

INVESTMENT CARD

Doing business in the Baltics and Belarus –
a snapshot of the most relevant
commercial conditions

A large, semi-circular graphic with a blue gradient background. It features various financial symbols like percentages, Euro signs, and @ symbols. The text 'Investment R&D 2018' is prominently displayed in the upper right quadrant.

Investment
R&D 2018

Regulation

Capital
Compensation

Employment
Reporting

Indicator	Estonia	Latvia	Lithuania	Belarus ¹
Ease of doing business (World Bank Report 2018 ranking)	12	19	16	38
Registering property (World Bank Report 2018 ranking)	6	22	3	5
Enforcing Contracts (World Bank Report 2018 ranking)	11	20	4	24a
Time taken to register company	From 1 business day online with an ID card	From 1 business day	From 3 business days	From 1 business day
Minimum share capital (for private limited liability companies)	EUR 2,500	EUR 2,800	EUR 2,500	No requirements
Residence/citizenship requirements for management/shareholders	None	None	None	None
Minimum gross monthly salary	EUR 500	EUR 430	EUR 400	EUR 113
Average gross monthly salary (estimate)	EUR 1,201	EUR 894	EUR 850	EUR 355
Corporate income tax	0% on retained or reinvested earnings / 20% postponed to payment of dividends	0% on retained or reinvested earnings / 20% postponed to payment of dividends	15% (5% reduced rate)	18% (with exceptions)
Taxation treaties with	58 countries	60 countries ²	53 countries	69 countries ³
Currency	euro	euro	euro	Belarusian ruble (approx EUR 0.4246)
Incentives available	Yes	Yes	Yes	Yes

¹http://www.nalog.gov.by/ru/world_bank/view/belarus-v-rejtinge-vsemirnogo-banka-vedenie-biznesa-2018-27833/

²http://www.fm.gov.lv/lv/sadalas/nodoklu_politika/nodoklu_konvencijas/konvenciju_status/

³<http://www.nalog.gov.by/ru/podtverzdenie-nalogovogo-rezidentstva-ru/>

ESTONIA

Why Estonia

- Ranks 3rd in Europe and 7th worldwide in 2018 Index of Economic Freedom Study (Heritage Foundation).
- Ranks 22nd worldwide in 2017 Corruption Perception Index (Transparency International).
- Ranks 1st in 2017 International Tax Competitiveness Index (Tax Foundation).
- Politically stable modern market-based economy.
- Good location and connections to the whole Baltic Sea region and between East and West.
- Front-runner in IT and communications technology solutions.
- Highly skilled labour force – 39.1% with higher education (Statistics Estonia 2016).
- Competitive company cost structure.
- Minimum bureaucracy and no discrimination between local and foreign investment.
- Most transactions and administration can be done electronically by ID card.
- Electronic ID, digital signature + access to e-government resources for eligible non-residents.

Estonia can offer

Corporate laws

- Company registration online with ID card in a matter of minutes.
- Natural persons can register a company without paying in share capital.
- Only one management board member required; no citizenship or residence requirements.
- Corporate changes can be registered and annual reports filed online.
- Meetings can be held via e-mail or letter.

Employment regulation

- Wide freedom of contract.
- Termination notice (for economic reasons) 15 days to 3 months; one month's average salary compensation.
- Few trade unions and collective agreements.
- Favourable immigration regulations for hiring qualified non-EU nationals and intra-group transfers of foreign employees.
- Low costs on redundancy (compensation up to one month's average wages).
- High social security and good public support system on unemployment and redundancy.

Tax system

- Dividends, interest and royalties not subject to withholding tax.
- No traditional thin capitalisation rules.
- Value added tax (VAT) – 20%; reduced rate – 9%.
- Personal income tax rate – 20%, including capital gains.
- Resident companies pay CIT deferred to actual distribution of profits.
- Reduced CIT rate 14% on regular dividend payments.
- Social security contributions: employer pays social tax (33% of gross salary) plus unemployment contribution (0.8%) and withholds employee's unemployment contribution (1.6% of gross salary).
- Online tax declarations and communication with the tax board.
- Easy to claim VAT refunds.

Investment incentives

- Cost of running a business in Estonia far lower than in neighbouring Scandinavian countries.
- Buildings not subject to real estate tax (only land is).
- Resident companies can apply for grants from EU structural funds.
- Estonia offers e-Residency — transnational digital identity available worldwide for managing a location-independent business online + company formation and administration online.
- Among leading countries in Central Eastern Europe in terms of foreign direct investment *per capita*.



Karin Madisson
Partner

karin.madisson@sorainen.com
ph +372 6 400 934



Toomas Prangli
Co-Managing Partner

toomas.prangli@sorainen.com
ph +372 6 400 966

LATVIA

Why Latvia

- Predictable legal and regulatory environment.
- Prime geographical location and developed port and railroad infrastructure – crossroads between North, East and West.
- Capital of Latvia: Riga – a key business hub with excellent airline connectivity.
- Available financial incentives mainly as tax deductions and subsidies.
- Favourable environment for running service centres for foreign businesses.
- Temporary residence permits for financial investment, investment in real estate or in company share capital and special temporary residence permit for establishing start-ups.

Latvia can offer

Corporate laws

- No residence requirements for the management board.
- Supervisory board mandatory only for public limited liability companies.
- One-person management board sufficient.
- Most establishment steps can be done under a power of attorney.

Employment regulation

- Highly skilled workforce speaking at least one foreign language.
- Possibility to apply flexible work-time organisation forms (eg aggregated working time).
- Social security system is run by the state and removes costs from the employer.
- Low trade union membership rate in private sector.
- Favourable immigration regulation for hiring qualified non-European Union nationals (including EU Blue Card system) and for intra-group transfers of foreign employees.

Tax system

- Corporate income tax 0% on retained or reinvested earnings / 20% postponed to payment of dividends
- Capital gains on sale of shares held at least 3 years exempt from corporate income taxes.
- Personal income tax rates – 20%, 23% and 31.4%.
- Standard value added tax rate – 21% (12% reduced rate).
- Social security contributions: employee rate – 11% of gross salary, employer rate – 24.09% on top of gross salary.
- Social security contributions not payable for salary over EUR 55,000 threshold annually.
- Salary over EUR 55,000 subject to solidarity tax: employee rate – 11% of gross salary, employer rate – 24.09% on top of gross salary.
- Binding advance tax rulings and advance pricing agreements available.
- Holding regime – no withholding tax on interest and royalties and participation exemption for withholding taxes on dividends (except payments to blacklisted jurisdictions).
- Online tax reporting.

Investment incentives

- Tax and other benefits for businesses within special economic zones and free ports.
- Special measures and tax framework available for developing start-ups.
- Corporate income tax rebates for investment projects exceeding EUR 10 million in certain state-supported sectors.
- Credit guarantees of up to EUR 1.5 million or EUR 3 million, depending on the size of the company, available in certain state-supported sectors.
- State aid programmes to improve competitiveness, to support start-ups and growth.
- Subordinate or mezzanine loans up to EUR 5 million for small and medium companies, available in certain state-supported sectors.
- Funding for R&D incentives, available in certain state-supported sectors.
- Possible land tax reduction from municipalities.



Eva Berlaus
Country Managing Partner

eva.berlaus@sorainen.com
ph +371 67 365 014

LITHUANIA

Why Lithuania

- One of the most cost-effective countries in Europe.
- 11th in Europe and 19th worldwide in 2018 Index of Economic Freedom Study (Heritage Foundation).
- Predictable and non-discriminatory legal and regulatory environment.
- Highly educated talent pool – 4th in the EU for Bachelors graduates in science, maths, computing, engineering, manufacturing, and construction; 2nd highest in the EU share of young adults (25-29 years) with tertiary education: 50.4%; 84% proficiency in English among young professionals.
- Lithuania has the highest ratio of young people in CEE.
- Prime geographical location – crossroads between North, East and West.
- Developed infrastructure – Lithuania offers the best regional road network.
- Leading broadband internet speed in the EU + top 11 globally, 1st globally for public WiFi speed.
- Available financial incentives mainly as tax deductions and subsidies.

Lithuania can offer

Corporate laws

- No residence requirements for management.
- One-person management sufficient; formation of board optional.
- Most establishment steps can be done under a power of attorney.

Employment regulation

- New Labour Code (in force from July 2017) provides more flexible employment regulation, lower dismissal costs, more options for fixed term contracts etc.
- Flexible rules for overtime work.
- Cost-efficient approach to working time rules.
- Social security system run by the State and removes costs from the employer.
- Collective action rare; statutory regulation and court practice limit strike possibilities.
- Favourable immigration regulation for hiring qualified non-EU nationals, especially by using EU Blue Card system and for intra-group transfers of foreign employees.

Tax system

- Standard personal income tax rate – 15%.
- Value added tax (VAT) rate – 21%.
- Social security contributions: employee rate – 3% withheld from gross salary; for employer – 28.18% (including payments to Long- term employment benefit fund and Guarantee fund) on top of gross salary. Additional 1.4% levied on salary paid under fixed term employment contracts.
- Compulsory health insurance contributions: employee rate – 6% withheld from gross salary; for employer – 3% on top of gross salary.
- Participation exemption for withholding taxes on dividends.
- Unlimited carry-forward of losses.
- Intra-group transfer of losses permitted.
- Binding advance tax rulings and advance pricing agreements available.

Investment incentives

- Corporate income tax and real estate tax exemption in free economic zones.
- Financial incentives for high value-added projects.
- Compensation of training and employment costs.
- R&D costs deducted three times.
- Possible land lease reduction and land tax exemption from municipalities.



Algirdas Pekšys
Partner

algirdas.peksys@sorainen.com
ph +370 52 644 894



Mantas Petkevičius
Partner

mantas.petkevicius@sorainen.com
ph +370 52 639 804

BELARUS

Why Belarus

- Member of the Eurasian Economic Union – free access to markets in Russia, Kazakhstan, Armenia and Kyrgyzstan.
- Favourable geographical location – crossroads between North and South, East and West.
- Highly educated labour force – one-third of adults have tertiary education.
- Developed infrastructure, including road and rail networks.
- Abundant investment incentives mainly as tax and customs exemptions.
- Relatively free niches available in many market segments compared to elsewhere in the region.
- Wide choice of investment instruments, including public-private partnership.
- Consistent systematisation and simplification of administrative requirements for business.

Belarus can offer

Corporate laws

- Company registration in 1 day; all steps do-able under a power of attorney.
- No minimum share capital requirement for a limited liability company. Low minimum share capital requirements for other types of company⁴.
- Formation of share capital after company established.

Employment regulation

- Limited grounds for termination of employment contract at employee's initiative.
- Flexible rules for overtime work.
- Moderately priced labour force (minimum salary – approx EUR 113; average monthly salary – approx EUR 355).
- Comparatively low costs and flexible procedures on staff reduction.

Tax system

- Active reforms to taxation system resulting in lower overall tax and administrative burden.
- Low corporate income tax rate – 18% (with exceptions, eg 25% for banks and insurance companies).
- Low flat personal income tax rate – 13%.
- Value added tax (VAT) rate – 20% (reduced rates apply).
- Social security contributions: employee – 1% of gross salary; employer – 34% on top of gross salary.
- Carry-forward of losses for up to 10 years.

Investment incentives

- Preferential tax and customs regime for 6 free economic zones, eg, exemptions from corporate income tax (in first 5-10 years) and real estate tax for companies registered in free economic zones.
- Special regime for High Technology Park providing IT companies with beneficial tax, legal and administrative conditions. Recent changes prolonged preferences to 2049 and introduce special treatment for cryptocurrencies and ICOs.
- China-Belarus Industrial Park 'Great Stone' with rapidly developing infrastructure and administrative support for innovative companies in electronics, chemistry, biotechnology and other spheres. Special regulations grant extensive tax, migration and other benefits for residents, eg exemptions from corporate income tax (in first 5-10 years) and real estate tax.
- State support for companies operating in rural areas and small towns, comprising tax, foreign exchange and other preferences, eg, exemptions from corporate income tax (in first 5-10 years) and real estate tax for companies in rural areas.
- Additional set of incentives available to investors implementing projects on the basis of an investment agreement with the Republic of Belarus (almost 2,000 such agreements concluded to date).
- Simplified taxation system available to companies meeting requirements based on number of personnel and amount of gross revenue.

⁴100 basic units (approx EUR 1,120) for closed joint-stock companies and 400 basic units (approx EUR 4,490) for open joint-stock companies



Maksim Salahub
Partner

maksim.salahub@sorainen.com
ph +375 17 306 2102



Kiryl Apanasevich
Country Managing Partner

kiryl.apanasevich@sorainen.com
ph +375 17 306 2102

Our services

Sorainen offers full legal and tax advice for entering the Estonian, Latvian, Lithuanian and Belarus markets, including:

- selecting corporate and tax structure;
- setting-up a company/branch/representative office;
- corporate secretary services;
- advising on employment and regulatory issues;
- obtaining blue cards, residence and work permits;
- advising on legal requirements related to application for incentives;
- other legal and tax support.

Our experience

 <p>Setting up a global (corporate and tax) technology centre in Vilnius, including investment incentives and Investment Agreement</p>	 <p>Setting up international shared (corporate and tax) service centre in Vilnius, including investment incentives</p>	 <p>Setting up a new technology and business support competence centre in Vilnius</p>
 <p>Converting a regulated investment firm into an Estonian commercial bank plus passporting elsewhere in the Baltics</p>	 <p>Setting up local subsidiary in Estonia and advising on aspects of corporate and procurement law</p>	 <p>Setting up branch in Estonia for company business activities in construction of a 300MW CFB boiler and advising on employment, taxation and other legal matters</p>
 <p>The largest acquisition in the Baltics in 2017 – taking over the Baltic operations of the Modern Times Group</p>	 <p>Setting up companies in Latvia and Lithuania and advising on all related legal matters</p>	 <p>Setting up companies in the Baltics and advising on all related legal matters</p>
 <p>Securing investment from AST&Science to support operational expansion of the satellite platform manufacturer and mission integrator</p>	 <p>Acquisition of Masquerade Technologies, Inc., a Belarus-based maker of MSQRD app</p>	 <p>Acquisition of Juno, an Israel-based transportation app with an R&D centre in Belarus</p>

Who we are

Sorainen is a fully integrated law firm with offices in Estonia, Latvia, Lithuania and Belarus with over 300 people, incl 32 partners and 200+ other lawyers and tax advisers in total. Uniquely, the firm operates integrated regional teams covering all business-related legal practice areas and a unified ISO 9001 certified quality management system.

With full integration, synergising the resources of all four offices enables us to provide a seamless service to clients in local and cross-border assignments, making our firm the optimal choice especially for regional projects and for clients with operations in more than one of the Baltic States or Belarus.

The core purpose of Sorainen is to increase prosperity in the Baltic States and Belarus by helping clients succeed in business. Looking ahead, Sorainen strives to support entrepreneurs and corporations to further this same core purpose.

What's new in the Baltics and Belarus?

The Baltic States welcome investors in main business areas such as retail, industrial, office, as well as by constantly expanding exports, services, tourism, and computer solutions. The Baltic States offer a cost-competitive and qualified workforce supported by legal certainty and simplicity of procedures.

Lithuania is a leader with its attractive fintech environment. Advantages include easy establishment of start-ups, communications technology infrastructure, the fastest licensing processes and an improving legal environment. The Baltic region is prominent for its start-up passion. In 2017, Estonia launched an innovative visa programme for foreign start-up employees – a unique opportunity for foreign founders.

Despite differences among them, some categories of service exports have been rapidly expanding in all three Baltic States. These include eg professional and management consulting services, technical and trade-related services, as well as health care services. Estonia is a world leader in application of e-Health solutions and services. The business environment in the Baltic States is expected to benefit from the Rail Baltica project, which aims to deliver a rapid, safe and environmentally friendly rail connection to Europe. In addition, Latvia has the largest airport in the Baltics. This is situated in Riga, which has more than 80 direct flight connections to major international destinations and serves millions of passengers a year.

In 2017, Belarus finally overcame a recession lasting nearly 3 years, and economic forecasts have become notably more positive. M&A activity, after an almost full stop in 2015 and a string of acquisitions in the IT sector in 2016, gained speed in the past year. The country is further improving its legal framework for business to attract more foreign investment and boost export-oriented industries. As a result, there is a trend for increasing Western and Chinese investment.

The head of the Sorainen Investment Incentives Practice Area is Algirdas Pekšys.
Local heads of the Sorainen Investment Incentives Practice are:

ESTONIA



Karin Madisson

karin.madisson@sorainen.com

Pärnu mnt 15
10141 Tallinn
ph +372 6 400 900

LATVIA



Eva Berlaus

eva.berlaus@sorainen.com

Kr. Valdemāra iela 21
LV-1010 Riga
ph +371 67 365 000

LITHUANIA



Algirdas Pekšys

algirdas.peksys@sorainen.com

Jogailos 4
LT-01116 Vilnius
ph +370 52 685 040

BELARUS



Maksim Salahub

maksim.salahub@sorainen.com

ul Internatsionalnaya 36-1
Minsk 220030
ph +375 17 306 2102

Please note that the Sorainen Investment Card is compiled for general information only, free of obligation and free of legal responsibility and liability. It was prepared on the basis of information publicly available as of 1 January 2018. The Investment Card does not cover all laws or reflect all changes in legislation, nor are the explanations provided exhaustive. Therefore, we recommend that you contact Sorainen or your legal adviser for further information.