

### **3. SOLE TRADERS – NEGLECTED PARTNERS IN THE ESTONIAN ECONOMY**

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#### **Abstract**

Sole traders are the most common legal form of entrepreneurial activity in Estonia. Their role in the Estonian economy has constantly increased, their share being especially large in agriculture, fishing, and transportation. However, both economists and legislators have so far paid relatively little attention to this form of economic activity. In some cases the requirement for equal treatment of different entrepreneurs has been neglected. The authors of this paper find that sole traders are in a somewhat worse situation than companies with respect to taxation. Their high tax burden may hinder the birth of new entrepreneurs. Interview as a method of study was chosen for the empirical research involved. The respondents explained the selection of this form of economic activity mostly by cheap and simple registration, no requirement for starting capital, and simpler accounting. Regardless of the somewhat unequal treatment, the majority of sole traders are satisfied with their choice of the form of economic activity.

## Introduction

Sole traders are the most common legal form of entrepreneurial activity in Estonia. However, no investigations have been carried out about their activity, its regulation and specific problems involved. The aim of the present paper is to discuss the form of the entrepreneurial activity of sole traders, its specific features and importance in the economy, as well as its regulation and specific problems involved in this activity. The objectives of this article are:

- To analyze sole traders' role in the Estonian economy.
- To show the advantages and disadvantages of this legal form in comparison with others.
- To bring forth the peculiarities of taxation of sole traders.
- To study sole traders' background and their motives in starting their entrepreneurial activities.
- To find out sole traders' opinions about the laws, regulations and taxation concerning their activity.

The paper is largely based on Maret Kirsipuu's master's thesis compiled under Juhan Teder's supervision (Kirsipuu, 2004), but additional information that became available later has been used, too. As initial data relevant literature, articles in newspapers and journals, inquiries to the Estonian Taxation and Customs Board, the Estonian Ministry of Justice and the Estonian Health Insurance Fund were used. The interviews were conducted with sole traders from various fields of activity.

## Sole trader as a legal form of entrepreneurial activity, its advantages and disadvantages

According to Article 1 of the Estonian Business Act, a sole trader is a physical person who offers on his or her behalf goods or services for payment and for whom the sale of goods and services is a permanent activity. One of the most important characteristics of

sole traders is that they produce goods or services with the aim of selling and they offer them on their own behalf. Under Article 3 (1) of the Business Act, any physical person can be a sole trader. If the person is legally qualified as incompetent, the transactions shall be performed by his or her proxy (Äriseadustik).

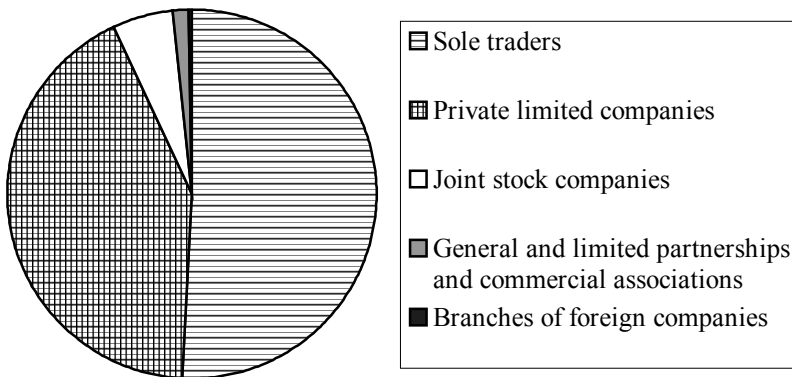
When a person is about to start business, in most cases two legal forms are considered: private limited company or sole trader. The advantages of sole traders in Estonia resemble those of analogous forms of entrepreneurship in other countries: legal registration is simpler, quicker and cheaper; there are no requirements concerning the starting capital, accounting is significantly simpler, there is no need to compile annual reports, and the money earned can be used currently for personal needs. The major disadvantage is the sole trader's full responsibility for the obligations taken in the course of activity with all his/her own private property. Sole traders do not enjoy complete income tax exemption on reinvested profits valid in Estonia. Although the rates of income and social insurance tax are equal for sole traders and companies, sole traders are in a somewhat worse position concerning taxation (we shall discuss this below). Moreover, this legal form cannot be used if a newly started firm has more than one owner.

Before starting their business, sole traders have to register themselves. Registration with the Taxation and Customs Board is an obligation of which one can be relieved only by registration with the Commercial Registry. Under Article 3(2) sole traders are registered with the Commercial Registry if they so require. They have to be registered with the Commercial Registry if they are registered with the Taxation and Customs Board as liable to taxes according to the Value Added Taxation Act (if their sales during a calendar year amount to more than 250,000 Estonian kroons) (Äriseadustik). The obligation to register with the Commercial Registry is tied to the opportunity to get various forms of business support. Registration with the Commercial Registry is also required in case a person wants to get involved in some licensed

activity. The Estonian Business Act includes different clauses for the regulation of the activity of different types of companies, the taxation laws do not differentiate between companies that are legal persons, but sole traders' income from entrepreneurship is taxed as the income of private persons.

## Sole traders' importance in the Estonian economy

The number of sole traders has been constantly increasing. Figure 1 shows the proportion of sole traders and companies as of 1 January 2004.



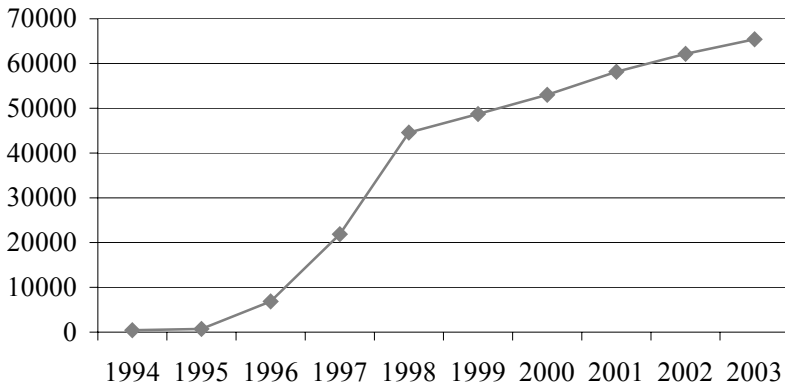
**Figure 1.** Companies and sole traders registered in Estonia as of 1 January 2004 (Justiitsministeeriumi registrikeskus, 2004; Riiklik Maksuamet, 2004).

The number of registered joint stock companies was 6,743; that of private limited companies 54,387; of commercial associations 855; of limited partnerships 630; of general partnerships 342; and of branches of foreign companies 365, while 65,466 physical persons had registered as sole traders, 21,464 of them with the

Commercial Registry. The proportion of sole traders among all those registered was 50.8% (Justiitsministeeriumi registrikeskus, 2004; Riiklik Maksuamet, 2004). It often happens that the figures standing for the number and percentage of different forms of entrepreneurship in the literature are misleading, which is due to the fact that those sole traders who are not registered with the Commercial Registry are ignored. Another problem is that not all registered entrepreneurs are economically active. The Statistical Office of Estonia keeps a separate account of economically active units. The relevant statistical profile of 2003 included 42,116 companies and 47,989 sole traders, of which 13,919 were registered with the Commercial Registry. The others were registered only with the Registry of Taxable Persons of the Taxation and Customs Board (Statistical Yearbook..., 2004).

Figure 2 illustrates the growth in the number of sole traders in 1995–2003 (Riiklik Maksuamet, 2004). The rapid growth in the number of sole traders is explained by several factors:

- Establishment of new businesses by entrepreneurs to make use of new business opportunities, giving simultaneous preference to an entrepreneur's lifestyle and being one's own master.
- Registration as an entrepreneur due to a change in the legislation regulating the field of activity, for example, as a result of reforms in the health care system, large numbers of general practitioners became entrepreneurs, many of them using the legal form of sole trader.
- Changed labor relations in a certain field of activity – often the relationship is that of employer–employee in the old meaning, but for certain reasons (taxes, simpler accounting for the employer) employees are interested in registering themselves as sole traders or are even forced to do so if they want to work in a particular field. As examples, we can cite here taxi drivers, hairdressers, beauticians, lecturers, builders, musicians, and actors.



**Figure 2.** Number of sole traders registered with the Estonian Tax and Customs Board in 1994–2003, end of the year (Riiklik Maksuamet, 2004).

In connection with the accession to the European Union, it may be useful to register oneself as a sole trader to offer services as an entrepreneur in other EU member states, in this way avoiding the obstacles resulting from the transition period that has been established for free movement of labor. So far the impact of this factor has not been very strong yet.

Only the Commercial Registry keeps a record of the entrepreneurs by their main activity. Table 1 gives a survey of those registered with the Commercial Registry by their main economic activity as of 1 January 2004. The table shows that the proportion of sole traders is the greatest in fishery (86.9%), agriculture, hunting and forestry (80.8%), and transportation, warehousing and communications (44.9%). We have to bear in mind that over 2/3 of sole traders were registered only with the Taxation and Customs Board, and so the proportion of sole traders given in Table 1 is significantly lower than in reality.

**Table 1.** Economic Units in the Commercial Registry by legal form and economic activity as of 1 January 2004

<b>Economic Activity</b>	<b>Sole traders</b>	<b>Compa-nies</b>	<b>Total</b>	<b>Sole traders, %</b>
Agriculture, hunting and forestry	11,961	2,837	14,798	80.8
Fishing	1,341	230	1,544	86.9
Mining	5	98	103	4.9
Manufacturing	574	6,800	7,374	7.8
Electricity, gas and water supply	8	322	330	2.4
Construction	194	3,763	3,957	4.9
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	2,090	24,146	26,236	8.0
Hotels and restaurants	449	2,327	2,776	16.2
Transport, storage and communication	3,540	4,349	7,889	44.9
Financial intermediation	15	1,474	1,489	1.0
Real estate, rentals and business activities	786	13,825	14,611	5.4
Public administration and defense; compulsory social security	0	5	5	0.0
Education	77	577	654	11.8
Health and social work	205	832	1,037	19.8
Other community, social and personal service activities	246	1,737	1,983	12.4
<b>Economic activities total</b>	<b>21,464</b>	<b>63,322</b>	<b>84,786</b>	<b>25.3</b>

Source: Statistical Yearbook..., 2004.

Note: the data do not include sole traders registered only with the Taxation and Customs Board.

Of course, in most cases sole traders mean relatively small business. While they make up over a half of the number of units, then in the total income of businesses their share in 2002 was only 1.5%. By economic activity, the proportions of sole traders' incomes differ. In agriculture, hunting and activities serving them, sole traders gave 34.5% and in health care and social maintenance 8.6% of the business income (sales volume) of the activity. In industry, power engineering, gas and water supply, construction, trade, transportation, warehousing, and communications and finances, the business incomes of sole traders made up less than 1% of the total income of the respective activity. In 2000, the business costs of sole traders were higher than their business incomes, but in 2001 and 2002 their incomes were higher than costs (Financial Statistics..., 2004).

Numerous sole traders are part-time entrepreneurs, getting simultaneously some income as employed persons. Often their income from paid work is higher than their business income. For example, in 2001 the number of economically active sole traders was 43,000. Half of them earned business income besides paid work, and of these in turn 60% had higher income from paid work than from entrepreneurship. A relatively small proportion of sole traders – *ca* 6% – are themselves employers of other persons (Kärsna, 2003). The number of sole traders who have no paid job can be estimated on the basis of the Estonian Health Insurance Fund data. Namely, the sole traders who have no employer have to register themselves with the Health Insurance Fund. The sole traders who have a job need not do it. According to the Estonian Health Insurance Fund, then, the number of sole traders who have insured themselves was as follows (Eesti Haigekassa, 2004):

- 2000 – 15,953 (30%);
- 2001 – 20,853 (36%);
- 2002 – 25,998 (42%);
- 2003 – 21,652 (33%).

Although in the majority of cases a sole trader creates a job only for himself and even this often in addition to a paid job, there are sole traders whose spectrum of economic activities is very wide. For example, this form of entrepreneurship is used by several large farms in Estonia. So, in 2003 the turnover of one of the best-known farms, Laheotsa, was over 40 million Estonian kroons and its profits over 4 million kroons. The same year, the farm provided work to 81 persons (Männik, 2004).

## Taxation of sole traders

As a taxpayer, a sole trader is responsible for:

- Keeping an account of his/her income and expenditure;
- Paying an income tax and a social insurance tax on his/her business income;
- Making advance payments of his/her income and social insurance taxes;
- The sole traders liable to VAT (turnover over 250,000 kroons a year or if the sole trader wishes to pay, also in the case of lower turnover) have to pay VAT and submit a turnover declaration;
- The sole traders that are employers have to deduct the income tax from the pay to their employees, make contributions to the mandatory pension fund and unemployment benefit fund, pay social insurance taxes and file tax returns every month.

Below we shall not discuss nuances of taxation but rather differences in the taxation of sole traders and companies.

**Income tax.** Beginning from the second year of activity, a sole trader is obliged to make advance payments of his/her prospective income tax obligations 3 times a year from the quarter following the deadline of filing tax returns (31 March). Besides advance payments, by 1 October of the following year an additional payment has to be made in accordance with the actual performance. Advance payments have to be made in equal amounts by the

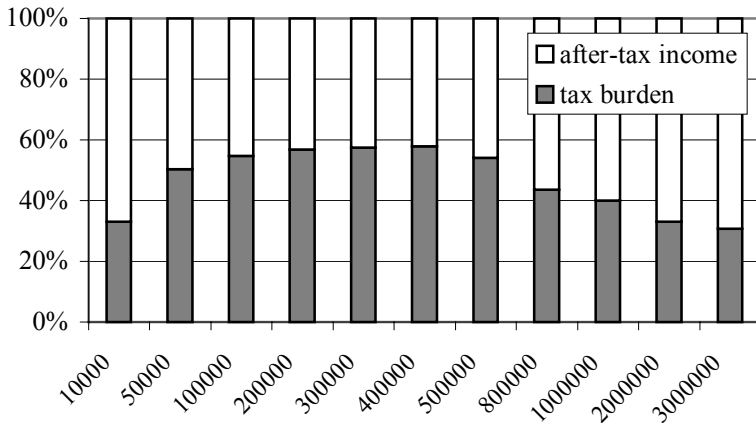
15<sup>th</sup> day of the third month of each quarter. The amount of one advance payment is a quarter of the sum of the income tax calculated for the previous taxation period (which was 26% of the difference of incomes and expenditures; from 1 January 2005 the tax rate is 24%). Article 20 of the Taxation Act envisages that a sole trader may register his/her business as temporary or seasonal. In that case, the sole trader has no responsibility for making advance payments of income tax. Nor have advance payments to be made if the activity has been terminated or if the previous year's running was at a loss.

By comparison with companies, the difference consists in the fact that under Estonian legislation companies have to pay income tax only when dividends are paid to the owners of the company, whereas reinvested profits are not taxed. To compensate for this, sole traders have an opportunity to deposit money on a special bank account for future investment; this money is likewise exempt from income tax. However, the money has to stay on the special account. While companies have no restrictions to using the profits that have been left in the company and may, for example, invest in securities to increase their profits, sole traders cannot use their special savings accounts for this purpose.

**Social insurance tax.** In general, sole traders have to make advance payments (which are very small) of a social insurance tax already during the first year of activity. Analogously to income tax, an additional payment of social insurance tax has to be made by 1 October of the following year (33% of the difference between the previous year's income and expenditure).

The difference from companies is that the owners of the latter may get income from their activity both in the form of wages, on which both income and social insurance tax are levied, and as dividends (liable only to income tax), but a sole trader's income from his/her business is treated as equal to wages, and therefore both income and social insurance tax have to be paid on it. This means that the fact that an entrepreneur could earn some profit on

the investments made is neglected. True enough, there is the exception that a sole trader has to pay a yearly social insurance tax on the sum amounting to 15 times the minimum wage of the taxation months, while the income over and above this sum is liable only to income tax. This means that when incomes increase, the tax burden of a sole trader will decrease (Figure 3). Yet this opportunity is enjoyed by a very small number of sole traders. The maximum amount of social insurance tax in 2005 is  $12 \times 15 \times 2690 \times 0.33 = 159,786$  kroons.



**Figure 3.** Sole traders' tax burden depending on taxable income (according to the taxation legislation valid in 2005).

Note: The taxable income is in Estonian kroons. The relatively lower burden in case of lower incomes is due to the tax-free minimum of physical persons valid in Estonia.

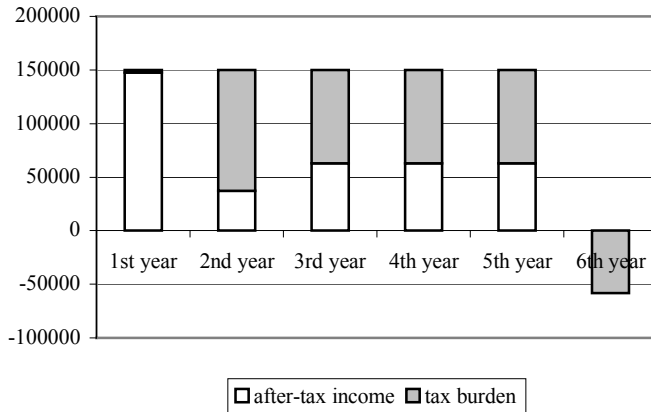
**Value added tax and taxes paid as an employer.** Regarding these taxes, there are no substantial differences between sole traders and companies.

Evaluation of the taxation of sole traders involves contradictions. Tax collectors are amazed by sole traders who, according to their

tax returns, have been operating at a loss for several years. This raises questions about the source of livelihood and the reasons for pursuing an activity that has not paid off for years. Obviously, often part of the income is simply not shown in the tax return (such a possibility differs greatly by economic activities) and expenditure is falsified to be greater than in actual fact. Various expenses of sole traders are only partly connected with business, which can cause arguments (for example, costs involved in using one's private car, flat or house, means of communication, etc.).

On the other hand, many sole traders have been unpleasantly surprised by the tax burden. Estonia has been considered a country of low taxes – however, the situation looks quite different if you pay to the state as taxes over a half of the difference between the previous year's income and expenditure. It often happens that at first a sole trader cannot consider the temporal distribution of tax payment (Figure 4 illustrates a situation where the annual income from business is by 150,000 kroons higher than the business costs). In the first year of activity, the tax burden of a sole trader is low – 1.8% – as only advance payments of the social insurance tax have to be made. In the second year, however, there is a drastic rise in the tax burden – the taxes will amount to 71.1% as the sole trader has to pay the income tax and social insurance tax for the previous year and make additional advance payments for the current year. Due to the high tax burden, the second year of activity is the toughest for sole traders. Later the tax burden will stabilize, being 57.9% (this figure is valid if the annual income is 150,000 kroons higher than the costs).

In conclusion, we can say that with regard to income tax and social insurance tax the situation of sole traders is worse than that of companies. This may make sole traders consider transition to other legal forms of entrepreneurship.

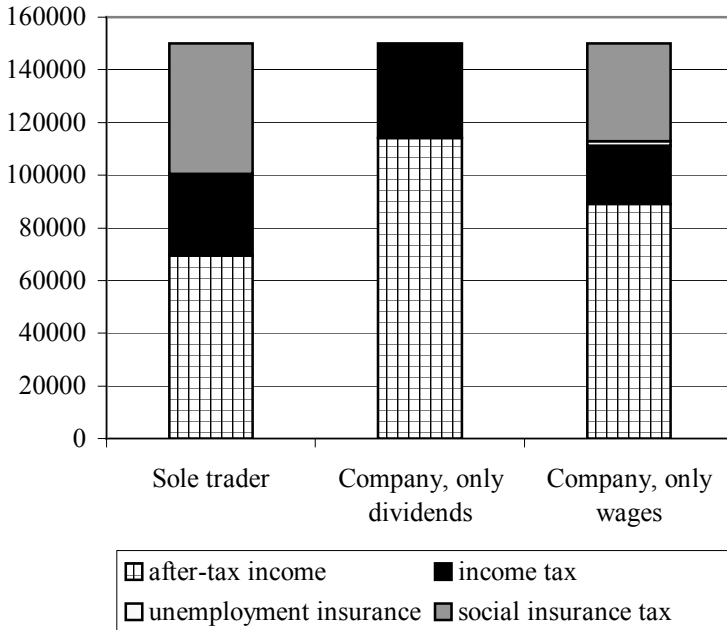


**Figure 4.** Tax burden of sole traders by years and at termination of activity after the fifth year (in kroons, according to the taxation legislation valid in 2005).

Note: The situation where the annual income from business is by 150,000 kroons higher than the business costs and after the fifth year the activity as an entrepreneur is terminated is considered.

Figure 5 compares the annual tax burden of a sole trader with that of a company if the net income from business activity is 150,000 kroons, the entrepreneurs themselves handle accounting, and the sum exempt from income tax is 20,400 kroons a year. In such a case, a private limited company that does not pay wages but distributes income in the form of dividends pays 24% (income tax rate in 2005) as taxes (after-tax income is 114,000 kroons; 24% income tax makes up 36,000 kroons). In a private limited company where income is paid as salary to the members of management, the tax burden will be 40.6% (after-tax income 89,166 kroons; 33% social insurance tax 37,079 kroons; total unemployment insurance contribution of 1.5% for employer and employee together 1,685 kroons, and 24% income tax 22,074 kroons). The tax burden of the sole trader is 53.7% (after-tax income 69,396 kroons;

33% social insurance tax 49,500 kroons; 24% income tax 31,104 kroons).



**Figure 5.** Difference between the tax burdens of a sole trader and a private limited company in the case of 150,000 kroons annual net income from business (according to the taxation legislation valid in 2005).

Figure 5 depicts extreme situations for a private limited company, as obviously it is often useful for an entrepreneur to take part of the income out as wages (to have a monthly income, have health insurance, and increase the future pension) and part as dividends to reduce his/her social insurance tax. Whether the gain is worth giving up the above-mentioned advantages of the sole trader as a form of economic activity, is up to each individual sole trader to decide.

## **An empirical study – methods and execution**

Interview as a method of study was chosen because it offers an opportunity to have a personal contact with the person interviewed and to ask additional or specifying questions if necessary. The unstructured interview suited best as it gave the respondents more freedom to explain their opinions and attitudes. A questionnaire consisting of 45 questions was prepared; the interviewer could use it in a flexible way. A total of 27 sole traders from 10 counties engaged in different economic activities were interviewed.

The aim of the interviews was to collect information about the considerations and motives for selecting sole proprietorship as their form of economic activity. The questions concerned the following main topics: entrepreneur's background, field of activity as a sole trader, opinion about the regulation of the activities of sole traders and their taxation, the attitude of business partners and banks towards sole traders, the entrepreneur's plans for the future.

## **Analysis of the results of the interviews**

### **Background and economic activities of entrepreneurs**

Of the 27 sole trader interviewees 45% were men and 55% women. The largest percentage of respondents came from Tallinn – 26%, 22% were from Harjumaa, 19% from Põlva, and 33% from other counties. In all cases, the venue for the respondent's economic activity and his/her place of residence were in the same county.

The number of interviews was limited, so we can consider the following results as a first glance at the situation of sole traders in Estonia. To get more representative results, we suggest that more extensive surveys should be carried out in the future.

As to the educational level, the respondents distributed as follows: 41% had a specialized secondary education, 33% a secondary education, 22% a higher education and 4% a primary education. Two interviewees, who had started business already in 1992, had the longest record of economic activity as sole traders. Eleven persons had started as sole traders during the last three years (2001–2003); three of them had been forced to register themselves as sole traders by their employers.

Of the sole traders interviewed 41% had additionally a paid job, 4% were retired, and 55% were only sole traders. The interviewees' age at starting as a sole trader ranged from 21 to 58 years. They were active in five fields: retail and wholesale trade and repairs (15), agriculture (5), manufacturing (4), financial mediation (2) and building (1).

### **Activity as a sole trader**

Rented rooms were used by 41% of the interviewed sole traders, 26% ran their business at home, 19% had purchased special buildings, and 14% worked at their customers' place. The average number of weekly working hours was 40; 48% had a fixed work schedule. All the interviewed sole traders had registered themselves with the Taxation and Customs Board, 30% also with the Commercial Registry. Of those registered with the Commercial Registry, 75% had registered because they were liable to VAT, and 25% because their activity required a license.

The selection of this legal form of economic activity was mostly chosen because of cheap and simple registration, no requirement for starting capital, and simpler accounting. As many as 82% of the respondents were convinced that simplicity of accounting was a serious motive. 71% of the interviewees handled their accounting themselves or with the help of family members, while 29% used the services of accounting specialists. A few respondents, primarily those liable to VAT, did their accounting every month and had an exact current overview of their income and expendi-

ture. The rest drew conclusions mainly in the course of filling out their annual income-tax returns.

Supplementary labor was used by 41% of the respondents; 46% of them had officially registered their employees. Family members helped 37% of the respondents, but none of them were officially registered as employees.

The money drawn from economic activity and personal money was in the same purse in 82% of the cases, while 9% kept the two separate and 9% tried to do so as much as possible. After starting as a sole trader, 67% had made investments, all together in the amount of 23,108 000 kroons. The largest investments had been made into the purchase and renovation of rooms, the purchase of equipment, machinery and tools, vehicles, and computer hardware and software.

All income from their economic activity was shown in the accounts submitted to the Taxation and Customs Board by 41% of the respondents, while some of the income was not shown by 59%. It is part of the work for which the customers pay in cash and do not need an invoice that is not shown. Several sole traders mentioned that the proportion of such work is continuously falling.

Expenditure not connected with their economic activity had not been shown as expenditure of economic activity by 30% of the interviewees. Some of the explanations given for that were: "No need, the profit is small", "After the thorough checking after the first year I even don't think of such a possibility any more", "I don't want to risk and pay fines later".

The expenditure not directly connected with their economic activity had been reported as expenditure on economic activity by 70% of the respondents; for example "Everything that might pass", "Some of the expenses of myself and the family", "Redecoration of the flat"; in a few cases also the expenditure of friends and acquaintances had been shown (6% of the respondents).

## **Evaluation of the regulation and taxation of the economic activity of sole traders**

The fact that a sole trader is responsible with all his/her property was not seen as a significant risk by 78% of the respondents. The accompanying absence of unemployment insurance scheme and no possibility to join the mandatory pension fund (the “second pillar”) were considered unimportant by 44%; 11% had a voluntary pension insurance scheme, while the rest had a paid job and hence were entitled to both insurance schemes. Thus, sole traders do not regard the absence of unemployment insurance as a real problem. (Note: later amendments to the relevant legislation have made it possible to join the second pillar of pension insurance.)

As many as 48% of the respondents had not heard of the opportunity to use a special account to reduce taxes, others knew about it and were of the opinion that the special account gives an opportunity to reduce taxes that is as good as the exemption of companies from income tax. However, only 2 persons interviewed actually used a special account.

As to the presently valid taxation system, 41% of the respondents were satisfied, 7% were more or less satisfied, and 52% were not satisfied. The majority of the respondents were of the opinion that the laws hinder entrepreneurship. Comments like “The taxation board and the government are insatiable” and “It cannot get any worse” could be heard. However, positive remarks were also made, for example “After all, it’s our own government” and “Probably it must be as it is”. 45% found that the tax burden of sole traders was heavier than that of other entrepreneurs; 22% thought that there was no difference in taxation, and 33% could not answer because they had not been interested in the taxation of other forms of economic activity. Differences in taxation were seen with regard to the income and the social insurance tax.

## **Reputation of sole traders and their satisfaction with the legal form chosen for their business activity**

We studied separately whether sole traders had experienced a different attitude to them due to the form of their economic activity as compared with owner-managers of companies. 67% of the respondents said that the attitude of customers seemed to be good; 11% had experienced a derogatory attitude in the beginning, while the rest found that customers were prejudiced towards them and trusted them less than companies.

Their business partners had shown a derogatory attitude in the opinion of 22% of the respondents (less trust or fear that they cannot fulfil their obligations or that they are swindlers).

Part of the respondents also complained about the attitude of banks towards sole traders. One respondent said that it was incomprehensible why banks discriminated against sole traders for “a sole trader should be considered a more reliable customer for a bank than a company, because the former is responsible with all his/her property”. Of those interviewed, 15 had asked for a bank loan and 5 had got it. The comments on the refusal by the bank to give credit were: “The turnover of the business is small”, “A sole trader does not have any fixed monthly income”, “They did not want to discuss the matter any more when they learned that I was active only as a sole trader”. However, the sole traders who had got a loan had a favorable attitude towards banks.

Although sole traders sometimes feel they are discriminated against, they are, in general, satisfied with their selection of the form of economic activity. If they were to start again, 81% would choose the same form of activity. The farmers found that sole trader as a form of economic activity is the only appropriate form for farms. Most sole traders found that the attitude of customers, business partners and suppliers towards them was positive. The general opinion was that with time the attitude towards sole traders had improved mainly due to two factors: first, sole traders

have earned trust and secondly, sole trader as a form of economic activity has spread.

Although for different reasons a few of the interviewed sole traders had pondered terminating their business activity, the majority were considering expansion, diversification, or at least continuation in the same volume. As many as 41% of those interviewed were convinced that their children would continue the activity when they themselves had to quit.

## Conclusions

The number of sole traders has been increasing in Estonia from year to year. Although the majority of businesses are small, this form of economic activity should not be underrated. Among other things, business activity as a sole trader has often been the first opportunity to get business experience and in the case of success and expansion of activity it has become reasonable to establish a company.

Both economists and legislators have so far paid relatively little attention to this legal form of economic activity. In some cases the requirement to treat different legal forms as equals has been neglected. The authors of this paper find that sole traders are in a somewhat worse situation than companies with respect to the income tax and the social insurance tax. However, this problem is not widely understood. The high tax burden may hinder the birth of new entrepreneurs and the expansion of the existing businesses. At first, sole traders had no possibility to join the second pillar of the pension scheme and even though the problem has been solved by today, the negligence shows that the legislators do not care about sole traders. The situation was analogous when companies were relieved from paying income tax on reinvested profit and sole traders were given an opportunity to use a special account for the same purpose – the latter was done with a time lag, which again testifies that at first the legislator simply did not think about

sole traders or did not consider it important to create equal opportunities for them with companies. Today there is no unemployment insurance scheme for sole traders in Estonia (for example, in Finland such a scheme exists).

Regardless of the somewhat unequal treatment, the majority of sole traders are satisfied with their choice of the legal form of economic activity and 81% of respondents would choose the same form of activity if they were to start again. Farmers find this form of activity to be the most suitable one for them. Two main factors in selecting this form of activity were simple cash-based accounting and no legally specified need for initial capital.

Sole trader as a legal form of entrepreneurship is and will remain the most widely used form in Estonia. However, in the course of interviews we found out, surprisingly, that many entrepreneurs were unaware of the differences between the forms of economic activity, and sole traders did not know about the possibility to use a special account in order to avoid taxation.

The present investigation surveyed the role of sole traders in the Estonian economy, the peculiarities of the regulation and taxation of their activity, and the opinions about their activity of the sole traders involved in an empirical study. Hopefully, our results will induce legislators to pay more attention to sole traders and scientists to carry out in-depth investigations.

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