1999. Social mobility and changes in perceived life-chances. Referred to Vecernik, J. 1999. Communist and Transitory Income Distribution and Social Structure in the Czech Republic. UNU World Institute for Development Economics Research, research for Action 51. p 31

16. ***Machonin, P.**, 1969. Czechoslovak Society. Sociological Analysis of Social Stratification (in Czech). Bratislava: Epoque. Referred to Vecernik, J. 1999. Communist and Transitory Income Distribution and Social Structure in the Czech Republic. UNU World Institute for Development Economics Research, research for Action 51. p 4
17. **OECD**, 2009. *Managing and Improving Compliance: Recent Developments in Compliance and Risk Treatments. Information Note.* (15.12.2021).
18. **OECD**, 2010. *Understanding and Influencing Taxpayers' Compliance Behaviour. Information Note.* (15.12.2021).
19. **Okpeyo, E.T., Musah, A.; Gakpetor, E.D.**, 2019. Determinants of Tax Compliance in Ghana: The Case of Small and Medium Tax Payers in Greater Accra Region. *Journal of Applied Accounting and Taxation*, 4(1), pp. 1-14.
20. **Inquiry** 2021. Estonian Tax and Customs Board. Intelligence Department (email sent on 19.11.2021, answer received 24.11.2021)
21. **Randlane, K.**, 2015. Tax Compliance as a System: Mapping The Field. *International Journal of Public Administration*, pp. 1-11.
22. **Simplified Business Income Taxation Act** 2018. RT I, 07.07.2017
23. **Zobel, M.**, 2001. FIE-töötuse tõrjevahend. *Pere ja Kodu* nr. 9, lk 18.
24. **Value-Added Tax Act** 2021. RT I 2003, 82, 554.
25. **Vecernik, J.**, 1999. Communist and Transitory Income Distribution and Social Structure in the Czech Republic. UNU World Institute for Development Economics Research, research for Action 51. (01.12.2021)

Annex. The business income of natural persons in 2019-2020

The primary data on the business income of natural persons (both the income liable to simplified business income taxation and as a sole proprietor) in 2019-2020 by counties and results are given in four tables.

Table 1. The persons using the Simplified Business Income Taxation Act by counties in 2019 (data inquiry 2021, the author's calculations)

County	Year 2019				
	no of accounts	incl. women (%)	income (euro)	incl. women (%)	Income per person (euro)
Harju	549	48.63	1377934.69	37.99	2509.90
Hiiu	4	75.00	333.7	99.00	83.43
Ida-Viru	85	49.41	82323.75	40.66	968.51
Jõgeva	14	57.14	15325.73	44.01	1094.70
Järva	14	64.29	22745.51	70.98	1624.68
Lääne	25	56.00	22281.38	44.72	891.26
Lääne-Viru	43	48.84	62405.18	24.33	1451.28
Põlva	23	39.13	17669.97	24.72	768.26
Pärnu	62	46.77	84523.53	19.46	1363.28
Rapla	20	30.00	38768.1	18.71	1938.41
Saare	78	11.54	19923.99	20.60	255.44
Tartu	131	47.33	155920.69	43.80	1190.23
Valga	34	47.06	16652.1	37.20	489.77
Viljandi	28	35.71	38429.28	18.08	1372.47
Võru	14	50.00	49300.98	58.22	3521.50
Unknown	13	61.54	44337.29	70.01	3410.56
Total	1137	27.88	2 048 875.87	27.86	1802.00

Table 2. The number of individuals using the Simplified Business Income Taxation Act by counties in 2020 (data inquiry 2021, the author's calculations)

County	Year 2020				
	No of accounts	incl. women (%)	income (euro)	Incl. women (%)	Income per person (euro)
Harju county	1186	43.25	2868352.6	39.31	2418.51
Hiiu	9	55.56	27107.85	24.64	3011.98
Ida-Viru	189	51.32	178451.64	39.42	944.19
Jõgeva	20	65.00	12476.06	46.30	623.80
Järva	31	64.52	50382.11	58.78	1625.23
Lääne	39	64.10	26847.94	58.42	688.41
Lääne-Viru	73	45.21	110375.39	29.09	1511.99
Põlva	33	39.39	78159.48	7.28	2368.47
Pärnu	101	54.46	123249.31	31.86	1220.29
Rapla	37	35.14	53089.26	26.87	1434.84
Saare	53	50.94	55810.8	55.03	1053.03
Tartu	216	47.69	356020.81	42.06	1648.24
Valga	51	50.98	51612.61	28.31	1012.01
Viljandi	55	63.64	84371.75	39.36	1534.03
Võru	32	50.00	68621.73	54.59	2144.43
Unknown	23	43.48	65561.98	31.08	2850.52
Total	2148	24.58	4 210 491.3	27.40	1960.19

Table 3. The number of sole proprietors declaring a positive, negative or “0” result by counties in 2019 (data inquiry 2021, the author’s calculations)

County	Total number of people submitting the e-form	Number of positive results of the year	Total positive result (euro)	Number of negative results of the year	Number of "0" results of the year
Harju	10292	5231	30898211	1174	3887
Hiiu	513	220	1168795	75	218
Ida-Viru	2754	1367	3914745	306	1081
Jõgeva	1179	397	1637566	241	541
Järva	920	386	2548642	150	384
Lääne	654	330	1340197	114	210
Lääne-Viru	1612	717	3870794	255	640
Põlva	1103	418	2171540	190	495
Pärnu	2769	1297	5055998	455	1017
Rapla	1002	447	1866979	156	399
Saare	1423	580	1720537	245	598
Tartu	3405	1557	7311597	460	1388
Valga	826	376	1469155	114	336
Viljandi	1622	689	3332733	289	644
Võru	1368	539	2233777	246	583
Unknown	95	23	83539	0	72
Total	31537	14574	70 624 805	4470	12493

Table 4. The number of sole proprietors declaring a positive, negative or “0” result by counties in 2020 (data inquiry 2021, the author’s calculations)

County	Total number of people submitting the e-form	Number of positive results of the year	Total positive result (euro)	Number of negative results of the year	Number of "0" results of the year
Harju	10522	4856	28267094	1345	4321
Hiiu	501	207	1018177	86	208
Ida-Viru	2797	1253	3617333	398	1146
Jõgeva	1164	382	1649578	220	562
Järva	920	358	2489812	171	391
Lääne	641	304	1408967	116	221
Lääne-Viru	1607	650	3397771	257	700
Põlva	1087	370	1774199	190	527
Pärnu	2733	1190	5594550	498	1045
Rapla	991	417	1904574	165	409
Saare	1375	513	1821031	262	600
Tartu	3440	1413	7331265	529	1498
Valga	800	362	1240991	131	307
Viljandi	1624	633	2981605	323	668
Võru	1358	512	2227062	235	611
Unknown	117	28	123882	6	83
Total	31677	13448	66 847 891	4932	13297