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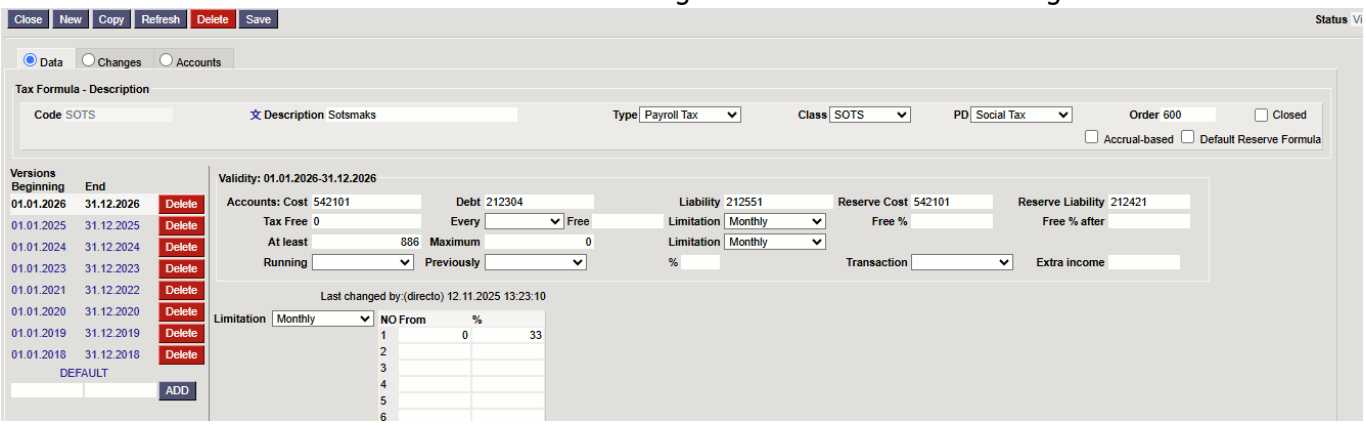
Tax Formulas

With tax formulas, you define which taxes Directo calculates on employees' wages (for example income tax, social tax, unemployment insurance and funded pension contributions), at which rate and to which accounts Directo posts the taxes. When the tax formulas are set up correctly, Directo calculates the taxes itself and you do not need to check them manually.

You can find the tax formulas in the menu `Settings → Personnel Settings →` **`Tax Formulas`**.



Tax formula fields

- **Code** - the code of the tax formula.
- **Description** - the name of the tax formula.
- **Type** - the options are **Employee tax**, **Payroll Tax**, **Added tax** and **Employee benefit**. You use the Added tax, for example, for the trade union fee. If you select Employee benefit, Directo does not show this tax formula on the wage calculation.
- **Class** - the class of the tax formula. You can define the classes in the setting `System settings > Wage Tax Formula Classes`.
- **PD** - the TSD section to which the tax calculated with this tax formula goes (for example **Social Tax**).
- **Order** - the order in which Directo calculates the taxes. Employee taxes have lower numbers and employer taxes higher numbers.
- **Closed** - select this checkbox if you no longer use this tax formula. Directo shows a closed tax formula in red on the employee card.
- **Accrual-based** - defines how Directo calculates the minimum social tax obligation. If the checkbox is selected, Directo calculates the minimum social tax by the calculation period. If the checkbox is not selected, Directo calculates it by the month code of the calculation. If none of the social tax formulas has **Accrual-based** selected, you cannot change the social tax period on the wage calculation and payment documents.
- **Default Reserve Formula** - select this checkbox if Directo must use this tax formula when calculating the holiday reserve taxes.

Accounts:

- **Accounts: Cost** - for employee taxes, the liabilities to employees account; for employer taxes, the cost account.
- **Debt** - the liability account of the Tax and Customs Board.

- **Liability** - for employee taxes, the liabilities to employees account; for employer taxes, either the liability account of the Tax and Customs Board or an accrued liability account.
- **Reserve Cost** - the holiday reserve cost account.
- **Reserve Liability** - the holiday reserve liability account.

Other fields:

- **Tax Free** - the valid tax-free amount.
- **Every** - select the basis on which the employee receives the tax exemption.
- **Free** - the amount that the employee receives as tax-free according to the basis selected in the **Every** field.
- **Free %** - if the **Free % after** field is filled in, the percentage by which Directo reduces the tax-free amount until it reaches zero.
- **Free % after** - the amount from which Directo starts reducing the tax-free amount by the percentage entered in the **Free %** field.
- **At least** - the minimum amount on which the tax is declared (minimum rate). This field affects the **Social tax** option on the employee card for the minimum rate.
- **Maximum** - for percentage taxes, the maximum amount on which Directo calculates the tax. For example, if the trade union fee is 1% of the gross wage but no more than 20 €, enter `2000` in this field (1% of 2000 is 20 €). For other taxes, this is the maximum amount that can be declared, but this is not used in Estonia.
- **Limitation** - in Estonia, all taxes have the limitation **Monthly**. The option **Monthly continuous** was used, for example, for income tax in 2017 and earlier.
- **Running** and **Previously** - define which taxes Directo deducts from the gross amount before calculating another tax. Select the **Running** option [CHECK: option name] on the pension and unemployment insurance tax formulas and the **Previously** option [CHECK: option name] on the income tax formula. Directo then first deducts from the gross amount the amounts of the tax formulas with **Running** selected, and only then applies the income tax percentage. If **Previously** is not selected on the income tax formula, Directo does not deduct the pension and unemployment insurance contributions before calculating income tax. Directo also uses both settings when calculating the net amount.
- **Transaction** - defines when Directo makes the tax entries:
  - **empty** - Directo makes the entry for employer taxes with the calculation date and the entry for employee taxes with the payment date;
  - **wage** - Directo makes all entries at the time of the calculation. At the time of the calculation, Directo posts the taxes to accrued liability accounts, and at the time of the payment, it transfers the tax amounts from the accrued liability accounts to the liability accounts. Directo records the liabilities to employees as a net amount. This option works only with accrued liability accounts. Use it if your company calculates and pays wages in the same month.

Versions

If a tax formula setting changes from a certain date, you can create a new time-based version of the tax formula. For example, the reduction of the minimum social tax for an employee with a disability may change from year to year. You can see the versions of the tax formula on the left of the card (**Beginning**, **End**), and the validity period of the selected version above the fields (for example **Validity: 01.01.2026-31.12.2026**).

To add a new version:

1. Fill in the period in the fields in front of the **ADD** button.
2. Click **ADD**.
3. Change the amount and save.

If no new version has been created, Directo uses the **DEFAULT** version. Therefore, make sure that the **DEFAULT** version always contains the amount of the latest valid period.

Directo uses the version according to the payment date. For social tax, Directo uses the version according to the calculation date, because the social tax period on the payment is based on the calculation.

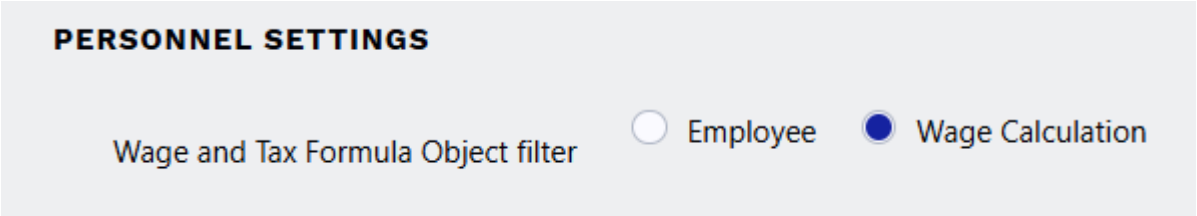
To delete a version, click **Delete** next to it.

Accounts tab

The **Accounts** tab is on employer tax formulas. With this tab, you can define the accounts for different departments or objects, for example for a department-based holiday reserve.



Whether Directo takes the object of the entry from the employee or from the wage calculation is defined by the setting `System settings > Wage and Tax Formula Object filter`.



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