wts edition

International Taxation of Real Estate Investments

2014 Survey on Europe, North America, Australia and BRIC countries

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WTS' clients include multinational groups, medium-sized companies, non-profit organizations and private clients. Our real estate practice group is experienced to operate cross-border together with our WTS network partners.

This International Real Estate Tax Guide provides a comprehensive overview of tax regimes in 42 countries as particularly relevant for real estate investments. All details and information contained herein are accurate and correspond to the legal status as of 1 August 2014, unless otherwise indicated.

The following list provides at-a-glance real estate tax information for each country surveyed. This publication is written as a general guide only providing an overview of selected information based on applicable laws and regulations which may change in the course of time. Therefore, this guide should not be relied upon as a substitute for specific tax and / or legal advice which the German WTS offices or any office of the WTS Alliance firms in the respective countries are gladly available to provide at any time.

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Editorial

Dear Readers,

When we issued our first Real Estate Investment Guide in 2009, covering 15 Central and Eastern European jurisdictions, we never had believed that there is such a huge demand for comprehensive tax literature. Both tax practitioners from all over the Real Estate sector and tax advisors obviously appreciated our little booklet, so we decided to expand it throughout our network and to update it every two to three years. We therefore are very proud to cover 42 countries in this third edition, and continue this success story.

Beside my thanks to you dear readers for supporting us with lots of helpful feedback, I would like to thank all of my colleagues of the WTS network who have contributed to this edition; without them we would not be able to offer such a guide.

I hope our little booklet helps you not only to find a way through the pitfalls of the tax jungle of international real estate investments, but also supports you in finding new markets or business opportunities.

WTS is always at your service.

Best regards,

Peter Jung
Managing Director WTS Germany

Real Estate Investment in

Australia

A. Legal/General

1. Are non-residents entitled to acquire real estate in Australia? Does the acquisition have to be carried out by an Australian corporation?

It is possible for non-resident individuals and companies to purchase real estate in Australia. Any acquisition of real estate regardless of value requires notification to and approval by Australia's Foreign Investment Review Board (FIRB), unless an exemption applies.

2. Which importance does the Australian land register have?

Property legislation in all states and territories is based on the Torrens principle of registration of title. Each state and territory has a central register of all land in the state which shows the owner of the land. The land title is the official record. It can also include information about mortgages, covenants, caveats and easements.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

The **corporate rate** of income tax is 30 %.

The income tax rates for **resident individuals** for the 2014/15 Australian tax year are:

AUD 0 – AUD 18,200	Nil
AUD 18,201 – AUD 37,000	19c for each AUD 1 over AUD 18,200
AUD 37,001 – AUD 80,000	AUD 3,572 plus 32.5c for each AUD 1 over AUD 37,000
AUD 80,001 – AUD 180,000	AUD 17,547 plus 37c for each AUD 1 over AUD 80,000
AUD 180,001 and over	AUD 54,547 plus 45c for each AUD 1 over AUD 180,000

The income tax rates for **non-resident individuals** for the 2014/15 Australian tax year are:

AUD 0 – AUD 80,000	32.5c for each AUD 1
AUD 80,001 – AUD 180,000	AUD 26,000 plus 37c for each AUD 1 over AUD 80,000
AUD 180,001 and over	AUD 63,000 plus 45c for each AUD 1 over AUD 180,000

2. What is the tax depreciation period for real estate in Australia? Are there depreciation categories? Which depreciation method is used?

Under the capital allowance regime, the decline in value of income producing real estate plant and equipment is generally tax deductible over the asset's estimated useful life. A taxpayer may depreciate assets using either the prime cost method or the diminishing value method. Both calculation methods are based on the asset's effective life and give the taxpayer the same total deduction for the depreciation. However, the prime cost method does so over a shorter time.

Similarly, deductions are available under the capital works regime for certain capital expenditure on income producing buildings and structures, in respect of both freehold and leasehold property. This deduction may be over a 25-year or 40-year period, depending on when construction commenced and the use of the property.

A taxpayer can claim a deduction if construction began after:

- → 17 July 1985 and the property is used for residential accommodation or to produce income;
- → 19 July 1982 and the property is not used for residential accommodation (for example, a shop); or
- → 21 August 1979, the property is used to provide short-term accommodation for travellers and it meets certain other criteria.

A deduction may also be available for structural improvements made to parts of the property other than the building if work began after 26 February 1992. Examples include sealed driveways, fences and retaining walls. The deduction does not apply until completion of the construction. The deduction is at the rate of 2.5 % or 4 % (adjusted for part-year claims) depending on the date the capital works began.

There is no depreciation on the capital cost of land.

3. When is a foreign investor subject to limited tax liability in Australia?

Income tax and capital gains tax (CGT) – Individuals and companies
From an income tax perspective, a non-resident investor will be subject to Australian taxation on any Australian sourced property income less related expenses. For an individual foreign investor, where they directly hold the property or via a trust, this may be at the non-resident individual tax rates (see B.1 above). For a company foreign investor, this will be at the corporate rate of tax of 30 %.

From a capital gains tax (CGT) standpoint, a non-resident investor will be taxed on capital gains arising from the disposal of Australian real property or on disposal of certain 'non-portfolio' interests in entities the assets of which, directly or indirectly, consist principally of real property in Australia. This liability can arise where one non-resident entity disposes of its interest in another non-resident entity if the underlying assets of that other entity directly or indirectly consist principally of real property in Australia.

Non-residents are also taxed on capital gains on the disposal of assets used by them in carrying on business through a branch in Australia.

Withholding tax on distributions – Managed Investment Trusts

Australia has a special withholding tax concession for foreign investors participating in investment structures qualifying as Managed Investment Trusts (MITs). An MIT structure allows foreign investors to a concessional withholding tax rate of 15 % (reduced from the standard 30 % rate that might otherwise apply) in respect of eligible distributions made from the MIT.

In order for a trust to be an MIT, there are four broad requirements that must be satisfied:

- either the trustee of the trust must be an Australian resident, or otherwise central management and control of the trust must be in Australia;
- the trust must be a managed investment scheme operated by a financial services licensee, as defined in the Corporations Act;
- the trust must satisfy certain requirements aimed at ensuring the trust is widely held; and
- the trust must not be a public trading trust for tax purposes (which goes to the nature of the trust's investments and business).

4. Are asset deal and share deal possible in Australia? What are the main consequences?

Asset deals and share deals are possible in Australia. The main difference for the purchaser will generally be that the tax cost basis of the underlying property assets in a share deal may be less than their market value had they otherwise been directly acquired under an asset deal. Where a share deal is pursued, it may be possible to step up the tax cost basis of the assets acquired to their respective market values.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Australia has thin capitalisation rules that apply to both inbound and outbound investors. A deduction may be taken for interest expenses (debt deductions) subject to a debt to equity ratio of 3:1 with a proposed 1.5:1 from 1 July 2014. Debt deductions are not subject to thin capitalisation limits where they are (in aggregate) below the de minimis thresholds (currently AUD 250,000, with a proposed increase to AUD 2 million from 1 July 2014).

Australia has comprehensive debt / equity classification rules and certain hybrid funding instruments may classify debt payments as either interest or dividends for Australian tax purposes.

6. Can acquisition costs/financing fees/interest be deducted?

Costs associated with acquiring the property (i.e. stamp duties, accounting and tax, legal, valuation, corporate advisory, agent, borrowing costs) may be:

i) Deductible over time (up to five years in the case of borrowing costs);
ii) Included in the capital gains tax (CGT) costs base of the property;
iii) Possibly deductible immediately;
iv) Treated as black hole expenditures and deductible over five years.

Generally, interest is deductible if it is incurred in gaining or producing assessable income or in carrying on a business for that purpose and is not of a capital, private or domestic nature. On this basis, interest expenses incurred when acquiring Australian real property should generally be deductible against assessable income in the year in which they are incurred, where the real property is used to produce assessable income.

As covered in B.5 above, there are potential thin capitalisation / debt classification limitations on interest deductibility.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

A debt push-down structure may be utilized, particularly in cases where a tax consolidated group is formed or multiple entry consolidated group (MEC Group) is used. Debt may be pushed down from the foreign investor to the domestic holding company, or bank debt may be taken on by the domestic holding company and pushed downstream into the acquisition entity.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Generally speaking, there is 10 % withholding tax on interest paid to non-residents.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Losses may be carried forward indefinitely and utilized against income, subject to certain tests and restrictions which apply to companies and trusts.

Companies
In broad terms, companies may continue to deduct carried forward losses in a tax year if either of the following tests are satisfied:

- → The Continuity of Ownership Test (COT); or failing that
- → The Same Business Test (SBT).

The COT is satisfied where a company has maintained continuity with respect to the majority (i.e. more than 50 %) of its ultimate beneficial owners (i.e. individuals) from the start of the tax year in which the tax losses are incurred until the end of the tax year in which the tax losses are utilized. In general, the SBT requires that the 'same' business is being carried on by the Australian company immediately before the change in majority ownership (i.e. the failure of COT) continues to be carried on for the duration of the tax year during which the losses are recouped. The SBT involves a complex and fact-sensitive determination.

Trusts
Losses must be 'quarantined' in a trust to be carried forward by the trust indefinitely until offset against future net income. It is possible to use those losses as deductions against income in the trust for succeeding income years if the trust satisfies certain tests relating to ownership or control of the trust. If the trust terminates before the losses can be offset against income, they are lost.

The trust loss rules apply in different ways to each of the following categories of trust:

- → fixed trusts;
- → non-fixed trusts;
- → excepted trusts.

In order to determine which test applies, the type of trust that is seeking a trust loss deduction needs to be determined. The different types of trusts are:

- non-fixed trusts;
- family trusts;
- fixed trusts;
- unlisted widely held trust;
- unlisted very widely held trust;
- wholesale widely held trust;
- fixed trust other than a widely held trust.

Once the type of trust has been determined, the relevant trust loss tests need to be considered, and applied to that trust.

The relevant trust loss tests are:
- control test;
- 50 % stake test;
- pattern of distributions test;
- income injection test.

C. Real Estate Taxes

1. Does Australia levy a real estate transfer tax on sale of real estate or share-holdings?

All Australian states and territories impose stamp duty (transfer duty) on a sale of Australian real property, including buildings and improvements. Each state's and territory's stamp duty law is different. The liability for stamp duty arises on first execution of the relevant sale/purchase agreement. The sale of real property is subject to duty at rates of up to 5.75 %, depending on the value and location of the property.

There are special stamp duty provisions that apply to transfers of shares in companies (or unit trusts) that hold Australian real property. Acquisitions of shares (and units) in companies and (trusts respectively) that own Australian real property are subject to stamp duty, in all Australian jurisdictions, at the same rates as a transfer of real property (referred to as land-rich or landholder duty). These rules generally apply when:
- There is a significant or majority acquisition in a company (or unit trust);
- That company (or unit trust) is land-rich or a landholder.

The exact land-rich/landholder rules and threshold tests vary depending on each jurisdiction. Additionally, in certain limited circumstances, these rules can apply to acquisitions of shares (or units) in listed companies (or trusts).

Duty is payable by the purchaser in all cases.

2. Is real estate subject to any real estate tax? At which rate?

Each state and territory (except the Northern Territory) imposes land tax at different rates and conditions.

Generally speaking, land tax is payable on an annual basis, and is calculated on the unimproved value of land owned above a certain threshold. Broadly speaking, factors that may vary and affect a taxpayer's land tax liability include:

- The marginal rates of tax imposed;
- The brackets of unimproved values of land on which the marginal rates of tax are imposed; and
- The exemptions specifically provided in each state.

For the 2014 year, the thresholds and maximum rates of land tax in each state and territory are as follows:

State / Territory	Threshold (AUD)	Maximum Rate
Australian Capital Territory	75,000	1.8 %
New South Wales	412,000	2.0 %
Queensland	350,000	2.0 %
South Australia	316,000	3.7 %
Victoria	250,000	2.25 %
Western Australia	300,000	2.16 %

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Australia's equivalent to VAT is its Goods and Services Tax (GST). The rate of GST is 10 % and it is generally payable on a broad range of supplies by businesses in Australia, including supplies of goods, services, real property, rights and obligations, and is generally applied at each stage of the supply chain.

There are generally three types of supplies for GST purposes. These are:

- **Taxable supplies**, where the supply attracts GST and the supplier is entitled to claim GST credits on its expenses associated with the supply;
- **Input taxed supplies**, where the supply does not attract GST, however, the supplier is not entitled to claim GST credits on its expenses associated with the supply; and

- **GST-free supplies**, where the supply does not attract GST and the supplier is entitled to claim GST credits on its expenses associated with the supply.

The GST implications of real estate transactions depend on the nature of the property and the availability of any GST concessions.

The following tables set out the GST impact on the following sales of categories of property as taxable supplies under various scenarios:

Residential property	**GST impact**
Sale of new residential property (including long term lease - at least 50 years)	Taxable – Note A
Sale of vacant land	Taxable – Note A
Sale of existing residential property (including long term lease – at least 50 years)	Input taxed
Sale of partially completed residential property	Taxable – Note A or GST-free as a going concern – Note B

Commercial residential property	**GST impact**
Sale of commercial residential property	Taxable or GST-free as a going concern – Note B
Short-term accommodation (less than 28 days) in commercial residential property	Taxable
Long-term accommodation (28 days or more) in commercial residential accommodation	Concessionally taxable at 5.5% or input taxed at the option of the supplier

Commercial or industrial property	**GST impact**
Sale of commercial or industrial property	Taxable or GST-free as a going concern – Note B

Farm land for farming	**GST impact**
Sale of farm land for farming	GST-free

Notes:

Note A - The margin scheme is an alternative method of calculating the GST payable on sales of real property. It allows sellers of real property to pay GST on the basis of the seller's 'margin' rather than the total sale price.

Note B – The sale of a business and its assets can be GST-free where certain requirements are met. It is noted that Federal Government announced in 2013 that this exemption would be replaced by an optional reverse charge rule to have a similar effect. At the time of writing, this announcement has not been legislated.

2. What are the VAT consequences of renting/leasing of real estate?

The following table sets out the GST implication on the following leases of category of property as taxable supplies under various scenarios:

Lease of category of property	GST impact
Lease of new or existing residential property (other than long term lease)	Input taxed
Lease of commercial or industrial property	Taxable

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

No. Where equity is injected into a local company or unit trust, the allotment or issue of a share or unit is generally exempt from duty (unless the land-rich/landholder provisions apply – see C.1 above or there is an allotment of shares by direction).

2. Is there a stamp duty on debt granted to a local company?

Duty is imposed on mortgages in New South Wales only, however not in respect of owner-occupied residences or residential investment properties, and is calculated by reference to the amount secured.

The general rate of duty on mortgages is as follows:

Amount secured (AUD)	Duty payable (AUD)
0-16,000	5
16,001 or more	5 plus 4 for every 1,000 (or part thereof) in excess of 16,000

Real Estate Investment in

Austria

A. Legal/General

1. Are non-residents entitled to acquire real estate in Austria? Does the acquisition have to be carried out by an Austrian corporation?

In general, a foreign individual or corporate investor may invest in Austrian property directly or indirectly through a local company, such as a joint stock company (AG), a limited liability company (GmbH) or a partnership (KG/OG). From a legal point of view, the possibility to transfer real property is limited by the Land Transfer Acts regulating the transfer of agricultural and forestry land and the acquisition of real estate by foreigners. EU/EEA citizens are treated equally to Austrian Citizens, therefore individuals and legal persons from the European Economic Area (EEA) are generally not subject to an approval by the local land transfer authority (Austria's nine provinces have the respective legislative competence in this regard).

For others, however, the acquisition of real property is subject to an approval by the respective local land transfer authority, which is by law a suspensive condition for the purchase agreement.

2. Which importance does the Austrian land register have?

In Austria rights with respect to real estate are registered in the national real estate registry containing all real properties. This registry is administered by the Austrian district court in which the respective real property is located. In principle, it is available to the public and its information can be accessed online.

As regards the importance of the Austrian land register, a legal transaction involving real estate is not effective vis-à-vis third parties as long as it is not registered in the relevant land registry. In other words, before registration the purchasing party of a contract has only a contractual claim for execution against the selling party of the same contract, but has not yet become legal owner of the real property.

Furthermore, according to the principle of good faith, entries into the land registry can be relied on as accurate and valid.

For the registration of property rights (as well as of construction rights) a registration fee of 1.1 % accrues. The consideration for the real estate (regularly the purchase price) serves as the base.

The required registration of a mortgage in the land register triggers a registration fee of 1.2 % of the secured amount.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

→ Corporate income tax rate: 25 %
Minimum tax level:
› first year € 1,092;
› from the second year € 1,750 (limited liability company) or € 3,500 (joint stock company).

In case of corporates (AG, GmbH) general principles of determination of business profits apply, which did not change by the new rules applicable for capital gains with regard to real estate derived as of 1 April 2012. Changes incurred for certain private foundations and associations, for which the speculation period was abandoned and a withholding tax on real estate income tax introduced (see next bullet point and the last paragraph in part C.2).

→ Personal income tax rate: Marginal tax rate:
› up to € 11,000: 0 %;
› from € 11,001 to € 25,000: 36.5 %;
› from € 25,001 to € 60,000: 43.124 %;
› from € 60,001: 50 %.

In the case of alienation of real estate by an individual resident in Austria capital gains derived as of 1 April 2012 are subject to personal income tax, regardless of the period between the acquisition and the sale of the real estate and regardless of whether it is held as business property or as private property.

The capital gain is subject to a flat tax rate of 25 % if the real estate was acquired as from 31 March 2002. The tax assessment base is calculated as the difference between the sales price and the acquisition cost of the real estate. After a holding period of 10 years an inflation reduction can be used to decrease the capital gain by 2 % per year, limited with a maximum 50 % deduction.

The 25 % tax rate is also applicable for sales of real estate in business property of private individuals, unless the real estate is a current asset, is used in a real estate trading business, was written off tax effectively in the past or was used for a deferral of tax by a transfer of hidden reserves from the alienation of other assets. The capital gain with regard to real estate in business property is determined as the difference between the sales price and the book value of the property.

The tax is basically withheld by the attorney-at-law or notary public, as far as involved in the transaction as a representative for real estate transfer tax purposes. For transactions without a notary public or an attorney-at-law the tax has to be declared by the tax payer in the course of the individual assessment, but he/she has to submit an advance payment to the tax office within 1-2 months after the transaction, which is credited in the assessment. Business expenses related to the income taxed at 25 % are note tax deductible.

The general taxation of capital gains from real estate in private property is applicable also for real estate, for which the former speculation period of 10 years had already expired according to the old legislation applied before 31 March 2012 (so called "old property"). For these buildings and land plots the acquisition costs may be determined for simplification purposes on a lump sum basis with 86 % of the alienation proceeds or 40 % of the alienation proceeds in case of a rededication in a building plot after 31 December 1987. Therefore for "old property" the tax amounts only to 3.5 % of the alienation proceeds or 15 % of the alienation proceeds in case of rededications in a building plot after 31 December 1987.

Participation exemptions

In Austria, the sale of shares in a company whose assets mainly consist of Austrian property is not treated as the sale of property owned by the company.

Under the domestic participation exemption regime, any income (e.g. dividend distributions) derived by a resident corporation (such as GmbH or AG) from a participation in another Austrian corporation is exempt from corporate income tax, regardless of the capital ownership percentage and the holding period. However, the domestic participation exemption does not apply to capital gains of a GmbH or AG resulting from the alienation or liquidation of the domestic participation in another Austrian corporation.

The international participation exemption applies to specific income (see below) derived from a participation in a foreign company. The international participation exemption is applicable under the following conditions:

- direct or indirect (e.g. via an intermediate transparent partnership) equity participation of at least 10 % in a foreign corporation for a minimum uninterrupted period of one year;
- such participation must be held in a foreign EU company in the sense of the parent subsidiary directive or any other foreign corporation comparable to an Austrian AG or GmbH.

The international participation exemption is also granted to Austrian permanent establishments of companies resident in another EU Member State if the companies fulfill the above-mentioned requirements.

Within the scope of the international participation exemption, dividends and capital gains are, in general, tax-exempt. Capital losses (except losses in the event of insolvency or liquidation) and other writedowns of the participation are basically non-deductible. The parent company may, however, exercise an option to have capital gains and losses from the participation be treated as taxable or tax-deductible, as the case may be. The option must be exercised in the year of acquisition and is binding on any group company holding or acquiring that participation. Write-offs and capital losses must be spread over a seven year period. The international participation exemption does not apply in the case of suspected tax avoidance or abuse of law, which is assumed if the foreign subsidiary mainly derives passive income and its profits are subject to an effective corporate income tax, which is not comparable to the Austrian coporate income tax.

Portfolio dividends not covered by the international participation exemption (i.e., participations <10 % or held for less than one year) and received from corporations resident in an EU state or an EEA state, with which Austria has concluded a tax treaty providing for comprehensive information exchange, are also exempt from Austrian corporate income tax ("portfolio exemption"). For assessments of the year 2011 and onwards the portfolio exemption was expanded to all dividends distributed by foreign corporations comparable to an Austrian AG or GmbH (i.e. also from third states), if Austria has concluded a tax treaty providing for comprehensive information exchange with the other state (see Sec 10 (1) (6) CITA). The portfolio exemption covers only dividends and not capital gains. The portfolio exemption does not apply in case of suspected tax avoidance or abuse of tax law, which is assumed, if the tax level in the state of the foreign company is less than 15 %, regardless of the nature of the company's activity as passive or active.

Tax group

If an Austrian corporation or a permanent establishment of an EU corporation registered in Austria holds a (direct or indirect) participation of more than 50 % of the capital and the majority of the voting rights in a domestic or foreign corporation (being resident in an EU-Member State or in states that have entered into a comprehensive administrative assistance arrangements with Austria), a tax group may be established. The minimum holding requirement can also be met together with other companies provided the shareholding of one corporation amounts to at least 40 % and the shareholding of the other corporations amounts to at least 15 %.

A tax group has the effect that all profits and losses of domestic group members (subsidiaries) will be allocated for tax purposes to the group parent on the top of the tax group.

The group may also include foreign first tier subsidiaries. In principle, losses of foreign group members may be deducted from the tax income of the whole group in proportion to the amount of the direct shareholding of the group in the foreign entity. Starting in 2015 losses of foreign group members can only be recognized to the extent of 75 % of the total profit of all domestic group members (including the tax group parent). The remaining loss surplus may be carried forward by the group parent.

However, such losses are recaptured and taxed in Austria in subsequent years if and to the extent they can be offset against profits of the foreign entity under its domestic tax regime or if the foreign entity drops out of the group (e.g. due to sale of the participation). Starting in 2015 the general 75 % cap applying to the utilization of tax loss carry-forwards (calculated on the basis of the overall positive income) is not be applicable to profits resulting from the recapture of foreign losses. Hence, loss carry forwards available at the group parent's level may be fully offset against such recapture profits.

Profits of foreign group members are not to be included in the tax group.

A write down of participations in the share capital of group members is not deductible for tax purposes. A tax-deductible depreciation of goodwill over 15 years is applicable to acquisitions of participations in domestic corporations running an operating business. The depreciation is limited to 50 % of the purchase price of the shares;or the difference between the purchase price of the shares and the proportional equity capital of the acquired company reduced by hidden reserves of its non-depreciable assets (e.g. land), whichever amount is lower.

Providing that all requirements are fulfilled, the group parent may opt for group taxation simply by filing an application form with the tax authorities (subject to certain time constraints). The tax authorities approve the tax group by official notice.

The tax group has to remain in existence for at least three full fiscal years. If the tax group is terminated earlier, all benefits from the group taxation will be lost and each member of the group will be taxed as a separate entity with retroactive effect.

2. What is the tax depreciation period for real estate in Austria? Are there depreciation categories? Which depreciation method is used?

In principal, the basis for depreciation with regard to real estate includes the acquisition costs of a building, but not the value of the land. Tax depreciation must be calculated using the straight-line method, according to which the annual depreciation is a fixed percentage.

For business premises the following depreciation rates are available for tax purposes in Austria depending on the use of the building (without evidence of the actual useful life; half of a percentage for the year of acquisition or disposal if the utilization of the real estate is less than six months):

- → up to 3 % (period of amortization 33.3 years) for production buildings and storehouses,
- → up to 2.5 % (period of amortization 40 years) for bank and insurance buildings,
- → up to 2 % (period of amortization 50 years) for other business premises (e.g. office buildings).

In case of commercial tenancy the depreciation rate depends on the usage of the tenant. Thus commercial tenancy does not automatically entitle to the higher depreciation rate of 3 %. If the rented building is held as private property by the lessor, only a depreciation of 1.5 % of the assessment basis may be deducted as tax allowable expenses, if no shorter useful life can be proved.

In case of residential buildings maintenance costs have to be split up into repair expenses (immediately allowable expenses, an application for a deduction over a ten year period is possible) and maintenance expenses (allowable only over a ten year period). This is applicable for residential buildings owned by individuals, whether held in private property or in business property (Sec 4 (7) and Sec 28 (2) ITA). Maintenance expenses are expenses that increase the utility value or the useful life of the building.

For buildings built without solid construction (lightweight construction), purchased or completed before 2006, the authorities allow a depreciation rate of 4 % (assumed period of amortization of 25 years).

Outside a business certain production costs (in particular expenses according to the MRG - Act on Tenancy Law, WSG - Restoration Act for Residential Buildings and the DMSG - Act on Protection of Historical Buildings and Monuments) may

be deducted over a 15 year period upon application. Such deduction of certain production costs over a 15 year period has the effect that the speculation period in relation to the real estate is 15 years instead of 10 years.

A plot of land is not depreciable. Tax-effective write down to the lower market value is required if the market value is permanently below the tax book value.

3. When is a foreign investor subject to limited tax liability in Austria?

An individual having neither a domicile nor habitual place of abode in Austria (herein after non-resident) is subject to limited tax liability only. Tax liability is limited to Austrian-source income as listed in Sec. 98 ITA.

A non-resident individual may carry on a business in Austria as sole entrepreneur through an Austrian permanent establishment or as a partner of an Austrian partnership (an Austrian partnership basically constitutes a permanent establishment of the partners to the partnership).

Income derived from the activities listed in Sec. 98 ITA is subject to income tax at the same rates as applicable for resident taxpayers. In the course of an annual tax assessment, the income of non-resident individuals (and partners to Austrian partnerships) is increased by a deemed additional amount of € 9,000. Under certain conditions, citizens of an EU Member State who are non-residents within the meaning of Austrian tax law may also apply for treatment as a resident ("Schumacker doctrine").

A non-resident corporation (i.e. neither the place of management nor legal seat is in Austria), which is comparable to an Austrian corporation, is subject to limited corporate tax liability if it carries on a business in Austria through an Austrian permanent establishment or an Austrian partnership. In this case, tax liability is limited to the income attributed to that permanent establishment or partnership. Further, income from Austrian real estate is subject to the limited tax liability (at a tax rate of 25 %) if it belongs to the business of the foreign corporation.

According to the old legislation applicable until 31 March 2012, capital gains in connection with the sale of Austrian real estate were subject to limited taxation in Austria, if the property was sold within the speculation period of 10 years after acquisition (in certain cases a longer speculation period of 15 years was applicable, please see previous question). If the foreign seller is comparable to an Austrian company or is an individual holding the real estate in its business property, such capital gain was taxable regardless of the speculation period.

According to the stability Act 2012, applicable as of 1 April 2012, all capital gains in connection with the sale of Austrian real estate are subject to Austrian taxation – regardless of the period in which the real estate has been held and regardless of whether it is in private property or in business property. Therefore non-resident individuals are subject to tax on alienations of Austrian real estate. According to Sec 30a (1) the special tax rate for real estate of 25 % is available also for non-residents. Transitional provisions for Austrian real estate not subject to tax anymore at 31 March 2012 are applicable also for non-residents (see above part B.1).

Moreover, income from renting out real estate if the immovable property is located in Austria and income from interest earned if the loan is secured by Austrian real estate is subject to limited tax liability. Interest payments derived from Austria without being secured by Austrian real estate are not subject to Austrian tax liability in the hands of non-residents.

For other tax consequences (VAT, capital tax, property tax etc.) see the questions below.

4. Are asset deal and share deal possible in Austria? What are the main consequences?

The real estate investor can acquire Austrian real estate by way of an asset deal (e.g. direct acquisition of real estate or acquisition of tax-transparent partnerships owning real estate) or a share deal (e.g. acquisition of a corporation owning real estate). In a share deal, further reorganization steps to achieve a debt push-down may be required.

Asset deal

- → Direct acquisition of real estate:
  An Austrian corporation may directly acquire Austrian real estate. Interest expenses for a debt-financed acquisition may be deducted from income from real estate if the real estate is rented out or used for its own business. The acquisition of real estate is subject to real estate transfer tax of 3.5 % of the consideration.
- → Acquisition of partnership interest:
  If the seller holds the real estate via an Austrian partnership, the acquirer may purchase the Austrian partnership interest. Austrian partnerships are tax transparent and the partnership's income is taxed at the partner's level. Interest expenses for the debt-financed acquisition of a partnership interest should be deductible from the income of the partner. Real estate transfer tax can be avoided if a partnership interest is acquired.

Share deal
The acquisition costs of the shares must be capitalized and are generally not deductible. However, under the Austrian group taxation regime goodwill can be depreciated over 15 years. The depreciation amount is limited to 50 % of the acquisition cost or the difference between the purchase price of the shares and the proportional equity capital of the acquired company reduced by hidden reserves of its non-depreciable assets (e.g. land), whichever amount is lower. Interest on the debt-financing of the acquisition of a participation in a (resident or non-resident) corporation is tax deductible regardless of the fact that the participation exemption provides for a tax exemption on income from the acquired participation. Avoidance strategies for real estate transfer tax when acquiring the target-corporation are available.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capital rule
Specific rules on thin capitalization do not exist in Austria. The Austrian Administrative Court has established various principles to determine under which conditions debt financing is not to be recognized for tax purposes. For instance, if the equity is inadequate, a loan may be regarded as hidden equity. However, there are no defined debt-equity ratios to comply with. Hidden equity may also be assumed if the loan agreement is not in line with the arm's length principle. Interest paid on loans that are regarded as hidden equity will be treated as a constructive dividend and may not be deducted from the taxable income.

Restrictions on the deductibility of interest (implemented by a tax reform adopted in 2014)
The new AbgÄG 2014 includes numerous amendments, above all also a restriction on the deductibility of interest relating to the acquisition of (foreign) shareholdings from related parties to be not tax deductible. Under the previous legislation it was possible to achieve deductibility of interest payments by cancelling the linkage between the debt financing and the acquired shareholding (e.g. through a procedure under the Austrian Reorganisation Act). A tax reform in 2014, AbgäG 2014, calls for a restriction of tax deductible interest payments irrespective of whether the underlying acquired shareholding still exists or the corresponding debt-financing is separated from the shareholding. This restriction will be applied for interest payments incurred from 1 March 2014, onwards.

Apart from that deductibility of interest paid by Austrian corporations will also be denied if the payments are made to related parties located in low-tax and offshore jurisdictions. The restriction applies if the income derived from the interest

is not taxed in the recipient's state due to a general or individual tax exemption or is subject to a nominal tax rate of less than 10 % or is subject to an effective tax rate of less than 10 % due to specific tax incentives granted for such type of income.

Transfer pricing rules

Austrian tax law does not provide for specific provisions on the documentation of transfer pricing in connection with the inter-company supply of goods and services. The documentation has to comply with the general provisions of the Austrian Fiscal Code, taking into account the OECD Transfer Pricing Guidelines. In practice, however, setting up a proper transfer pricing documentation is to be recommended. Interest payments or other payments made by an Austrian company to a foreign upper-tier company are not tax deductible, as far as they are above the arm's length level. Additionally, a hidden profit distribution could be assumed as far as such interest or other payments are above arm's length level. The transfer pricing guidelines of the Austrian Ministry of Finance applicable as of 2008 provide details on the determination of the arm's length price.

6. Can acquisition costs/financing fees/interest be deducted?

If real estate activity qualifies as business income, the general principles of business taxation apply. Expenses (e.g. ongoing expenses and maintenance) are, in general, tax deductible. Acquisition costs must be capitalized and for buildings such acquisition costs may be depreciated over the useful life. The same is applicable for production costs (costs incurred by the land owner for the construction of a building or major extensions of existing buildings) of real estate. Financing fees for loans must be capitalized and depreciated equivalent to the corresponding duration of loan. If related to tax exemption (e.g. dividends) deduction may be denied.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

If the real estate is held by an Austrian corporation (target) and the purchaser acquires the target, Austrian law allows several strategies to generate a debt push-down. Common debt push-down concepts are a merger of the Austrian target (the corporation holding the real estate) with an Austrian NewCo (a corporation acquiring the shares in the share deal), a conversion of the target into a (tax-transparent) partnership and the setting up of a tax group between the NewCo and the target.

Merger

A (corporate income tax-neutral) merger of the target with the NewCo leads to the result that acquisition debt and business activity is on the same level. Banks generally prefer that bank debt and real estate is on the same level to allow a pledge of real estate as security of the bank loan. Thus, banks often grant an interest rate reduction after a merger (margin step-down). Before the merger, up-stream securities, which are limited by creditor protection rules and which require compensation at arm's length, are required. Legal restrictions have to be considered for merger due to creditor protection rules.

An up-stream merger leads to real estate transfer tax. In a down-stream merger, real estate transfer tax can be avoided if NewCo did not own other real estate before the merger.

Conversion

The target is converted into a tax-transparent partnership under universal succession. NewCo often acts as a 100 % limited liable partner (limited liability with equity injected). A second company acts as managing partner without an equity interest in the partnership that has unlimited liability (unlimited liability for all debts of the partnership).

An Austrian partnership is transparent for income tax purposes. Therefore, income generated at the target level is characterized for tax purposes as directly earned by the partners (according to their partnership interest) and taxed at the partner level. Thus, interest expenses of acquisition debt of NewCo are deductible from target's income.

A conversion triggers real estate transfer tax.

Tax Group

An Austrian Corporation sets up a tax group with the target. The majority of shareholding and voting rights is required and companies have to enter into a tax group allocation agreement. With the setting up of the tax group, the taxable income of the tax group member (target) is taxed in the hands of the head of tax group.

Therefore, interest expenses of acquisition debt of the Austrian Corporation are pooled with the income of the target. In addition, if the activity of the target qualifies as business activity, a goodwill amortization is typically granted. Avoidance strategies for real estate transfer tax when acquiring the target are available. The setting up of a tax group does not trigger real estate transfer tax.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest income of a non-resident taxpayer (corporation and individuals) is not subject to tax in Austria unless the underlying loan is secured by immovable property located in Austria. In the latter case, however, double tax treaties usually protect from Austrian taxation if the treaty contains an OECD-model type of provision on interest.

If the interest income is to be attributed to a permanent establishment of the nonresident recipient, that income is taxable as business income in Austria.

Domestically, interest paid on loans (excluding bonds) is not subject to withholding tax. In addition, interest that is paid to associated companies or to their permanent establishments located in a member state other than Austria is exempt from the withholding tax due to the implementation of the EC Interest and Royalty Directive in Austrian law. The exemption is subject to the conditions that (i) the recipient qualifies as beneficial owner of such payments, (ii) the parent company has a form listed in the Annex to the Interest and Royalty Directive and (iii) the parent company is subject to regular income tax in its residence state (confirmation issued by the competent tax authority is necessary). A company is deemed to be associated if it holds directly at least 25 % in the capital of the subsidiary for an uninterrupted period of one year. Furthermore, the exemption requires a confirmation from the recipient that it qualifies as beneficial owner of the payments and that it fulfills the participation requirements. In the case of tax avoidance, abuse of law and royalties exceeding the arm's length amount are recharacterized as constructive dividends and are subject to withholding tax.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Losses from business activities that could not be deducted from other positive income in the same year may be carried forward without time limit, provided the loss was computed according to generally accepted accounting principles.

If for business income of individuals the tax base was to be determined on a cash basis, losses may be carried forward for a period over three years.

Loss deduction is limited to 75 % of the positive yearly income of each year. If the unused losses are higher, the remaining losses may be carried forward in later periods.

Basically, losses of corporations are treated tax-wise similiarly to losses of sole entrepreneurs and partnerships. Moreover, corporate income tax law provides for loss trafficking rules according to which the loss carry forward may no longer be used in case the company has lost its identity in the meaning of Sec. 8 (4) CITA. This is to be assumed if the ownership as well as the organizational and business structure has substantially changed. Apart from that, the Austrian Reorganization Tax Act provides for further loss transfer rules applicable to certain types of reorganizations (e.g. mergers).

There is no tax loss carry back in Austria.

C. Real Estate Taxes

1. Does Austria levy a real estate transfer tax on sale of real estate or shareholdings?

Transfer or real estate and comparable rights
Real estate transfer tax is levied on transfers of immovable property (land and buildings) located in Austria. Taxable transactions include - inter alia - the sale and exchange of immovable property as well as transfers without a legal title and transfers of beneficial ownership.

According to a tax reform (amendment bill to the Real Estate Transfer Tax) the tax assessment base for real estate transfer tax is in general the consideration (e.g. purchase price and assumed liabilities) for the respective real estate. In case the consideration is lower than the fair market value, the fair market value is deemed to be the tax base.

However, there are certain exemptions where the tax assessment base can be reduced to the triple of the tax assessed value ("Einheitswert") for transactions in form of donations, inheritance or purchases within the immediate family members, further for transactions of shares in real estate holding companies that leads to a unification of 100 % of the shares by a single shareholder. In all cases the tax assessment base is limited to 30 % of the fair market value. The tax assessment base regarding transactions of real estate for agriculture and forestry use will be the single tax assessed value.

The general tax rate is 3.5 %. A reduced rate of 2 % applies for transfers between immediate family members. Private foundations will be subject neither to the reduced tax rate nor to the reduced tax assessment base, even if they have been established to benefit family members only.

Transfer of shares

Real estate transfer tax is also levied if all shares of a company owning Austrian immovable property are held in the hands of or are taken over by one shareholder (one shareholder or several shareholders deemed to be one shareholder if they meet the criteria for a VAT group).

The taxable base is the triple of the tax assessed value for tax purposes of the immovable property, or if lower, the fair market value. The general tax rate is 3.5 %. A reduced rate of 2 % applies for transfers between close family members.

2. Is real estate subject to any real estate tax? At which rate?

Real estate tax is levied on Austrian immovable property, i.e. agricultural, forestry, business and private immovable property. The tax is assessed at a basic federal rate (generally 0.2 %) and is multiplied by a municipal coefficient (up to 500 %, depending on municipality); therefore the tax rate amounts up to 1 %. The taxable base is the assessed value for tax purposes of the property.

Undeveloped land plots are subject to an additional 1 % undeveloped land tax of the tax assessed value exceeding € 14,600.

Real Estate withholding tax

As described in part B.1, the income tax of individuals and corporate income tax of corporations which do not exclusively generate business income (e.g. associations, private foundations) for alienations of real estate after 31 March 2012 is in principle levied by deduction of a withholding tax of 25 % by an attorney-at-law or notary public, as far as involved in the transaction as representative for real estate transfer tax purposes (Sec 24 (3) (4) CITA). For transactions without a notary public or attorney-at-law the tax has to be declared by the tax payer in the tax return, but the taxpayer additionally has to submit an advance payment to the tax office until the 15 of the second month following the taxable transaction, which is credited to the tax in the assessment. For Austrian corporates (AG or GmbH) and non-resident corporations comparable to those the withholding tax and advance payment should not apply according to the interpretation of the law (Sec 24 (3) (4) CITA in connection with Sec 21 (1) (3) CITA).

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

In principle, sale, rental and lease transactions are VAT-exempt, with no input VAT credit.

The seller may, however, opt for VAT liability. As such, the sale of business premises would be subject to 20 % VAT. The seller is only entitled for full input VAT deduction for services received related to the acquisition of real estate and the acquisition costs when he sells with application of VAT.

The same applies to VAT on certain major repairs undertaken within ten years before sale. If input VAT was deducted, a VAT-exempt sale within ten years leads to a pro-rata reversal of input VAT deduction (in case the asset is used for business and private use, the period may be extended to 20 years). The period of correction has been generally expanded to 20 years for real estate which was acquired or first used for rental income after 31 March 2012.

With regard to sales subject to VAT, the VAT forms part of the basis for real estate transfer tax.

2. What are the VAT consequences of renting/leasing of real estate?

As stated above (in point 1.), rental and lease transactions are VAT-exempt as well, with no input VAT credit.

However, rental for accommodations, such as apartments and family houses, is taxable at the rate of 10 % with input VAT tax credit.

In case of a rent or lease of offices, industrial premises, plants and other business (in the sense of non-residential) real estate, the lessor, may opt for taxation at a rate of 20 % with input VAT tax credit. Therefore the lessor would charge VAT of 20 % on the rent. The lessor is only entitled to input VAT deduction for services received that are related to the renting activity if he leases out with VAT.

In this respect the Stability Act 2012 comes up with restrictions for lease contracts concluded after 31 August 2012. Regarding those lease contracts it is only allowed to opt for taxation with the possibility to deduct input VAT in case the tenant himself is performing turnovers which are subject to VAT.Otherwise (in case the tenant/lessee uses the real estate almost exclusively for VAT exempt transactions (like banking or insurance transactions) the option for VAT liability is excluded.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Contributions of capital to Austrian companies (i.e. the AG, GmbH and a specific type of a partnership - the GmbH & Co KG) by the shareholder trigger a capital tax of 1 %. The tax base is the amount of the contribution or the value of shares being issued in exchange for the contribution, as the case may be.

The following transactions are subject to capital tax:

- the initial acquisition of shares upon foundation of the company or a subsequent increase of its capital;
- mandatory contributions by shareholders;
- voluntary contributions by shareholders that increase the value of their shares;
- contributions made by a non-resident company to its Austrian branch or permanent establishment, except for contributions made by companies resident in another EU Member State;
- the transfer of seat or place of management to Austria, except for transfers by companies resident in another EU Member State.

"Indirect" capital contributions, e.g. contributions made by a person/company other than the direct shareholer, are basically tax-free subject to the constraints set by Austrian case law.

Capital contributions in the course of a reorganization within the scope of the Reorganization Tax Act RTA) - which is based on the EC Merger Directive (90/434/EEC; see Annex III) - may also be exempt from capital duty.

Moreover, the Capital Transfer Tax provides for a capital duty exemption of the contribution of (i) all assets and liabilites or (ii) a business or (iii) a part of a business of a corporation into an Austrian corporation in exchange for shares.

2. Is there a stamp duty on debt granted to a local company?

For loans and credit agreements granted as of 1 January 2011 no stamp duty is levied any more in Austria.

Surety agreements (1 % of amount), assignment agreements (0.8 % of consideration), mortgage agreements (1 % of value of liability) and lease agreements (1 % of agreed consideration) are in general subject to stamp duty. Strategies to avoid or reduce Austrian stamp duty are however available and need detailed planning.

Real Estate Investment in

Belarus

A. Legal/General

1. Are non-residents entitled to acquire real estate in Belarus? Does the acquisition have to be carried out by a Belarusian corporation?

Belarusian laws provide different regulations for acquisition of buildings and land plots.

The general rule is that land plots can be acquired neither by foreigners nor by foreign corporations. Foreign citizens may inherit a land plot from their immediate relatives only.

In March 2013 the new House Code of the Republic of Belarus entered into force. According to the Code a foreign citizen as well as a foreign company is entitled to purchase a privately-owned residential property. Acquisition of state-owned residential property is possible provided that it is permitted by a respective international treaty.

Commercial properties may be acquired both by foreign citizens and corporations.

Registration of a foreign citizen as well as a foreign company with the tax authorities before execution of the transaction is required.

Acquisition of a building involves the transfer of the land plot's title to the new owner of the building.

2. Which importance does the land register have?

Land plots, transactions and titles to them must be registered with the Unified State Register of Real Estate, Rights thereto, and Transactions therewith (the Real Estate Register).

Buildings, titles to buildings and agreements with respect to buildings, except for lease rights to buildings and lease agreements (including free-use and sublease agreements), are also subject to registration with the Real Estate Register.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

→ Corporate income tax rates:
- 18 % – general flat rate;
- 12 % – dividends;
- 10 % – income received from the sale of high-tech goods (work, services) that are self-produced;
- 10 % – income gained by science and technological parks, technology transfer centers, residents of scientific and technological parks;
- 10 % – income received by companies producing laser-optic equipment (provided that the share of this equipment in terms of value in the total volume of their production is not less than 50 %);
- 9 % – income from sale of shares in Belarusian companies;
- 5 % – income received from the sale of information technology and services on their development by the members of the scientific and technological association.

Income gained from the sale of self-produced goods (work, services) by companies situated and operating in medium-sized and small towns, rural areas are exempt from profit tax for seven years from the date of incorporation.

As an alternative to the general system of taxation, businesses may use the simplified taxation system (STS) and pay a unified tax imposed on gross revenues. Gross revenues are considered to be the amount of revenues received during the taxation period as the result of sales of goods (work, services), property rights and non-operating income. In order to use the STS, certain requirements on gross revenues within one calendar year and number of personnel have to be met. Depending on the circumstances, the main tax rates under the STS are 3 % (if the STS with payment of VAT is used); and 5 % (if the STS without payment of VAT is used).

Certain taxpayers and certain activities are subject to special taxation treatment. In particular, special taxation regimes are provided for residents of free economic zones and residents of High Technology Parks (HTP).

- Personal income tax rate:
  - 12 % – flat tax rate;
  - 15 % – income received from commercial private notaries' activities and private advocacy activities;
  - 9 % – income received by:
    - individuals from residents of the HTP under labour agreements;
    - individual entrepreneurs who are residents of the HTP;
    - individuals involved in implementation of a registered business-project in the sphere of high technologies from non-residents of the; HTP under labour agreements.

- Participation exemptions: N/A

2. What is the tax depreciation period for real estate in Belarus? Are there depreciation categories? Which depreciation method is used?

For the purposes of tax depreciation real estate objects are divided into two main categories: buildings and constructions, each of these contains a range of corresponding groups and types. Depreciable fixed assets do not include land.

As a rule, depreciation periods for real estate used in commercial activities are based on useful lives of real estate objects. Considering different factors, useful lives of real estate objects are determined within the following limits: from 0.8 - 1.2 of normative lives of objects. Normative lives of fixed assets are established in the Resolution of the Ministry of Economic Affairs No.161 of 30 September 2011.

Under this Resolution normative lives for buildings are as follows:

- industrial and non-industrial buildings – from 10 to 125 years;
- demountable and portable buildings – from 5 to 20 years;
- other buildings – from 30 to 125 years.

Normative lives for constructions vary due to the group and type of real estate and can vary from 2 to 125 years. In particular, for multi-level aboveground and underground car parks – 60 and 50 years respectively.

Companies determine depreciation methods independently having regard to certain limitations established by law. With regard to real estate, straight-line and productive depreciation methods are generally used.

3. When is a foreign investor subject to limited tax liability in Belarus?

Non-resident companies which do not carry out activities through a Belarusian permanent establishment pay a withholding tax on certain types of income received from sources in Belarus (dividends, interest, royalties, capital gains, fees for certain services, etc). Tax rates are provided in the Tax Code of the Republic of Belarus and subject to application unless other rates are established in international double tax treaties.

Non-resident companies that carry out activities through a Belarusian permanent establishment are subject to corporate income tax on the income derived through such permanent establishment at the 18 % rate.

4. Are asset deal and share deal possible in Belarus? What are the main consequences?

Asset deals and share deals relating to real estate are both possible in practice. Corporate income tax rate is reduced by 50 % and is equal to 9 % with regard to income received by resident companies from the sale of shares in the authorized capital of Belarusian companies. Income received by non-resident companies which do not carry out activities through a Belarusian permanent establishment from the sale of shares in Belarusian companies is subject to withholding tax at a rate of 12 % (double tax treaties with a number of countries provide exemption of such income from taxation).

Income received by a resident company from the sale of real estate is subject to corporate income tax at a rate of 18 %, while income received by a non-resident company which does not carry out activities through a Belarusian permanent establishment is subject to withholding tax at a rate of 15 %.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Since 1 January 2013 thin capital rules are applicable in Belarus.

Thin capital rules restrict deductibility of interest on loans to related parties and will apply if the lender is: (a) a foreign company that directly or indirectly holds a share of more than 20 % in the authorized capital of a Belarusian company, or (b) a Belarusian company which is an affiliate of such foreign company. The maximum debt-to-equity ratio will be 3:1.

Thin capital rules shall not apply to banks, insurance companies and companies in which the amount of lease payments received during the tax period is more than 50 % of total revenues received from the sale of goods (works, services), property rights and income from operations of leasing (financial leasing) of the property.

6. Can acquisition costs/financing fees/interest be deducted?

As a general rule, costs on acquisition of depreciable assets are not included in the costs deductible for corporate income tax purposes. However, taxpayers may record up to 10 % of the initial value of buildings and constructions as costs for corporate income tax purposes as of the date when those assets were initially accounted for.

Currently, interest costs can be deducted without limitations as far as they result from business purposes (see also question 5 above).

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Tax group
In Belarus each corporate entity is regarded as a separate entity for tax purposes. There is no possibility under Belarusian tax law to be taxed on the basis of consolidated income or as a fiscal unity.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest payments to a non-resident company which does not carry out its activities through a permanent establishment, credits and loans are subject to withholding tax at a rate of 10 %. A lower withholding tax rate may be provided by a respective double tax treaty.

There is no withholding tax on interest payments to a local creditor, as well as interest payments to a foreign creditor which carry out activities in Belarus through a permanent establishment. However, such payments are subject to corporate income tax at a rate of 18 % calculated by creditors on their own.

9. Is a Loss Carry Forward or Loss Carry Back granted and what are the restrictions?

Starting from 2012, local companies became entitled to carry forward losses. Taxpayers may carry forward losses incurred in 2011 and subsequent tax periods for a period of ten years. Carry forward of losses is not possible with regard to:

- → Losses incurred as a result of activities outside Belarus if a company is registered as a taxpayer in a foreign state with regard to such activities; and
- → Losses incurred as a result of the tax period (periods; part of the tax period) when a Belarus company could apply corporate income tax relief established for several tax periods.

Carry back of losses is not allowed in Belarus.

C. Real Estate Taxes

1. Does Belarus levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

N/A

2. Is real estate subject to any real estate tax? At which rate?

Belarusian tax laws provide for real estate tax and land tax.

Real estate tax
Corporate real estate tax is imposed on the depreciated value of buildings, constructions, their parts and car parking places owned or leased by companies. With regard to leased real estate objects, the company which has the real estate on its balance sheet according to the lease agreement is liable to tax; however, if the landlord is an individual or a foreign company not carrying out activities in Belarus through a permanent establishment, the taxpayer is always the tenant.

The annual corporate tax rate is 1 %. A 2 % rate applies to incomplete real estate objects where the terms of construction are exceeded.

Individual real estate tax is imposed on buildings, constructions and car parking places owned by individuals (including individual entrepreneurs). The annual tax rate is 0.1 %. Tax is calculated by the tax authorities based on the assessed value of the real estate object. The tax authorities send an individual written notice to taxpayers by 1 August of the relevant year.

Local government authorities may increase or decrease the tax rates for certain categories of taxpayers, but by no more than two times.

Land tax
Companies and individuals who own or use land in Belarus pay land tax. Except for a limited number of cases, the tax base is the cadastral value of the land, which can be found at the official website of the National Cadastre Agency http://nca.by/. Tax rates vary significantly depending on the cadastral value and functional use of land. Local government authorities may increase or decrease the tax rates for certain categories of taxpayers, but by no more than two times.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

As a general rule, the sale of real estate is subject to VAT at a rate of 20 %.
Sale of real estate by individuals does not trigger VAT.

2. What are the VAT consequences of renting/leasing of real estate?

As a general rule, renting/leasing of real estate is subject to VAT at a rate of 20 %.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Belgium

A. Legal/General

1. Are non-residents entitled to acquire real estate in Belgium? Does the acquisition have to be carried out by a Belgian corporation?

In Belgium there is no restriction with regard to the acquisition of real estate. Residents as well as non-residents can purchase real estate.

Therefore, the acquisition of Belgian real estate does not have to be effected by using a Belgian acquisition company.

2. Which importance does the Belgian land register have?

Rights with respect to real estate are to be recorded in the Belgian land register as such rights only come into existence upon registration.

Registration taxes amount to 10 % of the acquisition price in the Flemish Region and to 12.5 % of the acquisition price in the Brussels and Walloon Region.

On the transfers of rights in rem (e.g. a long lease or a building right) a registration duty of 2 % applies (0.5 % for non profit organizations).

These registration taxes are not due in case of a share deal since such a share deal does not imply the transfer of ownership rights of the real estate.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Corporate income tax

- → Corporate income tax rate
  33 % corporate income tax plus 3 % surcharge = 33.99 %

If the taxable income does not exceed € 322,500, the following progressive tax rates apply:

- → From € 0.01 up to € 25,000: 24.98 %;
- → From € 25,000 up to € 90,000: 31.93 %;
- → From € 90,000 up to € 322,500: 35.54 %.

There is no specific tax rate for real estate investments.

- Deferred taxation
  Capital gains tax may be deferred by reinvesting the proceeds into other depreciable assets, provided the real estate has been held for more than five years and the sale proceeds are reinvested within three years (reinvestment in depreciable assets other than buildings, ships or aircrafts) or five years (buildings, ships or aircrafts). Furthermore, the capital gain must be made unavailable for distribution (by recording it as an unavailable reserves account). If the aforementioned conditions are met, the corporate income tax on the capital gains will be deferred over the period during which the reinvested assets are being depreciated.

- Notional interest deduction
  Belgian resident companies may deduct a notional interest deduction from their taxable profits. The deduction is also granted to non-resident companies in respect of their Belgian permanent establishment or immovable property (or rights thereon) located in Belgium.

  The deduction is based on the company's equity, subject to certain adjustments. The notional interest deduction rate applicable for assessment year 2015 (financial year 2014) is 2.63 % (+0.5 % for Small and Medium sized Enterprises (SME) – criteria to be determined on a consolidated basis).

  Excess notional interest deduction cannot be carried forward. However, a transitory regime applies to notional interest accumulated up to and including assessment year 2012. This "stock" remains available, but its use is restricted.

- Participation exemption
  The distributed profits qualifying for the participation exemption received by Belgian companies are exempt from taxation. However, an amount equivalent to 5 % of a corporation's dividend income is treated as a non-deductible business expense. Therefore, 95 % of the dividend income received is effectively tax-exempt. The excess dividend received deduction may be carried forward. This regulation applies to dividends that are paid by domestic or foreign corporations.

  In order to qualify for the participation exemption, several conditions must be met (such as a minimal participation, a minimal holding period and a minimal taxation of the distributed profits).

→ Capital gains on shares
Capital gains are fully tax exempt for capital gains realized by SME (to be determined on a consolidated basis) on shares held for an uninterrupted period of more than one year as far as the legal taxation condition is met. Capital gains realized by companies other than SME are taxed at 0.412 % if the abovementioned conditions are met (minimum holding period and taxation condition).

If the legal taxation condition is fulfilled but the minimal holding period of one year is not observed, the capital gain will be subject to tax at a rate of 25.75 %. Taxation at the standard corporate income tax rate of 33.99 % applies to capital gains on shares if the legal taxation condition is not met (regardless of the holding period of the shares).

Losses on the sale of shares and write-downs to impaired values are not tax deductible.

→ Change of ownership
Changes of ownership (directly or indirectly) of a corporation can cause the loss of the aforementioned exemptions or deductions, if the takeover cannot be justified on sound financial or economic grounds. The taxpayer is entitled to ask for a ruling on this issue.

→ Tax group
Belgian tax law has no concept of tax consolidation for corporate income tax purposes.

→ Fairness tax
The Fairness tax is a separate corporate tax assessment of 5.15 % on distributed profits (dividends) which have not been effectively taxed as a result of the notional interest deduction and/or the deduction of tax losses carried forward (TLCF). SME (to be determined on a consolidated basis) are not subject to Fairness tax.

The Fairness tax is a kind of minimum tax. The Fairness tax is only due if (i) dividends are distributed during the concerned financial year and (ii) notional interest deduction and/or carried-forward tax losses are used to (partially) reduce the corporate income tax base. The Fairness tax is not deductible for corporate income tax purposes.

Personal income tax

→ General personal income tax rates
Progressive tax rate (assessment year 2015 – income 2014, local surcharges excluded):
- › From € 0.01 up to € 8,680 : 25 %;
- › From € 8,680 up to € 12,360: 30 %;
- › From € 12,360 up to € 20,600: 40 %;
- › From € 20,600 up to € 37,750: 45 %;
- › Above € 37,750: 50 %.

Income from real estate is in principle taxed at the progressive tax rate, either based on a deemed rental income ('revenue cadastral') or on the actual rental income received.

→ Capital gains on real estate
As a general rule, capital gains realized by individuals who have not used the real estate for business purposes are exempt from income tax.

There are however a number of exceptions:

(1) Capital gains realized on the disposal of land transferred within eight years from the acquisition (or within three years if acquired by gift if the transfer occurs within eight years of the original acquisition by the donor). These capital gains are taxed at a rate of 33 % in the hypothesis of a disposal within five years from the acquisition and at 16.5 % in the hypothesis of a disposal after this period of five years;

(2) Capital gains realized on the disposal of buildings transferred within five years from the date of the acquisition (or within three years if acquired by gift if the transfer occurs within five years of the original acquisition by the donor) or on the disposal of buildings constructed on land acquired if the construction of the building started after five years after acquisition by the taxpayer or the donor and if the alienation takes place within five years after the date of the first occupation or rental of the building. These capital gains are taxed at a rate of 16.5 %;

(3) Capital gains that arise from speculative operations that cannot be considered as 'normal management of private property' are always taxable (regardless of the date of acquisition and alienation). These capital gains are taxed at a rate of 33 %.

Capital gains realized by individuals who use the real estate for business purposes are always subject to tax at the general personal

income tax rates. However, the taxation of the gain may be subject to deferral under certain conditions (similar to the conditions of deferred taxation for companies).

Capital gains from the sale of shares held by individuals are, in general, exempt from personal income tax. Under certain conditions such capital gains can be taxable as business income at the general personal income tax rates or as 'miscellaneous income' at 16.5 % or 33 %.

2. What is the tax depreciation period for real estate in Belgium? Are there depreciation categories? Which depreciation method is used?

Land is not depreciable.

Depreciation for buildings used for business purposes is based on the acquisition or production cost of the asset.

The common depreciation rate (straight line rate) for business real estate is 3 % per annum. Industrial buildings can be depreciated at 5 % per annum.

Some items of expenditure on the building can be depreciated separately (e.g. central heating, air conditioning, lifts). Depreciation rates vary from 10 % to 33 % of the purchase price depending on the type of equipment.

In most cases depreciations are made at straight line rate. However, provided the taxpayer does not rent the building to third parties, the taxpayer is entitled to a double-declining depreciation on a reducing-balance basis up to a maximum of the double of the straight line depreciation (with an absolute maximum of 40 % of the acquisition price).

No depreciation is allowed for real estate held in private property and not for business purposes.

An exceptional tax effective write down is possible when the asset is exceptionally impaired due to technical, technological or economic conditions.

3. When is a foreign investor subject to limited tax liability in Belgium?

A non-resident individual having neither his domicile nor his 'seat of wealth' in Belgium is subject to limited tax liability only. Tax liability is then limited to Belgian source income as listed in Article 228 of the Belgian Income Tax Code ('BITC').

Non-resident individuals may carry out a business in Belgium as sole entrepreneur through a Belgian permanent establishment or as a partner of a Belgian partnership (a Belgian partnership basically constitutes a permanent establishment of the partners to the partnership).

Income derived from the activities listed in Article 228 BITC is subject to income tax at the same rates as applicable for resident taxpayers.

Non-resident corporations are subject to limited corporate income tax liability, inter alia, if a business is carried out in Belgium through a Belgian permanent establishment or a Belgian partnership. In such case, tax liability is limited to the income attributed to that permanent establishment or partnership. Furthermore, non-resident corporations are subject to Belgian limited corporate income tax liability for income and capital gains from Belgian real estate, even if the business is not carried out in Belgium through a permanent establishment. The Belgian tax treaties allocate the right of taxation to the situs country of the property.

4. Are asset deal and share deal possible in Belgium? What are the main consequences?

The real estate investor can acquire Belgian real estate by way of an asset deal (i.e. direct acquisition of real estate) or a share deal (i.e. acquisition of a corporation owning real estate).

Asset deal

In case an investor purchases a Belgian property, the book values of the assets transferred are stepped up to the acquisition cost of the investor. The seller realizes a capital gain equivalent to the difference between the purchase price and the tax basis of the assets. Depreciable assets are depreciated over their useful lives. As indicated above, land is not subject to depreciation. Furthermore, capital gains can benefit from deferred taxation if all conditions are met (see above). For other tax consequences (RETT, VAT, etc.) see the questions below.

Share deal

The book values of the assets and liabilities at the level of the target company remain unchanged.

For other tax consequences (RETT, VAT, etc.) see the questions below.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

In Belgian tax law, the following limitations regarding the deductibility of interest payments should be observed and monitored.

- A 5:1 debt-equity ratio applies in case interest is paid by a Belgian company to:

  (1) a beneficial owner who is either not subject to income tax or who is, for the interest concerned, subject to a tax regime which is significantly more advantageous than the common Belgian income tax regime (it should be noted that common tax regimes applicable to companies established in another EEA member state are deemed not to be significantly more advantageous than the common Belgian income tax regime); or

  (2) a beneficial owner who is a (directly or indirectly) related company.

  In case a loan is guaranteed by a third party or in case a loan is funded by a third party which partly or wholly bears the risk related to the loan, the third party is deemed to be the beneficial owner of the interest, provided the guarantee or the funding has tax avoidance as main purpose.

  In case the debt-equity ratio is not respected, the interest deduction is disallowed to the extent that the amount of the loans to the parties mentioned in (1) and (2) exceeds five times the sum of fiscal paid-up capital (at the end of the taxable period) and taxable reserves (at the beginning of the taxable period).

  There are several exceptions to this thin-cap rule. Bonds and other publicly issued securities are excluded, as well as loans granted by banks and other financial institutions. Furthermore, it does not apply to loans contracted by movable leasing companies and companies whose main activity consists of factoring or immovable leasing within the financial sector (being companies which are under permanent prudential control) and to the extent the funds are effectively used for leasing and factoring activities.

  Furthermore, the thin-cap rules are not applicable to companies whose main activity is the execution of PPP projects obtained in accordance with public procurement legislation.

- A 1:1 debt-equity ratio applies in case of interest payments by a Belgian company to a foreign company which is at the same time managing director or member of the board (or has similar functions as those executed by

a managing director) of a Belgian company. The interest deduction would be disallowed and dividends are deemed to be distributed to the extent that the amount of the loan exceeds the sum of the paid-up capital (at the end of the taxable period) and the taxable reserves (at the beginning of the taxable period). The same applies for the part of the interest paid to such beneficiaries exceeding market interest rates.

→ Interest paid or attributed to non-residents or foreign establishments which are not liable to income tax or are subject to a significantly more favorable tax regime than the Belgian tax regime, are not deductible. In such situations, interest is only deductible if the taxpayer shows that the payment corresponds to a normal business transaction and that the amount is not abnormally high. The taxpayer is entitled to ask for a ruling on this issue.

→ Interest on loans that are not contracted with Belgian financial institutions, are deductible only to the extent that its rate is not higher than the market rate.

6. Can acquisition costs/financing fees/interest be deducted?

Interest can be deducted within the limitations set by thin-capitalization rules (see above).

Acquisition costs and financing fees can be regarded as business expenses or charges if they are directly or closely connected with the conduct of a business. Deductible business expenses or charges are those which were incurred or borne by the taxpayer to obtain or retain taxable business income (Article 49 BITC). They must actually be paid or borne during the taxable period, or be booked as certain and fixed liabilities. Their authenticity and their amount must be proven.

7. Are there possibilities to allow pooling of debt financed Interest with income of target (debt push down)?

Fiscal consolidation (the creation of a tax group for corporate income tax purposes) is not possible in Belgium.

In the past debt push down was possible under strict conditions, based on rulings.

The amended general anti-abuse rule (Article 344, § 1 BITC), applicable as of financial year 2012, makes it currently uncertain whether and to what extent debt push down is still possible.

8. Is there a withholding tax on dividends or on interest payments paid by local company to creditor?

Dividends distributed by Belgian companies are generally subject to a withholding tax at a rate of 25 %. A withholding tax of 15 % may under certain conditions apply to SME (criteria to be determined on a consolidated basis).

In accordance with the European Parent-Subsidiary Directive of 23 July 1990 (90/435/EEC), modified by the Directive of 22 December 2003 (2003/123/EC), dividends are exempt from withholding tax provided the parent company (i) has a legal form mentioned in the annex of the aforementioned Directive or a similar legal form in a state with which Belgium has concluded a double tax treaty providing for the required exchange of information; (ii) has its tax residency in Belgium, a Member State of the European Union or a country which has concluded a double tax treaty with Belgium; (iii) is subject to a corporate taxation or a similar taxation without the benefit from a specific beneficial regime different from the normal taxation rules; (iv) holds, at the moment of attribution of the income, a participation of at least 10 % of the share capital of the distributing company for an uninterrupted period of at least one year; and (v) the minimum participation has not been subject to any collateral or a stock lending arrangement. If the one year period has not expired yet, withholding tax relief is granted provisionally.

Interest paid to (non-resident) companies is subject to a withholding tax at a rate of 25 %.

In accordance with the European Directive of 3 June 2003 (2003/49/EC), interest and royalties paid or attributed by a Belgian company are exempt from withholding tax, provided the beneficiary is a Belgian company or a company of a Member State of the European Union, and the companies are affiliates. The companies are affiliated if one of them holds, directly or indirectly, a participation of at least 25 % of the share capital of the other company at the moment of attribution or payment of the income. The same exemption applies when, at the moment of allotment or payment of the income, a third company of the European Union has fully owned a direct or indirect participation of 25 % of the share capital of both aforementioned companies for an uninterrupted period of at least one year. The beneficiary of the income must have fully owned or enjoyed the usufruct of the stock, rights or goods in respect of which the income arises and that these stock, rights or goods were in the period during which the income arises at no point under the assets of a permanent establishment of the beneficiary situated in a third state.

The latter exemption is not applicable to income from real estate certificates, regarding the allotment or payment of the income wholly or partly related to the realization of the underlying property.

Furthermore, dividend or interest payments to non-resident companies can be subject to a withholding tax at a limited rate due to the double tax treaties. Belgium has concluded many comprehensive treaties for the avoidance of double taxation.

Other exemptions from the withholding tax on dividends and interest paid by Belgian companies are available.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Tax losses of a company or an individual who uses the real estate for business purposes may in principle be offset against all other sources of income and gains arising in the current taxable period. Losses may also be carried forward for an indefinite period.

Losses cannot be carried back.

Changes of ownership (directly or indirectly) of a corporation can cause the loss of tax loss carry forwards, if the takeover cannot be justified on sound financial or economic grounds. The taxpayer is entitled to ask for a ruling on this issue. Furthermore, there are restrictions on loss carry-forward on the occasion of a merger.

C. Real Estate Taxes

1. Does Belgium levy a real estate transfer tax on sale of real estate or shareholdings?

Transfer of real estate and comparable rights
Transfer of the ownership of real estate in Belgium generally triggers real estate transfer tax ('droit d'enregistrement'/'registratierecht'), payable by the purchaser. The tax base is the actual sale proceeds. However, the tax authorities may adjust the price upwards if it is below market value. This adjustment must take place within two years after the transfer.

The general rate is 10 % for the Flemish Region and 12.5 % for the Brussels and Walloon region.

Under specific conditions, the tax is reduced to 5 % for the Flemish and Walloon Region and to 8 % for the Brussels Region if the real estate is acquired for resale by a real estate professional.

On the transfers of rights in rem (e.g. a long lease or a building right) a registration duty of 2 % applies.

Real estate transfer tax is normally not payable in cases where the transfer of real estate is subject to VAT. In such cases only a fixed amount of € 50 is due.

Transfer of shares in corporations
In general, the transfer of shares in companies owning Belgian real estate does not trigger any registration duties.

2. Is real estate subject to any real estate tax? At which rate?

Belgian real estate is subject to a real estate withholding tax ('précompte immobilier'/'onroerende voorheffing') levied annually. The real estate tax is based on the deemed rental income ('revenu cadastral'/'kadastraal inkomen') of the real estate, as assessed by the Belgian tax authorities at a given reference date (i.e. 1 January 1975).

In order to obtain the basis for calculating the tax, the deemed rental income on 1 January 1975 is multiplied by a revaluation index, which is determined on an annual basis.

The effective rate of tax usually varies from 30 % to 40 % of the indexed deemed rental income of the property, depending on its exact location.

If the property is used for business purposes (by individuals or companies), the real estate tax is deductible as business expense.

For specific cases exemption of real estate tax is possible.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The transfer of real estate is generally VAT exempt (subject to registration duties). However, a transfer of a new building can be subject to VAT. If VAT is applicable there is an exemption for real estate transfer tax. A building is new until 31 December of the second year following the year of first use or occupation of the building.

VAT is applicable under the following scenarios:

- → The new building is sold by a professional building company (a company whose professional activities cover real estate transactions). For professional building companies VAT is automatically applicable to the sale of a new building;

- → The new building is sold by a VAT taxable person, not being a professional building company, or a non-VAT taxable person. In such case, the seller has the option to sell the real estate with VAT. Certain specific formalities are to be fulfilled (preliminary declaration, special VAT return, etc.).

If VAT has to be applied for the sale of the building, VAT is also due on the land on which the building stands, provided that this land is transferred at the same time and by the same person.

If VAT is applicable, in general, the standard rate (21 %) applies. Reduced rates apply for certain real estate transactions in connection with social housing (6 %) and the social sector (12 %).

Any change in the use of the real estate property within a 15 year period requires a pro rata adjustment of the input VAT claimed upon purchase (a sale of real estate property without VAT within this period will trigger a VAT adjustment). Renovation and transformation work in connection with real estate is subject to a five year adjustment period.

No VAT is applicable and no VAT adjustment is required if the transfer of real estate is part of a VAT neutral transfer of going concern.

The transfer of shares in corporations is VAT exempt.

2. What are the VAT consequences of renting/leasing of real estate?

The lease of real estate is in principle VAT exempt, without the right to recover input VAT. Belgian VAT law does not provide for an option to tax the lease of real estate.

There are several exceptions to this VAT exemption:

- → Immovable lease (a lease contract with an option to purchase the real estate at the end of the agreement). The application of VAT on immovable leases is subject to specific conditions (content of contract, length of the contract, etc.). It should be noted that under Belgian VAT law both operational and financial lease agreements qualify as a supply of services;

- Hotel services;
- Provision of accommodation in (holiday) camps;
- Letting of sites for parking of vehicles;
- Letting of warehouses;
- Letting of real estate in connection with the exploitation of harbors, airports and navigable rivers;
- Letting of permanently installed tools/equipment or machinery.

VAT grouping
Under Belgian VAT law there is an option to establish a VAT group between taxable persons for purposes of VAT if there is a financial, organizational, and economic link. Within a VAT group, intra-group supplies and services are disregarded for VAT purposes. A VAT group can be an adequate alternative to cover negative VAT adjustments in connection with intra-group real estate transactions and renting/leasing operations.

E. Other Taxes

1. Is there a capital tax for equity Injected Into a local company?

Only a fixed capital duty of € 75 is due upon contribution made to Belgian companies.

However, if real estate is contributed together with a debt related to this real estate, the 10 % (Flemish region) or 12.5 % (Brussels or Walloon Region) transfer tax is due on the amount of the debt.

Furthermore, the transfer of real estate by an individual to a company by way of capital contribution is subject to a capital duty of 10 % (Flemish region) or 12.5 % (Brussels or Walloon Region) if the real estate is partly or totally designated for use or used as a lodging.

2. Is there a stamp duty on debt granted to a local company?

No stamp duty is due on debt granted to local companies.

However, in case of mortgage loan, registration duty is due at the rate of 1 % of the principal of the receivable benefiting from the guarantee.

Real Estate Investment in

Bosnia and Herzegovina

A. Legal/General

1. Are non-residents entitled to acquire real estate in Bosnia and Herzegovina? Does the acquisition have to be carried out by a Bosnian corporation?

Foreign investors may acquire property with the prior approval of the relevant government bodies based on the reciprocity principle. For companies that own only real estate, there are no provisions restricting a foreign investor from owning shares in the company. In addition, a Bosnian company can be established by a foreign investor for the purpose of land acquisition, as there are no formal approval requirements to be obtained from relevant governmental bodies.

2. Which importance does the Bosnian land register have?

Property rights should be registered with the land registry. The ownership right according to civil law of real estate may only be acquired with the incorporation of the property right in the land register. Bosnia and Herzegovina is in the process of modernizing the whole system of the land registry to make it more transparent and to provide legal safety to all land and real estate owners.

After the signing of a sales contract and the certification of contracting parties' signatures by the public notary, the land and the new owner are registered in the land register. Requests for land registry extracts, as well as requests for alterations in land register records, are submitted to the land register offices located in courts, specifically municipal courts in FBH (Federation of Bosnia and Herzegovina) and district commercial courts in RS (Republika Srpska).

Where shares in a Bosnian company owning real estate in Bosnia and Herzegovina are acquired, there are no registration requirements to be fulfilled with the land registry in respect of the real estate.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Bosnia and Herzegovina is established as a state consisting of two entities: the Federation of Bosnia and Herzegovina (FBH) and the Republika Srpska (RS), as well as the neutral, self-governing administrative unit Brčko District (BD). The responsibility for assessment and collection of certain taxes is allocated to the entity level. The tax system of Brčko District is not subject of this real estate overview.

Corporate tax rate is 10 % on the whole territory of Bosnia and Herzegovina.

Withholding tax rate is generally 10 % (5 % on dividends in FBH, RS does not levy withholding tax on dividend distribution – subject to a 10 % participation rule).

In both FBH and RS the personal income tax rate amounts to 10 % and is levied on the level of each entity separately. In FBIH the capital gain resulting from sale of real estates is also taxable at general tax rate of 10 %. The taxable base is calculated as difference between selling and initial purchasing price increased for the inflation factor. It is applicable only for real estates that are not used for residential purposes of owner or its family and only if real estate is transferred within 3 years from date of purchase. In RS, the capital gains in this sense are not taxable.

Participation exemptions
Dividends derived by resident corporations from resident or non-resident corporations are exempt from corporate profit tax (CPT) in both entities. A withholding tax rate of 5 % is applies on dividends paid abroad by the FBH taxpayer. RS does not levy withholding tax on outbound dividends.

2. What is the tax depreciation period for real estate in Bosnia and Herzegovina? Are there depreciation categories? Which depreciation method is used?

Depending on the type of real estate (except land) a depreciation period is from 10 to 33 years. Depreciation expenses can only be calculated on a straight-line basis.

Accelerated depreciation is possible in both entities in specific circumstances (e.g. in FBH for equipment used for reduction of pollution of water, air, land and noise; for equipment which is used for education and training purposes; in RS for all equipment and machines which is used for business purposes in a way that depreciation in first year is 40 %, in second 30 %, and in third year 30 %).

3. When is a foreign investor subject to limited tax liability in Bosnia and Herzegovina?

Foreign individuals with income from renting or alienation of real estate in Bosnia and Herzegovina are subject to limited income tax liability. Depending on the actual activity it has to be distinguished between income from property and property rights or business income, whereas these income types differ in the methods of their assessment, i.e. difference in method of calculation (deductions, allowances) and way of submitting tax returns.

Foreign legal persons are subject to profit tax liability with their profit earned in Bosnia and Herzegovina (e.g. from renting or alienation of real estate in Bosnia and Herzegovina) if they have a permanent establishment in Bosnia and Herzegovina. A permanent establishment usually will be founded with the establishment or renting of real estate. For this purposes the foreign legal person has to establish at least a branch office in Bosnia and Herzegovina.

4. Are asset deal and share deal possible in Bosnia and Herzegovina? What are the main consequences?

The real estate investor can acquire real estate in Bosnia and Herzegovina by the means of an asset deal (e.g. direct acquisition of real estate) or by means of a share deal (e.g. acquisition of a corporation owning real estate).

Direct acquisition of real estate – asset deal
Foreign investors may own real estate in Bosnia and Herzegovina and enjoy the same property rights with respect to real estate as Bosnian citizens and legal entities. A company resident in the FBH can directly acquire real estate in Bosnia and Herzegovina. The acquisition of real estate is subject to VAT and/or real estate transfer tax (RETT). RETT is not recoverable and represents a final tax for the real estate acquirer. Capital gains realized by a CPT taxpayer from the sale of real estate are treated as revenue and are subject to a CPT rate of 10 %.

Indirect acquisition of real estate – share deal
There are no provisions restricting a foreign investor from owning shares in a company that exclusively owns real estate. In accordance with the CPT law of RS, income earned by a foreign legal entity through the disposal of shares in a company that predominately owns real estate (i.e. if real estate comprise the major part of fixed assets in the business ledgers) is subject to a CPT of 10 %. The FBH’s CPT law does not include such provision. Income earned by a foreign legal entity through the disposal of shares in a company that predominately owns real estates will not trigger a CPT liability.

Capital gains realized by domestic CPT taxpayers from the sale of shares in a company owning real estate are treated as revenues and subject to CPT at a rate of 10 %.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capitalization
There are no rules governing thin capitalization in both FBH and RS.

Transfer pricing rules
In accordance with the profit tax act (PTA), interest paid by a taxpayer subject to CPT to a non-resident related party is considered at arm's length (i.e. deductible for profit tax purposes) up to the rate that can be agreed in the free market (i.e. on loans concluded between non-related parties). Differences arising between the "market" rates and actual rates will not be a tax-deductible expense or will be deemed to be dividends (applicable only in the FBH). Transactions with related parties have to be recorded in the tax balance sheet separately.

6. Can acquisition costs/financing fees/interest be deducted?

Acquisition costs must be capitalized and for buildings such acquisition costs may be depreciated over the useful life. Fees incurred in the transfer are deductible due to depreciation. Interest expenses for a debt-financed direct acquisition may be deducted from income of real estate if real estate is rented or used for business purposes.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Tax Group
In general, each corporate entity is regarded as a separate entity for profit tax purposes and debt push down is not allowed. However, upon request tax consolidation is available in both entities. In the FBH, tax consolidation is available to resident FBH taxpayers provided that there is a direct or indirect control over at least 90 % of shares. The condition for tax consolidation in the RS is ownership of at least 80 % of shares with voting rights or 80 % of the total value of shares in the subsidiary, or if a maximum of 5 individuals directly or indirectly (through related individuals) owns at least 80 % of shares with voting rights in companies which are subject to tax consolidation.

8. Is there a withholding tax on interest payments paid by local company to creditor?

In accordance with the CPT law of both entities, a withholding tax of 10 % is generally required to be deducted in respect to interest payments to non-residents. However, a valid double tax treaty may reduce or eliminate any withholding tax liability if the foreign entity is located in a jurisdiction with which Bosnia and Herzegovina has a double tax treaty in effect.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Losses may be carried forward for a maximum period of five years. No carry back is allowed. Foreign losses cannot be set off against domestic losses. In case of a loss it is not possible to reduce the taxable base or refund taxes already paid in previous years.

C. Real Estate Taxes

1. Does Bosnia and Herzegovina levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Taxation of real estate in the FBH is regulated by canton laws. Therefore, the taxation depends on the area in which the real estate is located. FBH levies real estate transfer tax. The purchase of real estate is taxed at a rate set on a cantonal level. (currently 5 % in all cantons). The tax base is the value of the property estimated by the commission appointed by the local tax administration office (according to the location of the real estate). The person responsible for payment of the real estate transfer tax (i.e. the seller or the buyer) varies depending on the canton where real estate is located.

The real estate transfer tax is avoidable through a share deal option.

RS does not levy real estate transfer tax.

2. Is real estate subject to any real estate tax? At which rate?

FBH does not levy real estate tax.

RS levy a property tax. The taxpayer is the owner of the real estate. The rate is set by a municipality in which the property is located. It is between 0.05 % and 0.50 % of the appraised value of the property.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

VAT is not payable on the transfer of land. The transfer of newly constructed buildings is subject to VAT at the rate of 17 %. Individuals generally cannot recover VAT; however, VAT is generally recoverable for VAT registered legal entities, provided general criteria for VAT recovery are met.

"New buildings" are defined as buildings built and sold on or after January 1, 2006. The taxable base for VAT is defined as the consideration paid for the building.

2. What are the VAT consequences of renting/leasing of real estate?

The VAT law distinguishes between renting of real estate for business purposes in contrast to renting of real estate for residential purposes.

Business rentals
The renting of real estate for business purposes is subject to VAT at the general VAT rate of 17 %.

Residential rentals
The VAT Law provides that the service of renting of real estate for residential purposes during a period in excess of 60 days is exempt from VAT and consequently no input VAT can be reclaimed upon the acquisition of real estate (for residential purposes), regardless whether the acquirer is VAT registered or not.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Brazil

A. Legal/General

1. Are non-residents entitled to acquire real estate in Brazil? Does the acquisition have to be carried out by a Brazilian corporation?

Residents as well as non-residents may acquire real estate in Brazil.

Both individuals and corporations must have a tax payer identification number to acquire property in Brazil. Moreover, there are some restrictions regarding the acquisition of rural property by foreigners.

The acquisition of real estate in Brazil does not need to be effected by using a local acquisition company.

2. Which importance does the land register have?

Property is only recognized if the land is registered with the Registry Office.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

General Rules

- → Corporations located in Brazil
  Corporations are subject to income tax at a 25 % rate and social contribution on net profit at a 9 % rate.

- → Individuals
  Individuals are subject to progressive income tax rates from 0 % to 27.5 %. The individual that holds only a single real estate property is exempt of income tax in the event of selling it up to the value of BRL 440,000.00. This benefit is only applicable for one sale every five years.

Taxation on Real Estate Sales

Capital gain deriving from the sale of real estate by corporations will trigger income tax at 25 % rate and social contribution at 9 % rate.

Capital gain deriving from the sale of real estate by individuals is subject to income tax rate of 15 %.

Dividends

Received dividends are exempt of income tax. Other participation exemptions will depend on double tax treaties (DTT) Brazil has with other countries. Brazil does not have a DTT with Germany.

2. What is the tax depreciation period for real estate in Brazil? Are there depreciation categories? Which depreciation method is used?

Only corporations are subject to assets depreciation. The rate for depreciation is the same for all kinds of property.

Tax authorities determine the depreciation to be used. They determine that a building has an estimated useful life of 25 years. Hence the general depreciation rate amounts to 4 % per year.

However, companies can demonstrate that its assets will be devaluated more quickly and, upon approval from Federal Revenue, use a different depreciation rate.

The only accepted method fixed by the tax authorities is the straight-line method.

3. When is a foreign investor subject to limited tax liability in Brazil?

If the foreign investor is a resident in Brazil for tax purposes, he will be subject to Brazilian taxation for all the income received, even if it was generated abroad. On the other hand, if the investor is not a Brazilian tax resident only income derived from Brazilian sources will be subject to taxation in Brazil.

Regarding taxable income, foreign investors are subject to the same rules and obligations like residents in Brazil.

However, Brazilian courts and tax authorities do not adopt the practice of international tax enforcement. Only if the company or the individual have a representative in Brazil it will be possible to collect tax debts or apply penalties for the non-compliance with Brazilian legislation.

4. Are asset deal and share deal possible in Brazil? What are the main consequences?

Both ways of acquisition are possible.

Depending on the goods to be transferred there could be tax subrogation regarding the outstanding taxes.

Asset deals are subject to taxation only on the real estate (see below part C.1 – ITBI tax). The income tax on the capital gain may apply on the sale of asset or shares, as explained before (part B.1).

5. Are thin capital rules applicable? Are there other limitations of interest deductions applicable?

Thin capital rules are applicable for intercompany loans.

When the related party abroad is a shareholder of a Brazilian entity, the amount of the debt obtained from the foreign related party should not be higher than two times the participation of the foreign related company in the net equity (patrimônio líquido) of the Brazilian entity.

When the related party abroad is not shareholder of a Brazilian entity, the amount of debt obtained from the foreign party should not be higher than two times the net equity of the Brazilian entity.

Currently, the payment of interest deriving from intercompany loans is limited according to the interest rate included in the loan contract registered at the Brazilian Central Bank, as follows:

- For loans in U.S. dollars (USD) at fixed rate, the maximum rate is the market rate of the sovereign bonds issued by the Brazilian government on the external market, indexed in U.S. dollars;
- For loans in Brazilian real (BRL) at fixed rate, the maximum rate is the market rate of the sovereign bonds issued by the Brazilian government on the external market, indexed in BRL. In instances of loans denominated in BRL at a floating rate, the Ministry of Finance will regulate the parameter rate price; and
- For all other loans, the parameter rate is the six-month London Interbank Offered Rate (LIBOR).

The amount of interest deductible should be the amount calculated based on one of the rules indicated in items above increased by a spread of 3.5 %.

6. Can acquisition costs/financing fees/interest be deducted?

It is possible to increase the book value by the acquisitions costs, interest and financing fees applied to the acquisition of real estate properties.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

It may be possible to implement a debt push down in Brazil through assignment of debt instruments. We may expand our analysis on a case-by-case basis, but beforehand we may note that there are thin capitalization rules applicable to intercompany debt transactions.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Withholding tax applies at the rate of 15 %.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Companies can carry forward losses (perdas para exercicios futuros) and offset them in the future, but limited to 30 % of the taxable income earned in the financial year.

Loss carry back is not possible in Brazil.

C. Real Estate Taxes

1. Does Brazil levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

In Brazil, only municipalities levy a real estate transfer tax (ITBI or ITIV tax). It is applicable if the transfer occurs between the parties by a sale agreement. The rates vary according to the law of each municipality (e.g., in Sao Paulo the tax rate is 2 %).

If the transfer occurs by death or donation, the state is liable to charge a different tax (ITCMD tax) at a rate of 0 % - 8 %.

2. Is real estate subject to any real estate tax? At which rate?

The owner of the real estate must pay a property tax (IPTU Tax) to the municipality once a year. The tax rate varies according to the municipality. Some apply progressive tax rates according to the location and purpose of the real estate (Sao Paulo city applies rates from 0.8 % - 2 %).

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Revenues resulting from the sale of a fixed asset are legally excluded from PIS and COFINS (see below D.2) calculation basis. However, when the real estate is sold by Real estate companies, the revenues resulting are subject to PIS/COFINS (rates will vary depending the income tax calculation method the company adopts).

2. What are the VAT consequences of renting/leasing of real estate?

Revenues received from renting of real state will incur in PIS (1.65 %) and COFINS (7.6 %) taxation on total revenues. PIS and COFINS are non-cumulative social contributions being levied on the company's total revenue, with some legal exclusions. Revenues resulting from the sale of a fixed asset are legally excluded from PIS and COFINS calculation basis. However, revenues resulting from renting a fixed asset are not exempted.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

There is no capital tax for equity injected into a local company. However, when a foreign company invests money in a Brazilian company, a tax (IOF tax) on the settlement of the exchange rate (foreign currency into BRL) will be charged at the rate of 0.38 %.

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Canada

A. Legal/General

1. Are non-residents entitled to acquire real estate in Canada? Does the acquisition have to be carried out by a Canadian corporation?

Generally speaking, there are no restrictions with regard to the acquisition of real estate in Canada. Residents as well as non-residents can acquire real estate.

The acquisition of real estate does not have to be carried out by a corporation.

2. Which importance does the Canadian land register have?

There is no federal land register in Canada. Such land registers are kept by the provinces and their importance may vary accordingly.

For example, in Québec, documents stating a transfer of real property have to be registered with the Land Registry Office in order to become effective in relation to third parties. The transfer would however be effective between the parties whether or not it has been registered. In most provinces, the transfer has to be registered with the pertinent administrative office to become effective in relation to third parties. In some provinces, the transfer will remain ineffective, even between the parties, as long as it is not registered. A study of the pertinent provincial legislation should be conducted prior to any transfer of real property in Canada.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

Income tax is imposed by both the federal government and provincial governments in Canada. Thus, rates may vary greatly depending on the province in which the individual or the corporation is conducting its business.

Corporate tax rates for the 2014 taxation year
The federal and provincial corporate tax rates vary, depending on the industry and type of corporation involved. Federal income taxation is levied on resident corporation, on their worldwide income. A non-resident corporation pays tax on income earned in Canada, subject to certain tax treaty concessions.

Generally speaking, a small business reduced rate is available on the first CAD 500,000 of active income earned by some small private Canadian-controlled corporations.

The following table presents a snapshot of the applicable tax rates for 2014:

Jurisdiction	General	Small business
Federal	25 % (a 10 % rebate is available for income earned in a province)	11 %
Ontario	11.5 % (26.5 % combined with federal)	4.5 % (15.5 % combined with federal)
Québec	11.9 % (26.9 % combined with federal)	8 % (19 % combined with federal)

Various tax credits are also available to corporations operating in different sectors, both at the provincial and at the federal levels.

Personal income tax rates for the 2014 taxation year

→ Federal:

Taxable income	Marginal tax rates
CAD 0 - CAD 43,953	15.00 %
CAD 43,953 - CAD 87,907	22.00 %
CAD 87,907 - CAD 136,270	26.00 %
Over CAD 136,270	29.00 %

A personal tax credit exists on the first CAD 11,138 of income earned by a taxpayer (referred to as the Basic Personal Amount), which essentially means that no tax is payable on this amount.

→ Provincial

Alberta

Alberta imposes a flat personal tax rate of 10.00 % on all income. This provides for a combined marginal tax rate varying between 25.00 % and 39.00 % for individuals.

A personal tax credit exists on the first CAD 17,787 of income earned by a taxpayer (referred to as the Basic Personal Amount), which essentially means that no tax is payable on this amount.

Ontario
Combined with federal taxes, marginal tax rates vary between 20.05 % and 49.53 %.

A personal tax credit exists on the first CAD 9,670 of income earned by a taxpayer (referred to as the Basic Personal Amount), which essentially means that no tax is payable on this amount.

Québec
Combined with the federal tax rates, the marginal tax rate for individuals varies from 28.53 % to 49.97 %.

Taxable income	Marginal tax rates
CAD 0 - CAD 41,495	16.00 %
CAD 41,495 - CAD 82,985	20.00 %
CAD 82, 985 - CAD 100,970	24.00 %
Over CAD 100,970	25.75 %

A personal tax credit exists on the first CAD 11,305 of income earned by a taxpayer (referred to as the Basic Personal Amount), which essentially means that no tax is payable on this amount.

→ Real estate
There is no special tax rate provided for gains realized on real estate specifically. However, only half of capital gains are to be included in computing a taxpayer's income in Canada. Thus, if the gain realized on the sale of a real property can be considered as being on account of capital, rather than business income, the tax rates mentioned above will effectively be reduced by half.

2. What is the tax depreciation period for real estate in Canada? Are there depreciation categories? Which depreciation method is used?

Depreciation is based on the acquisition or production cost of the real estate, except for land, which is not depreciable. The rates are determined by law and depend on the usage of the property. Depreciation is not mandatory. The depreciation of real property is calculated using declining balance rates.

The three categories of depreciation regarding real estate, and the corresponding rates are as follows:

- Properties of which 90 % of the floor space is used for the manufacturing or processing of goods for sale or lease: 10 %;
- Other non-residential properties: 6 %;
- Residential properties: 4 %.

3. When is a foreign investor subject to limited tax liability in Canada?

Income tax is imposed by the federal, provincial and territorial governments. Canada's income tax system taxes its residents on their worldwide income. Canada does not impose tax on the basis of citizenship. A non-resident is generally only subject to Canadian taxation on Canadian source income, such as:

- Income from office or employment in Canada;
- Income from a business carried on in Canada; and
- Capital gains on the disposition of property, known as "taxable Canadian property".

Taxable Canadian property includes:

- Real property located in Canada;
- A share of a private corporation resident in Canada where more than 50 % of the fair market value of the share is derived (or was derived at any time in the previous 60 month period) from real property in Canada, Canadian resource properties, timber resource properties, options in respect of any such property, or a combination thereof;
- A share of a public corporation (or mutual fund trust) where (i) the holder holds more than 25 % of the issued shares of any class of shares or units and (ii) more than 50 % of the fair market value of the share (or unit) is derived (or was derived at any time in the previous 60 month period) from real property in Canada, Canadian resource properties, timber resource properties; Options in respect of any above listed property, or a combination thereof.

Much of the tax payable by non-residents is collected through Canadian withholding taxes (generally at the rate of 25 %, subject to being reduced or eliminated by the provisions of an applicable income tax treaty), which may be reduced by the multiple tax treaties signed by Canada.

For instance, to ensure compliance in respect of the sale of taxable Canadian Property, a non-resident must obtain a tax clearance certificate by depositing, on account of income tax payable, an amount equal to 25 % of the gain to be realized. Failing to obtain such certificate renders the buyer liable.

Canadian generally accepted accounting principles, subject to certain statutory modifications, are usually used to calculate the income upon which tax is levied. Federal income taxation is governed by the Income Tax Act, while the provinces also impose their own income taxes.

4. Are asset deal and share deal possible in Canada? What are the main consequences?

Real or immovable property can be acquired in Canada either through an asset deal or a share deal. Both methods may provide benefits and disadvantages and a case-by-case analysis should be conducted before opting for a specific method. The following general comments may however be provided:

Asset deal

The cost for tax purposes of the property transferred through an asset deal will be stepped up to the acquisition cost of the investor. This will generally provide a larger depreciation base for the purchaser.

The seller will generally realize a capital gain equal to the difference between the purchase price and the tax basis of the assets (value after depreciation). The gain may also be considered as business income depending on the circumstances. Interest expense on debt to finance the acquisition may be deductible from income from real property on real property rented out or used in a business.

Share deal

The cost for tax purposes of the assets remain at the level of the target company (subject to certain planning and reorganization provisions). The purchaser also acquires all the underlying liabilities of the target company.

The acquisition costs of the shares must be capitalized and are generally not deductible.

The seller will generally realize a capital gain upon the sale of its shares.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capitalization rules exist in Canada. Generally, interest paid by a corporation is a deductible expense. However, the Canadian thin capitalization rules impose a limit on the amount of interest paid to certain non-residents which may be deducted in computing the income of a Canadian corporation. The acceptable ratio of debt to equity is 1.5 to 1. If the average amount of a subsidiary's outstanding

debt exceeds 1.5 times its equity, a prorated portion of the interest paid or payable in the year to certain non-residents will not be deductible in computing the income of the Canadian corporation subsidiary.

More generally, the deductibility of interest is always limited by paragraph 20(1)(c) of the Income Tax Act. The paragraph provides that interest expenses are only deductible if they meet all of the following criteria:

- → The interest is payable during the year;
- → The taxpayer has a legal obligation to pay the interest;
- → The interest is paid on borrowed money;
- → The borrowed money is used for the purpose of earning income from a business or property.

6. Can acquisition costs/financing fees/interest be deducted?

Costs incurred during the process of acquiring a property (e.g. legal fees, financing fees, etc.) will generally be deductible provided that the property is acquired for the purpose of producing income. Acquisition costs must be capitalized and for buildings such cost may be amortized (as describe above).

Interests will be deductible if they meet the conditions set out in question 5 of the present section.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

The Canadian income tax regime does not allow, as such, the possibility of pooling debt financed interest with the income of a target or subsidiary. Effectively, debt push down strategies are not permitted in Canada.

However there are structures that effectively allow for a similar result where, for instances, an acquisition vehicle borrows to acquire the shares of a target corporation which is later wound up into or merged with the acquisition vehicle.

Please refer to question 5 for the general rules regarding the deductibility of interest expenses in Canada.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Withholding taxes on interest exist, but they only apply where a Canadian resident pays interest to a non-resident with whom he is not dealing at arm's length or if the interest paid to the non-resident constitutes participating debt interest.

The Canadian Income Tax Act provides for a 25 % rate in situations where withholding taxes apply, but this rate is often reduced by tax treaties.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Generally speaking, Canada allows loss carry backs and carry forwards. The time frame in which the losses can be reported will vary according to the nature of the loss:

- → Non-capital losses: May be carried back 3 years and carried forward 20 years;
- → Net capital losses: May be carried back 3 years and carried forward indefinitely.

Loss carry backs and carry forwards are however greatly restricted in the event of a change of control in the ownership of a corporation.

It is to be noted that the losses of a non-resident taxpayer may only be used to offset the non-resident's Canadian taxable income.

C. Real Estate Taxes

1. Does Canada levy a real estate transfer tax on sale of real estate or shareholdings?

The federal government does not levy a real estate transfer tax on the sale of real or immovable property. However, the provincial administrations do so. It is thus probable that the acquisition of real estate in Canada will result in the imposition of a transfer tax for the buyer, whether he is a Canadian resident or not. The amount of tax to be paid, varying according to the price paid and the location of the property, will have to be determined on a case-by-case basis.

For example, in Québec, the real estate transfer tax amounts to 0.5 % to 2.5 % of the purchase price of the property (depending on the price paid and the location of the property in the province).

In Ontario, the tax amounts to 0.5 % to 2 % of the purchase price of the property. However, first time homebuyers may be eligible for a partial or total refund of the tax paid.

2. Is real estate subject to any real estate tax? At which rate?

There is no specific tax applying to real estate transactions other than the taxes mentioned in the other sections of the present chapter.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

In general, federal and provincial VAT will apply to the sale of any real or immovable property. The rates will vary according to the province in which the property is located.

For example:

- → Alberta: 5 % (federal goods and service tax ("GST") = 5 %. There is no provincial VAT)
- → Ontario: 13 % (harmonized sales tax ("HST") = 13 %. This rate includes federal and provincial VAT)
- → Québec: 14.975 % (federal GST = 5 % + provincial Québec sales tax = 9.975 %)

The main exception to this rule is that the sale of used residential properties that have not been substantially renovated is exempt from VAT.

2. What are the VAT consequences of renting/leasing of real estate?

Commercial leases are subject to federal and provincial VAT, whereas residential leases are not. As noted above, the VAT rates will vary according to the province in which the property is located.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

China

A. Legal/General

1. Are non-residents entitled to acquire real estate in China? Does the acquisition have to be carried out by a Chinese corporation?

Real estate in China can be separated into two categories: Self-use real estate and non-self-use real estate. The acquisition requirements of real estate in China for non-residents are distinguished according to these categories:

- For self-use real estate: Generally, only representative offices of foreign companies, foreign invested non-real estate enterprises can acquire real estate for their actual need. Foreigners (residents from Hong Kong, Macao and Taiwan and overseas Chinese not included) who work more than one year in China, residents in Hong Kong, Macao and Taiwan and overseas Chinese who has worked, studied and lived in China can purchase only one self-use real estatewithin the territory of China.
- For non-self-use real estate: Only foreign invested real estate enterprises can purchase non-self-use real estate after approvals have been obtained from the relevant government departments. Upon completion of the relevant registrations foreign institutions and individuals can then carry on their business pursuant to the approved business scope.

2. Which importance does the land register have?

Rights with respect to real estate are to be recorded in the Real Estate Registration Office as such rights only come into existence upon registration.
A registration fee has to be paid varying from location to location.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

There is no special tax rate for real estate.

- Corporate income tax ("CIT") rate:
  - 25 %
  - Enterprises with "high and new technology enterprise" qualification can enjoy a 15 % tax rate.
  - A so-called "small low-profit enterprise" can enjoy a 20 % tax rate (manufactory enterprises with no more than 100 employees, RMB 30m total asset and RMB 100k taxable income. Commercial enterprises with no more than 80 employees, RMB 10m total asset and RMB 80k taxable income).

   - Non-resident enterprises which have not set up institutions or establishments in China, or which have set up institutions or establishments but which do not have any actual relationship with the income obtained by the institutions or establishments are subject to a 10 % corporate income tax rate in relation to the income originating from China unless reduced under an applicable double tax treaty.

- Individual income tax ("IIT") rate:
   - The income tax of individual persons in China would be distinguished according to the income categories.
   - The IIT rate of transfer of property would generally be 20 % of the income derived from the transfer minus the previous purchase cost. However, in cities like Shanghai and Guangzhou, in case the required documents for the income or cost cannot be provided, a deemed profit rate is applied as follows: IIT is equal the income derived from the real estate sale times the deemed profit rate times 20 %. For the self-use real estate, the deemed profit rate is 5 % while for the non-self-use one, the rate is 7.5 %.
   - Income from selling property, which has been used for more than five years by the owner and which was the family's only house is exempt from individual income tax.

- Participation exemptions:
   - The dividend received by resident enterprises from another resident enterprise can enjoy CIT exemption.

2. What is the tax depreciation period for real estate in China? Are there depreciation categories? Which depreciation method is used?

Real estate in China should be divided and capitalized into the following two categories:

- fixed assets, such as houses and buildings;
- intangible assets, such as land use rights.

The minimum term of calculating the depreciation is as follows:

- For buildings, it shall be 20 years.
- For land use rights, it shall be 10 years.

Straight-line method shall be applied.

3. When is a foreign investor subject to limited tax liability in China?

For Enterprises

A foreign entity can be subject to CIT by setting up institutions or premises in China, creating a permanent establishment, representative office or by becoming subject to withholding tax on the China sourced income. The extent to which a foreign entity is subject to Chinese taxation depends on its activities undertaken in or related to China.

By dividends from Chinese investments, the foreign investor shall be subject to withholding tax at a rate of 10 % unless reduced under an applicable double tax treaty.

For Individuals

For the individual income besides the salary income, non-residents performing activities in China are subject to individual income tax on the Chinese source income.

For the salary income, the residency condition and the salary payer should be put into consideration:

- → For individual stays in China of less than 90 / 183 (if double tax treaty can be applied) days, only Chinese source and Chinese paid/undertook salary would be subject to taxation in China.
- → For individual stays in China of more than 90 / 183 days but less than one year (having left China for 30 consecutive days or accumulated 90 days in a calendar year / consecutive 12 months), only Chinese source salary income would be subject to taxation in China.
- → For executives of a resident enterprise meeting the residency condition in the two scenarios above, the overseas salary income which is paid/undertaken in China would be subject to taxation in China.
- → For individuals staying in China for more than a year but less than five years, overseas source and paid salary income can be exempted from the IIT.
- → After staying in China for a period of five consecutive years, the worldwide income is subject to taxation in China.

4. Are asset deal and share deal possible in China? What are the main consequences?

A real estate investor may acquire Chinese real estate in form of an asset deal or a share deal (e.g. acquisition of a corporation owning real estate).

CIT
Selling the real estate purchased in an asset deal is subject to CIT. Selling the share purchased in the share deal should be treated as capital gain and also be subject to CIT.

Business Tax ("BT")
Regarding the asset deal, in general, BT shall be levied for the income obtained for the sale of real estate by either enterprises or individual. For the act of transferring all or part of physical assets and claims, debts and labor force related thereto in the course of assets reorganization, it is not within the taxation scope of BT. Hence selling real estate by a share deal should not be within the taxation scope of BT.

5. Are thin capitalization rules applicable? Are there other limitations of interest deduction applicable?

For the loan granted by a foreign company there is the following limitation from a foreign exchange control perspective: The maximum loan shall be no less than the difference between the registered capital and the total investment. In situations where the total investment is less than USD 3 m, registered capital must constitute 70 % of the total investment. Where the total investment is more than USD 3 m but less than USD 10 m, registered capital must constitute at least 50 % of the total investment. In cases where the total investment is more than USD 10 m but less than USD 30 m, 40 % of the total investment must be in the form of registered capital. When the total investment exceeds USD 30 m, at least a third of total investment must be registered capital.

Furthermore, from a tax perspective the interest rate should be no more than the loan interest rate stipulated by the People's Bank of China. Any exceeding part of the interest cannot be deducted.

The thin capitalization rule for general enterprises is 2:1 (debt to equity ratio) and 5:1 for financial enterprises. The interest expense derived from the exceeding part of the debt investment cannot be deducted from the taxable income, unless the enterprise can provide relevant materials to prove that the related transaction is at arm's length or the actual tax burden of the borrower is lower than the domestic related parties'.

6. Can acquisition costs/financing fees/interest be deducted?

Acquisition costs, financing fees and interest occurred in relation to the real estate investment can be deducted.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Each corporate entity is regarded as a separate entity for income tax purposes. Thus, parent corporations and subsidiaries are taxed separately. Resident parent corporations and resident subsidiaries may not opt for taxation as a fiscal unity. Any agreement in this regard is not valid for tax purposes.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Creditor is an enterprise
Interest paid by a Chinese company to a non-resident enterprise is subject to 10 % withholding tax unless reduced under an applicable double tax treaty.

Creditor is an individual
Local company should withhold the individual income tax for the interest paid to an individual; the tax rate is 20 %.

9. Is a Loss Carry Forward or Loss Carry Back granted and what are the restrictions?

An enterprise's loss can be carried forward to deduct the future profit within a five-year period.

There is no possibility to carry back losses in China.

C. Real Estate Taxes

1. Does China levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

China levies a real estate transfer tax on the sale of real estate. For the sale of shareholdings, no real estate transfer tax is levied.

Land value-added tax
Income from the transfer of real estate is subject to land value-added tax. Tax is based on a progressive tax rate with four different tax levels and is levied on the amount of the gain. The lowest tax rate is 30 % and the highest tax rate is 60 %.

However, land value-added tax shall be exempted for individuals selling houses started from 1 November 2008.

Business Tax

When selling real estate in China for individual and enterprises, business tax with a tax rate of 5 % will be imposed on the balance of the sales income and the purchase price or original transfer price of the immovable property or land use right.

Moreover, when selling real estate in China for individual, if the time period between the selling date and the previous purchase date is more than five years and the sold real estate is an ordinary one, individuals can be exempted from business tax.

However, for sales of a non-ordinary real estate by individuals which is purchased within the five-year period, business tax shall be levied on the difference between total sales income and the previous purchase cost.

An "ordinary house" shall satisfy the following conditions in principle: the volumetric fraction of the buildings in residential communities shall be more than 1.0, the floor space of a single set of apartment shall be less than 120 m^2, and the bargaining price is 1.2 times lower than the average dealing price of those houses as built on the land at an identical level. However, different provinces/cities could regulate their criteria.

Farmland Occupation Tax

Farmland occupation tax is levied on taxpayers who construct buildings or conduct non-agriculture related activities on farmland.

Effective since 1 January 2008, this tax is computed according to the actual area of farmland occupied, varying from location to location.

Deed tax

When purchasing real estate in China, accept the land or the real estate, deed tax is needed to be paid. Tax rate is 3 % - 5 %.

For individuals, if the real estate is the ordinary house, and it is the only real estate of the purchaser, the deed tax is reduced by 50 %. If the real estate is smaller than 90 m^2 and it is the only real estate of the purchaser, the tax rate is 1 %.

2. Is real estate subject to any real estate tax? At which rate?

Real Estate Tax

For enterprises

Real estate tax shall be paid by property owners.

- In case of real estate for self-use, it should be 1.2 % of the residual value of the property. The real estate tax will be calculated from the original value of the property after deducting between 10 % and 30 %. Details of the scope of this deduction will be determined by the people's government of the province, autonomous region or municipality directly under the Central Government.
- If the real estate is rented out, real estate tax rate is 12 % of the rent. If the real estate is rented to the individual for living based on a market price, real estate rate is 4 % of rent.

For individuals
Real estate tax shall be paid by property owners.

- If the real estate is for self-use, it is exempt from taxation.
- If the real estate is rented out, real estate tax rate is 4 % of the rent.

Urban land-use tax

For enterprises
Taxpayers, including all enterprises and individuals utilizing land within cities, counties, townships and mining areas, are subject to this annual tax. The urban and township land use tax ("UTLUT") was promulgated in 1988 and revised on 31 December 2006. Effective since January 1, 2007, foreign investment enterprises and foreign enterprises previously covered by land use fees were brought under the revised UTLUT regime. The tax rates are set by the tax authority in each location.

For individuals
Urban land-use tax is exempted for self-use real estate.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The sale of real estate is not subject to VAT. For detailed information please refer to part C.1 above.

2. What are the VAT consequences of renting/leasing of real estate?

The renting/leasing of real estate is not subject to VAT. The landlord/lessor is subject to business tax on the rental amount. The tax rate is 5 % for enterprise and 1.5 % for individuals.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

Stamp duty with a rate of 0.005 % shall be levied on the total amount of the contract signed by the company and the bank/financial institution.

Real Estate Investment in

Croatia

A. Legal/General

1. Are non-residents entitled to acquire real estate in Croatia? Does the acquisition have to be carried out by a Croatian corporation?

The most complicated aspect of foreign investment in Croatia is the acquisition of real estate (both land and buildings). In addition to the complicated legal restrictions, problems also exist with outdated land ownership and land use registries.

However, the Croatian government commenced several projects of updating and computerizing both land use and land ownership registries in order to simplify investments for domestic and foreign investors.

Foreign investors (both individuals and entities) may acquire property with the prior approval of the relevant government bodies based on the reciprocity principle. Therefore, it is essential that real estate acquisition rights given by a foreign country to its own citizens and to commercial companies established in foreign countries according to the laws of these countries are also given to the citizens and commercial companies of Croatia. The restriction for foreigners is strictly prescribed only for acquisition of the forests and woodlands. For European Union citizens, no approval is required. .Additionally, the acquisition of agricultural land by nationals and companies of another Member State or EEA will be restricted for the period of seven years following the date of accession of Croatia to EU (date of accession was on 1 July 2013).

For companies that only own real estate, there are no provisions restricting a foreign investor from owning shares in the company. In addition, a Croatian company can be established by a foreign investor for the purpose of land acquisition, as there are no formal approval requirements imposed by the relevant governmental bodies.

2. Which importance does the Croatian land register have?

Property rights should be registered with the Croatian land registry. According to civil law of real estate the ownership right may only be acquired with the incorporation of the property right in the land register. However, the law regarding property and other real property rights contains an important divergence of this principle in the case of acquisition of real estate that is not yet registered in the land register.

In this case, the ownership right will be acquired by deposit of an appropriate accredited certificate at the land register office. This exception is still of importance

in Croatia as not every real estate is registered in the land register yet. Furthermore, there could exist restitution claims, so that at present no complete legal security from the status of the legal register can be derived.

With regard to the acquisition of shares in a Croatian company owning real estate in Croatia, there are no registration requirements to be fulfilled with the Croatian land registry in respect of the real estate.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

- Corporate income tax rate: 20 %
- Personal income tax rate:
  Marginal tax rate: The tax rates of 12 %, 25 % and 40 % apply to the following monthly amounts:
  - 12 % on taxable income up to HRK 2,200,
  - 25 % on taxable income from HRK 2,200 to HRK 8,800 and
  - 40 % on taxable income over HRK 8,800.
- Participation exemptions:
  - Dividends derived by resident corporations from resident or non-resident corporations are exempt from corporate profit tax (CPT).
  - Capital gains of a non-resident corporation (or individual) resulting from the alienation of a participation in a Croatian corporation are not taxable in Croatia.

2. What is the tax depreciation period for real estate in Croatia? Are there depreciation categories? Which depreciation method is used?

All real estate (except land) has a depreciation period of about 20 years. The depreciation can be doubled by the taxpayer. The depreciation is calculated on a straight-line basis.

3. When is a foreign investor subject to limited tax liability in Croatia?

Foreign individuals with income from renting or alienation of real estate in Croatia are subject to limited income tax liability. Depending on the actual activity it has to be distinguished between income from property and property rights or self-employment income, whereas these income types differ in the methods of

income determination. The income is liable to the progressive income tax rate. Individuals deriving self-employment income can choose between taxation regarding the Income Tax Act or regarding the Profit Tax Act. There is no deduction of withholding tax; annual tax returns have to be filed.

Foreign legal persons are subject to profit tax liability with their profit achieved in Croatia (e.g. from renting or alienation of real estate in Croatia) if they have a permanent establishment. A permanent establishment will usually be founded with the establishment or renting of real estate. The profit tax rate is 20 %.

There is no deduction of withholding tax. Annual tax returns have to be filed.

4. Are asset deal and share deal possible in Croatia? What are the main consequences?

The real estate investor can acquire real estate in Croatia by means of an asset deal (e.g. direct acquisition of real estate) or by means of a share deal (e.g. acquisition of a corporation owning real estate).

Direct acquisition of real estate – Asset deal
A Croatian company may directly acquire real estate in Croatia. Interest expenses for a debt-financed acquisition may be deducted from income of real estate if real estate is rented or used for its own business.

Capital gains derived by a domestic corporate taxpayer from the sale of real estate are subject to profit tax at the rate of 20 %.

On the other hand, capital gains derived by non-resident legal entities are not subject to profit tax (please note that this scenario may have permanent establishment implications).

For other tax consequences (VAT, capital tax, property tax etc.) see the questions/answers below.

Indirect acquisition of real estate – Share deal
Capital gains derived by a Croatian corporate taxpayer from the alienation of shares in a Croatian company owning real estate are subject to profit tax at the rate of 20 %. Both realized and unrealized gains arising from the value adjustment of financial assets are taxable if posted to the P&L account as normal business income. If the unrealized gains are posted to the balance sheet, they are not taxable.

Likewise, the gains derived by a non-resident from the alienation of shares in a company owning real estate are not subject to profit tax.

The real estate transfer tax burden can be avoided if a share deal option is utilized. However, if during tax audit the tax authority establishes that the legal action which was the basis for the acquisition of real estate was fictious or strictly made in order to avoid real estate transfer tax, it shall revoke the decision on exemption from real estate transfer tax and assess the associated tax on real estate transfer.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capitalization

The Croatian profit tax act (PTA) provides that interest on loans provided by shareholders with a participation of 25 % or more on a Croatian company is not deductible for profit tax purposes if the amount of the loan exceeds four times the amount of the equity holding for that shareholder (i.e. a 4:1 safe harbour). The Croatian PTA regulations clarify that the non-deductibility treatment is applicable to interest that corresponds to the amount of a shareholder's loan in excess of the safe harbour.

The thin capitalization provisions also apply to loans granted from third parties that are guaranteed by a direct shareholder and to loans granted by related parties.

The above-mentioned thin capitalization rules do not apply to shareholders who are financial institutions (as defined by the Croatian legislation). Therefore, to the extent that the Croatian company raises debt financing from its direct parent company, or if the Croatian company's direct parent company guarantees any such debt financing, then interest on any such debt financing that exceeds four times the Croatian company's capital (capital for the purpose of thin capitalization calculations also includes reserves and retained earnings) will not be a tax deductible expense for the Croatian company.

Transfer pricing rules

In accordance with the PTA, interest that is paid or received by a profits taxpayer to or from a non-resident related party is considered to be at arm's length (i.e. deductible for profit tax purposes) up to the rate prescribed by the Minister of Finance. The default rate for the related party interest rate is set as the discount rate published by the Croatian National Bank, which is currently seven % per year. Following from the above, any interest charged to a corporate profit tax payer

by a non-resident related party which is in excess of the 7 % rate would not be deductible for Croatian corporate profit tax purposes.

Accordingly, if any related party provides debt financing to a Croatian company, any interest charged in excess of 7 % per year will not be a tax-deductible expense for the Croatian company.

6. Can acquisition costs/financing fees/interest be deducted?

Acquisition costs must be capitalized and for buildings such acquisition costs may be depreciated over the useful life. Fees incurred in the transfer are deductible. Interest expenses for a debt-financed direct acquisition may be deducted from income of real estate if real estate is rented or used for its own business.

The depreciation of buildings which are not used for a business activity shall not be recognized as tax expenditure. A taxpayer who has apartments and holiday cottages recorded as fixed assets in its business books can recognize the depreciation of such assets as tax expenditure provided that on the basis of the use of apartments and holiday cottages, achieved revenues equal to a minimum of 5 % of the purchase value of such assets.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Tax Group

In general, each corporate entity is regarded as a separate entity for profit tax purposes. There is no possibility under Croatian tax law to be taxed on the basis of consolidated income or as a fiscal unity. Thus, neither profit and loss transfer agreements nor control agreements result in taxation as a fiscal unity.

Merger

The PTA provides for a specific treatment of mergers and demergers. In this regard, the PTA provides for basic definitions of mergers and demergers that are in line with the Croatian Commercial Law (hereinafter CCL). A merger is defined as a transaction by which one company ceases to exist by transferring all of its assets and liabilities to another existing company without liquidation, in accordance with the CCL.

8. Is there a withholding tax on interest payments paid by local company to creditor?

In accordance with the CPT Law, a withholding tax of 15 % is generally required to be deducted in respect to the following payments to non-residents:

- Interest on borrowings (excluding borrowings from financial institutions);
- royalties and other intellectual property rights;
- market research services, tax and business consulting services and auditor services;
- dividends at the rate of 12 %.

However, a valid double tax treaty (hereinafter DTT) may reduce or eliminate any withholding tax (WHT) liability if the foreign entity is seated in a jurisdiction with which Croatia has a DTT in effect.

Upon Croatian accession to EU the Council Directive 2003/49/EC is implemented into Croatian legislation. WHT is not paid on interest payments made between related parties seated in different EU Member States if the following conditions are met:

- the payer has a direct minimum share of 25 % in the capital of the recipient; or
- the recipient has a direct minimum share of 25 % in the capital of the payer; or
- a third party has a direct minimum share of 25 % in the capital of the recipient and the payer, with such shares relating to companies from EU.

Above stated minimum conditions should be fulfilled continuously for at least 24 months and it applies only if the recipient is considered as beneficial owner of the interest or royalties.

However, WHT exemption would not apply for:

- payments of interest or royalties, which in its essence represent distribution of profit or return on capital;
- interest payments on loans, which carry the right to participate in debtor's profit;
- interest payments on loans that gives loan provider the right to exchange his right on interest with the right to participate in debtor's profit;

- payment from loans which do not contain provisions regarding the repayment of the principal, or if repayment of principal is due after 50 years; and
- interest payments and royalties made for the purpose of tax evasion and tax avoidance;
- on part of the interest payment that is above arm's length level.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Losses may be carried forward for a maximum period of five years, unless otherwise provided in the PTA. There are no anti-avoidance provisions that restrict the carry forward of losses. No carry back is allowed. Foreign losses are computed in the same way as domestic losses. However, such losses may be set off only against income from the foreign source to which they are related.

If the right to offset losses incurred in the process of mergers, acquisitions or divisions is transferred to legal successors during a tax period, the right to carry forward the loss begins after the expiry of the period in which the legal successor acquired the right to carry forward the loss.

During mergers tax losses carried forward by the transferring company can be taken over and utilized by the receiving company. However, the receiving company is not entitled to utilize the tax losses carried forward by the transferring company if:

- transferring company did not perform any business activities for two tax periods before the merger; or
- receiving company significantly changes the business activities of the transferring company within a period of two years following the merger.

This rule shall be also applied if, in a tax period, the taxpayer's ownership structure is changed by more than 50 % compared to the ownership structure at the beginning of the tax period.

C. Real Estate Taxes

1. Does Croatia levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Croatia does levy a real estate transfer tax. Subject to real estate transfer tax are real estate transactions. The Croatian legislation defines any acquisition of ownership of property as a real estate transaction.

Under the Croatian legislation real estate is defined as:

- → Land – whether used for business purposes and used for agricultural purposes;
- → buildings – whether residential buildings, business buildings and other buildings.

Real estate transfer tax is paid at a rate of 5 % and the taxpayer is the person who acquired the property (e.g. buyer or successor). The real estate transfer tax paid is not recoverable and represents a final tax for the real estate acquirer. The real estate tax is avoidable if a share deal vehicle is utilized.

Real estate transfer tax is not paid on the acquisition of buildings if such buildings are taxable by VAT.

2. Is real estate subject to any real estate tax? At which rate?

Currently there is no real estate tax; however, there are plans to introduce real estate tax in 2016.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

VAT is not payable on the transfer of land. As for buildings, it should be noted that the VAT Law makes a distinction between old buildings and new buildings. According to the VAT Law, "new buildings" are defined as buildings built and sold on or after 1 January 1998. New buildings are subject to VAT. The tax rate is 25 %.

Buildings built and/or sold prior to that date are considered to be "old buildings" and are not subject to VAT. Therefore, VAT is paid on the acquisition of a new building erected after 1 January 1998 if the seller is registered for VAT purposes. If the acquirer of the building was not able to recover VAT upon acquisition, then

each subsequent transfer of the new building will not be subject to VAT. The taxable base for VAT is defined as the "consideration paid" for the building. The consideration for the building and land on which the building is constructed would be required to be detailed separately in a Sale and Purchase Agreement.

As of 1 January 2015, the general system described above will be changed. From that date the sale of building and land will generally no longer be VAT exempt. As of that date, only the sale of buildings older than two years starting from the moment of first occupation will be exempt from VAT.

2. What are the VAT consequences of renting/leasing of real estate?

The VAT legislation makes a distinction between the renting of real estate that is used for business purposes as opposed to the renting of real estate that is used for residential purposes. Please note that the renting of real estate to tourists is deemed to be renting for business purposes.

Residential rentals

The Croatian VAT Law provides that the service of renting real estate that will be used for residential purposes is exempt from VAT. The rent charged on real estate used for residential purposes is not subject to VAT.

Business rentals

The rent charged on real estate used for business purposes is subject to VAT at the general VAT rate of 25 %. Renting of real estate is subject to the general tax rate of 25 %. With respect to hotel accommodation services the reduced tax rate of 13 % applies.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Cyprus

A. Legal/General

1. Are non-residents entitled to acquire real estate in Cyprus? Does the acquisition have to be carried out by a Cyprian corporation?

Cypriots and EU individuals and/or companies are allowed to purchase real estate property without any restrictions.

Other foreign individuals or companies (non-EU) are only given permission to purchase one of the following:

- one apartment; or
- one house; or
- a building plot or land up to 4,000 m^2.

Entities from third countries may also acquire premises for their business or for the residence of their non-EU employees. In order to effect a transfer of real estate to a foreign company or individual, a permission from the government is required.

This permission may be obtained provided that the property is not intended for commercial exploitation; however, an exception may be given by the government for projects that may enrich tourism and increase employment, on an ad hoc basis.

2. Which importance does the land register have?

The land registry is an important government department as all properties are recorded, deeds and other documents are issued and full record of past and current ownership as well as mortgages and encumbrances is maintained.

Rights over the property may be acquired either via the transfer of the title deed on the name of the new owner or by the registration with the land registry of a sale and purchase agreement for the particular property.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

Gains from disposal of real estate
In regards to income from alienation of real estate, three types of taxation are applicable:

→ Corporate tax
The corporation tax rate is 12.5 % on the net profit of the company as adjusted for tax purposes. In order for a company to be taxed under corporation tax it has to prove that the company's line of business is dealing in land or developing real estate and therefore any gains are considered to be of a revenue nature and not of a capital nature (which fall under capital gains as explained below).

→ Personal tax up to 35 %
With the same rationale as above, an individual in the real estate business will be taxed under personal income tax for any profits generated. The current tax rates for individuals are as follows:

Chargeable Income (€)	Tax rate	Accumulated tax
0 - 19.500	0 %	0
19,501 - 28,000	20 %	1,700
28,001 - 36,300	25 %	3,775
36,301 - 60,000	30 %	10,885
Over 60,0000	35 %	-

→ Capital gains up to 20 %
In the case where the real estate transaction is not considered as of a revenue nature (e.g. disposal of a residence or transactions not falling under business activity), any gain would be subject to capital gains tax at 20 %.

The capital gains tax is also applicable in the case of disposal of shares in a company owning real estate in Cyprus.

It is important to note that only property situated in Cyprus is subject to capital gains tax. Disposal of property situated abroad is not subject to capital gains tax in Cyprus.

Rental Income
Rental income from properties is taxed according to B.1 above, depending on the legal form of the owner, plus an additional 2.25 % withholding tax on the gross rental income for resident persons.

2. What is the tax depreciation period for real estate in Cyprus? Are there depreciation categories? Which depreciation method is used?

The tax depreciation (capital allowances) is 3 % for commercial buildings (e.g. shops, offices, etc.) and 4 % for hotels and industrial buildings (e.g. factories). The straight-line method of depreciation is used to calculate the capital allowances figure.

3. When is a foreign investor subject to limited tax liability in Cyprus?

A non-tax resident individual or company is subject to tax only on income derived from Cyprus, such as (i) income from a permanent establishment, (ii) income from an office or salaried services in Cyprus, (iii) rent, royalties or other income from property (including intangible property) in Cyprus, (iv) capital gains. Therefore the gain from the sale of property or rental income from Cyprus will be subject to tax in Cyprus either under capital gains tax or income/corporate tax as above.

4. Are asset deal and share deal possible in Cyprus? What are the main consequences?

Real estate can be acquired either through direct purchase of the property (asset deal) or indirectly through acquiring shares in a company owning the property (share deal).

In both cases, disposal of property will lead to capital gains tax. Profit from the sale of shares is not taxable in Cyprus, unless the company whose shares are sold holds immovable property situated in Cyprus only, thereby triggering capital gains tax.

The reason is that disposal of shares in a company owning real estate triggers a capital gains tax calculation on the market value of the real estate on the date of disposal. The cost in the above calculation is the acquisition cost indexed for inflation.

In case of a two tier structure no capital gains tax arises, however the commercial rationale of having such a two tier structure has to be justified; otherwise the risk of considering the second company as a look-through entity exists and therefore capital gains tax may arise.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

There are no thin capitalization rules applicable in Cyprus. In regards to limitation of interest deduction this may be applicable in cases where interest expense relates to the acquisition of a non business asset.

6. Can acquisition costs/financing fees/interest be deducted?

In calculating the capital gains tax, the cost of acquisition (indexed to take inflation in consideration) and interest on loan to acquire the property are allowable.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Tax Group
Under the Cypriot tax legislation each company is considered a single tax entity; therefore there is no possibility to consolidate income. The possibility exists however for group relief by way of surrendering tax losses to another Cypriot company, member of the same group (two companies are deemed to be members of a group if one is the 75 % subsidiary of the other or both, each one separately, are 75 % subsidiaries of a third company).

Merger
A possible way to achieve debt push down is by a merger between the target company and the acquisition vehicle having the debt.

8. Is there a withholding tax on interest payments paid by local company to creditor?

There is no withholding tax on interest payments although if the recipient is a tax resident person, such interest income will be subject to tax as follows:

- If interest income arises from the ordinary carrying on of the business (active) under corporation tax as business profit at 12.5 % after allowable deductions
- Other types of interest income (passive) under special defence contribution at 30 % on gross income

Special defence contribution tax is a form of withholding tax on specific sources of income, i.e. interest, dividends and rental income. SDC is not applicable for non-tax resident persons.

There is no withholding tax on interest payments from a tax resident company to a non-tax resident person.

9. Is a Loss Carry Forward or Loss Carry Back granted and what are the restrictions?

For capital transactions a carry forward of losses is allowed against future capital gains. A carry back of losses is not allowed.

In case the transaction is considered of a revenue nature any loss for tax purposes is also carried forward.

In both cases the losses can be carried forward indefinitely.

C. Real Estate Taxes

1. Does Cyprus levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

In the case of transfer of immovable property, the land registry transfer fees are applicable at the following rates:

Value of property	Tax rate
Up to € 85,430	3 %
€ 85,431 - € 170,860	5 %
Over € 170,860	8 %

The above rates are applicable for direct transfer of ownership. Transfer of shares in a company owning real estate is not taxable.

2. Is real estate subject to any real estate tax? At which rate?

Real estate is subject to the immovable property tax based on the value of the property as at 1 January 1980.

Value of property	Tax rate
€ 0 - € 120,000	0 %
€ 120,001 - € 170,000	0.4 %
€ 170,001 - € 300,000	0.5 %
€ 300,001 - € 500,000	0.6 %
€ 500,001 - € 800,000	0.7 %
Over € 800,001	0.8 %

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

In the case of supply of land there are no VAT implications, such a transaction being exempt from VAT. Buildings that obtained a building planning permit after 1 May 2004 are subject to VAT currently at 19 %. In the case the building is used in a business registered for VAT purposes, the purchaser can claim refund of the input VAT.

In the case where the building is a house, there may be the possibility of the reduced rate of 5 % subject to the use by the beneficiary as his/her main and permanent place of residence.

For an applicant to be considered a beneficiary, the following requirements must be met:

- be a physical person of legal age (18);
- be a citizen of Cyprus or EU Member State;
- be a permanent resident of Cyprus.

2. What are the VAT consequences of renting/leasing of real estate?

The leasing or letting of immovable property is not subject to VAT. In the case however where utilities are provided (e.g. electricity, water, cleaning, common services) as part of the lease, that would be considered use of space and VAT would be charged at the normal rate, currently 19 %.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Authorized share capital is the total of the share capital which a limited company is allowed to issue at any time. Issued share capital is the part of the authorized capital actually issued to shareholders.

Capital duty is paid upon incorporation of a company at € 102.52 plus 0.6 % on the authorized share capital. In case of a future capital increase 0.6 % is due on the additional authorized share capital.

A company may choose to issue shares at a low nominal value (against authorized share capital) but with a high share premium which is only subject to a one off € 17.00 irrespective of the amount of premium, in that way optimizing the capital duty paid.

2. Is there a stamp duty on debt granted to a local company?

Some documents relating to assets and/or transactions taking place in Cyprus may be subject to stamp duty.

Whether a contract is subject to stamp duty depends on various factors that have to be examined.

Stamp duty is calculated on the value of the contract at a rate of 0.15 % for amounts between € 5,000 to € 170,000 and at 0.2 % for any amounts over € 170,000. Amounts below € 5,000 are exempt. The stamp duty is capped to a maximum of € 20,000 per contract.

Real Estate Investment in

Czech Republic

A. Legal/General

1. Are non-residents entitled to acquire real estate in the Czech Republic? Does the acquisition have to be carried out by a Czech corporation?

The amendment to the Foreign Exchange Act No 206/2011 Sb., effective 19 July 2011, has created new rules for acquisitions of real estate by non-residents. By the amendment, Section 17 of the Foreign Exchange Act (which regulated the position of foreign nationals when acquiring real estate in the territory of the Czech Republic) has been repealed. By harmonising Czech national legislation and EU law, the Czech real estate market has entirely been liberalized. Now non-residents can acquire Czech real estate in the same way as Czech residents.

2. Which importance does the land register have?

The new Act on Public Registers of Legal Entities and Individuals, effective from 1 January 2014, is to strengthen the material publicity principle protecting good faith that the records of legal relations in the land register are complete and true. If the right with respect to property is entered in a public register, it shall be assumed that it was recorded in line with the actual legal status. The new regulation thus obliges real estate owners to see that their rights are entered in the land register in a correct manner.

The new Civil Code, effective from 1 January 2014, has reintroduced the principle that constructions built on a plot of land are deemed to be a part of such plot of land (excepting, for instance, temporary constructions, distribution system, etc.). The prerequisite for this, however, is that the owner of the construction and of the plot of land are identical persons (if there are different owners, they have the right of first refusal against each other). This principal change in the approach of property's ownership and parts thereof is reflected in legal regulation of the land register. In the land register only those buildings are included that are not parts of a plot of land or a right to build (see below). The new owner of plot of land becomes automatically owner of the construction being a part of the relevant plot of land.

The right to build is the right of the builder to have a construction on another person's plot of land on a temporary basis, for a period of 99 years as a maximum. The new Civil Code considers this heritable building right to be a right in rem, with a construction that meets the requirements of the right to build being its part; if the construction ceases to exist, such fact does not affect the right to build. The right to build can relate both to a plot of land designated for building and to a plot of land not being needed for the construction but serving to its better use.

Relating to the construction, the builder has the same rights as the owner. The heritable building right can be transferred, encumbered; it passes to the heir or another legal successor. The builder has the right of first refusal to the plot of land and the owner of the plot of land has the right of first refusal to the construction, unless otherwise provided.

The ownership of the real estate being transferred under the contract passes over to the buyer as soon as the ownership right is registered with the Land Registry („katastr nemovitosti"). The registration of the ownership will be made by the Land Registry Office based on its decision with retroactive effect from the day at which the application for the ownership´s registration (charged with the administrative fee of CZK 1,000) has been submitted.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

   - → corporate income tax rate: 19 %;
   - → personal income tax rate: 15 %; annual income exceeding CZK 1,245,216 shall be subject to 7 % tax surcharge / tax free income: CZK 165,600.

There is no special income tax rate for real estate.

Starting 2014, inheritance and gift tax are classified as income taxes. Tax on acquisition of real estate is governed by a separate act starting 1 January 2014 (Act on Real Estate Acquisition Tax).

Participation exemptions
Under the domestic participation exemption regime, any income from a transfer of shares and profit distributions derived by a resident corporation (s.r.o. or a.s.) or a cooperative from a participation in another Czech corporation or cooperative is exempt from corporate income tax, provided that it holds a share of at least 10 % (in share capital) for a minimum holding period of 12 months. The 12-month period may be fulfilled subsequently. However, the domestic participation exemption does not apply to income from a transfer of shares and to profit distributions where a Czech subsidiary is in liquidation.

The international participation exemption applies to specific income (see below) derived from a participation in a foreign company. The requirements differ depending on whether a foreign subsidiary is located in the EU or in a third country.

Requirements in the case of EU subsidiaries are:

- → equity participation of at least 10 % in the EU subsidiary for a minimum-holding period of 12 months;
- → listing of the legal form of the EU subsidiary in the Annex to the EC Parent-Subsidiary Directive, see Annex II;
- → Czech parent company is a beneficial owner of the income.

As regards EU subsidiaries, the participation exemption applies to dividends received by Czech parent companies and Czech permanent establishments of companies resident in another EU Member State. Further, income from a transfer of shares in EU subsidiaries derived by Czech parent companies is also tax-exempt. However, the participation exemption does not apply to income from dividends, where the EU subsidiary is in liquidation.

The international participation exemption also covers profit distributions and income from the transfer of shares derived by an EU parent company in connection with its shareholding in a Czech subsidiary. In addition, the fact that a Czech subsidiary is in liquidation does not preclude the application of participation exemption rules to profit distributions (in contrast, income from transfer of shares may not be tax-exempt if the Czech subsidiary is in liquidation).

Additional requirements (to the above-mentioned) in case of third-country subsidiaries are:

- → Czech Republic has concluded a tax treaty with the third country.
- → Legal form's comparability of the third-country subsidiary to Czech corporations (s.r.o. and a.s.) or cooperatives;
- → subsidiary is subject to corporate income tax of at least 12 % in its residence country and is neither tax-exempt nor eligible to opt for tax exemption.

As regards third-country subsidiaries, the participation exemption applies to dividends and income from a transfer of shares derived by Czech parent companies. However, the participation exemption does not apply to income from dividends where the third-country subsidiary is in liquidation.

2. What is the tax depreciation period for real estate in Czech Republic? Are there depreciation categories? Which depreciation method is used?

Permanent buildings are to be depreciated over 30 years. From 1 January 2004, certain buildings such as office parks, shopping malls and hotels are to be depreciated over 50 years. A taxpayer may choose to use either the straight-line or the accelerated depreciation method. The method chosen may not be changed over

the entire period of tax depreciation. For permanent buildings, a taxpayer is not obliged to claim depreciation and may even interrupt tax depreciation. In the case of interruption of the tax depreciation, the useful life of the assets will be automatically prolonged. When the taxpayer starts writing off again, it must be done as if the tax depreciation had not been interrupted. Plots of land may not be depreciated for tax purposes. Once the plot of land is sold, the possible loss realized upon this sale can be deducted from the tax base (this does not apply to natural persons).

3. When is a foreign investor subject to limited tax liability in Czech Republic?

The foreigners (the non-Czech residents) who derive income from Czech sources are subject to limited tax liability in the Czech Republic. Income from Czech sources represents inter alia income from a Czech permanent establishment, capital gains from the sale of Czech real estate or from the sale of the share held in a Czech company and certain payments received from Czech resident taxpayers, e.g. lease payments.

This income derived by non-Czech residents (with limited tax liability) falls within the scope of the Czech Income Taxes Act. It must, however, be reviewed under the relevant double tax treaty, whether the right of taxation with respect to the particular cross-border transaction is attributable to the Czech Republic as the source state. If the right of taxation is vested in the Czech Republic, the Czech-sourced income of the non-residents will be subject to either the corporate income tax of 19 % or to withholding tax of 15 % (unless reduced under the relevant double tax treaty).

The final taxation in a foreign country depends on the method of preventing double taxation that is applied by the foreign country as the state of residence.

4. Are asset deal and share deal possible in the Czech Republic? What are the main consequences?

The real estate investor can acquire Czech real estate by way of an asset deal (e.g. a direct acquisition of real estate or the acquisition of a tax-transparent partnership owning real estate), unless this is not possible due to the restrictions for non-resident individual investors under Czech law. Czech real estate can also be acquired by way of a share deal (e.g. acquisition of a corporation owning real estate), whereby further reorganization steps to achieve a debt push-down may be required.

Asset deal

- Direct acquisition of real estate:
  A Czech corporation can directly acquire Czech real estate. Interest expenses for a debt-financed acquisition may be deducted from the real estate's income if the real estate is rented out or used for its own business. However, the tax-deductibility of interest is limited by the arm's length and thin capitalization rules.
- Acquisition of a partnership interest:
  If the seller holds the real estate via a Czech partnership (i.e. as a partner of a v.o.s. or a general partner of a k.s.), the acquirer can step into the Czech partnership in place of the seller. Czech partnerships are in general tax transparent (except for income attributable to a limited partner of a k.s.) and the partnership's income is taxed at the partner's level. Please note that income derived by a partner of Czech partnership is considered to be derived through a Czech permanent establishment and as such is subject to Czech taxation. Interest expenses for the debt-financed acquisition of a partnership interest should be deductible from the income of the partner being a legal entity. Partners who are individuals are not entitled to deduct any expenses related to their Czech permanent establishment constituted by reason of their participation in Czech partnerships.

Share deal

All financing costs, including interest on loans for the acquisition of shares, are not deductible for tax purposes. Any loan taken out six months prior to the acquisition of shares is considered to be a loan for acquisition of shares, unless it is proven that this loan has been used otherwise. Tax-deductibility of the interest can be achieved by implementation of any debt push-down strategy, whereby acquisition debt and business activity will be on the same level (see question 9). For other tax consequences (VAT, capital tax, property tax etc.) see the questions below.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capitalization rules (non-tax deductible financial costs) shall apply to all financial costs (i.e. interest including, for instance, loan procurement and processing costs, guarantee fees, etc.) if the creditor is a related party to the debtor (due to capital or other relations) and if the aggregate of loans and credits from these parties exceeds six times the equity capital in case of banks and insurance companies or four times the equity capital in case of other recipients. Therefore, financial costs in the amount by which the aggregate of loans and credits in a tax period exceeds six times or four times the equity capital are considered not deductible for tax purposes.

Thin capitalization rules shall not apply to:

- → Loans and credits the interest of which are included in the input price of property,
- → demonstrably granted interest-free loans and credits;
- → individuals, non-profit organizations and organizers of regulated market (formerly Stock Exchange).

Apart from the thin capitalization rules the market price must be taken into account – i.e. arm's length interest in case loans and credits are granted/accepted between related parties.

6. Can acquisition costs/financing fees/interest be deducted?

In general, interest on a share acquisition loan (please note that any loan agreed within the six months preceding the acquisition is deemed to be an acquisition loan, unless proven otherwise) is not deductible for tax purposes. According to the ITA, all direct as well as indirect costs incurred in connection with the shareholding in the subsidiary, including interest on an acquisition loan, are non-deductible only where corporations (a.s. or s.r.o.) act as the parent company under the Parent-Subsidiary Directive. The indirect costs related to the shareholding amount to 5 % of the dividends, unless lower costs are proven to the tax authorities. In other cases, where interest payments are related to the acquisition loan, interest is not tax deductible due to the general provision stipulating the non-deductibility of expenses relating to income that is subject to a final withholding tax (i.e. dividends) or that is tax exempt (under the participation exemption).

Interest on an asset acquisition loan is in general deductible, unless the interest is non-tax deductible under the transfer pricing rules (applicable only to related persons) and/or the thin capitalization rules.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

If the real estate is held by a Czech corporation (target) and the purchaser acquires the target, Czech law allows strategies in order to generate a debt push down. Common debt push-down concepts are a merger of the Czech target (the corporation holding real estate) with a Czech NewCo (the corporation acquiring shares in the share deal) or a conversion of the target into a (tax-transparent) partnership.

Merger
A NewCo receives an acquisition loan to acquire the target and afterwards these companies are merged. A merger is generally tax neutral for corporate income tax purposes and is not subject to VAT. The remaining company may deduct the interest from its taxable base (e.g. rental income), since interest on the acquisition loan is not linked to any shareholding after the merger (i.e. the business activity and the loan are at the same level). It is important that the merger can be supported by sound business reasons. However, the merger allows the assets of the target to be used for securing the acquisition loan, which might be seen as a business reason to justify the debt push down strategy. There is no real estate transfer tax (newly: tax on real estate acquisition) upon the acquisition of the target corporation. Mergers and other corporate reorganizations are exempt from real estate transfer tax.

Conversion
This alternative requires another company to join the target company as a second partner prior to the conversion of the target into a limited partnership (k.s.). Subsequently, the target is converted into a partnership of which the NewCo is the general partner and the newly-entered company is a limited partner. Profits of a k.s. are divided into two parts for tax purposes. One part attributable to a limited partner is taxed at the level of a partnership (i.e. the standard tax regime for a corporation and a limited partner receiving dividends from a partnership). Usually the limited partner holds a minor share in the partnership. Another part attributable to the general partner is taxed in the hands of this partner (tax transparency). Interest on the acquisition loan is tax deductible, if this expense serves a general partner in generating taxable income derived from a partnership; which is applicable only for corporate investors.

There is no real estate transfer tax upon acquisition of the target. Under Czech civil law, a conversion is not treated as a transfer of any assets, and thus it is not subject to real estate transfer tax.

Group
Except for the VAT-group regime, there is no special corporate income tax regime for groups of companies. The amendment to the Act on collective investment, effective since May 2006, has introduced a novelty into Czech law – the qualified investor funds (QIF). This is a form of collective investment which is subject to approval and supervision by the Czech National Bank. Their advantage compared to standard trading companies lies above all in a lower tax rate, i.e. 5 % corporate income tax (compared to 19 % for standard trading companies). This aspect makes QIF quite attractive.

Currently QIF structure is used in particular by developers seeking an alternative to standard ways to fund their projects. However, the use of QIF is not limited to real estate; for instance receivable traders, emission allowance traders, precious metal, art or security traders can make use of this instrument as well.

QIF can be founded as open end or closed end unit trusts or investment funds (i.e. regulated joint stock companies). Unit trust has no legal personality; it is a mere set of assets. It is founded by an investment company administering its assets and selling unit certificates to investors. As far as practical use is concerned, the option of an investment fund is recommended rather than unit trusts since investment funds have legal personality, may acquire (and depreciate) property and are subject to income tax.

QIF are not intended to be offered to public, only institutional investors (such as banks, insurance companies, pension funds, etc.) and experienced qualified investors on the basis of a declaration (so-called opt-in principle) may invest into these funds.

Funds may not have more than 100 investors. According to the law, the minimum investment into QIF must exceed CZK 1 m (both monetary and non-monetary contributions are possible). Within one year of its formation the fund must have achieved a minimum equity capital of CZK 50 m. If the investor is a trading company which is tax resident in the Czech Republic or another member state of the EU and which has been holding a share of at least 10 % during at least 12 months (this requirement can be met subsequently), payments of shares in profit of the investment fund can be exempt from income tax. This, along with the corporate income tax rate of 5 %, makes investment funds an attractive tool of collective investment.

QIF may be founded for a period of 10 years as a maximum which cannot be extended. If, however, the fund merges with another „younger“ fund, it can continue to exist even for more than 10 years.

Qualified investor funds are not compatible with UCITS, which means that their securities may not be offered outside the Czech Republic unless the respective licence is issued to the fund abroad.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest income of a non-resident taxpayer (corporations and individuals) is subject to Czech withholding tax at a rate of 15 %. However, double tax treaties usually prevent Czech taxation. The withholding tax rate on interest is 0 % applying the EU Interest and Royalty Directive for group purposes (minimum participation 25 %, minimum holding period 24 month). The withholding tax rate for dividends is 15 %, but may be reduced under an applicable double tax treaty or even avoided by application of the EU Parent Subsidiary Directive for group purposes. The rate of withholding tax amounts to 35 % in case of interest income the taxpayers receive from non-EU/EEC countries with which there is no double taxation agreement or tax information exchange agreement.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Generally, losses from business and independent (professional) activities and losses from rental activities may be set off against other income categories, but not against employment income (Sec. 6 ITA) and other income (Sec. 10 ITA). Remaining losses may be carried forward, provided that the loss was not only entered in the tax return but also assessed, i.e. the tax administrator approved the tax loss in the tax return. A loss carry forward is limited to five years; for losses generated prior to 1 January 2004 this period is seven years.

Losses incurred in other categories may neither be set off nor carried forward. The tax loss can be deducted from the tax base which arose and was assessed for the previous tax period or a part thereof, within not more than five tax periods following the tax period for which the tax loss is assessed.

The tax loss cannot be deducted from the tax base if there was a significant change in the structure of persons having direct share in capital or control („significant change"). A change of members or a change of their share in capital or control over the company shall be deemed a change in the structure of persons. A significant change shall mean the acquisition or increase in the share concerning in total more than 25 % of the registered capital or voting rights or changes by which the member gains decisive influence. Whether there was a significant change has to be checked by comparing the conditions in the period for which the tax loss shall be deducted and the period for which the tax loss was assessed.

If, however, the company in which there was a significant change proves to the Tax Authority that at least 80 % of revenues from own performances and goods showed as revenues in this period have been generated by the same activity which the company carried out in the period for which the tax loss has been assessed, the tax loss can be deducted from the tax base.

In general, a tax loss cannot be carried over to third parties. The only exception to this rule is the possibility of carrying forward the tax loss that arose in a legal entity during a transfer of business or a separate part thereof to the company or during mergers and splitting of the company (if the mentioned conditions are fulfilled).

Loss carry back is not possible in the Czech Republic.

C. Real Estate Taxes

1. Does Czech Republic levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Transfer of real estate and comparable rights
Real estate transfer tax is levied on transfers of immovable property (land and buildings) located in the Czech Republic. Taxable transactions include – inter alia – the sale and exchange of immovable property.

The acquisition value less the costs paid for an expert opinion serves as the tax base, which can be: (1) agreed price, (2) comparative tax value (= it corresponds to 75 % of the guideline value or 75 % of the ascertained value), (3) ascertained value (value under the Property Valuation Act), or (4) special price (such as in an auction, when making an investment in a business corporation, in connection with insolvency, inheritance, etc.) – in principle, whichever is higher. Procedure for determining the guideline value has been laid down by the relevant Finance Ministry Decree.

The real estate transfer tax payer is the transferor (seller) unless the parties agree that the transferee (buyer) shall be the tax payer. The buyer is, however, the guarantor of the tax. The transfer of real estate (plots of land, buildings and structures) is subject to a real estate transfer tax of 4 %. There are various tax exemptions, e.g., the first transfer (for consideration) of newly constructed buildings or apartments (newly, effective 1 January 2014, non-use is no longer a pre-requisite).

Tax exemption on investment of real estate into the registered capital of business corporations has been abolished. Transfers of shares in business corporations owning real estate (share deal) are not subject to real estate acquisition tax either.

2. Is real estate subject to any real estate tax? At which rate?

The real estate tax (the land tax and the building tax) covers lands, buildings, residential apartments and non-residential (business) premises. The taxpayer is in general the owner registered in the Land Registry. If the plot of land is encumbered by a right to build, the builder is the taxpayer relating to the land tax. For the purposes of the tax calculation, the status as per 1 January of the relevant calendar year is to be taken into account as the decisive date.

All Czech land registered in the Land Registry (except for the built-up lands) are subject to the land tax. The building tax is levied on Czech buildings (constructions under the Land Registration Act), civil engineering works and units. For the purposes of the land tax, the tax base is derived from the land type and the land area (in square meters). The highest tax rate applies to hard-surface areas of plots of lands being used for industry, building, power industry, transport, etc. and amounts to CZK 5 per m^2. The tax rate for building plots amounts to CZK 2 /m^2 and is multiplied by the municipal coefficient (ranging from 1 - 5).

For the purposes of the building tax, the tax base of buildings is determined as the built-up area in square meters (sqm). The building tax rate ranges from CZK 2 - 10 per m^2 depending on the type of the building. The highest tax rate of CZK 10 applies to buildings which are used for business activities. The basic tax rate is to be increased by CZK 0.75 per each floor. The increased tax rate must further be, as in the case of the land tax, increased by the above-mentioned municipal coefficient.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

With effect from 1 January 2014, legal regulation of sale of real estate has been changed significantly, giving rise to numerous disputable interpretations. There have been large limitations to tax exemptions on land transfer. In principal, only the transfer of mere plot of land i.e. a land plot without constructions or distribution systems and without building permit is subject to tax exemption. The transfer of buildings, apartments, heritable building rights and commercial premises is VAT-exempt after 5 years from the issuance of first occupancy approval or from the date of initial actual occupancy, whichever moment occurs first. The tax payer can decide to claim tax after this period of time. Should the transfer occur within a 5-year period, it would be subject to VAT of 21 % or 15 % in the case of family houses and/or residential buildings with the given size.

2. What are the VAT consequences of renting/leasing of real estate?

The lease of real estate is VAT-exempt, however, some exceptions exist, e.g., the lease of premises for car parking. Nevertheless, the lessor has the option to levy the lease with VAT (21 %) provided that the tenant is liable to pay Czech VAT and uses the leased real estate for his/her economic activities.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

Stamp duties are levied on certain legal transactions during administrative or court proceedings. Court fees vary between 1 % and 4 % of the amount in dispute, whereas the minimum and maximum fees are stipulated or levied as fixed amounts. Administrative fees are usually levied as fixed amounts.

Real Estate Investment in

Denmark

A. Legal/General

1. Are non-residents entitled to acquire real estate in Denmark? Does the acquisition have to be carried out by a Danish corporation?

Non-residents are restricted in their access to acquire real estate in Denmark. The Danish legislation on real estate states that non-residents in Denmark, who have not had residency in Denmark earlier, are only allowed to acquire real estate located in Denmark with permission from the Danish Minister of Justice.

This also applies for companies, associations e.g. which do not have residency in Denmark.

2. Which importance does the land register have?

Rights relating to real estate in Denmark have to be registered in the Danish land register.

The registration is not a requirement for the sales agreement to be valid but the acquirer is not protected against third party rights until an ownership registration in the Danish land register has been made. Thus, the registration of ownership is considered a perfection of security interest.

The registration fee for a deed is 0.6 % of the purchase price or the public property value (the highest). Furthermore, a fixed duty on DKK 1,400 is imposed.

For the registration of rights regarding ownership reservation and mortgage a registration fee of 1.5 % of the ensured amount + DKK 1,400 is imposed.

For the registration of other property rights than owner and mortgage rights (easements, right of use e.g.) a registration fee of DKK 1,400 is imposed.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

- → Corporate income tax rate:
  The Danish corporate income tax rate is 24.5 % (2016: 22 %).

- → Personal income tax rate:
  - › up to DKK 42,800: 0 %;
  - › DDK 42,801 - DKK 449,100: 36.7 %, including municipality tax of 24.9 % (average) tax base of 6.8 % and health contribution (tax) of 5 % (2014-level);
  - › above DKK 449,100 (2014-level): additional 15 %;
  - › a tax ceiling of 51.7 % (2014-level) exists, whereby the marginal tax rates cannot exceed 51.7 %.

These rates also apply to real estate. There are no special tax rates for real estate however, individual owners of real estate that have used the real estate as residence are normally tax exempted on the capital gain on the sale of such real estate.

Participation exemptions

For corporate shareholders, a distinction is made between "subsidiary shares", "group shares" and "portfolio shares" with respect to taxation of dividends and gains on shares:

- › "Subsidiary shares" are generally defined as shares held by a shareholder holding 10 % or more of the share capital of a company.
- › "Group shares" are generally defined as shares in a company in which the shareholder of the company and the company are jointly taxed or meet the criteria for national or international joint taxation, usually implying that the shareholder controls, directly or indirectly, more than 50 % of the votes or are otherwise deemed to have a controlling influence; and
- › "Portfolio shares" are shares not falling within the definitions of "subsidiary shares" or "group shares", for example if the shareholder holds less than 10 % in a non-group company.
- › Qualified portfolio shares are shares not falling within the definitions as subsidiary shares or group shares and are shares in unlisted companies (note certain anti-avoidance rules apply).

Special rules apply to certain holding companies (in Danish: "mellemholdingselskaber") to prevent avoidance of the 10 % holding requirement.

Dividends and capital gains on portfolio shares in listed companies are subject to full taxation at the rate of 24.5 % (2016: 22 %) irrespective of the length of the ownership period. Dividends and gains on subsidiary shares and group shares are tax exempt irrespective of the length of the ownership period.

For qualified portfolio shares only dividends are taxable while capital gains are tax exempted (note that certain anti-avoidance rules apply).

Losses on portfolio shares in listed companies are tax deductible. Losses on subsidiary shares, group shares and qualified portfolio shares are not tax deductible.

If a Danish corporate investor holds portfolio shares in listed companies, gains are taxable according to the market-to-market principle. According to the mark-to-market principle, each year's taxable gains and losses are calculated as the difference between the market value of the shares at the beginning and the end of the tax year. Thus, taxation will take place on an accrual basis even though no shares have been disposed of and no gains or losses have been realized.

It should be noted that a change of status from subsidiary shares/group shares to portfolio shares, and vice versa will be treated as a disposal and reacquisition of the shares at the market price of the shares at such time.

Tax group

The Danish rules on national joint taxation are mandatory and will apply for all Danish companies, associations and permanent establishments etc. under the same group. The Danish parent company will have to include Danish subsidiaries and Danish permanent establishments in the Danish national joint taxation. Only entities in which the parent company has a controlling interest on the financial and operational decisions are to be included in the joint taxation. Such controlling interest is deemed to exist if the parent company directly or indirectly holds more than 50 % of the voting rights in the entity unless it can be established that such ownership interest does not constitute controlling interest.

If a parent company holds less than 50 % of the voting right in an entity, controlling interest will still exist provided the parent company has:

- access to more than half of the voting rights through agreement with other shareholders;
- authority to control financial and operational decisions under the articles of associations or agreement;
- authority to appoint or dismiss the majority of the members of the supreme decision-making body which holds a controlling interest, or
- access to more than half of the voting rights at the general meeting or a similar body and thus in fact holds a controlling interest.

The top Danish entity will be under an obligation to act as administration company and will be responsible for the filing of the income tax return and the payment of the tax payment for the entire group under the joint taxation.

The administration company and fully owned entities within the international and national joint taxation group are co-liable for payment of taxes relating to all entities within the joint taxation group. For partly owned/controlled companies within the joint taxation group, a secondary and limited joint liability exist.
It is possible to select to include the entire global group in a Danish international joint taxation whereby all upstream and downstream entities will be included in the Danish joint taxation.

2. What is the tax depreciation period for real estate in Denmark? Are there depreciation categories? Which depreciation method is used?

The Danish rules on depreciations only allow for depreciation on building and installations in buildings used for commercial purposes. Certain exemptions apply and as a main rule, depreciation is not allowed on office buildings, buildings used within certain financial activities, buildings used for postal service activities, buildings used for accommodation, certain hotel activities and buildings used within certain areas of the healthcare sector.

Depreciation is not allowed on the land.

Depreciation may be made at a rate of up to 4 % of the acquisition costs using a linear depreciation method. Thus, the standard depreciation period for Danish real estate is 25 years.

A higher depreciation rate may be used if it can be established that the building etc. will despite normal maintenance in any event have lost its value within 25 years of construction.

3. When is a foreign investor subject to limited tax liability in Denmark?

An individual is considered a non-resident of Denmark if the individual has no domicile or habitual place of abode in Denmark and does not stay in Denmark for at least six months during a calendar year.

A corporation is considered a non-resident of Denmark if the corporation is not a registered Danish company and provided the foreign corporation does not have its place of management in Denmark.

Non-residents are subject to limited tax liability in Denmark as provided for in section 2 of the Danish Act on Taxation at Source (individuals) and section 2 of the Danish Corporation Tax Act (corporations). Non-resident investors of real estate in Denmark will be subject to limited tax liability in Denmark provided:

- Activities are carried on through a permanent establishment in Denmark (Denmark generally interprets the term "permanent establishment" in accordance with the OECD Model Tax Convention), or
- non-resident investor holds Danish real estate and has income related to the real estate, including capital gains on a sale.

Several other rules on limited tax liability for non-resident individuals exist, including limited tax liability on salaried work performed in Denmark, hiring-out of labour, dividends, consultancy fees and royalties. There is no Danish limited tax liability on interest payments to non-resident individuals.

Non-resident corporations will also be subject to limited tax liability on certain dividend payments, certain payment of controlled debt, consultancy fees, royalties and gains on certain claims and debt.

Non-resident shareholders are as a main rule not subject to a limited tax liability on capital gain on the sale of shares. However certain anti-avoidance rules apply which entails that in some cases, capital gain on the sales of shares will be requalified and taxed as a deemed dividend payment.

Non-resident corporations will as a main rule not be subject to limited tax liability on dividend payments from Danish companies provided the foreign investor holds so-called subsidiary shares or group shares, cf. section B.1 above. The tax-exemption presupposes that taxation of the dividends must be waived or reduced under the provisions of the Parent/Subsidiary Directive (Directive 2011/96/EC) or under a double tax treaty with the Faroe Islands, Greenland or the state in which the corporation is resident. With respect to group shares, it is also a condition that the corporation receiving dividends is resident in the EU/EEA. Note that benefical owner requirements may apply.

Dividends in respect of portfolio shares, including qualified portfolio shares, cf. section B.1 above, are always subject to taxation irrespective of the length of the ownership period. The company paying the dividends is generally obligated to withhold tax at the rate of 27 %.

If the corporation is resident in a state which has a double tax treaty with Denmark or any other agreement on the exchange of information between the tax authorities of the countries, and if the corporation holds less than 10 % of the shares, the withholding tax rate may be reduced to 15 % on request. The rate of withholding is still 27 %, but a refund of the tax withheld is available.

Danish limited tax liability always presupposes a Danish source of payment.

4. Are asset deal and share deal possible in Denmark? What are the main consequences?

In Denmark real estate can be acquired both as an asset deal and a share deal.

Asset deal

If the real estate is sold out separately from the business this is viewed as a taxable disposal of real estate.

Share deal

If real estate is acquired as a share deal there is no sale of real estate at the level of the target company.

All foreign investors can sell shares in real estate companies without Danish tax, if the shares are not part of a permanent establishment. However, those share deals are subject to certain anti-avoidance rules, cf. above.

No registration duty on the real estate is imposed.

It is often beneficial to acquire real estate as a share deal. However, when acquiring shares in real estate companies all liabilities, including tax liability, in the real estate company are taken over. Moreover, when requiring assets, a “step up” for tax purposes is available. Hence, it must always be analysed in detail on a case-by-case basis, whether an asset or a share deal is more beneficial.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Interest payments made by a Danish company are generally deductible for Danish corporate income tax purposes.

However, Denmark has imposed rules entailing that deduction of interest in some cases are reduced. These rules also apply for real estate.

Thin capital rules

The rules on thin capitalization apply to related-party debt whereby a 4:1 debt-to-equity ratio has to be met for interest on such related party debt to remain deductible. In that respect, third party bank debt will be deemed as related-party debt if such debt is guaranteed by a party related to the Danish borrowing company.

The limitation only applies to the part of the debt that should have been equity in order to avoid limitation, and if the controlled debt exceeds DKK 10m at year-end.

To determine the 4:1 ratio, "debt" is defined as the aggregate of related-party debt and debt to third parties, and "equity" is defined as market value of assets less the market value of debt provided, however, that the equity injected by shareholders is only taken into account if such equity remains in the company for at least two years.

In the case of two affiliated Danish companies, the calculation of the debt-to-equity ratio must be made on a consolidated basis. The calculation of the debt-to-equity ratio must be made at the end of each fiscal year.

Other limitations of interest deductions

Besides the rules on thin capitalization Denmark has other restrictions on tax relief for interest payments. In addition to the thin capitalization rules, the following two tests have to be made to determine the actual level of deductibility of interest payments:

- "Interest ceiling" test; and
- "EBIT model" test.

These tests only apply if net financing costs exceed DKK 21.3 m in 2014 (adjusted annually, i.e. currently approximately € 3m) per fiscal year. In the case of two (or more) affiliated Danish companies, the amount of DKK 21.3 m applies to the aggregate net financing costs of the affiliated companies (i.e. the tests apply if the companies' aggregate net financing costs exceed DKK 21.3 m (2014)).

If the net financing costs exceed DKK 21.3 m per year, there will be an interest cap limiting the tax deductibility of any net financing cost exceeding the taxable value of the qualifying company's (or jointly taxed companies') assets at year-end, multiplied by a standard interest rate (in 2014 4.2 %). The part of the net financing costs that are in excess of the interest cap are lost and cannot be carried forward.

The EBIT rule applies alongside the above interest cap rule. Even if the interest ceiling test (in 2014 4.2 % test) is met, net financing costs can only reduce taxable income with 80 % of taxable EBIT (earnings before interest and taxes). Any excess net financing cost can be carried forward to reduce taxable EBIT in subsequent years. Please note that only net financing costs exceeding DKK 21.3 m (2014) will be capped.

Other restrictions
As regards a non-resident owner of real estate interest on non-mortgage loans is only deductible when the loan relates only to property acquisition, operation and improvement in buildings.

6. Can acquisition costs/financing fees/interest be deducted?

If real estate activity qualifies as business income, the general principles of business taxation apply. Expenses such as interest are in general tax deductible.

Acquisition costs must be capitalized as part of the acquisition price and for buildings such acquisition costs may be depreciated.

Financing fees are also deductible if the costs are used for business purposes.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

The possibilities for the company structures to use a debt push down method is restricted by the Danish rules on thin capital, the "interest ceiling" test and the "EBIT model" test. See B.5.

8. Is there a withholding tax on interest payments paid by local company to creditor?

As a general rule, a Danish resident company is not required to withhold Danish tax in respect of interest payments on loans granted by a third party. Interest payments on loans granted by a group company may give rise to a 25 % withholding tax, but generally only if the recipient of the interest is a resident of a tax haven country (a recipient is taxed at a rate considerably lower than the Danish tax rate, i.e. three fourths of the Danish corporate tax).

Payments to group companies in the EU or a country with which Denmark has concluded a double tax treaty are normally not liable to withholding tax, however subject to beneficial owner requirements.

The specific rules are that a 25 % withholding tax on interest payments should be paid if the following conditions are not met:

- Interest payment is related to a permanent establishment in Denmark.
- Taxation of interest is comprised by the EU interest/royalty directive, and the paying company and the receiving company have been affiliated for a

continuous period of not less than one year, and the payment takes place in this period.

- Taxation of interest is reduced under a double tax treaty; or
- Danish company owns directly or indirectly at least 25 % of the share capital or has more than 50 % of the votes in the receiving company.

Moreover, Danish companies are not subject to withholding tax: (i) if a parent company resident in a state which has a double tax treaty with Denmark has a controlling interest in the receiving company; and (ii) if, under the rules of that state, the receiving company is subject to CFC (controlled foreign corporation) taxation on interest payments, provided that the conditions are met under these rules.

Moreover, Danish companies are not subject to withholding tax if the receiving company etc. substantiates that the foreign corporate tax on interest payments constitutes at least three fourths of the Danish corporate tax and that such interest payments are not transferred to another foreign company being subject to a corporate tax rate which is lower than three fourths of the Danish corporate tax.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Losses from business activities that could not be deducted from other positive income in the same year may be carried forward without time limit. Denmark has however imposed new rules on loss carry forward, which entails a reduction in the access to carry forward. Companies can deduct losses for DKK 7.5m from previous income years in the income, but the rest of the income can only be reduced with 60 % of the remaining loss from previous income years.

Carry back cannot be granted in Denmark.

C. Real Estate Taxes

1. Does Denmark levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Gains and losses realized by sale of real estate are included in the taxable corporate income or taxable individual income.

If the real estate has been subject to depreciation and the selling price of the real estate exceeds the written down value of the real estate when it is sold, the depreciation carried out has been higher than the actual decrease in the value

of the real estate in question. This gain (recaptured depreciations) is subject to taxation.

Any further gain realized by sale of real estate is subject to taxation as laid down in the Act on Taxation of Profit from Disposal of Real Property (ejendoms-avancebeskatningsloven). The gain is calculated as the difference between the acquisition price and the sales price. It should be noted that these two amounts (the acquisition price and the sale price) are calculated and modified in accordance with a detailed set of rules and regulations in the act.

Furthermore capital gain on the sale of shares are not taxable for foreign investors, cf. above.

2. Is real estate subject to any real estate tax? At which rate?

In Denmark real estate is generally subject to two types of taxation, namely: (1) municipal land tax (grundskyld) at a rate of 1.6 to 3.4 % of the taxable value of the land varying from municipality to municipality, and (2) real estate tax (ejendomsvaerdiskat) at 1 % of the taxable value up to DKK 3,040,000 and 3 % of the taxable value exceeding DKK 3,040,000. Only private individual owners of residential real estate have to pay the real estate tax.

The municipality can apply a special property tax on commercial property up to 1 % of the value of the buildings.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Firstly it is necessary to figure out what kind of real estate is being sold. Danish law distinguishes between old buildings and new buildings. Sale of an old building is not subject to Danish VAT. However, sale of 1) a new building, 2) a building site and, 3) separate sale of a developed lot are subject to Danish VAT.

The Danish VAT rate is 25 %.

2. What are the VAT consequences of renting/leasing of real estate?

Generally, renting of real estate is not subject to Danish VAT except in the case of:
- → commercial renting of real estate on hotel-like terms;
- → renting of real estate located on company property for less than one month;
- → renting of camping area;
- → renting of parking space;
- → renting of advertising space;
- → renting of storage space.

A landlord may voluntarily register for VAT for commercial renting of real estate. This does not apply if the real estate is to be used for residential purposes.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

There is no stamp duty on loan documents, however as mentioned above duty is imposed on mortgage deed.

Real Estate Investment in

Estonia

A. Legal/General

1. Are non-residents entitled to acquire real estate in Estonia? Does the acquisition have to be carried out by an Estonian corporation?

Generally, residents of the EU/EEA may freely acquire real estate in Estonia. Exceptions include:

- Forest or agricultural land exceeding ten hectares (except if the acquirer has conducted forestry or agricultural activities during the three years preceding the acquisition);
- land on islands located in the sea (excluding four biggest islands Saaremaa, Hiiumaa, Muhu and Vormsi) and mainland border areas.

Other foreigners generally require the permission of the Estonian Government.

2. Which importance does the Estonian land register have?

The Estonian land register is a register of real rights in immovable property. Rights in immovable property are created, amended or extinguished by making a respective entry in the land register and they can be relied on upon making transactions.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

- Corporate income tax rate:
  21 % (to be lowered to 20 % in 2015)
- Unique corporate income taxation system:
  Resident companies do not pay income tax for retained or reinvested earnings. The income tax obligation is deferred to the moment of distributing the profits. The corporate income tax is levied on the profit distributions (dividends and gifts, fringe benefits and other non-business expenditures) made by companies at the rate of 21/79 on the net amount (~26.6 %).
- Personal income tax rate:
  - flat rate of 21 % (to be lowered to 20 % in 2015);
  - tax free allowance € 1,728.

- Participation exemptions:
  An Estonian company is exempted from Estonian CIT on a distribution of dividends that are received from a qualifying legal person and the payer is a resident of EU or Switzerland and subject to corporate income tax or the dividend received was taxed or subject to withholding.
  A qualifying legal person is a resident or non-resident, in which the Estonian company holds at least 10 % of the shares or votes, and which is not located in a low tax territory.

2. What is the tax depreciation period for real estate in Estonia? Are there depreciation categories? Which depreciation method is used?

Thanks to the Estonian unique CIT system there is no need for tax depreciation/amortization rules. However the outcome is the same as if there were unlimited depreciation for tax purposes.

3. When is a foreign investor subject to limited tax liability in your country?

A limited tax liability of 21 % may arise to non-residents on sale or rent of immovable property located in Estonia. In case of individuals, residency rules are similar to those described in OECD model tax convention. Corporations are resident in Estonia if they are entered into the Commercial Register (incorporated) here.

4. Are asset deal and share deal possible in Estonia? What are the main consequences?

Both an asset deal and a share deal are possible in Estonia.

Asset deal
Capital gain realized upon the sale of real estate would be subject to Estonian income tax. The applicable income tax rate for a natural person is 21 %. The business income of a sole proprietor is tax exempt. No income tax is payable on gains from transfer of immovable property if an essential part of the immovable is a dwelling which was used by the taxpayer as his or her permanent or primary place of residence until transfer (Estonian Income Tax Act § 15 (5)). If the dwelling is used as the taxpayer's residence, the tax exemption is not applied to more than one transfer in two years. Estonian legal persons and non-resident legal persons who have a permanent establishment in Estonia do not pay income tax on income or annual profits.

Share deal
The capital gain derived by natural persons or sole proprietors from the alienation of shares in a company are subject to an income tax rate of 21 %. Estonian legal persons and non-resident legal persons who have a permanent establishment in Estonia do not pay income tax on income or annual profits.

As a general rule, capital gains derived by a non-resident from the sale or return of shares in an Estonian company are not taxable here. An exception to this rule is income derived from the sale or return of shares in a real estate company. A real estate company is a company, investment fund, or any pool of assets where at any time over the period of two years prior to the sale or return, at least 50 % of all assets have been comprised of real estate located in Estonia. The precondition for taxation is at least a 10 % participation in the real estate company. The capital gain thus derived is taxable at 21 %.

If an Estonian company buys its own shares, then payments that exceed contributions are taxed (rate 21/79) at the level of the company making the payments (the taxable proceeds). On the level of a shareholder, income tax (rate 21 %) is charged only on the amount by which the payment exceeds the acquisition cost and the taxable proceeds. For other tax consequences (VAT, capital tax, property tax, etc.) see the questions below.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

In Estonia there are no thin capitalization rules. Transfer pricing rules mainly follow the OECD guidelines and the most common methods used are comparable uncontrolled price, resale price, cost plus, profit split, and transactional net margin.

6. Can acquisition costs/financing fees/interest be deducted?

The Estonian CIT system does not use the concept of tax deductibility for the acquired property. Acquisition costs, as long these are related to business, do not increase the tax base. There is no income tax obligation as long as financing fees and interest are related to business. Individuals may set off acquisition costs as well as costs related to the sale, against gains directly without depreciation.

7. Are there any possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Merger
A debt push down can be achieved by merging companies. Mergers are regulated by the Commercial Code. There are no transfer taxes applicable other than smallish registration duties.

Group
In Estonia each corporate entity is regarded as a separate entity for corporate income tax purposes.

There is no possibility under Estonian tax law to be taxed on the basis of consolidated income or as a fiscal unity.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Payment of dividends triggers tax at 21/79 of the dividend amount at a rate of 21 %. Withholding of income tax on dividends has been abolished from 1 January 2009.

Estonian domestic tax legislation does not impose withholding tax on this type of interest payments.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Thanks to Estonian unique CIT system there is no need for special loss carry forwards or carry back for tax purposes. However, the outcome is the same as if losses could be carried forward for an unlimited period of time in a conventional CIT system.

C. Real Estate Taxes

1. Does Estonia levy a real estate transfer tax on sale of real estate or shareholdings?

There is no real estate transfer tax in Estonia.

2. Is real estate subject to any real estate tax? At which rate?

The rate of annual land tax ranges from 0.1 % - 2.5 % of cadastral value of land and buildings. The tax rate is set by municipalities by 31 January each year.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The asset deal with real estate is VAT exempt. The VAT exemption is not applied to

- → a new building (building that has not been taken into use);
- → an immovable if an essential part thereof is a construction which has been significantly improved and
- → to a plot within the meaning of the Planning Act if the plot does not contain any construction works.

If supply is VAT exempt, the seller may also opt for 20 % VAT taxation if the tax authority is notified in writing beforehand. In case of option to tax, reverse charge VAT may apply. VAT cannot be added to used dwellings.

A share deal is usually VAT exempt. Shares of a real estate company might be subject to VAT if there is no economic activity in that company which owns the immovable property. It is advisable to seek a preliminary ruling for the sale of shares of real estate SPVs until there is sufficient amount of practice due to court decisions and explanations from the tax board and the ministry of finance that selling such shareholding is not subject to VAT.

2. What are the VAT consequences of renting/leasing of real estate?

The renting/leasing of real estate is generally exempt from VAT. The lessor may opt for 20 % VAT taxation in case of rent/lease of real estate, following the same rules and requirements as in case of real estate transfer. The option to tax is not applicable to renting/leasing of dwellings.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Finland

A. Legal/General

1. Are non-residents entitled to acquire real estate in Finland? Does the acquisition have to be carried out by a Finish corporation?

There are no restrictions for non-resident individuals or corporations as regards the acquisition of real estate in Finland. The acquisition can be carried out by both individuals and corporations. However, specific requirements apply to the acquisition of real estates which are situated in the autonomous municipality of the Åland island.

Apart from direct investments to real estates, the real estate investments can for instance be carried out through a Finnish real estate company, mutual real estate company or real estate holding company as explained below in section B. 1.

2. Which importance does the land register have?

The ownership and other basic information on real estate, other land and water areas located in Finland is registered in the public land register maintained by the National Land Survey of Finland. Registered as real properties in the land register are real estates, plots of land, public areas, state forest land, conservation areas, expropriation units, areas separated for common purposes and jointly owned water areas. The land register includes identification information on real estates, such as identification number, location, formation, area, historical real estate data etc. Further, information on property owners, mortgages and special rights concerning real estates is registered in the public title and mortgage register also maintained by National Land Survey of Finland.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Tax Rates and Applicable Law

Tax Reporting and Compliance

Income taxes are assessed on yearly basis, i.e. for each financial year ("FY") or calendar year as applicable. The tax authorities may make a re-assessment of the income taxation before the end of the fifth year following the assessment year. Thus, in practice, the limitation period for tax claims in Finland is six years. For example, the re-assessment of FY2014 expires by the end of FY2020. Upon reassessment, late payment interest will also become due. In addition, the tax

authorities may impose a tax increase up to 30 %, if the income tax return is deemed to be filed intentionally incorrectly or due to gross negligence.

Corporations
Income received by corporations is taxed either under the Income Tax Act (1535/1992, as amended) or under the Business Income Tax Act (360/1968, as amended). As a general rule, companies engaged in industrial and commercial activities are taxed under the Business Income Tax Act while real estate companies, mutual real estate companies, housing companies and pure (passive) real estate holding companies are taxed under the Income Tax Act. Under both acts, the applicable statutory corporate income tax rate is 20 % as of 1 January 2014.

Individual Tax Payers
Taxes paid by individual taxpayers consist of progressive state tax, fixed rate municipality tax defined separately by each municipality, mandatory pension insurance and social security contributions and church tax for the members of the evangelic Lutheran or Orthodox churches. The overall tax burden for individual taxpayers on earned income varies between 6.9 % and 57 % in FY2014. This includes the mandatory pension insurance and other social security contributions.

The applicable tax rate for capital income of individual tax payers is 30 % for capital income up to € 40,000 and 32 % for the capital income exceeding € 40,000. For instance dividends, interest income and sales proceeds (capital gains) are considered capital income. However, capital income received by corporations is not subject to the above tax rate for capital income, but the 20 % corporate income tax rate is applied unless specific exemptions apply (e.g. corporations are not in general liable to pay tax on dividends and certain qualifying capital gains).

Real Estate Investment Structures
In Finland, real estate is generally held either by an "ordinary" real estate company or a mutual real estate company. Both are by definition limited liability companies and their governance are, at the outset, organised as with any Finnish limited liability company. However, the tax aspects at the company level and at the level of a corporate shareholder differ considerably.

Separate real estate holding companies are also customarily used for structural and structuring purposes.

Real Estate Company
A real estate company is, as mentioned above, an "ordinary" Finnish limited liability company and the object of the company is generally to own or possess and manage real estate including the building(s) located thereon.

As opposed to a mutual real estate company structure (as explained in Section B 1.2.2 below), a lease contract regarding a certain flat or business premises in the building(s) owned or possessed by the real estate company is concluded between the real estate company and the tenant. The lease income from the lease of such flats/business premises is thus allocated directly to the real estate company. The business purpose of a real estate company is to make profit as any "ordinary" limited liability company. The shareholders of a real estate company can repatriate profits from the real estate company generally in the form of dividend distributions or interest payments.

Real estate companies must file a tax return for each FY and they are generally taxed under the Income Tax Act.

From a company law point of view, real estate companies are governed by the Limited Liability Companies Act (624/2006, as amended).

Mutual Real Estate Company

A mutual real estate company is conceptually also a Finnish limited liability company, but under the Articles of Associations of a mutual real estate company, the shareholder is entitled to possess and manage a certain flat or business premises in the building(s) owned or possessed by the mutual real estate company. Accordingly, the Articles of Association of a mutual real estate company sets out the flats/business premises in the possession of the shareholders and the details of the shares entitling to possess such flats or business premises.

Based on the above, a lease contract regarding certain flat or business premises is concluded between the shareholder of the mutual real estate company and the tenant. Accordingly, the lease income from the lease of the flats/business premises in the building(s) owned or possessed by the mutual real estate company is allocated directly to the shareholder (as opposed to the mutual real estate company).

Under the Articles of Associations of a mutual real estate company, the shareholder is obliged to pay the mutual real estate company a fee for the maintenance and management of the real estate and the building(s) located thereon. However, a mutual real estate company does not normally show any profit as the maintenance and management fee payable by its shareholders is, as a rule, sized to cover the operating costs and expenses of the mutual real estate company (including normally also any possible interest costs and annual loan installments of the mutual real estate company).

Mutual real estate companies are generally required to file a tax return for each FY and they are taxed under the Income Tax Act.

From a company law point of view, unless otherwise stipulated in the Articles of Association, mutual real estate companies are governed under the Limited Liability Housing Companies Act (1599/2009, as amended).

Real Estate Holding Company

A real estate holding company is a Finnish limited liability company that owns shares in real estate companies or mutual real estate companies. As mentioned above, real estate holding companies are typically used for structural and structuring purposes. Real estate holding companies may own larger portfolios of shares in real estate companies, mutual real estate companies. Real estate holding companies that are passive, i.e. companies that only let premises, are taxed under the Income Tax Act. If the real estate holding company holds a large portfolio of (mutual) real estate companies and is an active agent in the process of letting the premises and if it maintains and develops the real estates possessed by it, the real estate holding company may under certain circumstances, also be taxed under the Business Income Tax Act. Real estate holding companies must file a tax return for each FY.

From a corporate law point of view, real estate holding companies are governed by the Limited Liability Companies Act (624/2006, as amended).

Housing Company

A housing company is a company where more than one half of its premises are used as residential apartments. Otherwise the structure of housing company is similar to that of a mutual real estate company.

A housing company is a Finnish limited liability company governed by the Limited Liability Housing Companies Act (1599/2009, as amended).

Taxation of Real Estate Income

There is no special tax rate for real estate income. Lease income received from real estate is subject to capital income taxation for individual tax payers and taxable corporate income for corporations. However, real estate companies and mutual real estate companies and real estate holding companies are generally taxed under the Income Tax Act which means that they are subject to somewhat different tax rules than companies which are taxed under the Business Income Tax Act. For instance companies taxed under the Income Tax Act cannot apply group contribution regime. On the other hand, they are not subject to the Finnish interest deduction limitation regime as the companies taxed under the Business Income Tax Act.

Participation Exemption

Resident Corporations

In general, income derived from the sale of shares constitutes part of a Finnish limited liability company's taxable corporate income. The acquisition cost of the shares and any sales related expenses are generally deductible for tax purposes upon disposal.

Notwithstanding the above, capital gains on the sale of shares is tax exempt for Finnish business conducting limited liability companies in certain circumstances (i.e. the participation exemption regime). The tax exemption is subject to the following conditions:

- (i) The shares to be sold are part of the fixed assets (i.e. generally assets other than current and financial assets) of the selling company;
- (ii) the selling company has directly and continuously owned the shares for at least one year;
- (iii) the selling company has owned at least 10 % of the share capital in the company whose shares are sold (and which shares are so sold);
- (iv) the company whose shares are sold is an EU company (as specified in the EC Parent-Subsidiary Directive) or resident in a country with whom Finland has concluded a tax treaty; and
- (v) the company whose shares are sold does not qualify as a real estate company, mutual real estate company or a housing company or a company, the activities of which mainly consist of owning or managing real property.

Individual Tax Payers

Individual taxpayers are exempted from capital gains taxation for selling off real estate or shares in a housing company if the said asset has been used as his/her permanent place of residence for a minimum period of two years. If the exemption does not apply, the incurred capital gains are taxed in accordance with the applicable tax rate for capital income. Consequently, losses may be deducted against similar capital gains on the FY during which the loss incurred and during five following FYs.

2. What is the tax depreciation period for real estate in Finland? Are there depreciation categories? Which depreciation method is used?

The acquisition costs of buildings, machinery and equipment as well as long term expenditures are deducted in taxation through annual depreciations. No depreciations can be made from the acquisition cost of land areas or shares. The

owner of the assets is allowed to make annual depreciations on the acquisition price for tax purposes. Tax depreciation may not exceed the depreciation made for accounting purposes.

The acquisition price of machinery and equipment is depreciated annually as a combined item using the declining-balance method. The depreciation base consists of the net book value of all such assets added with the acquisition value of new items less any proceeds for such assets. The maximum annual tax depreciation on machinery and equipment is 25 % of their aggregate residual tax value. As regards buildings, the applicable depreciation rate varies depending on the purpose of use of the building. The depreciation is made according to the declining-balance method, and is calculated separately for each building.

Depreciation principles for tax and accounting purposes

Class of assets	Taxation	Accounting
Machinery and equipment	25 % of the residual tax value of all assets.	Straight-line or declining-balance depreciation during the economic life time of each separate item in accordance with the depreciation plan.
Buildings	7 % of the residual tax value of warehouse buildings, warehouses, factories, workshops and power stations or similar buildings; and 4 % of the residual tax value of office building, residential buildings and other similar buildings; 20 % of the residual tax value of tanks for storage of liquid fuel and acids and other similar storage buildings and constructions; 20 % of the residual tax value of light constructions made of wood or similar material; 20 % of the residual tax value of buildings or parts of buildings used exclusively for research and development.	Straight-line or declining-balance depreciation during the economic life time of each separate item in accordance with the depreciation plan.
Long term expenditures and intangible rights	Straight-line depreciation during the economic life time of each separate item, maximum 10 years, or, if shorter than 10 years, for the economic life time of the asset.	Straight-line or declining-balance depreciation during the economic life of each separate item in accordance with the depreciation plan with maximum of 20 years.

3. When is a foreign investor subject to tax in Finland?

Under the Finnish Income Tax Act, non-residents of Finland are liable to tax in Finland on Finnish source income only. Finnish source income include, inter alia, lease income derived directly from Finnish real estate as well as gains derived by a non-resident from the sale of Finnish real estate as well as shares in a Finnish limited liability company, provided that the assets of the company consist more than 50 % of real property situated in Finland.

The provisions of an applicable double tax treaty must naturally be observed, but most double tax treaties concluded by Finland still give Finland the right to tax lease income derived directly from Finnish real property as well as gains derived from the sale of Finnish real property (immovable property). In addition, under most double tax treaties, Finland is also entitled to tax gains derived from the sale of shares in a Finnish mutual real estate company, but not necessarily gains derived from the sale of shares in an "ordinary" Finnish real estate company. For the definition and as to the concept of a real estate company and a mutual real estate company, please refer to section B.1 above.

Dividends

Non-Resident Corporations

Dividends paid by a Finnish private limited liability company to non-resident corporations are, in principle, subject to Finnish withholding tax of 20 %. However, in reality, such withholding is prevented by the provisions of the EC Parent Subsidiary Directive or the relevant double tax treaty. According to the EC Parent Subsidiary Directive, no withholding tax is currently levied on dividends paid to an EU company that directly holds at least 10 % of the capital of the distributing Finnish company.

Finland has entered into tax treaties with a large number of countries pursuant to which the withholding tax rate is reduced to 0 - 15 % on dividends paid to persons entitled to the benefits under such treaties. A further reduction in the withholding tax rate is usually available to corporate shareholders for distributions on qualifying holdings (usually direct ownership of at least 10 % of the capital of the distributing company). The withholding tax relief generally requires that Finland is notified of the domicile of the ultimate recipient of the dividend.

Dividends paid to non-resident corporations are tax-exempt also when the tax domicile of the recipient of the dividends is in the EU/EEA, and:

- the legal form of the recipient is similar to that of a Finnish; and
- a corresponding dividend would have been exempt for a Finnish recipient; and
- full credit cannot be obtained in the recipient's country of domicile under the provisions of the tax treaty between Finland and the recipient's country of tax residence.

Non-Resident Individual Tax Payers

Dividends paid by a Finnish private limited liability company to non-resident individuals are taxed as capital income when paid out by listed companies. The applicable withholding tax rate on dividends paid to a non-resident individual taxpayer is 30 %. A lower rate is generally applied where a double tax treaty is applied. When the dividend is distributed by a non-listed Finnish company, the tax authorities accept, upon request of the non-resident individual tax payer, that the taxation is carried out as if the recipient of the dividend were a resident of Finland for tax purposes, under the following preconditions:

- The non-resident individual tax payer's tax domicile is within the EEA ; and
- a full credit for the Finnish tax at source is not available in the tax residence of the individual tax payer.

Lease Income for Non-residents

Please refer to section 3 above.

Lease income is considered taxable Finnish source income for non-resident corporations and subject to tax at the rate of 20 %.

Capital Gains for Non-residents

Please refer to section 3 above.

However, since shares in an "ordinary" Finnish limited liability company (such as a pure real estate holding company) are in Finland considered by definition as movable property, the gain derived from the sale of such shares should generally not be covered by the provisions of an applicable double tax treaty. Accordingly, the shares in an "ordinary" real estate holding company should formally not qualify as immovable property or as shares in a real estate company or mutual real estate company and Finland should generally have no right to tax the gains so deriving. This view has recently also been supported by the Supreme Administrative Court (KHO 2013/101).

Therefore, it is generally advisable for a non-resident to invest in Finnish real estate, a real estate company or mutual real estate company through a pure real estate holding company.

4. Are asset deal and share deal possible in Finland? What are the main consequences?

Asset Deal

Both asset deals and share deals are possible in Finland. An asset deal usually results in an increase in the base cost of the acquired assets (i.e. step-up in the value of the assets). This increase in asset value is considered as taxable corporate income for the seller. The historical tax and contractual liabilities generally remain with the seller and are not transferred with the assets. Further, the seller can utilize any incurred tax losses against any capital gains incurred from the future sales of assets.

The purchase price of the assets must be allocated separately to each asset item since this allocation is the basis for future tax depreciations. The part of the purchase price that is not attached to specific asset items is considered goodwill. Goodwill can be depreciated by using the straight line method during its economic life time for a maximum period of ten years. If the purchased assets include real estates located in Finland or shares in Finnish limited liability companies, the purchaser of such assets is liable to pay transfer tax as explained below in section C.1.

Share Deal

The purchase of shares in a target company does not result in an increase in the value of the target company's assets. No annual depreciation is available on the value of the acquired shares of the target company. However, the acquisition price of the shares is deducted at the time when the shares are disposed of. Confirmed tax loss carry forwards of the target company may be forfeited in a share deal as explained below in section B.9. Further, the purchaser of the shares is liable to remit transfer tax on the purchased shares as explained in section C.1.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Finnish legislation does not include any specific thin capitalization provisions. Interest expenses are generally fully deductible in the borrower's taxation, provided that the interest rate is at arm's length and the loan is taken for business purposes. The general anti-avoidance clause can become applicable if there is no reasonable economic basis for the transaction or the interest rate is not at arm's

length. The tax authorities have typically considered an interest rate between 6 and 8 % acceptable (when supported with relevant economics and appropriate benchmark analysis).

The new Finnish interest limitation regime, applicable for the first time for FY2014 for companies taxed under the Business Income Tax Act, is applied if the net interest expenses paid by a company on intra-group loans which exceeds € 500,000 annually. Net interest expenses under the limitations regime, when applicable, are deductible up to 25 % of tax EBITDA of the company (adjusted taxable income based on Finnish tax principles).

Both third party and related party interest paid by the company will be taken into account in the calculations, but only related party interest will be subject to the restrictions. To the extent that interest deductions are made on third party debt, the amount of net interest deductions on such external debt is included within the 25 % limit for available deductions, and consequently, may limit the amount of related party interest deductions. Under a specific safe harbor rule, companies whose equity ratio (equity to assets ratio confirmed in the balance sheet) is equal to or larger than the equity ratio of the group are exempt from the limitation regime.

It should be noted that real estate companies, mutual real estate companies, real estate holding companies and housing companies taxed under the Income Tax Act are not subject to the interest limitation regime.

6. Can acquisition costs/financing fees/interest be deducted?

Acquisition costs of the assets are added to the acquisition price and depreciated according to the applicable depreciation rules related to each relevant asset item.

Financing fees are, generally, a deductible cost in taxation. Deduction of interest may be limited under the interest limitation regime as explained above in section B.5.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Debt push down is possible under Finnish legislation and it is usually structured through intra-group financing. In general, it is safer to introduce debt financing at the time of the acquisition than afterwards, as the Finnish tax authorities have

recently tried to challenge post-acquisition debt push downs. However, there is no specific legislation which would prevent post-acquisition debt push down.

Prior to introducing an interest limitation regime in FY2014 Finnish corporations had very extensive possibilities to deduct interests paid to related parties. However, the introduction of the new interest limitation regime (see section B.5) is likely to have an effect on debt push down structures and therefore local advice is recommended. As stated above, real estate companies, mutual real estate companies, housing companies and real estate holding companies are normally taxed under the Income Tax Act and thus not subject to the interest limitation regime.

Further, debtor companies taxed under the Business Income Tax Act may offset deductible interest against taxable profits allocated to the debtor company by utilizing group contributions. However, it should be noted that the possibility of utilizing group contributions is not available for real estate companies, mutual real estate companies, housing companies and real estate holding companies that are taxed under the Income Tax Act.

8. Is there a withholding tax on interest payments paid by local company to creditor?

No withholding is applied when the interest is paid on a loan which is not regarded an equity investment in the debtor company.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Tax losses can be carried forward for ten FYs, counted from the FY when the loss incurred. Carry back of losses is not possible in Finland.

The right to utilize tax losses carried forward is, as a rule, forfeited if:

i) more than 50 % of shares in a loss making company have changed ownership (direct change of ownership); or if
ii) more than 20 % of shares in a company holding at least 50 % of the shares of the loss making company have changed ownership (indirect change of ownership) subsequent to or during the FY in which the losses were incurred.

With respect to indirect change of ownership, a company will forfeit its tax losses carried forward only if there is an ownership change at the level of its direct parent company (i.e. if the shares in the parent company change owner). Any ownership changes that occur at a level above have no effect on the losses carried forward of the company.

The tax authorities may upon an application grant a dispensation to use the tax losses carried forward. In order to receive dispensation, the company must be able to show that the purpose of the change of ownership is not solely to utilize the carried forward tax losses and that the utilization of carried forward tax losses is important for the continuance of the company's business activities. In recent years, tax authorities have often declined dispensations applied for by real estate companies. However, the Supreme Administrative Court ruled in FY2013 that loss carry forward applications made by a mutual real estate company should not be evaluated differently than applications made by other companies. The full impact of the ruling of the Supreme Administrative Court on tax authorities' practices is still unclear.

Further, the right to utilize tax losses carried forward is forfeited in a merger unless the receiving company has owned more than 50 % of the shares in the merging company from the beginning of the FY during which the losses were incurred. No dispensation may be granted to use the tax losses carried forward that will be forfeited due to a merger.

C. Real Estate Taxes

1. Does Finland levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Purchase of Shares

The acquisition of shares in a Finnish private limited liability company is generally subject to transfer tax at a rate of 1.6 % or two 2 % on the purchase price (or other consideration). The value of any payments that the buyer makes on behalf of the seller to a third party in connection with the sale or any commitments by the buyer to make such payments in the future for the seller's benefit, such as any seller's debt assumed by the buyer, is added to the purchase price for purposes of calculating the transfer tax.

Normally, transfer tax is, however, not levied if the both the seller and the purchaser are non-residents of Finland for tax purposes. However, this exception does not apply to the acquisition of shares in a Finnish real estate company, mutual real estate company, housing company or a real estate holding company.

Direct Real Estate Investments

If real estate is acquired directly, the applicable transfer tax is four 4 % of the purchase price of the real estate. The purchaser is required to apply for registration of title within six months from the date when the title was passed to the purchaser under the agreement. The applicable transfer tax must be paid when filing the application for registration of the title, however, at within six months from the date when the title was passed to the purchaser under the agreement. Under certain rare circumstances an application for the title does not have to be filed. In these cases, transfer tax must also be paid within six months from the date when the title was passed to the purchaser under the agreement.

Indirect Real Estate Investments

If the acquired company is a real estate company, mutual real estate company, housing company or a real estate holding company, the applicable transfer tax rate is 2 % of the purchase price (including the amounts described in this section above). As mentioned under this section above, there are no exceptions in this respect.

2. Is real estate subject to any real estate tax? At which rate?

The owner of real estate is obliged to pay an annual real estate tax equal to a fixed percentage of the calculated value of the real estate (i.e. the land area) and the buildings located thereon. The real estate tax value differs, as such, from the tax base value, the book value and the market value of the real estate and the buildings.

The rate of real estate tax is set by the municipally in which the real estate is located. However, the Real Estate Tax Act (654/1992, as amended) defines the minimum and maximum tax rates that municipalities may apply. The general real estate tax rate is between 0.6 % and 1.35 %. Apartment buildings are taxed at between 0.32 % and 0.75 %. Undeveloped construction sites are taxed at a higher rate of between 1 % and 3 %.

The value of the land area is in principle intended to reflect the fair market value of the land area taking into account the location of the real estate, its purpose of use as well as the infrastructure available on the location. The value of buildings located on the real estate is in principle the estimated cost to reconstruct the building ("base value") reduced by a fixed percentage (varying from 1 % - 10 % depending on the type of the building in question and material used in the construction) multiplied with the age of building. The applicable reduction percentage for instance for apartment buildings is 1 % if the building is made of stone and 1.25 % if the building is made of wood.

As long as the buildings on the real estate are in use, the reduction is capped to 70 % of the reconstruction value irrespective of the age of the building. However, the base value is not based on actual construction costs, but on the average construction costs for a building with such area or volume, depending on the type of the building.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

VAT Implications of Sale of Real Estate

The sale of real estate and the sale of shares in a real estate company are exempt from VAT. The exemption from VAT covers the land area, buildings, structures and parts thereof located on the real estate. Structures include constructions such as containers, silos and sheds that are built for permanent use lasting several years on a solid foundation (i.e. cannot be relocated without significant effort). The sale of buildings is exempted from VAT even if the land area on which the building is located is not sold in connection with it. Machinery, equipment and furniture located on the real estate are not considered a part of the real estate and thus are generally charged with VAT of 24 % even if sold in connection with the sale of real estate.

Deduction of Input VAT

Input VAT for the cost related to real estate is generally deductible provided that the premises are used for activity that entitles to VAT deduction.

Input VAT for costs incurred in connection with renovation or construction works that have to be capitalized in the accounts as part of the buildings' residual value, real estate investments are deductible only to the extent the building remains in use for purposes qualifying for VAT deductions after the renovation or construction works have been completed. Full deductibility requires that the building remains in use qualifying for VAT deductions for a period of ten years after completion of the renovation or construction if the real estate investment has been completed in 2008 or later. If the premises cease to be used for purposes qualifying for VAT deductions before the end of the ten year adjustment period, any VAT deductions made based on real estate investments will be reversed to the extent they correspond to the remaining part of the ten year adjustment period. For example, if a renovation has been carried out and completed in 2008 in a building that at that time was used for purposes qualifying for VAT deductions, but the building is subsequently used for non-VAT purposes from 2011 onwards, 7/10 of input VAT deductions would be reversed.

2. What are the VAT consequences of renting/leasing of real estate?

Lease of Premises

Leasing or renting real estate is generally not subject to VAT. If real estate is leased without any VAT, the lessor does not have a right to deduct input VAT paid for costs relating to the real estate such as maintenance and construction costs. The lessor may also be liable to pay VAT for the value of his private use of construction services and location management services that relate to the real estate such as cleaning and administration costs if he performs such services himself.

Voluntary VAT Registration

The Finnish VAT system allows lessors to register themselves as VAT liable for the transfer of rights to use real estate, i.e. for leasing real estate. Such voluntary registration is only possible when the lessee uses the lease premises for activity that entitles it to input VAT deduction. It is possible to apply for only a part of the real estate (such as a certain office space) to be registered for VAT liability. Thus, the lessor can charge rent including VAT for premises which are used for business activities, and rent without VAT for other premises such as premises which are used for VAT exempt business activities. Although the registration process is initially voluntary, it is not possible for the lessor to deregister himself unless the premises in question are sold or are no longer used for an activity that entitles the lessee to input VAT deduction.

The benefit of voluntary VAT registration is that the lessor will have a right to deduct input VAT related to costs incurred by the real estate. In addition to being able to deduct input VAT for costs such as maintenance and renovation work, the lessor will not be liable to pay VAT for private use of construction and location management services that the lessor himelf has performed. If the real estate is only partially leased for VAT liable use, only the input VAT of costs relating to VAT liable premises may be deducted. For overhead costs that cannot be assigned to certain premises, a partial deduction that corresponds to the proportion of VAT liable lease space can be made. This proportion is usually based on either the area or volume of leased space.

The ten year real estate investment review period must also be taken into consideration when leasing real estate. If the proportion of VAT liable lease space decreases in a given year, the input VAT of real estate investments will be reversed for that year in proportion to the decrease in VAT liable lease space. Consequently, if the proportion of VAT liable lease space increases, the deductible input VAT of the real estate investment for will increase for the year under review.

Reverse VAT Charge of Construction Services
It should also be noted that the reverse charge mechanism is applied for the purchase of construction services related to the real estate. Under the reverse charge mechanism, the buyer of construction services may be liable to account for and remit VAT instead of the seller. The reverse charge mechanism will apply when the buyer is a business selling construction services on an ongoing basis and such services are supplied in Finland, i.e. when construction work (including installation) is performed in Finland or when individual persons are contracted by a Finnish company to perform construction work. The lessor will therefore also have to carry the administrative burden related to VAT returns even if he has not registered himself as VAT liable for real estate.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

There is no capital tax applicable for equity injections.

2. Is there a stamp duty on debt granted to a local company?

There is no stamp duty applicable on debt.

Real Estate Investment in

France

A. Legal/General

1. Are non-residents entitled to acquire real estate in France? Does the acquisition have to be carried out by a French corporation?

Non-residents are entitled to acquire real estate in France without restrictions. The acquisition does not have to be effected by a corporation.

2. Which importance does the land register have?

There is no land register in France ("livre foncier") except in regions in the East of France (Alsace and Moselle). In these two regions, rights with respect to real estate are to be recorded in the land register. In the rest of France, property and other rights result only from the contractual situation. Documents stating a transfer of property have to be registered with the mortgage office ("Bureau des Hypothèques") in order to become effective in relation to third parties.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Corporations

- Corporate income tax rate:
  - 33 1/3 %;
  - 15 % for small and medium sized enterprises up to a maximum benefit of € 38,120.
- Social contribution ("contribution sociale additionnelle") of 3.3 % of the corporate tax after a tax rebate of € 763,000. Companies with a turnover of less than € 7.63 m and held directly or indirectly by individuals for at least 75 % are exempted from this contribution.
- Exceptional contribution on the CIT ("contribution exceptionnelle sur l'IS") of 10.7 % of the corporate tax if turnover is higher than € 250 m.
- The total of the CIT and of these contributions, when due, raise the maximum CIT rate to 38 %.
- Additional contribution to the corporate income tax amounting to 3 % of the benefit distributed. The small and medium sized enterprises, as defined by the EC Regulation 800/2008, are exempted from this contribution as well as distributions in the same tax group.

- → Withholding tax applies on capital gains realized by non-resident companies in the frame of the sale of French real estate amounting to 33 1/3 %. If the corporation is resident of a
- → non-cooperative State as mentioned by a Ministerial Circular (In 2014: Bostwana, British Virgin Islands, Brunei, Guatemala, Marshall Islands, Montserrat Island, Nauru, Niue), the tax rate is increased to 75 %.

- → Participation exemptions:
  - › Dividends received by French corporations are – upon option – exempt from taxation if (1) the participation rate is minimum 5 % and (2) the participation is held for a minimum of two years.
  - › However, an amount equivalent to 5 % of the received dividend is deemed to be a non-deductible business expense and remains taxable to the CIT. So 95 % of the dividend is effectively tax-exempt.
  - › French corporations paying dividends must deduct withholding tax if dividends are paid to non-resident shareholders at a rate of 21 % for individuals residing in the EEA 15 % for non-profit organizations, or 30 % for all others, if not reduced under the applicable double tax treaty. Exemptions apply for instance under the EU Parent Subsidiary Directive which provides an exemption of withholding tax under conditions. If the corporation is resident of a country considered as non-cooperative, the withholding tax rate is increased to 75 %.
  - › Capital gains resulting from the sale of shares held by a French corporation are exempt from corporate income tax. 12 % of the gross capital gain is treated as non-deductible business expense, so that 88 % of the capital gain is effectively exempt. The application of the exemption depends on the accounting qualification of the shares and applies only if the shares are held since more than two years.

- → Tax group
  - › French companies can opt for a tax group under the following conditions:
  - › Participating companies are subject to French corporate income tax;
  - › Controlling company is not held at a minimum of 95 % by a French corporation;
  - › Participation quotes between the participating companies are directly and indirectly at a minimum of 95 %;
  - › The income and losses of the group members are offset at the level of the controlling company which is the only company liable for corporate income tax. Some intra-group operations are neutralized.

› A tax group can also be formed for VAT purposes. The controlling company has to hold directly or indirectly a minimum of 50 % of the share capital of the participating companies. Each company belonging to the group has to file VAT-returns. In addition, the controlling company has to file a summary VAT-return. Payments or reimbursements are made only on the base of this summary VAT-return.

Individuals

→ Personal income tax rate:
  - › Up to € 6,011: 0 %, more than € 6,011: between 5.5 % and 45 %;
  - › Minimum tax rate for non-residents: 20 %.

→ Special contribution payable on high income ("Contribution exceptionnelle sur les hauts revenus"):
Up to € 250,000: 0 %, more than € 250,001: 3 % to 4 %.

→ Capital gains from the sale of real estate
Gains made on the disposal of real estate by individuals are taxed with flat-rate definitive withholding tax ("prélèvement forfaitaire libératoire") at 19 %. In the case of residents of non-cooperative States, the tax rate is increased to a fixed rate of 75 %.
This income tax covers gains from private disposal transactions carried out by individuals either directly or indirectly by means of civil property companies ("sociétés civiles immobilières", "SCI") or property funds.
Real estate in which the transferor resides himself as his main residence ("résidence principale") at the time of transfer can be disposed of tax-free as regards taxation on gains. Disposal of a second residence might be tax exempt under certain conditions.

For personal income tax purposes, a tax rebate applies on the capital gain amount in consideration of the holding period of the real estate. The discount is, for property other than building lands, of 6 % per year of holding from the fifth year to the twenty-first included and of 4 % for the twenty-second, leading to a full exemption of personal income tax after 22 years of holding.

An additional tax, at a rate ranging from 2 % to 6 % of the capital gain, is applicable on capital gains above € 50,000 for the sale of real estate other than building lands.

An temporary rebate of 25 % is applicable on the capital gains realized until 31 August 2014 for the cession of real estates other than building lands.

For building lands, a rebate for holding period also applies; it is 2 % per year above 6 years, 4 % above 17 years and 8 % above 24 years of holding, leading to a full exemption after 30 years.

- In addition to personal income tax/ withholding tax, special social security contributions of currently 15.5 % apply. These social contributions are also applicable to non-French tax residents even if this position can be challenged according to the principle of European freedom of establishment.
  For social contributions, the tax discount for holding period is 1.65 % per year from the fifth to the twenty-first included, 1.60 % for the twenty-second and 9 % from the twenty-second year of holding, leading to a full exemption after 30 years.

Business tax
Contribution based on the added value ("Cotisation sur la valeur ajoutée") applies to companies and individuals with a professional activity having a turnover higher than € 500,000. It is based on the adjusted turnover; the rate is from 0.5 % to 1.5 %.

2. What is the tax depreciation period for real estate in France? Are there depreciation categories? Which depreciation method is used?

Depreciation period for real estate depends on the useful life of the real estate. The following depreciation periods are generally accepted:
- Commercial buildings: 20 to 50 years;
- Industrial buildings: 20 years;
- Residential buildings: 50 to 100 years;
- Office buildings: 25 years.

Depreciation is based on the acquisition or production cost of the real estate except for land which is not depreciable. In general, the straight-line method is the allowed depreciation method.

3. When is a foreign investor subject to limited tax liability in France?

Individuals
According to French domestic law, individuals are considered to be subject to unlimited taxation in France if one out of the four following alternative situations is given:
- The person himself or his family disposes of a permanent home (foyer) in France;

- → The person has his habitual place of abode in France, that is to say he stayed in France more than 183 days in a given calendar year;
- → The person carries out a professional activity in France;
- → The person has the centre of his economic interests in France.

Persons which are not in one of the situation above are considered as non-residents and are only liable to French tax for French sourced income, like income from French real estate (current income and capital gains).

Corporations

Corporations are liable to French corporate income tax only on income deriving from a French business or if a French double tax treaty attributes a right to tax on other income.

4. Are asset deal and share deal possible in France? What are the main consequences?

The investment of real estate in France is possible either by asset deal (direct acquisition) or share deal (acquisition of a company holding real estate).

Asset deal

In case of an asset deal the seller realizes a capital gain. The book value of the assets transferred in the buyer's balance sheet corresponds to the relevant purchase price. Depreciable assets are depreciated over their useful lives (see above section B. 2).

Share deal

The book values of the assets and liabilities at the level of the target company remain unchanged.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

The deductibility of interest expenses are limited in application of two thin-capitalization-rules which may apply cumulatively:

- → Interest paid to direct shareholders is only deductible:
  - › If the capital is paid in fully and
  - › As far as the interest charged does not exceed the mean interest rate practiced by French banks on variable-rate business loans with a fixed duration of more than two years. This rate is published by the tax authorities on a quarterly basis, for instance the rate for the calendar

year 2013 was 2.79 %. The interest which is not deductible may under certain circumstances be treated as a dividend distribution (triggering withholding tax).

The limitation under this point (1) applies only to loans from direct shareholders and the rule has no safe haven.

- → Interest paid to directly or indirectly related companies are only deductible:
  - › As far as the interest charged does not exceed the interest rate described under point (1) above; and
  - › If they do not exceed the highest of the following three amounts by more than € 150,000:
    - – Interest income paid to the concerned company by related parties;
    - – 150 % of the net equity at the beginning or at the end of the fiscal year;
    - – 25 % of net income before corporate tax, extraordinary items plus depreciation on fixed assets, plus a portion of lease rates, plus interest expenses to related parties.

The non-deductible interest portion is carried forward over the next fiscal years without limitation in time. The interest carried forward may be deducted in the following fiscal years as far as the limits above are not used up by the interest charges of the current year.

- → There are two safe havens:
  - › The already mentioned limit of € 150,000: the interest charge in excess must be lower than € 150.000. If the interest charge in excess is € 150,000 or higher the total interest in excess is not deductible.
  - › The total interest charge is deductible if the company can prove that its debt-equity-ratio is not higher than the debt-equity-ratio of the group it belongs to.

- → In addition to the thin capital rules above, limitations for the deduction of financial charges exist:
  - › limitations of the financial charges for the acquisition of companies or shares (see below section B.6);
  - › the deduction of financial charges raised from a intra-group loan is only possible if the corresponding profit is taxed at the creditor’s level at a rate of at least 25 % of the French taxation which would apply under the same conditions;

- global limitation of the deduction of net financial charges higher than € 3 m for 75 % of its amount. This limitation is not applicable for financial charges arising from intra-group loans.

6. Can acquisition costs/financing fees/interest be deducted?

Acquisition costs must be capitalized and are depreciated over the useful life of the building.

Financing fees are deductible. They can also be spread over the duration of the loan.

Interest is in general deductible, nevertheless in addition to the limitation rules mentioned above (section B.5), two specific rules limit the deduction of financial charges related to shares acquisition:

- after the acquisition of a company, which was previously controlled by a member of the same tax group as the purchaser and which enters the tax group, the financial charges must be reintegrated for a lump fraction during nine tax years;
- after the acquisition of equity shares, the financial charges must be reintegrated for a lump amount if the taxpayer cannot evidence that the purchased company is controlled directly or indirectly in France.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

In case of a share deal (acquisition of a target corporation holding the real estate), a debt push down may be achieved by a merger of the French target into a French corporation acquiring the shares of the target financed by loans or the setting up of a tax group between the two companies (see above section B.1). Profits arising from the merger are tax exempt under certain conditions. Loss carry forward at the level of the transferring company may be transferred to the absorbing company upon approval by the tax authorities. Restrictions in case of considerable modifications of activity and/or staff apply.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest payments to foreign nationals trigger withholding tax amounting to 75 % only if the creditor is a resident of a non-cooperative State.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Corporate income tax

Tax losses may be carried back one year upon option and up to the amount of € 1 m.

Tax loss carry forward is possible for an unlimited period in time but capped at € 1 m plus 50 % of the exceeding amount.

A change of ownership of a corporation does not affect the loss carry forward. Nevertheless, in case of a considerable change of activity and/or staff of the loss-making corporation, the loss carry back and forward will generally be lost.

Income tax

Tax loss carry forward is possible for an unlimited amount but limited in time to six years.

Tax losses resulting from income from real estate other than resulting from financial charges can be offset against the global income in the limit of € 10,700. The remaining fraction of losses including the financial charges may only be offset against future income from real estate in the time limit of ten years.

Tax loss carry back is not possible.

C. Real Estate Taxes

1. Does France levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Transfer of real estate

Transfer of real estate located in France triggers stamp duty based on the acquisition price of the real estate at a tax rate of 5.09 %. This stamp duty can be increased up to a rate of 5.8 % depending on the location of the real estate for a limited period until 29 February 2016.

Transfer of shares in corporations holding mainly real estate

Transfer of shares in companies holding mainly real estate triggers stamp duty based on the acquisition price of the shares at a tax rate of 5 %.

Both, the seller and the purchaser are jointly and separately liable for stamp duty but in practice generally the buyer bears the duty (subject to the contractual dispositions).

2. Is real estate subject to any real estate tax? At which rate?

Property tax *(taxe foncière)* depends on the location of the property. Several factors are used for its calculation, thus at this point it is not possible to illustrate this individually. In addition, in France there is a home tax *(taxe d'habitation)*, which also depends on the location of the home. Homeowners who live in their own house or apartment must pay both property tax and home tax.

Enterprises with professional activities are subject to a real estate contribution *(Cotisation foncière des entreprises)* based on the rental value of the real estate. The rate depends on the location of the real estate.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The transfer of real estate in the framework of an economic activity of an entrepreneur for VAT purposes (assujetti) is subject to VAT. The transfer of real estate which is not construction land or a building younger than five years is exempt but the seller may opt for VAT. If VAT applies, the purchase price is subject to French VAT at a rate of 20 %. The purchaser can claim a refund of the input VAT if he uses the real property for purposes that are subject to VAT.

The transfer of shares in corporations is VAT-exempt.

2. What are the VAT consequences of renting/leasing of real estate?

The lease of unfurnished real estate is VAT-exempt. In the case of the lease of unfurnished real estate for business purposes, it is possible to opt for VAT at the current rate of 20 %.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Stamp duty applies in the case of a capital contribution to an existing company amounting to € 375 for companies with a share capital of less than € 225,000 or € 500 with a share capital of more than € 225,000.

2. Is there a stamp duty on debt granted to a local company?

N/A

3. Wealth tax

Individuals whose assets exceed € 1.3 m on the respective reference date of 1 January of the relevant tax year are liable to a wealth tax. For residents the tax is based on their global assets; for non-residents, only the assets located in France are included. Deviations can result from double tax treaties.

Net assets are used for the basis of the assessment, i.e. liabilities that are linked to the assets can be deducted.

Tax rates are as follows:

- Assets until € 800,000: 0 %
- Assets between € 800,000 and € 1.3 m: 0.50 %
- Assets between € 1.3 m and € 2.75 m: 0.70 %
- Assets between € 2.75 m and € 5 m: 1 %
- Assets between € 5 m and € 10 m: 1.25 %
- Assets exceeding € 10 m: 1.50 %

If wealth tax is applicable, i.e. assets exceed € 1.3 m; the rates of tax listed above apply accordingly from € 800,000.

If the asset value exceeds € 1.3 m without crossing the threshold of € 1.4 m, a tax reduction is calculated as follows: € 17,500 – 1.25 % x V (with V equal to the assets value).

The total of the wealth tax and of the French and foreign taxes is capped at 75 % of the income of the precedent year.

Real Estate Investment in

Germany

A. Legal/General

1. Are non-residents entitled to acquire real estate in Germany? Does the acquisition have to be carried out by a German corporation?

In Germany there is no restriction with regard to the acquisition of real estate. Residents as well as non residents can purchase real estate.

Therefore, the acquisition of German real estate does not have to be effected by using a German acquisition company.

2. Which importance does the land register have?

Rights with respect to real estate are to be recorded in the German land register as such rights only come into existence upon registration.

In general the expenses of acquisition (i.e. notary costs, land register costs, registration of land charge) should amount to about 1 % to 1.5 % of the purchase price.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

- → Corporate income tax rate:
  15 % corporate income tax plus 5.5 % Solidarity surcharge
  (15 % plus 5.5 % of 15 % = 15,825 %)

- → Trade tax rate:
  - › The trade tax rate is on average 14 % but varies from municipality to municipality depending in which municipality the resident company is located or where a permanent establishment of the non-resident corporation is located (8 % to 17 %). Since 1 January 2008 trade tax is no longer a tax deductible business expense.
  - › Trade income is determined by the taxable income for corporate income tax purposes modified by certain add-backs and deductions. The add-backs include 25 % of the sum of the following items (the list is not complete) when computing income for trade tax purposes:

– Interest payments,
– 20 % of rental and leasing payments for movable fixed assets,
– 50 % of rental and leasing payments for immovable fixed assets,
– 25 % of license payments.

The deductions include for example 1.2 % of 140 % of the assessed fiscal value of real property for companies owning real property.

› Real estate companies being subject to trade tax can apply for the extended trade tax exemption for mere real estate companies, if the following applies:
The extended trade tax exemption is applicable for companies exclusively administrating own real estate property. This means that these companies may only conduct pure property administration (real estate letting) activities. These companies may not have additional activities other than income from capital. In particular no fixtures or movable assets must be let, these companies must not act as real estate trader and the real property must not be used by any shareholder for his business. Furthermore the landlord must not render (commercial) services such as cleaning, surveillance or running a public parking garage. The requirements must be met by the taxpayer throughout the entire fiscal year.

If the requirements are met, the taxpayer may deduct the real property income (i.e. rental income) from the trade tax base. Thus, rental income will finally be tax free for trade tax purposes for mere real estate companies.

→ Personal income tax rate:
Marginal tax rate (since 2014):
› Up to € 8,354: 0 %
› From € 8,355: between 14 % and 45 %

→ Participation exemptions
The distributed profits received by German corporations are exempt from taxation. However, an amount equivalent to 5 % of a corporation's dividend income is treated as a non-deductible business expense. Therefore, 95 % of the dividend income received is effectively tax-exempt. Costs incurred are deductible without limit. This regulation applies to dividends that are paid by domestic or foreign corporations.

The German corporation paying the dividend must deduct withholding tax on the dividend paid to German corporations, generally at a rate of 26.375 %, and transfer this tax to the tax authorities. The shareholder can offset the amount withheld against its ultimate corporate tax liability in the annual tax return.

Capital gains from the sale of shares held by a corporation are also exempt from corporate income tax. Similar to the treatment of dividends 5 % of the capital gain is treated as a non-deductible business expense.

Losses on the sale of shares and write-downs to impaired values are likewise not tax deductible. The same applies for loans granted to subsidiaries.

→ Tax group

Under the German tax group system the income or loss of a controlled company (Organgesellschaft) is attributed to a controlling company (Organträger). In order to qualify as a tax group, the controlling and the controlled company must, amongst others:

- Enter into a profit and loss pooling agreement (for a minimum period of five years)
- The controlled company must financially be integrated into the controlling company
- The controlling company can be a corporation with its place of management in Germany or a registered branch of a foreign corporation.

Corporate income tax and trade tax:
The tax group system applies to corporate income tax and trade tax. The corporate income and the trade income of controlled and controlling entities are combined. The corporate income tax and the trade tax are assessed at the level of the controlling entity.

Earnings stripping rules (limitation of interest expenses):
For purposes of the earnings stripping rules the controlling company and controlled companies of a tax group are treated as one single entity.

VAT:
For German VAT purposes a tax group can be formed of several VAT taxpayers. The prerequisites for a VAT group are financial, organizational, and economic integration of the controlled company into the controlling company. In this case the controlling company is considered to be the sole entrepreneur for VAT purposes. Intra-group supplies of goods and services are disregarded for VAT-purposes.

2. What is the tax depreciation period for real estate in Germany? Are there depreciation categories? Which depreciation method is used?

Depreciation is based on the acquisition or production cost of the asset. Depreciation rates for the buildings are fixed by statute.

According to current tax law, the depreciation rate (straight-line method) for business real estate generally is 3 % p.a. The depreciation rate for real estate held in private property generally is 2 % p.a. Land is not depreciable. Tax effective write down to the lower market value if market value is below tax book value is possible but the requirements are very strict. The impairment for fixed assets is only possible if at the balance sheet date the fair market value is lower than the future book value after 50 % of the remaining useful economic life and the impairment thus qualifies as durable.

3. When is a foreign investor subject to limited tax liability in Germany?

An individual having neither a domicile nor habitual place of abode in Germany (hereinafter non-resident) is subject to limited tax liability only. Tax liability is limited to German-source income as listed in Sec. 49 ITA (Sec. 1 (4) ITA).

Non-resident individuals may carry on a business in Germany as sole entrepreneur through a German permanent establishment or as a partner of a German partnership (a German partnership basically constitutes a permanent establishment of the partners to the partnership).

Income derived from the activities listed in Sec. 49 ITA is subject to income tax at the same rates as applicable for resident taxpayers. Trade tax is only levied if the non-resident individual has a permanent establishment in Germany.

Non-resident corporations (i.e. neither the place of management nor legal seat is in Germany) are subject to limited German corporate income tax liability if a business is carried out in Germany through a German permanent establishment or a German partnership. In this case, tax liability is limited to the income attributed to that permanent establishment or partnership. Further, income from German real estate is subject to the limited tax liability if it belongs to the business of the foreign corporation.

Trade tax is only levied if the non-resident corporation has a permanent establishment in Germany. Non-resident corporations are subject to limited German corporate income tax liability for rental income generated by the letting of German real estate according to domestic law. The German tax treaties allocate

the right of taxation to the situs country of the property. This income will only be subject to trade tax if the non-resident company has a permanent establishment in Germany. The real property itself in general does not constitute a permanent establishment in Germany. Therefore, rental income will then only be subject to corporate income tax and solidarity surcharge.

Assumed the respective double tax treaty allocates the right of taxation to Germany, a non-resident investor will be limited subject to tax in Germany. In this case, the sale of real estate is subject to regular corporate income tax. Capital gains realized by a non-resident corporation are only subject to German trade tax if the corporation has a permanent establishment in Germany or in case the investor does not qualify for the extended trade tax exemption for mere real estate companies (see above).

4. Are asset deal and share deal possible in Germany? What are the main consequences?

A real estate investor can acquire German real estate by way of an asset deal (e.g. direct acquisition of real estate) or a share deal (e.g. acquisition of a company owning real estate). In a share deal, further reorganization steps to achieve a debt push-down may be required.

Asset deal
In case an investor purchases a German property, the book values of the assets transferred are stepped up to the acquisition cost of the investor. The seller realizes a capital gain equivalent to the difference between the purchase price and the tax basis of the assets. Depreciable assets are depreciated over their useful lives (based on the official tax depreciation tables). Land is not subject to scheduled depreciation.

For other tax consequences (RETT, VAT, etc.) see the questions below.

Share deal
The book values of the assets and liabilities at the level of the target company remain unchanged.

For other tax consequences (RETT, VAT, etc.) see the questions below.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

The previous German thin capitalization rules were replaced by the interest barrier rule, effective January 1, 2008. The new rules apply to all types of debt financing (shareholder or third party debt) and for all kind of entities.

Under the interest barrier rule, net interest expense is deductible only up to a percentage of 30 % of EBITDA for tax purposes. Interest expense is fully deductible to the extent positive interest income is available. The rules do not apply if the net interest expense does not exceed € 3 million.

The definition of interest here is "remuneration for granting a loan". However, it seems worth mentioning that all payments linked to financing should be checked in detail and may result in controversial discussions with the tax authorities (e.g. in a tax field audit).

Unused EBITDA as well as non-deductible interest expenses can be carried forward.

6. Can acquisition costs/financing fees/interest be deducted?

If the acquisition is funded by debt, the interest expenses can be offset against the target's future profits.

Dividends distributed by a corporation to another corporation are generally tax exempt. 5 % of the dividend income is deemed to constitute a non-deductible business expense directly related to the tax-exempt income. In return expenses actually incurred related to the income (interest expenses) are fully deductible.

The full offset of interest expenses against positive income is possible in the following ways:

- → To achieve deductibility of business expenses it is possible to establish a tax group (Organschaft) between the target and the acquiring corporation. The target company's positive income may be offset against any negative income at the level of the parent company.
- → Another possibility to offset interest expenses is to push down the debt incurred into the acquired company itself. This can be done by a downstream merger of the acquiring company into the target corporation.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

As mentioned above, the full offset of interest expenses against positive income is possible by creating a tax group or performing a down-stream merger.

The applicable tax law for mergers is the German Reorganization Tax Act. Generally, mergers are executed at fair value. Upon application, a tax-neutral transfer of book values or any value between fair market value and book value is possible. Germany's right to tax any built-in gains of the assets transferred must be preserved.

Profits arising from the merger of corporations at the level of the absorbing corporation are in principle 95 % tax exempt. Loss carry forwards at the level of the transferring company are not transferred to the absorbing corporation. The absorbing corporation steps into the legal position of the transferring corporation, especially with regard to the book values of the assets transferred, depreciation and unrealized gains.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest paid to non-resident companies is generally not subject to withholding tax. The 26.375 % including solidarity surcharge final interest withholding tax (Abgeltungssteuer) applies only to interest paid to residents.

Dividends, other profit distributions and income from silent partnerships are subject to withholding tax at a rate of 26.375 % including solidarity surcharge. Payments to non-resident corporations are generally subject to taxation at a rate of 15.825 % including solidarity surcharge. Under German national tax laws German withholding tax on dividends distributed by a corporation currently amounts to a tax rate of 26.375 %.

In general, non-resident corporate shareholders would be entitled to a 2/5 WHT refund on this rate so the effective WHT rate for corporate shareholders should effectively be reduced to 15.825 %. Therefore, an effective WHT rate reduction to 15 % plus 5.5 % solidarity surcharge is applicable for dividends in favor of foreign corporations. The idea behind the 2/5 refund is an equal treatment of national and foreign corporations and a respective harmonization of WHT rates on the one hand and the German Corporate Income tax rate of 15 % plus 5.5 % solidarity surcharge on the other hand.

However, the refund is subject to the German substance requirements as per Sec. 50d ITA. According to this regulation, an investor – in case of its own shareholders being non-EU-companies – would need to fulfill a number of requirements in order to achieve a WHT-free dividend distribution.

Due to the previous potential violation against EU law, the German Sec. 50d (3) ITA has been amended as of January 1, 2012. According to the amended Sec. 50d (3) ITA, a foreign company shall only be entitled to (full or partial) relief from withholding tax under a EU Directive / Double Tax Treaty, to the extent

- the company is owned by shareholders that would be entitled to a corresponding benefit if they earned the income directly (shareholder test), or
- the gross receipts generated by the foreign company in the relevant year derive from the company's genuine own business activities (business income test).

If the foreign entity fails both the shareholder test and the business income test, it will only be entitled to the withholding tax relief if both of the following additional tests are passed

- there are economic or other relevant (i.e. nontax) reasons for the interposition of the foreign company in relation to the relevant income (business purpose test); and
- the foreign company has adequate business substance to engage in its trade or business and it participates in general commerce (substance test)

The shareholder test, therefore, will determine the personal entitlement for withholding tax relief or reduction. The business income, business purpose and substance tests will determine the factual entitlement to withholding tax relief.

In case the taxpayer does not pass such test, withholding tax under the domestic provisions is due.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Tax losses that cannot be offset in the current year may be carried back one year up to an amount of € 1,000,000 for corporate income tax purposes. If the losses exceed € 1,000,000 or cannot be fully offset against the previous year's income, they may generally be carried forward indefinitely. These losses may be offset without restriction against profits only up to an amount of € 1 million. Losses carried forward in excess of this amount may only be offset by 60 % of the exceeding amount (minimum taxation). Trade tax losses can only be carried forward. They cannot be carried back. The minimum taxation also applies for trade tax purposes.

Changes of ownership (directly or indirectly) of a corporation can cause the forfeiture of tax loss carry forwards. If during a period of five years, more than 50 % of the loss entity's shares are transferred, all tax loss carry forwards are lost. If more than 25 % but not more than 50 % of the loss entity's shares are transferred within a period of five years, tax loss carry forwards will be lost in the same ratio as the transferred share capital. The rules also apply where shares are transferred to a group of purchasers with convergent interests.

In case of a harmful change of ownership, one exception applies according to the so-called built-in gain clause. According to this clause, losses can be offset to the extent the loss company has built-in gains whose realization would be subject to German taxes.

C. Real Estate Taxes

1. Does Germany levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Transfer or real estate and comparable rights
Acquisition of real estate in Germany generally triggers real estate transfer tax (RETT). The tax base is the purchase price of the real property. The current tax rate is in the range of 3.5 % and 5 %. Both, the seller and the purchaser are jointly and separately liable for RETT unless otherwise specified in the sale and purchase agreement. It is common practice that the purchaser bears 100 % of the RETT.

Transfer of shares in corporations
In general, the acquisition of shares in corporations owning German real estate is only subject to real estate transfer tax in case of a direct or indirect unification of 95 % or more of the shares in the hand of one shareholder or in the hands of a group of affiliated shareholders. The tax rate of 3.5 % to 5 % is applicable on the separately assessed value of the target's total real property portfolio.

2. Is real estate subject to any real estate tax? At which rate?

Real estate tax is levied on German real estate. The tax is assessed at a basic federal rate (generally 0.35 %) and is multiplied by a municipal multiplier (depending on municipality); therefore, the tax rate amounts to about 0.5 % to 3 %. The tax base is the assessed value of property for tax purposes. This value should in average be about 60 % of the market value.

Real Estate Tax is a tax deductible business expense.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The transfer of real estate is generally not subject to VAT. The seller may opt for VAT treatment if both the seller and the buyer are entrepreneurs for VAT purposes. If the option is exercised, the purchase price is subject to German VAT at a rate of 19 % (reverse charge). The purchaser can claim refund of the input VAT if he uses the real property for purposes that are subject to VAT. Any change in the use of the real estate property within a 10-year period requires a pro-rata adjustment of the input VAT claimed upon purchase.

The option for VAT is not possible if the purchase of the real property constitutes a transfer of an ongoing business ("Geschäftsveräußerung im Ganzen") according to Sec. 1 (1a) German VAT Code, since the transfer of an ongoing business is not subject to VAT. In such cases the buyer succeeds into the seller's legal position with regard to the input VAT correction and the relevant 10-year correction periods.

The transfer of shares in corporations is VAT-exempt. An option for VAT is possible.

2. What are the VAT consequences of renting/leasing of real estate?

The lease of residential real estate is VAT-exempt. The lease of real estate for business purposes is, in general, VAT-exempt. However, if both parties are entrepreneurs for VAT purposes, it is possible to opt for VAT at the current rate of 19 %. The option for VAT is only possible if the tenant uses his part of the real estate leased to at least 95 % for services or deliveries subject to VAT. The advantage of opting is the ability to deduct any related input VAT charged.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Greece

A. Legal/General

1. Are non-residents entitled to acquire real estate in Greece? Does the acquisition have to be carried out by a Greek corporation?

Generally in Greece, there is no restriction for the acquisition of real estate; both residents as well as non-residents can purchase real estate.

However, a special permission from the Ministry of Defense is required for the acquisition of real estate situated in border areas (even by Greek residents).

- → For Greek and EU residents such permission is granted by a special committee.
- → For non-EU residents, the definition of border areas is expanded and the procedure as well as conditions for obtaining permission is more burdensome.

The acquisition of real estate in Greece does not have to be carried out by a corporation.

From May 2013 non EU-residents are entitled to obtain a Resident Permission in Greece for up to 5 years (with the possibility of renewal) under the condition that property in the value of more than € 250,000.00 is bought or leased for more than 10 years or a hotel accommodation is rented for at least 10 years. The Resident Permission is also granted to the family members of the buyer.

It is possible that the property is obtained by a legal Entity under the condition that the Resident Permission is granted only to the individual who is the Entity's shareholder. The property buyer may be a member of the Board of Director's, a shareholder or a Chief Executive Officer of the Entity but not an employee thereof.

Further, for business activities assessed by the Ministry of Foreign Affairs as Strategic Investments in Greece the legal representative and up to ten persons crucial for the Investment as well as their family members are entitled to be granted a Resident Permission in Greece for up to ten years.

2. Which importance does the Greek land register have?

The property rights are registered in the cadastre (so called "Ktimatologio" in Greek), which is under progress for several regions of the country. Therefore, the acquisition of real estate is succeeded with the notary deed (for purchase, gift acceptance, parental or inheritance acceptance) under the austere requirement

that this will be recorded either in the Hellenic cadastre “Ktimatologio”, wherever applicable, or in the respective land register (so called “Hypothikofylakeio” in Greek, which has “parts” per property per region, to record the property rights), in cases where the cadastre is not yet applicable.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Legal Entities

- The Corporate income tax rate is set at 26.0 % for Entities recording transactions in Double Entry books and for Entities recording transactions in simple books the income
- tax rate is 26.0 % for income up to € 50,000.00 and 33.0 % for income over € 50,000.00
- The Dividend tax rate is set at 10.0 % for Entities recording transactions in Double Entry books.

Individuals

- The current income tax rates for individuals for 2014 are presented in the table below:

Income (€)	Tax Rates (%)
Up to 25,000.00	22 %
25,000.01 - 42,000.00	32 %
More than 42,000.01	42 %

A special solidarity tax is also imposed, namely on top of the individual income as per the following table:

Income (€)	Tax Rates (%)
0.00 - 12,000.00	0.0 %
12,000.01 - 20,000.00	1.0 %
20,000.01 - 50,000.00	2.0 %
50,000.01 - 100,000.00	3.0 %
More than 100,000.00	4.0 %

Rental income obtained by individuals in Greece is taxed according to the following scale:

Income (€)	Tax Rate (%)
Up to 12,000.00	11 %
More than 12,000.00	33 %

Exceptions: Non-residents

In general, the fundamental difference in the Greek tax regime between Greek and non-Greek residents is summarized as follows:

	Greek tax residents	Non-Greek tax residents
Income subject to taxation	Worldwide Income	Income arising in Greece
Entitles to avail of deductions and credits	YES	NO*

* Residents of EU member states or the European Economic Area are entitled to deductions and credits in case at least 90.0 % of their worldwide income is generated in Greece or if they can prove to the Tax Authorities that their worldwide income is so low that they would have been entitled to the tax deductions if they were taxed in their resident country.

Other taxes/levies

Stamp duty

Rental income is subject to stamp duty at a rate of 3.6 % of the actual rental value of the property, except for rental income from buildings used for residential purposes. This tax is payable upon filing of the annual income tax return of the fiscal year and is applicable for all owners (either individuals or legal entities).

2. What is the tax depreciation period for real estate in Greece? Are there depreciation categories? Which depreciation method is used?

Depreciation is calculated for Fixed Assets owned based on the data of the Fixed Assets Register.

Further, the new Income Tax Law provides that there is the right to calculate depreciation in case of a finance lease of property if the following conditions are met:

- → the ownership of the asset passes to the lessee at the end of the lease term,
- → the lease agreement contains advantageous terms for the acquisition of the property at a price below market value,
- → the period of the lease is at least 90.0 % of the economic life of the asset even if the ownership title is not transferred at the end of the lease,

- at the end of the lease agreement, the present value of the lease is at least 90 % of the market value of the leased asset,
- the leased assets are of such a specialized nature that only the lessee is entitled to use them without making significant changes.

Depreciation is calculated on the acquisition or construction value including any improvements, re-evaluations and environment rehabilitation costs.

Depreciation is not applicable on land, fields, etc.

Depreciation is compulsory and shall be performed annually. The method of depreciation is in principle a straight-line method. The chosen rate must be applied consistently.

For property the following table applies regarding depreciation rates:

Asset Category	**Depreciation Rate (in years)**
Buildings , structures, facilities, industrial and special facilities not characterized as buildings, depots and stations, including their outbuildings (and special vehicles dump)	4
Land to be used for mining and quarrying, unless used for mining support service activities	5

Depreciation calculation shall begin in the month following the month in which the property was acquired or used for the first time.

New legal entities are given the possibility not to calculate depreciation for the first three years of operation.

3. When is a foreign investor subject to limited tax liability in Greece?

Individuals who fall under the following conditions are deemed to be Greek tax residents and therefore obliged to declare and be taxed on their worldwide income in Greece:

- Individuals whose domicile or place of residence, or place of personal, family and social bonds is in Greece residence is deemed to be in Greece when the individual is in Greece for a continuous period of more than 183 days, unless it is proved otherwise. Short periods of residence abroad are

taken into account for the period of 183 days. The period of 183 days does not take into account residency for tourist, medical, therapeutic or other private causes.

- Individuals whose domicile or habitual abode is not established in Greece but who gain Greek sourced income are subject to tax in Greece on income arising therein.
- Individuals who file non-tax resident returns in Greece will be obliged to provide the required supporting documentation to the Ministry of Finance validating such a claim. If such documentation is not filed in a timely manner, the individual will automatically be deemed a Greek tax resident, subject to tax in Greece on its worldwide income.

In order for a Greek tax resident to obtain a tax credit for income earned in a foreign country, this country will have to be double tax treaty affiliated with Greece and the tax withheld therein will have to be in line with the double tax treaty provisions. The deductible amount of tax may not exceed the one that would be normally due, if this income was subject to tax in Greece.

4. Are asset deal and share deal possible in Greece? What are the main consequences?

Asset deal

Generally, any profit or loss realized by the seller from the sale of the assets will be recorded as such in the P&L account and subject to income tax accordingly. Not-withstanding the above, if among the assets being sold there are rights related to the carrying out of the seller's business (i.e. intellectual property, clientele, goodwill from the lease of premises etc), such sale will be subject to capital gains tax at a rate of 15.0 %. The capital gains tax liability is borne by the seller. The buyer is jointly and severally liable for this tax in the event the seller fails to pay it.

When the asset deal relates to real estate there is a real estate transfer tax both for individuals and legal Entities of 3 %.

Regarding individuals, in case of sale of property there is 15.0 % income tax on the surplus value that would arise from the transaction which is decreased according to the age of the property. Further, if the ownership of the property is retained for at least five years then a discount of € 25,000.00 on the taxable value is applicable.

Share deal

In the case of transfer of shares the following applies:

A tax of 15.0 % is imposed on the surplus value of the transferred shares. The surplus value on which the tax is imposed is calculated as the difference between purchase & sales price. In case of transfer of listed shares purchase & sales price is determined based on the documents of the respective transactions of the Stock Exchange. In case non-listed shares are transferred the sales price is determined based on the Equity of the Entity at the time of the sale or the contract sale, depending on which one is higher. Purchase price is determined based on Equity at the time of purchase or the price as stated in the initial purchase agreement, which one is smaller.

In case purchase price cannot be determined it is considered to be zero if the shares were bought after 29 September 1999.

In case shares were bought before 29 September 1999 then purchase price is determined by the Ministry of Finance.

Income from the surplus value of the transfer of shares obtained by individuals who are tax residents in countries with which Greece has in place a Double Taxation Convention is tax exempt under the condition that documentation for the proof of tax residency abroad is provided to the Tax Authorities.

5. Are thin capital rules applicable? Are there other limitations of interest deductions applicable?

According to Greek legislation, interest expense is not recognized as tax deductible in case the net interest expense (Interest Expense – Interest Income) is greater than EBITDA according to the following percentages:

% of Net Interest Expense in excess of EBITDA	Financial Year
60.0 %	From 1 January 2014
50.0 %	From 1 January 2015
40.0 %	From 1 January 2016
30.0 %	From 1 January 2017

In case Net Interest Expense is not greater than € 5,000,000.00 per year then the total amount of Interest Expense is considered tax deductible until 31 December 2015. From 2016 onwards the respective amount is determined at € 3,000,000.00 per year.

Interest payable to foreign entities is subject to withholding tax at the rate of 15.0 % or at the rate determined by the tax treaty for the avoidance of double taxation (wherever applicable).

6. Can acquisition costs/financing fees/interest be deducted?

In principle, all business expenses are deductible to the extent that they fulfill the criteria set by law. Notwithstanding the above, the Ministry of Finance issues every year a ministerial decision providing for a list of expenses that are deductible or non-deductible for corporate income tax purposes.

- → Legal Entities:
  The acquisition costs may be deducted from the income (with the annual depreciation method or the loan amortization method). The financing interest and the acquisition expenses (notary public, legal costs, land registry, etc) may be deducted as well.
- → Individuals:
  The acquisition costs are not deducted from the individual's income but are declared as an element that proves economic ability.
  From the rest of the acquisition expenses, notary public and legal expenses can be deducted from income under the form of "expenses" for purchase of goods or services provision .

Expenses, including interest, are not tax deductible from income when they are payable by a Greek entity to an individual or legal entity being a resident or having its registered seat or being established in a "non-cooperative" country or in a country with preferential tax regime, unless the Greek entity can prove that the expenses concern real company's expenditures.

According to Greek legislation, countries are divided as below:

- → "Cooperative" countries:
  - › Countries that have signed a double tax treaty with Greece;
  - › Countries that have signed an Administrative Mutual Assistance Agreement with Greece and 12 other countries
- → "Non-cooperative" countries:
  Countries that have not concluded an Administrative Mutual Assistance Agreement with Greece.
- → Countries with preferential tax regime:
  Countries in which the tax rate is equal to or less than 50.0 % of the Greek income tax rate (i.e. equal to or less than 13.0 %) are determined to be preferential tax regimes.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

In Greece, there is no group taxation for tax purposes. Each company is regarded and taxed as a separate entity.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest remitted to non-resident entities is subject to withholding tax at the rate of 15.0 % or to the rate applicable in the tax treaty for the avoidance of double taxation, which Greece may have signed with another country.

From 1 January 2014 the Greek legislation has adopted the provision of EU directive 2003/49/EC based on which there is full exception to the withholding tax on interest income for related parties of EU member states under several requirements (EU directive 2003/49/EC). With such tax being withheld, there is no further tax liability for the foreign entities.

9. Is a Loss carry forward or Carry Back granted and what are the restrictions?

In Greece, tax losses may be carried forward to be offset against future profits for five consecutive years. There is no possibility to carry back losses in Greece.

C. Real Estate Taxes

1. Does Greece levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Real estate transfer tax
A real estate transfer tax is payable in Greece on the sale of real estate which is not subject to VAT.

At the sale of property, a real estate transfer tax at a rate of 3.0 % is paid by the buyer on the property's "objective value" or contract value in case the latter is greater than the "objective value".

"Objective value" is the deemed value determined according to a formula set by the tax authorities. The "objective value" takes into consideration the different price zones of property in different areas/regions in Greece, the age of the property, etc. The "objective value" does not coincide with the book or market value.

The purchase of the "first-home residence", for residential purposes in Greece, is exempted from the real estate transfer tax. The above exemption applies to purchases of a residence up to a value of € 200,000.00 by an unmarried person and up to a value of € 250,000.00 for a married person. The amount increases by € 25,000.00 for each of the first two children and by € 30,000.00 for each subsequent child. The above exemption is granted to Greek, EU-citizens, and citizens of Albania, Turkey and from the former USSR with Greek origin.

2. Is real estate subject to any real estate tax? At which rate?

Individuals

Individuals are liable annually for a basic property tax and an additional tax that is imposed on property (Aggregated Property Tax or as per the Greek abbreviation "ENFIA"). Basic tax is calculated taking into account several variances such as the size of the property, its age, whether it is an apartment or a detached house, its location, whether there is additional space etc.

Additional tax is calculated in case the property is valued above € 300.000,00 according to a progressive scale varying from 0,1 % to 1 % for property value over € 1,000,000.00

Legal Entities

The real estate tax for legal entities relates to a basic tax calculated based on several variance as for the property tax of individuals.

Additional tax is calculated for Legal Entities as 5 ‰ on total property value. In the before mentioned property value the value of non-taxable property i.e. special purpose buildings, areas used for public airplanes landing etc. is not included. For Public or Private Entities, which are non-profit organizations additional tax is set at 2.5 ‰.

- → Special Tax on Real Estate ("Eidikos Foros Epi Akiniton")
  On real estate belonging to "off-shore" entities, from 1 January 2010 a tax of 15.0 % on the taxable value is imposed annually. There are exemptions where certain requirements should be met, e.g. the shareholders – the ultimate beneficiary owners – need to have a Greek tax identification number (AFM).
- → Tax on property revaluation
  Legal entities shall make a revaluation of the property value every four years. A tax at the below rates is imposed on the difference between the new value and the book value:
  - › For land: 5.0 %
  - › For buildings: 8.0 %

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

VAT is applicable on real estate sales only when:

- → Seller is subject to VAT
- → Transfer will be made against a price and in money
- → Property is a building
- → This will be the first time that the property is used, with building permission after 1 June 2006.
- → Property shall not be the first home for the buyer.
- → Transfers of below listed real estate are not subject to VAT:
  - › Land – fields
  - › Old property
  - › New property, where the seller is not subject to VAT.

2. What are the VAT consequences of renting/leasing of real estate?

Renting or leasing of real estate is not subject to VAT.

From July 2013 onwards Entities and entrepreneurs can choose to be subject to VAT, in relation to the industrial facilities and safes and to all commercial and business purpose real estate leases.

The Property owners are eligible to VAT by submitting an application selecting the option to be subject to VAT to the competent tax office. Property owners are considered to be the entrepreneurs and Entities owning the leased property or having any rights on the property (i.e. to sublease, usufruct).

The choice of being subject to VAT requires the mutual consent of the lessor and the lessee of the property.

After the submission of this application the lessor has the right to deduct VAT on purchases / expenses incurred relating to the construction or maintenance of the property and any other expenses relating to the property.

There is no VAT in cases of rental for residential purposes.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

When there is a capital increase, the capital concentration tax is imposed on the increase amount and is set at 1.0 % and for SA entities an additional 1.0 ‰ competition committee duty.

No capital concentration tax is imposed on a Company's establishment.

2. Is there a stamp duty on debt granted to a local company?

Stamp Duty on loans/debts is set at 2.4 %.

Stamp Duty for cash deposits or withdrawals by shareholders/partners is set at 1.2 %.

Real Estate Investment in

Hong Kong

A. Legal/General

1. Are non-residents entitled to acquire real estate in Hong Kong? Does the acquisition have to be carried out by a corporation?

Non-residents are entitled to acquire real estate in Hong Kong. No restrictions apply.

However, due to the fact that land is rare in Hong Kong all land in Hong Kong is leased or otherwise held by the Government of the HKSAR. Since 1997 new leases of land shall be granted for a term of 50 years from the date of grant. In return for the right to hold and occupy the land rent has to be paid to the Hong Kong S.A.R. Government calculated at 3 % of the ratable value of the property. The rent is adjusted with any subsequent changes in the ratable value.

2. Which importance does the land register have?

The Hong Kong Land Registry has the following functions:

- → Registration of documents affecting land under the Land Registration Ordinance;
- → Provision of facilities for search and supply of copies of the land registers and related records;
- → Registration of owner's corporations under the Building Management Ordinance.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Hong Kong's taxation is based on a territorial system. Therefore, only income arising or derived from Hong Kong is subject to tax. Profits from trade or business are subject to profits tax (at a rate of generally 16.5 % or 15 % for unincorporated businesses).

Although Hong Kong does not tax capital gains, net gains on certain transactions deemed speculative might be liable for profit tax as trading income.

Income from employment or office is subject to salaries tax. The tax tariff is progressive. Optionally, a flat 15 % rate can be applied.

The progressive salaries tax rates are:

Up to HKD 40,000	2 %
Over HKD 40,000 up to HKD 80,000	7 %
Over HKD 80,000 up to HKD 120,000	12 %
Over HKD 120,000	17 %

Owners of property (i.e. land, buildings) are assessed to property tax where the property is located in Hong Kong. The net assessable value of the property is subject to a standard tax rate of 15 %. If a company owns property and pays profits tax for income generated by the property it will usually be exempted from property tax.

2. What is the tax depreciation period for real estate in Hong Kong? Are there depreciation categories? Which depreciation method is used?

There are two real estate asset classes which qualify for different types of depreciation allowances:

- → Industrial buildings;
- → Commercial buildings.

Industrial buildings

For the construction of industrial buildings which are to be occupied for the purpose of trade, taxpayers are entitled to an initial allowance and an annual depreciation allowance of the capital expenditure:

- → The initial allowance is 20 % for the year of assessment in which the expenditure was incurred. If the payment is split in more than one tax year the initial allowance will be granted for each payment separately.
- → Additionally, an annual depreciation allowance of 4 % of the initial capital expenditure is allowed for each year, starting from the year in which the expenditure was incurred until the residue of expenditure is nil.

In the case of purchase of industrial buildings from a person who has previously used the building, the future allowances are based on residual value of expenditure. This is the historical cost of construction less allowances granted prior to acquisition plus balancing charges made.

Commercial buildings

For commercial buildings there is no initial allowance available.

A depreciation allowance of 4 % of the initial capital expenditure is allowed.

A taxpayer who applies the refurbishment deduction is not eligible for the above-mentioned capital allowances for industrial and commercial buildings. Capital expenditure on the renovation or refurbishment of business premises is deductible over a 5-year period in equal instalments (i.e. 20 % per year), commencing in the year in which the expenditure is made.

3. When is a foreign investor subject to limited tax liability in Hong Kong?

Under Hong Kong's territorial tax system it is not a question of limited or unlimited liability to tax, but rather a question of where income has been generated.

Every "person" carrying on a trade, business or profession in Hong Kong is chargeable to profits tax. "Person" thereby includes both corporations and partnerships. Residence status is therefore – generally – irrelevant for Hong Kong tax purposes.

Due to Hong Kong's territorial tax system, the critical question is whether or not business is being carried on in Hong Kong which is a question of fact to be determined based on the circumstances of each individual case. A company does not need to have extensive activities in Hong Kong before it is considered to be carrying on a business here. Furthermore, the activities of a company's agent in Hong Kong may also be relevant.

The broad guiding principle is that one looks to see what the taxpayer has done to earn the profits in question and where he has done it. In other words, the proper approach is to identify the operations which produced the relevant profits and ascertain where those operations took place. The source of profits must be attributed to the operations of the taxpayer which produce them and not to the operations of other members of the taxpayer's group. The place where the day-to-day investment/business decisions take place is only one factor which has to be taken into account in determining the source of profits. It is not usually the crucial factor (as may be in some other jurisdictions).

4. Are asset deal and share deal possible in Hong Kong? What are the main consequences?

Both a share deal and asset deal are possible in Hong Kong. Hong Kong does not have any specific regulations for mergers and acquisitions or restructuring activities.

Asset deal
For the vendor, there is no indirect tax (e.g. VAT) on the sale of assets. Stamp duty on immovable property of up to 4.25 % applies. The Stamp Duty has to be paid by

both the vendor and purchaser. Where residential property will be sold within 36 months from the date of acquisition additional Special Stamp Duty is applicable of 5 % to 20 %.

A step up of depreciable value of the acquired assets may be possible and would be preferred by the purchaser.

Share deal

There is generally no capital gains taxation for the vendor selling shares. The stamp duty applicable is HKD 5 plus 0.2 % of the value of the stock to be transferred. It is to be borne half by each, the vendor and the purchaser.

A purchaser may prefer a share deal if losses can be carried forward. Also, if there is real estate in the target company, lower stamp duty applies under a share deal.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

No thin capitalization rules are applicable in Hong Kong.

Interest deduction is only allowed under certain conditions and depends on the purpose of incurring the interest expense. Financing cost for the acquisition of shares is a non-deductible expense. Interest expenses for the acquisition of assets are generally deductible if the funding has been received from a financial institution. Deductibility is not allowed for interest paid to a non-financial institution, unless the interest income is taxable under Hong Kong profits tax, which generally would not be the case.

6. Can acquisition costs/financing fees/interest be deducted?

See above.

Whether or not expenses are tax deductible depends on the following circumstances: generally, expenses are deductible only if they can be characterized as revenue in nature. This means, they have to be incurred for the purpose of generating taxable income in Hong Kong.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

There is no possibility to be taxed on the basis of consolidated income or as a fiscal unity in Hong Kong.

As there are strict limitations on the deductibility of interest expenses, debt push down is not commonly practiced.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Hong Kong does not withhold any taxes on interest.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Business losses can be carried forward. No restrictions apply. They can be offset against future profits.

Losses may not be carried back.

C. Real Estate Taxes

1. Does Hong Kong levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

There is no real estate transfer tax. Hong Kong levies Stamp Duty and Special Stamp Duty.

Stamp Duty is levied on documents relating to the transaction of immovable property at fixed and ad valorem rates. The maximum rate is 4.25 % and applies to values of consideration from HKD 21,739,121.

Agreements for the sale and purchase of residential property sold within 36 months from the date of acquisition additional Special Stamp Duty is applicable of 5 % to 20 %.

The transfer of immovable property or shares between associated bodies can be tax exempt under the following conditions:

- One of the associated bodies needs to be an owner of at least 90 % of the issued capital of the other;
- The transaction was not made in pursuance of or in connection with an arrangement under which:
  - Both associated bodies are other than a body corporate;
  - The transfer was previously made by such a person; or

- The transferor or the transferee cease to be associated within the meaning of No.1 only due to a change in the percentage of the issued share capital of the transferee in the beneficial ownership of the transferor or a third body corporation.

Stock transactions are subject to Stamp Duty of 0.1 % of the consideration on both the buyer and seller (i.e. total is 0.2 %). The collector of stamp revenue is empowered to impose duties based on the market value of the property conveyed or shares transferred if the consideration is inadequate.

2. Is real estate subject to any real estate tax? At which rate?

Real estate is subject to Property Tax. The owners of land or buildings are taxed at a rate of 15 % on the net assessable value of the real estate. Net assessable value is the remuneration received by the owner for granting the right of use of the real estate. If the owner is a company, then this company is subject to Profits Tax and can be exempt from Property Tax.

D. Value Added Tax

Hong Kong does not impose VAT or any other indirect tax.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

No.

2. Is there a stamp duty on debt granted to a local company?

No.

Real Estate Investment in

Hungary

A. Legal/General

1. Are non-residents entitled to acquire real estate in Hungary? Does the acquisition have to be carried out by a Hungarian corporation?

Currently non-resident private individuals and legal persons of the EU or EEA may generally acquire real estate in Hungary under the same conditions as Hungarian residents. Individuals and corporations being resident outside the EU/EEA may acquire real estate in contrast to agricultural land in Hungary if they meet certain conditions and request permission from the respective authority.

The acquisition of agricultural land by non-residents was not possible until 30 April 2014 (the former seven-year transitional period was extended by three years). Currently, after the expiration of this transitional period, from 1 May 2014 agricultural and forestry land may theoretically be acquired by non-resident investors of EU or EEA Member States. For third country (non-EU or non-EEA) residents, the restriction on the acquisition of agricultural and forestry land in Hungary remains unchanged after 1 May 2014. A new act on land accepted by the Parliament in 2013 also includes detailed rules in this respect.

It is generally not stipulated that non-residents can acquire real estate in Hungary only by way of a Hungarian registered company.

2. Which importance does the land register have?

The ownership right according to civil law of real estate may only be acquired with the incorporation of the property right in the land registry. The required documents have to be submitted to the land registry within 30 days after the conclusion of the contract.

For the incorporation of real estate an administrative fee amounting to HUF 6,600 has to be paid. Registration fee for a mortgage is HUF 12,600.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

- → Corporate income tax rate:
  - › 10 % – up to a tax base of HUF 500 million (approximately € 1,660,000), which is applicable without any conditions;

- › 19 % is payable for the rest of the tax base – this rate is applicable in the case of certain foreign companies having taxable profits from the sale of their quotas in a Hungarian company having domestic real estate; "Expected" minimum tax base: 2 % of the total revenue (reduced by certain items, e.g. cost of goods sold and value of intermediated services).It can be applicable for companies having revenues but low level of pre-tax profit or corporate income tax base. Minimum tax payment if applicable can be avoided by submitting a declaration verifying that costs and expenditures recorded at the company are real costs and expenditures.

→ An important change from 2014 is that a foreign individual is also deemed to have a permanent establishment in Hungary from a corporate tax perspective upon the sale of a real property.

→ Personal income tax rate:
The personal income tax rate is (flat) 16 %.

→ Personal income tax rate for income from sale of real estate: 16 %. Profit from the sale of residential properties is exempt from
personal income tax after five years from the date of acquisition (this is 15 years in the case of real estate other than residential properties).

→ Participation exemptions:
- › The Hungarian Act on Corporate Income Tax provides for an exemption of dividends received from domestic or foreign shareholdings provided that the distributing company is not a controlled foreign company (CFC). This applies regardless of the amount and holding period of the participation.
- › Generally, capital gains are taxable in Hungary under the general rules. Capital gains/foreign exchange gains realized as a result of certain investments are exempt from corporate income tax. If the taxpayer holds at least 10 % of the shares of a domestic or foreign company continuously for at least one year, and the acquisition of shares was reported to the tax authority (from 2014 within 75 days) following the acquisition, the capital gain/ foreign exchange gain deriving from the sale or in-kind contribution of the registered stockholding in the year of disposal/ contribution of the shares is not taxable.

2. What is the tax depreciation period for real estate in Hungary? Are there depreciation categories? Which depreciation method is used?

The tax depreciation rate for buildings varies from 2 % to 6 % p.a., whereby the acquisition cost serve as the basis. The depreciation rate for long-life structured building amounts to 2 % p.a. The Hungarian law provides for a shorter depreciation period for mid-life (3 %) and short-life structured building (6 %).

For tax purposes, a residual value should not be taken into account and therefore an entire depreciation has to be conducted. Land cannot be depreciated as per Hungarian law.

3. When is a foreign investor subject to limited tax liability in Hungary?

From 2010, if realising capital gains upon the sale of their shares in companies holding real estate (except for reported shareholding), foreign entities, under some circumstances, may be subject to Hungarian corporate income tax. Tax liability arises if the book value of the Hungarian property shown on the balance sheet date represents more than 75 % of the assets' aggregated value shown in the taxpayer's and its related parties' annual account). The corporate income tax rate is 19 %. This rule is not applicable if there is a favourable tax treaty between the country of residence of the foreign company and Hungary not allowing taxation of such gains in Hungary.

4. Are asset deal and share deal possible in Hungary? What are the main consequences?

The real estate investor can acquire Hungarian real estate in the course of an asset deal (i.e. the direct acquisition of real estate) or share deal (i.e. the acquisition of shares in an entity owning real estate).

Asset deal
By performing an asset deal, the investor directly acquires the real estate from a Hungarian company. The capital gain realised upon the sale of this real estate would be subject to corporate income tax at the level of the Hungarian company formerly holding the real estate.

Share deal
In a share deal, instead of a direct acquisition of a real estate, a share in a company holding the real estate is obtained.

Up to a tax base of HUF 500 million (approximately € 1,660,000), the corporate income tax rate is 10 % which is applicable without limitation while 19 % are payable for the rest of the tax base.

On the part of the seller company, corporate income tax implications of an asset deal and a share deal may be different in certain cases (i.e. in the case of the sale of a reported shareholding, any gain realized on the sale of quotas may be exempt from corporate income tax).

At the customer level, transfer tax/stamp duty liability applies under the general rules in case of an asset deal and a share deal.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capitalization rule
The thin capitalization rule is even more stringent than the limitations contained in the OECD model. If a Hungarian company or branch takes out a loan that exceeds its equity by a factor of more than three during any given business year, the interest charged on the excess is not tax deductible. A further limitation is that these provisions are applicable for all loans (except for those from financial institutions), including non-public bonds and certain notes. The provisions are also extended to interest paid by companies in a cash pool structure.

From 1 January 2012, pursuant to the modification of thin capitalization regulations, in the course of applying the rules on transfer pricing the liabilities that are to be taken into account when identifying thin capitalization include not only liabilities for which the taxpayer must pay interest to the charge of its profit, but also interest-free liabilities, if the taxable entity reduces its tax base with the amount of arm's length interest in accordance with the transfer pricing rules ('deemed interest adjustment'). When calculating thin capitalization, the daily average volume of liabilities is reduced by the total daily average volume of financial receivables reported among invested financial assets, receivables or securities.

Transfer pricing rule
Transfer pricing documentation has to be prepared for contracts between related parties to support the market price. Accordingly, interest payable on loans between related parties has to be at arm's length.

Generally, in some cases, there is no need to prepare transfer pricing documentation at all from 2012 while certain transactions qualifying as low value intercompany services can be documented by way of simplified content documentation.

The Hungarian transfer pricing documentation rules were even more simplified from 2013 onwards. Transactions between related parties under the value of HUF 50 million in the given tax year are exempted from transfer pricing documentation liability.

6. Can acquisition costs/financing fees/interest be deducted?

As a general principle, costs and other expenditures are deductible for corporate income tax purposes as far as they are incurred for business purposes. Interest on loans and other debts are generally deductible for tax purposes, but the 3:1 debt-to-equity ratio has to be taken into account. Other costs relating to acquisition including transaction costs and interest expenses of debt financed acquisitions are deductible provided that the business purpose test is fulfilled regarding the acquisition.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

The Hungarian income tax legislation does not provide for the possibility of taxation of two entities as a single fiscal unity. Each company is regarded as a separate entity for corporate income tax purposes. In Hungary, group taxation only exists for VAT purposes under certain circumstances.

If the real estate is held by a Hungarian corporation (target) and the purchaser acquires the target company, Hungarian law allows the merger of the Hungarian target company holding the real estate with the purchaser company. Costs and expenditures in connection with the acquisition of the shares of the target are tax deductible, provided that the business purpose test is met.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Hungary does not levy withholding tax on cross-border payments provided that the recipient is a corporation (regardless of whether the recipient is resident in the EU, OECD or treaty country or not). This applies to dividend distribution, royalty and interest payments to corporations abroad. Private individual recipients may be subject to personal income tax – even in such cases where the respective treaty may reduce or eliminate withholding taxation if certain administrative

requirements are met (e.g. availability of a tax residence certificate, beneficial ownership declaration prior the payment and a residence certificate by the end of the year at the latest).

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Tax losses may be carried forward for an unlimited period of time to relieve the company's profits provided that losses are established in accordance with the good faith business principle. However, when offsetting the current tax year's positive taxable income by losses brought forward, the earliest losses must be used first (according to the first-in, first-out principle).

Moreover, according to a new modification to the Act on Corporate Income Tax effective from 2012, taxpayers are able to use the accrued losses of previous years only up to 50 % of the current year's positive tax base not including accrued losses. This provision only affects the schedule of the utilisation of accrued losses brought forward from earlier tax years and does not have impact on the amount of losses in total.

Utilization of tax losses in the case of legal succession or transformation as well as in the case of changes in the company's ownership structure is limited.

Generally tax loss carry back is not allowed in Hungary. However, special taxpayers engaged in the agricultural sector are allowed to benefit from loss carry back. For these taxpayers, losses can be used to offset profits of the preceding two years under certain conditions.

C. Real Estate Taxes

1. Does Hungary levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

The acquisition of a participation in a company holding properties in Hungary may be subject to transfer tax (and a reporting obligation) if the total participation in the target company reaches or exceeds 75 % of all participations in that company. Any participations in the target company that are held by the acquirer's relatives (parents, children, spouse, registered common-law spouse) or by the acquirer's business interests have to be added together for the purpose of calculating this percentage value.

From 2014, a company qualifies as 'company holding properties' if the value of the Hungarian real estate properties shown on balance sheet date represent more than 75 % in the (total) value of its assets.

Acquisition of such participations as well as real estate properties between parties qualifying as 'related parties' under the interpretation of the Hungarian Act on Corporate Income Tax is free from transfer tax/stamp duty. In the case of a transfer of real estate, the related party recipient's main business activity should be lease, operation of own, rented properties or transfer of own properties to qualify for exemption from transfer tax.

Exemption also applies if the acquisition takes place by way of a preferred transformation as per the Act on Corporate Income Tax.

The general rate of transfer duty payable on property transfers (as well as for residential properties) is 4 %. If the market price of the property (before allowing for any encumbrances) exceeds HUF 1bn, the rate of duty will be 2 % on the portion in excess of this, although the total amount of transfer duty payable per property cannot exceed HUF 200 million. In the case of companies engaged in the sale of properties in a business manner, the rate of duty is 2 % provided that the company complies with the related legal conditions.

2. Is real estate subject to any real estate tax? At which rate?

The municipalities may levy taxes on property (plots and buildings) located in their territory. Undeveloped land plots within the territory of the municipality (with some exceptions) are subject to the tax on land plots. The tax base can be determined either by the size or the adjusted market value of the land, depending on the decision of the municipality. The tax rate may be fixed by the municipality, but may not exceed HUF 200 per m^2 or 3 % of the adjusted market value of the land.

Buildings situated within the territory of the municipality are generally subject to a tax on buildings, but there are some exemptions. The tax base can be determined by the size or the adjusted market value of the building, while the tax rate may not exceed HUF 1,100 per m^2 or 3.6 % of the adjusted market value of the building.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Generally, the sale of real estate occupied more than two years ago and of undeveloped land (except for construction lands) is tax exempt (while the alienation of real estate occupied for less than two years and construction land is always subject to VAT at a rate of 27 % with no exception). Notwithstanding the general tax exemption rule, the taxpayer may opt for taxation upon submitting a reporting form to the tax authority – such decision cannot be changed for the next five consecutive years.

With respect to certain (generally tax exempt) real estate sale transactions, taxpayers may opt to be taxable. Based on Hungarian VAT law, such taxable transactions under certain circumstances are subject to tax under the reverse charge mechanism. In this regard the VAT is payable (and deductible if general conditions of VAT deduction are met) by the customer.

Under certain circumstances listed by VAT law, the sale of construction lands or real estate qualifying as new based on the VAT law by private individuals originally not qualifying as taxpayers for VAT purposes may also be subject to VAT. The sale of a quota is exempt from VAT regardless of the fact that the main asset of the entity acquired may be a real estate. Additionally, providing a contribution in-kind to a company is not subject to VAT if the companies involved in the transaction fulfil legal regulations on their taxation status.

2. What are the VAT consequences of renting/leasing of real estate?

In brief, rental or lease of real estate is also tax exempt in general (with certain exceptions like rental of a parking place). However, if the party renting out the real estate has opted for taxation, 27 % VAT should be charged (reverse-charge mechanism does not apply in the case of rental).

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

No capital tax obligation arises in Hungary; initial capital injection or further increase of registered capital is free from tax. Only registration duties apply (initial incorporation stamp duty varies between HUF 15,000 and HUF 600,000 while 40 % of the above fees applies in the case of reporting any amendment in the company's capital at the Court of Registration).

2. Is there a stamp duty on debt granted to a local company?

No stamp duty applies in this case.

Real Estate Investment in

India

A. Legal/General

1. Are non-residents entitled to acquire real estate in India? Does the acquisition have to be carried out by an Indian corporation?

The Foreign Exchange Management Act, 1999 (FEMA) empowers the Reserve Bank to frame regulations to prohibit, restrict or regulate the acquisition or transfer of immovable property in India by certain persons domiciled outside India.

Acquisition by persons domiciled outside India, non-resident Indians (individuals resident outside India who are a citizen of India or a person of Indian origin) and persons of Indian origin (citizen of any country other than Bangladesh or Pakistan, if (i) he at any time held Indian Passport or (ii) he or either of his parents or any of his grandparents was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955); or (iii) the person is a spouse of an Indian citizen or a person referred to in sub-clause (i) or (ii)) of agricultural land/ plantation property / farm house in India is generally prohibited.

Purchase of immovable property in India by a foreign national of non-Indian origin resident outside India

- → Foreign nationals of non-Indian origin domiciled outside India are not permitted to acquire any immovable property in India unless such property is acquired by way of inheritance from a person who was resident in India. However, they can acquire or transfer immovable property in India, on lease, not exceeding five years, without the prior permission of the Reserve Bank.
- → Foreign nationals of non-Indian origin, other than a citizen of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal or Bhutan, can acquire immovable property in India on becoming resident in India in terms of Section 2(v) of the Foreign Exchange Management Act, 1999. In this connection, such a person has to satisfy the condition of period and purpose of stay in India as provided under FEMA
- → Foreign nationals of non-Indian origin who have acquired immovable property in India by way of inheritance with the specific approval of the Reserve Bank or have purchased the immovable property with the specific approval of the Reserve Bank cannot transfer such property without the prior permission of the Reserve Bank.

Prior permission to the citizens of certain countries for acquisition or transfer of immovable property in India

A citizen of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal or Bhutan, whether resident in India or outside India, cannot acquire or transfer im-

movable property in India without the prior permission of the Reserve Bank. This restriction is not applicable where the immovable property is taken on lease for a period not exceeding five years.

Acquisition of immovable property by foreign embassies/ diplomats/ consulate Generals

Regulation 5A of the Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations 2000 permits a foreign embassy/ diplomat/ consulate general to purchase/ sell immovable property (other than agricultural land/ plantation property/ farm house) in India provided

(i) clearance from the government of India, Ministry of External Affairs is obtained for such a purchase/sale, and

(ii) the consideration for acquisition of immovable property in India is paid out of funds remitted from abroad through the normal banking channels.

Acquisition of immovable property by person domiciled outside India for carrying on a permitted activity

A person resident outside India (corporation or individual) who has established a branch, office or other place of business, excluding a liaison office, for carrying on in India any activity in accordance with the Foreign Exchange Management (Establishment in India of Branch or Office or other Place of Business) Regulations, 2000 may

(i) acquire any immovable property in India, which is necessary for or incidental to carrying on such activity, provided that all applicable laws, rules, regulations or directions for the time being in force are duly complied with and the person files with the Reserve Bank a declaration in the form IPI (Annex-2), not later than ninety days from the date of such acquisition; and

(ii) transfer by way of mortgage to an Authorized Dealer as a security for any borrowing, the immovable property acquired in pursuance of clause (i) above.

Foreign direct investment ('FDI') in construction development sector

FDI up to 100 % is permitted under the automatic route in the construction development sector including townships, housing, built-up infrastructure and construction-development projects (which would include, but not be restricted to, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure). The said FDI is permitted subject to specified conditions inter alia including the following:

- Minimum area to be developed under each project would be as under:
  - In case of development of serviced housing plots, a minimum land area of 10 hectares
  - In case of construction-development projects, a minimum built-up area of 50,000 m^2
  - In case of a combination project, any one of the above two conditions would suffice
- Minimum capitalization of US$ 10 million for wholly owned subsidiaries and US$ 5 million for joint ventures with Indian partners. The funds would have to be brought in within six months of commencement of business of the company.
- Original investment cannot be repatriated before a period of three years from completion of minimum capitalization. The lock-in period of three years will be applied from the date of receipt of each installment/tranche of FDI or from the date of completion of minimum capitalization, whichever is later. However, the investor may be permitted to exit earlier with prior government approval.
- At least 50 % of each such project must be developed within a period of five years from the date of obtaining all statutory clearances.

2. Which importance does the land register have?

Registration is compulsory for the following transactions if one of the Indian Registration Acts (Act 1908/ Act No. XVI of 1864/ Act 1866/ Act 1871/ Act 1877)is applicable ((i.e. the property is situated in a district covered by one of the named acts and the transaction have been executed when the respective act has already come into force) (sec. 17 Registration Act 1908):

- Instruments of gift of immovable property;
- Other non-testamentary instruments which purport or operate to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest, whether vested or contingent, of the value of one hundred rupees, and upwards, to or in immovable property;
- Non-testamentary instruments which acknowledge the receipt or payment of any consideration on account of the creation, declaration, assignment, limitation or extinction of any such right, title or interest; and
- Leases of immovable property from year to year, or for any term exceeding one year, or reserving a yearly rent;

- Non-testamentary instruments transferring or assigning any decree or order of a court or any award when such decree or order or award purports or operates to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest, whether vested or contingent, of the value of one hundred rupees and upwards, to or in immovable property:

Documents relating to the transfer of immovable property – including the transaction's underlying agreement – are to be presented for registration in the office of a sub-registrar of that sub-district in which the whole or some portion of the respective property is situated (sec. 18 Registration Act 1908).

Sec. 49 Registration Act 1908 states that if documents required by a Registration Act or by the Transfer of Property Act 1882 are not registered then such documents shall not

- affect any immovable property comprised therein, or
- confer any power to adopt, or
- be received as evidence of any transaction affecting such property or conferring such power, unless it has been registered

The agreement should be registered with the sub-registrar of assurance within four months from the date of execution of the document. If due to any reason, the document is not registered within the time limit the document can be registered only on making an application to the sub-registrar of assurance within a further period not exceeding four months and on payment of appropriate fine.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Individuals

Income range	Indiv/HUF	Age 60 - 80 years	Above 80 years
Up to 250,000	NIL	NIL	NIL
250,001 - 300,000	10 %	NIL	NIL
300,001 - 500,000	10 %	10 %	NIL
500,001 - 1,000,000	20 %	20 %	20 %
Above 1,000,000	30 %	30 %	30 %

No surcharge; above rates to be increased by education cess (government's initiative to collect additional funds to support the education of poor people) of 3 %

Corporates
Tax rates for a domestic company having a total income exceeding one hundred million rupees is 33.99 %, exceeding ten million is 32.44 % and 30.90 % where total income does not exceed ten million rupees.

Tax rates for every company other than a domestic company having a total income exceeding hundred million rupees is 43.26 %, exceeding ten million rupees is 42.024 % and 41.2 % where total income does not exceed ten million rupees.

There is no special rate of taxation for income from real estate but income from residential property shall be reduced to a standard deduction of 30 % of the income. Tax rates on capital gains arising on transfer of real estate being held for more than three years is 20.60 % plus surcharge for education cess if applicable as stated above, while its 30.90 % where the real estate is held for less than three years.

Tax regime for Real Estate Investment Trusts (REIT) – with effect from 1 October 2014
A new chapter has been introduced for the constitution of business trusts. The introduction of such trust is new to the economy, as it provides for a larger population to deploy resources for business. Hitherto shares or debentures and to some extent deposits and loans were the more favored instruments. These were regulated by independent legislation. The economic survey recognizes the need for legislation to keep up with changes in financial markets, and one such has been setting up of trusts. Presently trusts are taxed at a maximum marginal rate in the event of them being discretionary trusts, or those engaged in business. Beneficiaries of these trusts, which essentially are private trusts, are not taxed. This assumes that these taxes are all domestic trusts. This basic principle is sought to be retained, where the constitution of business trusts are concerned. It is note-worthy that the trust to be constituted are not necessarily those under the Indian Trusts Act, 1882, though the Finance minister's Speech and the new Financial Bill do not specify, under which law such trusts will be constituted. It would be fair to assume that it would be under the existing law or the revised legislation which will consolidate the mechanism of the financial sector.

A special tax regime is being proposed to provide for the way the income earned by 'business trusts' set up as REIT is to be taxed in their hands and the taxability of the income distributed by such trusts in the hands of unit holders of such trusts. Under the draft Regulations proposed by SEBI these trusts would raise capital by issue of units (to be listed on a recognized stock exchange) as well as raise monies directly from resident and non-resident investors by way of debt. The trusts

would in turn invest these monies and acquire controlling or other specific interest (income bearing assets) in Indian Companies (SPV) which would be engaged in executing real estate/infrastructure projects.

A new section 115UA is proposed to be inserted which taxes income of the business trust at the maximum marginal rate. The section further provides that the income distributed by the business trust to its unit holders will be of the same nature and same proportion in the hands of the unit holder. The exception being interest received from controlled SPVs. Dividend income received will be exempt from tax in the hands of the business trust. The dividend paying company (SPV) will however be liable to dividend distribution tax in the hands of the SPV. The total income of the business trust by way of capital gains will be taxed under sections 111A and 112 of the IT Act depending on whether it is short term / long term capital gains. The interest income earned by a business trust is deemed to be income of the unit holder when received from controlled SPVs. The section seems to suggest that the distributed income would otherwise not be taxed in the hands of the unit holder. Other income of the business trust is chargeable to tax at the maximum marginal rate in the hand of such trust.

Consequential amendments are proposed by inserting section 10(23FB) and section 10(23FD), that exempt from tax, the interest income earned by a business trust from income earning assets and exempt from tax, income received by a unit holder from a business trust, that is not of the same nature as interest income earned by a business trust from income earning assets, respectively. Similarly, section 10(38) is proposed to be amended to include units (which will be listed) of a business trust, so that when such units are traded on a recognized stock exchange by a unit holder, they would attract same levy of securities transaction tax (STT) and the unit holder would be given same tax benefits as equity shares of a company i.e. long term capital gains would be exempt and short term capital gains would be taxable at the rate of 15 %.

Withholding tax at the rate of 5 % under section 194LC, and at the rate of 10 % under section 194, in the case of payment of interest component of income distributed to non-resident /resident unit holders, respectively, is mandated. So also in the case of external commercial borrowings by a business trust, the benefit of reduced rate of 5 % tax on interest payments to non-resident lenders shall be available on similar conditions, for such period as is provided in section 194LC. It is proposed to insert sub clause (xvii) in section 47(a), pursuant to which the taxation of capital gains arising to sponsor of the SPV, at the time of exchange of shares of the SPV for units of the business trust is deferred and taxed at the time of disposal of units by the sponsor. However, clause (3) of the Finance Bill proposes to insert an additional proviso to section 10(38) which denies the

preferential capital gains regime available in respect of units of a business trust, to the sponsor of the SPV in respect of these units when they are disposed of by him. The sponsor will therefore be liable to capital gains on disposal of such units depending on whether it is short term or long term capital gain under section 111A or section 112.

The above-mentioned finance bill has passed in both Houses of Parliament. It will be enacted after the signature of the President of India.*

2. What is the tax depreciation period for real estate in India? Are there depreciation categories? Which depreciation method is used?

Depreciation is based on the acquisition cost or production costs as follows:

- → Buildings which are used mainly for residential purposes except hotels and boarding houses 5 %
- → Buildings other than those used mainly for residential purposes 10 %
- → Purely temporary erections such as wooden structures 100 %

Depreciation is computed under written down value method (WDV method)

3. When is a foreign investor subject to limited tax liability in India?

Limited tax liability occurs when the total income of a tax payer being a nonresident Indian includes (sec. 115E Indian Income Tax Act)

a) Any income from investment or income from long-term capital gains of an asset other than a specified asset;
b) Income by way of long-term capital gains

The tax payable shall be the aggregate of:

- → Income tax calculated on the income in respect of investments referred to in clause (a), if any, included in the total income, at the rate of twenty percent
- → Income tax calculated on the income by way of long-term capital gains referred to in clause (b), if any, included in the total income, at the rate of ten percent; and
- → Income tax of total income reduced by the amount of income referred to in clauses (a) and (b)

* 8 August 2014: The finance bill has got assent of President of India and is enacted now.

4. Are asset deal and share deal possible in India? What are the main consequences?

Asset deal
Asset deals are possible in India. The valuation of assets will then have to be done as per valuation rules wherever prescribed. For example, valuations of immovable properties are done by registered chartered engineers.

There are no specific provisions in the Income Tax Act on asset deals, but wherever an asset deal takes place, the market value of the assets on the date of transfer is the consideration for the transfer and the capital gains tax is thus determined.

Share deal
Such deals happen under schemes of arrangement such as amalgamation, demerger etc.

The long term capital gains tax is 20 %, where shares are held for more than one year and are shares of an unlisted company. The short term capital gains are taxed at normal rates of taxation (30 %).

Section 47(via) of the Income Tax Act exempts any transfer in an amalgamation, of a capital asset by the amalgamating company to the amalgamated company from capital gains tax if the amalgamated company is an Indian company.

Sec 47(via) exempts any transfer in an amalgamation, of a capital asset being a share or shares held in an Indian company from capital gains tax, by the amalgamating foreign company to the amalgamated foreign company, if

- At least twenty-five percent of the shareholders of the amalgamating foreign company continue to remain shareholder of the amalgamated foreign company
- Such transfer does not attract tax on capital gains in the country, in which the amalgamating company is incorporated

Sec 47(vib) exempts any transfer in a demerger, of a capital asset by the demerged company to the resulting company from capital gains tax, if the resulting company is an Indian company.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Currently there are no thin capital rules. But GAAR, the general anti avoidance rules, are made applicable from calendar year 2015 and onwards which may cover the thin capital rules.

Operating expenses are deductible as long as they are at arm's length and they are for business reasons.

Interest on loans borrowed for residential houses, can be deducted from income arising from house property provided it does not exceed two hundred thousand rupees and subject to certain conditions (property is acquired or constructed with capital borrowed on or after the 1st day of April, 1999 and construction is completed within three years from the end of the financial year in which capital was borrowed).

6. Can acquisition costs/financing fees/interest be deducted?

Companies
Acquisition costs are added to the cost of the asset acquired and hence are deductible due to depreciation. Financing fees and interest are deductible as business expenditure if the asset is used for the purposes of business.

Individuals
It is also available as deduction against rental income subject to certain conditions. Acquisition costs are added to the cost of the asset acquired and hence deductible due to depreciation if the property is used by the individual for purpose of his own business or profession. If the property is given on rental, no depreciation is available. Finance fees and interest are available as deduction against rental income in full provided that the property is actually let during the whole or any part of the year or any other benefit therefrom is derived by the owner.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Each entity is regarded as separate entity. If a group of companies own a property and thus they are co-owners, income from property may be computed as a consolidated statement, and the share of each corporate will be shown individually in their tax return.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Yes at 10.30 %

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Loss relating to short-term capital asset is to be set off against gains from any other long-term capital asset in the same assessment year and unabsorbed loss, if any, shall be allowed to be carried forward for set-off against both short term and long term gains for next eight years.

Loss relating to long term capital asset can be set off against long term capital gains only and can be carried forward for set-off against capital gains from transfer of long term capital asset in the next eight years.

There are no loss carry back provisions in India.

C. Real Estate Taxes

1. Does India levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Stamp duty is levied on real estate transfers based on its market value.

It may be noted that capital gains tax is also payable on the transaction in case there is any gain made on such a transfer.

The rates of stamp duty on transactions relating to transfers of immovable property are broadly regulated by the Indian Stamp Act and are based on the location of the immovable property and the respective regional state stamp acts as well as the nature of the transaction and concessions available, if any. For e.g. the rates are specified in Article 25 of Schedule 1 appended to the Bombay Stamp Act, 1958 and are between around 3 % - 8 % based on the nature of the transaction. However, Article 25(d) which deals with the instruments of transfer of residential premises in a Co-operative Housing Society or where the provisions of Maharashtra Ownership Flats Act 1963 and the Maharashtra Apartment Ownership Act, 1970 apply, provides for levy of concessional rates of stamp duty. In areas where the provisions of the aforesaid acts apply, residential premises up to a market value of Rs. 100,000/- attract such concessional rates reducing the tax rate by around 25 % - 50 %. Transactions relating to the transfer of residential premises

with a market value of more than Rs. 100,000/- attract normal rates of stamp duty for values over and above Rs. 100,000/- as applicable in that area. Such normal rates are 8 %, 6 %, 3 %, 5 %. etc. depending on where the property is situated.

In general, the parties may decide among themselves who shall pay the stamp duty, if nothing is mentioned in the agreement. However, as per section 30 of the Bombay Stamp Act, 1958, if the transaction relates to resale of flats the stamp duty will have to be paid by the purchaser. Value of the property for the purpose of levy of stamp duty will be considered as fair value of consideration to determine capital gain on sale of property if the actual sale price declared by the seller is less than that value.

In India there is another tax known as service tax which is levied on service activities involved in construction of real estate. This levy is imposed by the central government. The rate of service tax is 12.36 %. The same rate is imposed on a fixed prescribed portion related to services in the total value of the real estate's value. The current tax regime provides for different tax rates for properties based on their carpet area and value. In case total value includes the value of land also to be sold by a constructor to the buyer, and the value of property is less than INR 10m with a carpet area of property less than 2,000 square feet 25 % of total value is considered as "service portion" on which 12.36 % (i.e. effective rate 3.09 %) is chargeable as service tax. .However, in case the value of property is INR 10m or more or carpet area of property is 2000 square feet or above, 12.36 % service-tax is payable on 30 % of total value (i.e. effective rate 3.708 %).

In all other cases i.e. where ,the value of real estate does not include value of land, 12.36 % service tax is charged on 40 % of the value of real estate (effective rate 4.944 %). One important thing to be noted for service tax applicability on real estate is that it is only applicable if the purchase price or parts of it is paid before obtaining a completion certificate of the referring property involved. In other words, in case a person buys a property from a constructor who has already obtained a completion certificate from the responsible authorities, and the purchase price is completely paid after the date of procurement of the completion certificate, no service tax will be chargeable on the transaction of the real estate.

2. Is real estate subject to any real estate tax? At which rate?

The property taxes are levied by the assessment and collection department of the local municipal corporation. Property taxes are based on the capital value of the property. The capital value is the present market value of the property determined by considering that the property is fully possessed by the owner without any encumbrance.

The property tax is calculated based on the above mentioned stamp duty and the property tax rate. Both the stamp duty and the property tax rates are revised by the government every year with the new budget. Depending on the type of property, its construction, user and age property is classified into different categories which can be transferred into different weightings by using a stamp duty conversion table. These weightings have to be multiplied by the capital value of the property and the current property tax rate to calculate the property tax.

- → Market value of the property multiplied by the total carpet area multiplied by weights for type of construction multiplied by weights for age of the premise = Capital value of your property
- → Capital value of the property multiplied by current property tax rate multiplied by weight for user category = property tax due for the specific year.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

In India sales tax (i.e. tax which is levied on sale of goods) is known as VAT. This is a State subject meaning that sales tax can be imposed only by state governments and not by the central government. Altogether, there are 29 states which are empowered to levy VAT on sale of "goods". Generally, Real estate being an immovable property is not considered as "goods" and therefore no VAT is applicable on sale thereof in any state of India. However, in view of a recent judgment of the Supreme Court, wherein levy of VAT on goods involved in Real Estate while under construction was upheld, some of the States in India have introduced VAT on fixed prescribed rates. In the State of Maharashtra any transaction involving the sale of real estate while under construction is subject to 1 % VAT levied on agreement value / value adopted for stamp duty purposes. Similarly some other major States of India such as Haryana, Karnataka, etc. have also introduced VAT on real estate at fixed rates.

2. What are the VAT consequences of renting/leasing of real estate?

No VAT (i.e. state tax on sale of goods) is applicable on renting/leasing of real estate.

However, a service tax at 12.36 % is applicable on renting/leasing of real estate provided properties involved are given on rent/lease for commercial purposes. Thus if any property is given on rent/lease for residential purposes, no service-tax

is applicable. In case of renting of commercial properties a service tax of 12.36 % is chargeable on the gross amount of rent recovered by the owner of property from the lessee. However, in case the gross amount of rent includes property tax levied by the Municipal Corporation of State Government, the service tax base is reduced by the property tax.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Though there is no capital tax, the Indian stamp act imposes a stamp duty is levied regarding a right or title to any shares scrip or stock of an incorporated company or other body corporate or a letter of allotment of shares (Art 36) in any company or proposed company.

Transfer of shares (whether with or without consideration) held in an incorporated company or other body corporate attracts a stamp duty of 0.25 % on the value of the share.

2. Is there a stamp duty on debt granted to a local company?

The Indian Stamp Act requires a debt instrument to be stamped. Stamp duty is a state subject and rates vary. It averages from 3 % to 5 % on mortgage-deeds with a maximum of a million rupees in Mumbai in case of an equitable mortgage.

Instruments evidencing debt may be an agreement or a mortgage deed. A mortgage deed is defined to secure money to be advanced by way of loan or an existing or a future debt, or the performance of an engagement one person transfers or creates to or in favor of another a right over or in respect of specified property.

As regards immovable property, Article 6 applies to mortgage by deposit of title deeds and Article 40 to regular mortgage. The Stamp Act makes no distinction between a legal and an equitable mortgage.

In order that Article 6 may apply, the document should merely contain the bargain between the parties with regard to the deposit of title deeds and conditions subsidiary or ancillary to the deposit of title deeds. However, if a document contains all the provisions which one would normally find in a mortgage deeds the mere fact that the document also contains the bargain with regard to the deposit of title deeds will not make it an agreement for deposit of title deeds.

Real Estate Investment in

Italy

A. Legal/General

1. Are non-residents entitled to acquire real estate in Italy? Does the acquisition have to be carried out by an Italian corporation?

In Italy there are no restrictions with regard to the acquisition of real estate. Residents as well as non-residents can purchase real estate, so that no acquisition vehicle incorporated under the laws of Italy is required for the acquisition of land by non-residents.

2. Which importance does the land register have?

The way real estate properties are included in the Land Register has a number of very influential consequences on the taxation of the real estate income as well as on the registration tax and/or VAT regimes applicable to transactions involving real estate.

Namely, the Land Register is the source from which it is generally possible to retrieve the deemed cadastral income of a given item of real estate property. Such deemed cadastral income may be relevant under many respects: first of all, it constitutes the taxable base for the Real Estate Tax as well as for income taxes, in case the property is not rented.

On the basis of Art. 2, Par. 1 of Law of 11 March 2014, n. 23, the Italian Government has been empowered to reform the Land Register and to attribute to each real estate an updated cadastral income.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

The corporate income tax rate for 2014 is 27.5 %. Companies active in oil-related activities as well as in the production and sale of electric energy and whose revenues in the previous year have exceeded 3 million € are subject to a 34 % corporate income tax rate.

The personal income tax rates for 2014 are expressed in the following chart:

→ **Income brackets**	**Rate**
Up to 15.000 €	23 %
Beyond 15.000 € and up to 28.000 €	27 %
Beyond 28.000 € and up to 55.000 €	38 %
Beyond 55.000 € and up to 75.000 €	41 %
Beyond 75.000 €	43 %

On income exceeding € 300,000 finds application for personal income tax purposes a 3 % temporary solidarity contribution on income exceeding that threshold. On top of the above exposed rates, municipal (up to 0.8 %) and regional surcharges (in the range of 1.2 % to 2.03 %) may apply.

Companies, businesses and professionals are subject – on a tax base wider than net income – to a regional tax on productive activities (IRAP) at a general rate of 3.90 %. This rate may vary regionally within a 1 % range (special rates apply to banks and agricultural enterprises).

On the basis of Art. 2, Par. 1 of Law Decree of 24 April 2014, n. 66, starting from 1 January 2014, the general tax rate has been reduced from 3,9 % to 3,5 %.

In general terms, there are no special tax rates for real estate. However, if a natural person leases a residential property to another natural person, a final 21 % substitute tax (so called "cedolare secca") may apply. Even though the substitute tax is not local in nature, a reduced 15 % rate is foreseen in relation to some high density urban areas (this would apply in particular to the major Italian cities such as, inter alia, Florence, Genoa, Milan, Naples, Palermo, Rome, Turin and Venice. Law Decree of 28 March 2014, n. 47 has established a further reduction from 15 % to 10 % for the tax period from 2014 to 2017.

Participation exemption is foreseen. In particular, capital gains deriving from the alienation of participations (both in Italian and foreign entities) that have been uninterruptedly owned for at least 18 months are 95 % exempt as long as the following requisites are met:

- Participations shall be originally (at the time of acquisition) classified in the Balance Sheet of the seller as long term financial investments;
- Entity in which a shareholding is owned should carry out a business activity;
- Entity in which a shareholding is owned shall not be a resident of a tax haven.

The application of the participation exemption rule to the sale of shares in real estate companies is subject to specific conditions. Companies whose assets predominantly comprise of non commercial real estate investments are presumed to be companies that do not carry out a business activity.

However, "operating" real estate companies, i.e., companies whose assets predominantly comprise of real estate around which the activity of the company revolves (i.e. companies that carry out building activities, that alienate real estate properties, that professionally lease real estate companies or that own land on which they carry out agricultural activities) are presumed to be companies that carry out a business activity.

2. What is the tax depreciation period for real estate in Italy? Are there depreciation categories? Which depreciation method is used?

Items of real estate are only depreciable as long as they are inherent to the business activity conducted by the company. In this respect, a distinction can be made between "inherent" commercial buildings (which are grouped under specific cadastral classifications, such as office buildings) and buildings destined to be used within the business activity of the company although they do not qualify as "inherently" commercial. Land is not depreciable.

Commercial buildings are depreciated excluding from the depreciable amount of the share attributable to land. If 20 % (for office buildings) or 30 % (for industrial buildings) of the overall value of the real estate complex exceeds the value of the underlying land entered in the balance sheet, the former shall be assumed as the value of the land and correspondingly subtracted from the depreciation base. In case the real estate complex has been erected subsequently on building land acquired by the company, the land purchase price shall be considered non-deductible.

The maximum depreciation rate and – correspondingly – the minimum depreciation period, depends on the depreciation category. The rates are determined by law (Ministerial Decree 31 December 1988) in accordance with the kind of construction and the industry of the company. The rates typically vary between 3 % and 6 %. The depreciation period may be extended, thus resulting in lower depreciation rates.

3. When is a foreign investor subject to limited tax liability in Italy?

Based on Art. 23 Income Tax Code, non-residents are subject to tax liability in Italy only with respect to the income deriving from the Italian territory. Real estate income is deemed to be sourced in Italy if the item of real estate is located in Italy.

4. Are asset deal and share deal possible in Italy? What are the main consequences?

Both asset and share deals are possible.

In case of an asset deal (i.e. if a real estate located in Italy is purchased by a non-resident person) ongoing income is subject to tax on the part of income of the non-resident owner. In case of alienation, the capital gain is subject to tax in Italy, unless it is agricultural land or a construction owned for more than five years at the time of the sale.

In case of a share deal, (i.e. real estate located in Italy and owned by an Italian company, its shares are purchased by a non-resident person) ongoing income is subject to tax on the part of income of the resident company. Taxable income may be higher than actual income, due to the application of the special regime for non-operative companies. Such regime foresees taxation based on a deemed income determined by means of the following formula, which applies a rather high fixed rate of return to various company assets:

+ 1.5 % of the value of participations
+ 4.75 % of the value of business real estate
+ 3 % of the value of residential properties
  (0.9 % if the property is located in small municipalities)
+ 12 % of the value of other assets.

The applicable tax rate is also increased by a 10.5 % corporate income tax surcharge. In case of alienation, the capital gain is subject to tax in Italy, unless a double tax treaty is applicable, which provides exclusive taxation of the capital gain in the country of residence of the alienator.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

An "interest barrier" rule applies. Interest expenses that exceed interest income are deductible only within the threshold of 30 % of EBITDA. The portion of interest expenses which qualifies as non deductible in a given year as well as the excess EBITDA can be carried forward with no temporal limitations.

6. Can acquisition costs/financing fees/interest be deducted?

With reference to individuals, interest expenses deriving from mortgage are tax-deductible only in relation to the primary dwelling of the taxpayer and within an annual threshold of € 4,000.

With reference to companies, in general terms, deductibility is admissible within the threshold of interest deductibility limitations foreseen by the interest barrier rule.

Interest arising from debts undertaken in order to finance the building/acquisition of assets, including real estate properties, can be capitalized.

With respect to construction companies, interest arising from debts undertaken for construction and renovation works can be capitalized, while such an option is not viable if debt has been undertaken in order to acquire buildings destined to sale. In the latter case, no deductibility limitation applies.

Interest arising from debts supported by mortgages undertaken in order to acquire properties destined to rental are deductible without any limitation. Clarifications from the Tax Administration have underlined that the mortgage must have been undertaken only in order to acquire or build a property destined to rental, while it is irrelevant whether the property is of commercial or residential nature (see Circular Letter dated 22 July 2009, No. 37/E).

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

If the share acquisition is funded by debt, it is possible to offset interest expenses against the target's profits only if debt is on the part of an Italian company and this company is either merged with the target or both elect the group tax consolidation regime.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Law Decree 138/2011 has harmonized the applicable withholding tax rates on investment income introducing a unified 20 % withholding tax rate instead of the previously foreseen differentiated rates, comprised between 12.5 % and 27 % depending on the juridical qualification of the payee and on the nature of the underlying debt.

The new 20 % withholding tax rate is applicable to interest paid starting 1 January 2012. Lower double tax treaty rates may apply.

Art. 3 of Law Decree of 24 April 2014, n. 66 provides, starting From 1 July 2014, an increase of the above mentioned tax rate from 20 % to 26 %.

Law Decree of 24 June 2014, n. 91 has repealed the withholding tax of 26 % (provided by Art. 26, Par. 5 of Presidential Decree September 29 1973, n. 600) on interest arising from medium and long term loan granted by – among the others - banks and insurance companies

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Law Decree 98/2011 has amended the applicable regime for loss carry forward with regard to companies and entities (with the exclusion of non-commercial entities that predominantly carry out a business activity). The new regime foresees that losses can be carried forward with no temporal limitation but only within the threshold of 80 % of the corporate income tax base of the fiscal year in which the losses would be offset; any exceeding portion can be further carried forward. With reference to start-up losses, the same mechanism applies but the threshold is 100 % of the corporate income tax base in which the losses would be offset.
In Italy, losses may not be carried back at all.

C. Real Estate Taxes

1. Does Italy levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Registration Tax
The transfer of real estate or shareholdings is typically subject to registration tax. However, in case the transfer falls within the purview of VAT (see Section D), registration tax is applied as a fixed levy, amounting to € 200.

The tax base of the registration tax is the purchase price of the real estate property.

The applicable tax rates depend on the residential or commercial nature of the property, which is mirrored by the Land Register.

Legislative Decree of 14 March 2011, n. 23 has entered into force starting from 1 January 2014 and it has modified the tax rates of the registration tax.

On the basis of the new tax regime:

- the registration tax is applied with a 2 %, or 9 % or 12 % tax rate depending on the nature of the real estate;
- the previous preferential treatments have been repealed (with the exception of the special regime provided for farmers).

More precisely, the registration tax is applied through the application of a general 9 % tax rate. However, the 2 % tax rate is applied in case the property represents a person's primary dwelling while the 12 % tax rate is applied in case of transfer of real estate to the Italian State or to other local Tax Authorities.

Mortgage Tax and Cadastral Tax

Additional transfer taxes on real estate and related shareholdings are referred to as mortgage tax ("imposta ipotecaria") and cadastral tax ("imposta catastale"). Mortgage tax is triggered by the sale, gift and inheritance of real estate as well as by the inscription of mortgages on real estate properties and it is normally paid upon the registration of the aforementioned transactions under the supervision of a public notary.

Legislative Decree of 14 March 2011, n. 23 has entered into force starting from 1 January 2014 and it has modified the tax rates of mortgage and cadastral tax.

More precisely, mortgage and cadastral tax are now levied at a fixed levy of € 50 if the registration tax is applied with a proportional tax rate.

In all other cases, the two taxes are levied at a fixed levy of € 200.

2. Is real estate subject to any real estate tax? At which rate?

Starting from 2012, a new municipal real estate tax (I.M.U.) has been introduced.

With reference to fiscal year 2013, the tax is deductible from income taxes up to the amount of the 30 % of its value (20 % from fiscal year 2014) and it is triggered by the ownership of buildings, building lots and agricultural land situated in Italy and regardless of the residential or business purpose.

The municipal real estate tax is not applied to the primary dwelling of persons with the exception of primary dwelling belonging to particular cadastral categories (e.g. luxury dwelling). In such a case the municipal real estate tax is applied with a 0,4 % tax rate – that each Municipality can increase or decrease within a 0,2 % range - and a tax deduction of € 200 would apply.

Rural buildings are excluded from the application of the municipal real estate tax.

In the other case, the tax is applied with a 0,76 % tax rate that each Municipality can increase or decrease within a 0,3 % range.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

As a general rule, transfers of real estate property are VAT exempt. Nonetheless, some transfers may optionally or mandatorily be subject to VAT depending on the nature of the property which is transferred and the qualification of the buyer and of the seller.

In particular, the transfer of building land is obligatorily subject to VAT.

With reference to the transfer of buildings, a distinction should be made between residential buildings and commercial buildings.

The transfer of residential buildings is mandatorily subject to VAT if the alienator is a building contractor which has completed construction or renovation activities in the previous four years. In this case, the generally applicable VAT rate is 10 % (the VAT rate is reduced to 4 % if the building constitutes the primary dwelling of the buyer, while the VAT is increased to 22 % in case the building is considered as a luxury building).

The transfer of commercial buildings is mandatorily subject to VAT if:

- → the alienator is a building contractor who has completed construction or renovation activities in the previous four years. In this case, the generally applicable VAT rate is 22 % (whereas if only renovation works have been conducted, the VAT rate is reduced to 10 %); or
- → the alienator is a VAT taxable person and the buyer is a non VAT taxable person or a VAT taxable person subject to VAT deductibility limitations. In this case, the generally applicable VAT rate is 22 %.

The transfer of commercial buildings is optionally subject to VAT if both the seller and the buyer are VAT taxable persons. This option is frequently adopted in business practice as VAT would be deductible as long as the pro-rata deductibility limitations are met.

If VAT is not applied, registration tax generally applies at the ordinary proportional rates applicable in relation to the concerned typology of building and counterparts. Conversely, mortgage and cadastral tax are due as a fixed duty amounting to € 200. On the other hand, where VAT is applied, registration tax as well as mortgage and Cadastral tax generally apply as a fixed duty amounting to € 200.

2. What are the VAT consequences of renting/leasing of real estate?

As a general rule, the rental/leasing of real estate is VAT exempt. Nonetheless, under some circumstances, VAT may apply.

In particular:

- → Rental/leasing of building land is mandatorily subject to VAT (at a 22 % rate) if the landlord is a VAT taxable person.
- → Rental/leasing of residential buildings is mandatorily subject to VAT (at a 10 % rate) if the landlord is a building contractor that has completed construction operations on the rented property in the previous four years and the buildings are subsidized residential buildings.
- → Rental/leasing of commercial buildings is mandatorily subject to VAT (at a 22 % rate) if the landlord is a VAT taxable person and the tenant is either a non VAT taxable person or a VAT taxable person subject to VAT deductibility limitations.

The rental/leasing of commercial buildings is optionally subject to VAT if both the landlord and the tenant are VAT taxable persons.

If VAT is not applied, registration tax generally applies at the ordinary proportional rates applicable in relation to the concerned typology of building and counterparts. Conversely, mortgage and cadastral tax are due as a fixed duty amounting to € 200.

On the other hand, where VAT is applied, registration tax as well as mortgage and Cadastral tax generally apply as a fixed duty amounting to € 200.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

No.

2. Is there a stamp duty on debt granted to a local company?

Stamp duties in the measure of a fixed levy of negligible value apply on a broad range of documentation which may be drafted with respect to financing agreements. In most cases, the stamp duty obligation can be overcome by resorting to commercial correspondence as a mean to conclude contracts, as the latter lies outside of the scope of application of stamp duty.

Registration tax of 3 % is due on formal financing contracts. In case the financing is provided by a bank and some conditions concerning the long-term nature of the financing (longer than 18 months) and the absence of specific mortgage agreements are met, a substitute tax would apply on the financing. The applicable rate is 2 % in case the financing relates to the acquisition, building or renovation of a residential property. In other cases, a general 0.25 % rate would be applicable.

Real Estate Investment in

Latvia

A. Legal/General

1. Are non-residents entitled to acquire real estate in Latvia? Does the acquisition have to be carried out by a Latvian corporation?

In Latvia, the acquisition of buildings is allowed without restrictions. Land in urban areas may be freely acquired by EU and EEA nationals/companies provided that:

- More than 50 % of the company's share capital is owned by the nationals of Latvia and/or nationals of another EU Member State, and/or the Latvian state or local government; or
- More than 50 % of the company's share capital is owned by individuals and/or legal entities from countries, which have concluded an investment protection treaty with Latvia; or
- The company is a publicly traded joint stock company on the Latvian stock exchange.

Direct acquisition of land by other individuals and legal entities is subject to permission of the local municipality. However, such individuals and legal entities are not entitled to acquire land in certain specific areas, e.g., state border territories, special protection zones, agricultural and forest land pursuant to local territorial planning.

New draft amendments propose additional restrictions to both Latvian nationals and companies and other EU nationals and companies wishing to acquire agricultural land. Namely, the mentioned persons will be required to fulfill certain criteria in order to acquire agricultural land in Latvia. The amendments have not been adopted yet.

2. Which importance does the Latvian land register have?

Latvian real estate is registered in a centralized register called the Land Book. The Land Book ensures publicity and the protection of the rights of the property owners with respect to third parties.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

→ Corporate income tax (CIT) rate: 15 %;
→ Personal income tax (PIT) rates:
  › standard rate: 24 %;
  › dividends, interest: 10 %;
  › capital gains: 15 %.

→ Participation exemptions:
As from 1 January 2013 all outbound and inbound dividends are exempt from CIT unless payments are made to or received from black listed jurisdictions (15 % withholding tax applies).

→ Withholding tax amounting to 2 % applies on the sales price of real estate or shares in qualifying real estate companies paid to non-residents. In order to ensure equal treatment of local and EU/EEA companies, non-residents (EU/EEA companies) are entitled to recalculate CIT in accordance to general rules, i.e. 15 % CIT from capital gains and claim back the overpaid tax (if any).

→ As of 2013, capital gains from sale of shares held by a Latvian company in any other company (unless held in companies in black listed jurisdictions) are exempt from CIT.

2. What is the tax depreciation period for real estate in Latvia? Are there depreciation categories? Which depreciation method is used?

Depreciation for tax purposes does not apply to land. Buildings and constructions are depreciated at 10 % rate for tax purposes using the declining-balance method.

3. When is a foreign investor subject to limited tax liability in Latvia?

As a matter of principle, non-residents are subject to limited tax liability in Latvia.

Non-resident companies are subject to CIT at a standard 15 % rate with respect to income and capital gains attributable to a permanent establishment (PE) in Latvia

(see answer to question 4 regarding taxation of capital gains). Non-resident companies other than those with a PE in Latvia are in certain circumstances subject to limited withholding tax at source (see answer to question 1).

Non-resident individuals deriving income (other than capital gains) from real estate are taxable at a 24 % rate. Capital gains derived from the sale of real estate or shares in qualifying real estate companies are generally subject to PIT at a 15 % rate (for exemption with respect to residential property see question 4). If a non-resident individual receives dividend income from a Latvian company, 10 % PIT shall be withheld.

4. Are share deal and asset deal possible in Latvia? What are the main consequences?

Both share and asset deals are possible in Latvia. Capital gains arising from an asset deal or a share deal are treated equally for PIT purposes. Capital gains derived by an individual from the sale of real estate generally are subject to an income tax rate of 15 %. Sale of residential property owned for a period exceeding 60 months out of which it is the declared residence of the individual taxpayer for at least 12 months is tax exempt.

Capital gains derived by resident companies and PEs of non-resident companies are subject to CIT at a 15 % rate. As of 1 January 2013 there is no CIT on capital gains from sale of shares held by a Latvian company, except if held in a company incorporated in a black listed jurisdiction.

For other tax consequences (VAT, capital tax, property tax etc.) see questions below.

5. Are thin capitalization rules applicable? Are there other limitations of interest deduction applicable?

Under Latvian thin capitalization rules, two calculations must be performed to determine non-deductible interest, namely:

- interest exceeding 1.57 times the average annual interest rate on loans granted to non-financial companies is non-deductible and
- 4:1 debt-to-equity ratio should be applied.

The final non-deductible interest is the largest amount calculated according to either of the two methods.

The non-deductible interest cannot be carried forward. However, thin capitalization rules do not apply with respect to loans received from banks registered in EU/EEA and other financing institutions incorporated in jurisdictions which have concluded double tax treaties with Latvia.

6. Can acquisition costs/financing fees/interest be deducted?

The acquisition costs are immediately tax deductible. The major exception to this principle exists when, e.g. an unfinished construction object is purchased and its completion requires additional costs which are capitalized. Financing fees and interest normally are immediately tax deductible. Interest expenses and refinancing fees are tax deductible as long as they are considered business-related costs.

7. Are there any possibilities to allow pooling of debt financed interest with income of target (debt push down)?

A usual model is to effectuate a merger between the target company and the SPV. Apart from negligible stamp duties there are no transfer taxes for the implementation of the debt push down.

Latvia generally does not allow debt push down and consolidation for tax purposes. As of 1 January 2014 transfer of losses among the companies of the same group has been abolished.

8. Is there a withholding tax on interest payments paid by local company to creditor?

As from 1 January 2014 outbound interest payments are exempt from withholding tax unless paid to black listed jurisdictions.

There is no withholding tax on profits remittance from a branch.

9. Is a loss carry forward or carry back granted and what are the restrictions?

Losses accrued prior to and including 2007 can be carried forward for eight years. Losses arising in 2008 and onwards can be carried forward indefinitely. Taxpayers registered in special economic zones or free ports and incurring losses before 2005 may carry them forward for up to ten years while the losses that were incurred after 2005 may be carried forward indefinitely.

There is no loss carry back in Latvia.

C. Real Estate Taxes

1. Does Latvia levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

There is no formal real estate transfer tax. However the following stamp duties apply:

- the registration of the new owner of a non-residential real estate generally is subject to the stamp duty of 2 % from the transaction value capped at € 42,686;
- the uncapped 2 % stamp duty applies to sales of residential property;
- a 1 % stamp duty applies to investments in kind into the share capital of a company,
- for gift transfers of real estate the stamp duty generally is 3 %.

Stamp duties do not apply to mergers or similar restructurings, and transfers of shares in companies holding real estate.

2. Is real estate subject to any real estate tax? At which rate?

Real estate tax (RET) is payable by corporate owners or entities owning or controlling the use of real estate, as well as individuals on their land and residential property.

RET is levied at a rate of 1.5 % of the real estate's cadastral value and is payable annually. A 1.5 % rate is applicable to buildings other than residential houses, engineering structures and land. If prescribed by municipal regulations, derelict or unsafe buildings may be subject to 3 % tax.

As of 1 January 2013, local municipalities are authorized to set the RET rate ranging from 0.2 % to 3 % in their binding regulations. If the respective municipality has not issued the said regulations, the 1.5 % RET applies. Individual property owners are subject to progressive tax rates on their residential homes and apartments as outlined below with a minimum payment of € 7 for each registered item of real estate:

- 0.2 % – for cadastral value below € 56,915;
- 0.4 % – for cadastral value from € 56,915 to € 106,715;
- 0.6 % – for cadastral value exceeding € 106,715.

Local municipalities are allowed to grant tax reliefs to specific categories of individuals.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Sale of land and sale of used real estate is VAT exempt.

However, sale of unused real estate (inter alia recently renovated, reconstructed and restored buildings) and development land (land with a granted construction permit) is subject to 21 % VAT. The combined sale of unused real estate and the whole or a part of the underlying land cannot be separated for VAT purposes.

A share deal is VAT exempt.

2. What are the VAT consequences of renting/leasing of real estate?

Lease of commercial property is subject to 21 % VAT, whereas rent of residential premises to individuals is VAT exempt.

E. Other taxes

1. Is there a capital tax for equity injected into a local company?

There is no capital tax in Latvia. For stamp duties levied on the investment of a real estate object into the equity of a company see question 1, Section C.

2. Is there a stamp duty on debt granted to a local company?

As a general rule, debt transactions are not subject to a stamp duty. However, a stamp duty of 0.1 % from the principal amount is levied upon the registration of a mortgage in the Land Book. In all other cases, registration of real estate alienation transactions in the Land Book is subject to a stamp duty of € 28.46.

Real Estate Investment in

Lithuania

A. Legal/General

1. Are non-residents entitled to acquire real estate in Lithuania? Does the acquisition have to be carried out by a Lithuanian corporation?

In general, non-resident individuals and foreign legal persons can freely acquire real estate situated in Lithuania, except for land, forests and inner waters, where certain exemptions apply. Land, forests and inner waters may be acquired by foreign natural and legal persons on condition that these persons comply with the criteria of the European and Transatlantic Integration.

To meet the said criteria a legal person is required to be established in or a natural person is required to hold the citizenship or a permanent residency of, one of the following states:

- Member States of the European Union or states being parties to the European Treaty with the European Communities and their Member States; or
- Member Countries of the Organisation for Economic Cooperation and Development (OECD), states being parties to the North Atlantic Treaty Organisation (NATO) or the European Economic Area (EEA) Agreement.

Legal persons established in or natural persons holding citizenship of other countries than those mentioned above do not have the right to acquire land, forests and inner waters.

Please also note that certain additional restrictions still apply in respect of the right to acquire agricultural and forestry land as well as inner waters in Lithuania. Accordingly, the persons from the countries meeting the European and Transatlantic Integration criteria are able to acquire the mentioned real estate on the same grounds and in line with the same procedures as nationals and legal persons of the Republic of Lithuania.

It is generally not required for non-residents to acquire real estate in Lithuania through a Lithuanian company.

2. Which importance does the Lithuanian land register have?

Real estate as well as contracts relating to real estate (transfer, lease of real estate and others) are being registered with the Lithuanian Real Estate Register. A failure to register a real estate related contract generally does not cause its invalidity but it precludes the parties from invoking the agreement against third parties.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

Corporate income tax rates: The standard rate is 15 %. A reduced 5 % rate is applicable to certain small and medium-sized entities with maximum 10 employees and a maximum income during the taxable year of LTL 1,000,000.

Personal income tax rates: The standard rate is 15 %; however, certain income earned from individual business activities is taxable at a reduced rate of 5 %. As of January 2014, a 15 % rate is also applicable to dividends and other profit distribution.

Participation exemption: dividends will not be taxed in Lithuania if the recipient of dividends (resident or non-resident entity) holds no less than 10 % of shares in the payer of dividends for a period not shorter than 12 consecutive months, including the moment when the dividends are distributed.

2. What is the tax depreciation period for real estate in Lithuania? Are there depreciation categories? Which depreciation method is used?

The tax depreciation period for new and renovated buildings is eight years. Either the straight-line method or the double balance depreciation method may be used. For residential buildings the depreciation period is 20 years, while for other buildings the depreciation period is 15 years. Only the straight-line method may be used for this type of real estate.

3. When is a foreign investor subject to limited tax liability in Lithuania?

A foreign investor is subject to limited tax liability in Lithuania if he either has a Lithuanian permanent establishment or earns certain type of income in Lithuania which is subject to withholding tax therein. In the first case, personal income tax or corporate income tax may be levied in Lithuania on profits earned through that permanent establishment. In the second case, personal income tax or corporate income tax may be levied on the income sourced in Lithuania, e.g. income from the sale or lease of real estate situated in Lithuania may be subject to a 15 % withholding tax.

4. Are asset deal and share deal possible in Lithuania? What are the main consequences?

Both an asset deal and a share deal may be concluded in Lithuania.

Asset deal
Capital gain realized upon the sale of real estate is subject to 15 % income tax for both individuals and legal entities.

However, personal income tax exemption applies for:
- → capital gain from the sale of housing located in an EEA Member State, if the individual's place of residence was declared there during the last two years prior to the sale;
- → capital gain from the sale of housing located in an EEA Member State, provided that such income was invested into the acquisition of another housing located in an EEA Member State where the place of residence was declared;
- → capital gain from the sale or transfer of other immovable property acquired more than five years prior to its sale or transfer.

Share deal
Capital gain upon the sale of shares is generally subject to 15 % income tax for both individuals and legal entities.

However, corporate income tax exemption applies for:
- → capital gain from a transfer of shares of a Lithuanian company or a company registered in an EEA Member State or of a state which has signed a tax treaty with Lithuania, provided that the seller is a Lithuanian company that has been holding more than 25 % of the shares during a two year period or a three year period in case of certain reorganizations or transfers (exempt when the shares are sold back to the issuer).

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Lithuanian thin capitalization rules apply to restrict tax deductions on borrowings from related parties, including third party debt that is guaranteed by a related party. The debt-to-equity ratio governing otherwise permitted interest deduction is limited to 4:1.

The relevant Lithuanian transfer pricing regulations can be listed as follows: requirement to (i) apply arm's length prices in related party transactions; (ii) supply information to the Lithuanian tax authorities on related party transactions; and (iii) maintain a sufficient documentation of the related party transactions.

6. Can acquisition costs/financing fees/interest be deducted?

Yes, acquisition costs are immediately deductible for short term assets. For long term assets depreciation (amortization) is applicable. Financing fees and interest are deductible if they are incurred for the earning of income or for deriving economic benefit for the company.

7. Are there any possibilities to allow pooling of debt financed interest with income of target (debt push down)?

A debt push down can be achieved by merging companies. No transfer tax is applied.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest paid to non-resident companies is generally subject to 10 % withholding tax.

However, exemption applies to:

- interest on government securities, deposit interest and interest on subordinated loans meeting the criteria prescribed by the Bank of Lithuania;
- interest paid to non-resident companies registered or otherwise established in an EEA Member State, or in a country with which Lithuania has an effective tax treaty.

Interest paid to non-resident individuals is subject to 15 % withholding tax. No exemption according to Lithuanian laws applies.

However, further exemptions may be applied following double taxation treaties.

9. Is a Loss Carry Forward or Loss Carry Back granted and what are the restrictions?

Carry back of losses is not allowed in Lithuania.

Ordinary losses may be carried forward for an unlimited period of time if the entity continues to carry on the activity that resulted in losses. However, losses on the disposal of securities and financial derivatives may be carried forward only for five successive tax years, beginning with the tax period following the tax period during which the losses were incurred. Furthermore, only the taxable profit from transactions of securities can be reduced using this kind of losses.

Transfer of tax losses is available among the entities of the same group. An entity can transfer tax losses (or a part of the tax losses) incurred in the tax year of 2010 or later to another entity of the same group which has the right to reduce the taxable profit of the same tax period. Such possibility is available only if the following conditions are met:

- (i) the parent company of the group has to hold directly or indirectly at least 2/3 of the shares in both entities participating in the loss transfer (or loss may be transferred to the parent company); and
- (ii) both entities participating in the loss transfer are required to comply with this requirement for at least two years.

Alternatively, entities participating in a loss transfer transaction need to be within the group from its' formation and have to remain in the group for at least two years in order to be eligible for intra-group loss transfer.

A non-resident entity can transfer tax losses (or a part of the losses) to a resident entity only if the following conditions are met:

- (i) the non-resident entity is a tax resident of an EU Member State; and
- (ii) the tax losses of the non-resident entity cannot be carried forward to another tax year (or deducted from its income or profit) according to the laws of its residence country; and
- (iii) the tax losses to be transferred are calculated according to the provisions of the Lithuanian Law on Corporate Income Tax.

C. Real Estate Taxes

1. Does Lithuania levy a real estate transfer tax on sale of real estate or share-holdings? Is it avoidable?

No, there are no transfer taxes in Lithuania.

However, please note that real estate transfer transactions (if carried out as asset deals) must be certified by a notary and involve notary fees. The fee for notarisation of an agreement for real estate acquisition amounts to 0.45 % of the value of the transaction, however no more than LTL 20,000 for transactions that involve one real estate object and not more than LTL 50,000 for transactions involving two or more real estate objects may be charged.

The stamp duty for legal persons to register title to real estate ranges from LTL 80 to LTL 5000 for each object depending on the average market value of the property. Additional expenses such as brokerage fees, real estate valuation, bank fees, etc. may also be incurred during a transaction.

LTL is tightly pledged against the euro at a rate of LTL 3,4528 to EUR 1.

2. Is real estate subject to any real estate tax? At which rate?

Real estate tax
Real estate other than land owned by Lithuanian and foreign legal entities and individuals is subject to real estate tax. The annual real estate tax (applicable on the real estate other than land) rate varies from 0.3 % to 3 % of taxable value of the real estate, depending on the decision of the particular municipality which has to determine the exact rate(s) of the tax within its territory. Taxable value of the real estate is determined based on the market value. Individuals owning residential real estate, value of which in total exceeds LTL 1,000,000, are taxed with 1 % real estate tax on the exceeding value.

Land tax
Land owned by resident and non-resident companies and individuals is subject to land tax. Annual land tax rate varies from 0.01 % to 4 % of taxable value of the land, depending on the decision of the particular municipality which has to determine the exact rate(s) of the tax within its territory. Taxable value of the land is determined based on the market value.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The sale of land (except the land transferred together with new buildings or structures or parts thereof as well as land for construction) and the sale of buildings, structures or parts thereof (except new buildings and structures, new parts of buildings and structures) are VAT exempt.

In case a transaction is subject to VAT, a standard rate of 21 % is applied.

The seller may also opt for taxation of the generally exempt transaction at 21 % VAT, provided that both the seller and the buyer are subject to VAT. The sale of shares is exempt from VAT.

2. What are the VAT consequences of renting/leasing of real estate?

Similarly as in case of sale of real estate, the lease of real estate is generally exempt from VAT. However, short-term lease of residential premises, as well as lease of parking lots, garages or other items of similar purpose is subject to 21 % VAT.

E. Other relevant business-related taxes

1. Is there a capital tax for equity injected into a local company?

No, there is no capital tax in Lithuania.

2. Is there a stamp duty on debt granted to a local company?

No, stamp duties are not levied in case of granting of debt to a local company.

Real Estate Investment in

Luxembourg

A. Legal/General

1. Are non-residents entitled to acquire real estate in Luxembourg? Does the acquisition have to be carried out by a corporation?

There are no restrictions on foreign ownership of real estate property in Luxembourg. Such investment can be carried out either by individuals or corporations.

2. Which importance does the land register have?

The main purpose of the land register is to ensure the enforceability of real estate property transfers towards third parties.

The Luxembourg land register is competent for land mortgages and land registration. Registration duty is set at 0.05 %.

The land register also deals with recording real estate conveyances and seizure reports, which are subject to duty of usually 1 % (0.5 % in some uncommon cases).

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Personal Income Tax
With regard to individuals, income tax rates are progressive and range from 0 % to 40 %. A surcharge of 7 % applies on the tax due and this increases to 9% for (i) individuals in tax class 1 and 1a with taxable annual income in excess of € 150k and for (ii) individuals in tax class 2 with taxable income in excess of € 300K, so that the marginal income tax rate is 43.60 %.

The first exempted income bracket increases to € 11,400 for class 1 and class 1a individuals and up to € 22,650 for class 2 individuals.

The marginal tax rate of 40 % is reached with a level of taxable income of € 100 k for unmarried individuals and of € 200 k for married spouses.

Corporate Income Tax
With regard to companies, a corporate income tax at a rate of 21 % applies to companies with a taxable income exceeding € 15,000; and 20 % to companies

with a taxable income not exceeding such threshold. The corporate income tax is increased by a contribution to the unemployment fund of 7 % (therefore increasing the aggregate corporate income tax rate to 22.47 %).

Municipal Business Tax
Companies are also usually liable to a municipal business tax at rates ranging from 6,75 % to 12 % (6.75 % in the municipality of Luxembourg in 2014).

Net Wealth Tax
Companies liable to corporate income tax are subject to an annual net wealth tax at the rate of 0.5 % of their "unitary value" (basically their adjusted net asset value).

Luxembourg participation exemption regime for dividends and capital gains (very high level)
Dividends received and capital gains realized from a "qualifying entity" (the entity deriving the income holds or commits to hold the participation for at least twelve months and has a shareholding of at least 10 % of the share capital or has an acquisition price of € 1.2 m for dividends and liquidation proceeds or € 6 m for capital gains) may be exempt from Luxembourg corporate income tax and municipal business tax.

Minimum annual Corporate Income Tax (since 2013)
All Luxembourg tax resident companies are subject to a minimum corporate income tax:

- → If the company qualifies as "holding company", the minimum corporate income tax is € 3,210 (including the 7 % solidarity surcharge);
- → The minimum corporate income tax for all other companies (including the 7 % solidarity surcharge) is based on the company's balance sheet total, and ranges from € 535 (when the balance sheet total does not exceed € 350 k) to € 21,400 (when the balance sheet total exceeds € 20 m).

2. What is the tax depreciation period for real estate in Luxembourg? Are there depreciation categories? Which depreciation method is used?

From a general perspective, the tax depreciation period is determined based on the useful lifetime of the assets, taking into consideration the specific features of the assets and the specific conditions of their use.

For Luxembourg real estate, the tax depreciation period varies between 20 and 50 years (as a result, annual depreciation rates vary between 2 % and 5 %). The only depreciation method available for Luxembourg real estate is the straight-

line depreciation method. However, it is possible to use an accelerated depreciation method for Luxembourg real estate leased to individuals, provided that the construction was finalized for less than six years. The depreciation rate for the accelerated depreciation method is 6 % per year during the first six years following the construction of the real estate.

3. When is a foreign investor subject to limited tax liability in Luxembourg?

Any income or capital gains deriving from Luxembourg real estate are subject to tax in Luxembourg.

For individual foreign investors, real estate income is subject to the same tax liability as for resident investors (i.e. progressive tax rate from 0 % to 40 % or specific rates for capital gains in certain circumstances).

For foreign investors established under the form of a capital company, real estate income is subject to the same tax liability as for resident companies. However, provided that the activity performed in Luxembourg is not considered as a commercial one (for instance, the activity is limited to the passive leasing of only one real estate property), real estate income derived by foreign investors established under the form of a capital company will not be subject to municipal business tax (the rate varies, depending on the municipality, from 6.75 % to 12 %) but only to corporate income tax at the rate of 22.47 % (including contribution to the unemployment fund), so that their global tax liability is limited compared with resident investors established under the form of a capital company.

4. Are asset deal and share deal possible in Luxembourg? What are the main consequences?

Both asset deal and share deal are possible in Luxembourg.

The profits realized pursuant to an asset deal are in principle fully subject to tax (except in case of a roll-over relief under specific circumstances). Moreover, Luxembourg asset deals are in principle subject to Luxembourg real estate transfer tax.

Provided that the Luxembourg real estate company is not tax transparent (i.e. incorporated under the form of a transparent civil company or a partnership), profits realized upon the sale of shares in a Luxembourg real estate company by a Luxembourg investor established under the form of a capital company may be exempt under the participation exemption regime (see B.1 above).

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Although the Luxembourg law does not provide for specific rules, the Luxembourg tax administration requires a minimum debt-to-equity ratio of 85:15 for shareholding activities and 90:10 for the holding of real estate property (it only applies within the scope of intragroup operations). Excess interest deductions may be denied and subject to a 15 % withholding tax as constructive dividends.

6. Can acquisition costs/financing fees/interest be deducted?

Accounting law allows the amortization of acquisition costs/financing fees over a maximum period of five years or to deduct them during the year in the course of which they have been paid. The tax administration generally follows the accounting treatment chosen.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Luxembourg tax law allows tax neutral mergers of Luxembourg companies provided that certain conditions are met (implementation of EU merger directive as amended).

As a result, all assets and liabilities of the absorbed/merged company are transferred to the absorbing company in tax neutrality.

The outstanding debt of one of the companies merged will thus be transferred to the surviving entity, the interest on this loan remaining in principle fully tax deductible.

Moreover, please note that a tax consolidation regime is provided by the Luxembourg tax law under certain conditions (e.g. the entities must be Luxembourg resident, fully taxable, and the participation must be at least 95 %, etc). As a result, the interest charges of the Luxembourg parent entity could be deductible against the income of the Luxembourg subsidiary for Luxembourg tax purposes.

8. Is there a withholding tax on interest payments paid by local company to creditor?

There is generally no withholding tax on interest paid to both residents and foreign creditors.

However a withholding tax can apply in the following cases:

- Interest payments re-characterized as hidden dividend distribution (excessive amount or rate);
- Income derived from participating loans or profit sharing bonds can be subject to withholding tax at a rate of 15 %.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Losses incurred by a company can in principal be carried forward indefinitely for both corporate income tax and municipal business tax purposes. A tax loss carry-back is not permitted.

C. Real Estate Taxes

1. Does Luxembourg levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

A transfer tax is levied upon the sale of real estate property and upon the sale of shares in a partnership when the partnership holds real estate property (proportionally). No transfer tax is usually levied upon the sale of shares in corporations holding real estate property.

Transfer tax is levied at a rate of 6 % plus 1 % registration duty (see A.2 above). When the real estate property is located in the municipality of Luxembourg, an additional tax of 50 % of the transfer tax is due.

Therefore, the overall duty can be summarized as follows:

- 6+3+1 % for real estate located in the municipality of Luxembourg;
- 6+1 % for real estate located outside of the municipality of Luxembourg.

2. Is real estate subject to any real estate tax? At which rate?

Municipalities in the Grand-Duchy of Luxembourg can levy a land tax at a rate ranging from 0.7 % to 1 % of the unitary value of the real estate property, increased by a coefficient depending on the district in which the real estate property is located.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The sale of real estate property is in principle exempt from VAT in Luxembourg. However, the sale of real estate property is subject to VAT in the following situations:

- The building to be built does not exist at the time of the agreement (in that event, transfer tax and recording duties are only levied on the value of the ground);
- The supply takes place within the framework of a contract for services or of a contract of enterprise;
- An option to submit the sale of the VAT is exercised. Such option may be exercised when the buyer uses the property mainly for activities that give the right to deduct the VAT, where the minimum deductibility is 50% of its VAT inputs.

The main interest of subjecting the sale of real estate property to VAT in Luxembourg is the deductibility of the building costs by the seller.

The sale of real estate property is subject to VAT at a rate of 15 % (3 % if the building is used as principal residence).

2. What are the VAT consequences of renting/leasing of real estate?

The renting/leasing of real estate property is in principle exempt from VAT in Luxembourg. However, leasing/renting of real estate property will be subject to VAT in the following situations:

- the leasing/renting relates to accommodation in hotels, camping grounds, parking places, safes or machinery;
- an option to submit the agreement to VAT is exercised by the lessor. Such option may be exercised when the lessee uses the property mainly for activities that give the right to deduct the VAT, where the minimum deductibility is 50% of its VAT inputs.

Whereas a registration duty of 0.6 % of the rental payments to be paid is levied on VAT exempt renting, renting being subject to VAT only bears a fixed registration duty of € 12.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

In principle, only a fixed capital duty of € 75 is due upon contribution made to Luxembourg companies.

However, in case of contribution in kind of Luxembourg real estate, a capital duty of 1.1 % calculated on the market value of the Luxembourg real estate contributed is due.

2. Is there a stamp duty on debt granted to a local company?

No stamp duty is due on debt granted to local companies.

However, in case of a mortgage loan, registration duty is due on the Luxembourg real estate at the rate of 0.05 % of the principal of the receivable benefiting from the guarantee.

Real Estate Investment in

Malta

A. Legal/General

1. Are non-residents entitled to acquire real estate in Malta? Does the acquisition have to be carried out by a Maltese corporation?

Non-residents, both individuals and legal entities, are allowed to acquire real estate in Malta. Non-residents of Malta exclude Maltese citizens and EU citizens who have been residing in Malta for a minimum continuous period of five years as well as Maltese entities and EU entities.

However, non-EU citizens or entities that are beneficially owned by non-EU citizens require written authorization granted by the Minister of Finance prior to acquiring real estate in Malta. Nevertheless, the acquisition of real estate in a 'special designated area' does not require a permit even if acquired by a non-resident. Special designated areas consist in high-end residential areas usually located in coastal areas.

2. Which importance does the land register have?

There are some areas in Malta which are declared by the responsible Minister as registration areas, which are called as compulsory registration areas. Any document (whether contract, judgment or any other document) involving any transaction relating to immovable property situated in any compulsory registration area is not operative until and unless the title to the relative land is registered in the land register. The Land Registrar may in his discretion also register title to any land situated outside a registration area, whereby such land may be regarded as if it were situated in a registration area.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

The chargeable income of a company, which includes its taxable income and capital gains, is taxed at 35 %, which is the corporate tax rate in Malta.

Individuals are subject to tax in Malta at progressive rates. There are different scales of rates for different categories of individuals, with the maximum rate being 35 %.

Income derived from real estate situated in Malta (such as rents, royalties and premiums) is subject to tax in Malta, irrespective of whether such income arising in Malta is remitted to Malta or not. The same rules are applicable in the case of capital gains derived by a person from the transfer of real estate including shares in a company or entity that owns real estate.

As a general rule, a transfer of real estate is subject to 12 % final tax of the 'transfer value', which is the higher of the price paid for the transfer and the market value. However, there are certain situations where the transferor has the right to opt to be taxed on the capital gain (taxable at applicable rates, see above), which is the difference between the transfer value and the cost of acquisition. Certain deductions are also allowed including the cost of improvements, inflation and maintenance. Such instances include:

- A transfer of property that is made not later than twelve years from the date of the acquisition;
- A transfer of property that had been used in a business for at least three years and that is replaced within one year by property used solely for a similar purpose of the business;
- A transfer of property by a non-resident person who proves that the gains or profits derived from the transfer will be taxable in the country of residence.

Gains and profits derived from the transfer of real estate in certain situations are exempt from income tax. These include:

- Transfer of real estate between companies within the same group;
- Transfer of an asset used in a business for a period of at least three years, which is replaced within one year by an asset used solely for a similar purpose in the business.
- Transfer by an individual of his or her own residence where the property has been owned or occupied for at least three years.

Participation exemption is relevant to the transfer of participations (equity shareholding) in non-resident entities and transfer of participations in Maltese entities. In the latter case, the exemption applies as long as the Maltese entity does not directly or indirectly own real estate situated in Malta.

2. What is the tax depreciation period for real estate in Malta? Are there depreciation categories? Which depreciation method is used?

A deduction of 2 % of the cost (straight line method) is allowed in respect of wear and tear of industrial buildings and structures (typically, hotels, factories and

warehouses). The cost of the land on which the building or structure is erected is not included within the cost.

3. When is a foreign investor subject to limited tax liability in Malta?

A non-resident person that is not domiciled in Malta is subject to Maltese tax on Malta source income and on foreign income (excluding foreign capital gains) that is received in Malta ('remittance basis'). Income or gains derived from real estate situated in Malta represents Malta source income and is always subject to Maltese tax (subject to relief in terms of a double tax treaty).

4. Are asset deal and share deal possible in Malta? What are the main consequences?

Both asset deals and share deals are possible in Malta. Transfers of real estate are subject to tax in Malta. Transfer of shares in companies or entities (including partnerships) that own real estate situated in Malta are also subject to tax in the same way.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

There are no thin capitalization rules in Malta.

Under Maltese tax law, deductions are allowed for interest payable on capital employed in acquiring the income. However, no deduction is allowed in respect of interest paid to a non-resident person where such interest is related to financing real estate situated in Malta.

6. Can acquisition costs/financing fees/interest be deducted?

Yes, but subject to certain limitations and exceptions.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Maltese tax law does not allow fiscal unity or pooling.

It is possible to surrender losses (or gains) between companies forming part of the same group.

As regards interest deduction, it is allowed against income derived from capital upon which interest was paid. For instance, interest paid on financing used to acquire shares is deductible against dividend income derived from such shares.

8. Is there a withholding tax on interest payments paid by local company to creditor?

As a rule, income payable to non-residents is subject to a withholding tax. However, interest accruing to or derived by non-residents is exempt from Maltese tax and no WHT applies on interest payments to non-residents. The exemption does not apply if the non-resident is engaged in trade or business in Malta through a Maltese permanent establishment and the interest is connected with such permanent establishment.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

A loss can be carried forward under Maltese tax law. Trading losses may be set off against profits or capital gains whereas capital losses may only be set off against capital gains.

There is no Loss Carry Back under Maltese tax law.

C. Real Estate Taxes

1. Does Malta levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

No, there is no real estate transfer tax. However, transfers of real estate are, as a rule, taxed at 12 % on the transfer value as explained above.

2. Is real estate subject to any real estate tax? At which rate?

No, there is no real estate tax imposed on real estate in Malta.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Transfers of real estate are exempt without credit, meaning that the underlying input VAT borne by the seller of the immovable property cannot be recovered on the sale of such property.

2. What are the VAT consequences of renting/leasing of real estate?

As a rule, letting of immovable property and real estate is exempt without credit. However there are exceptions

- → Letting of licensed premises (typically hotel and holiday accommodation);
- → Letting of premises and sites for parking vehicles;
- → Commercial letting (letting by a limited liability company to a VAT registered customer);
- → Letting of immovable property for not more than 30 days by a business.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Dilution in the share capital of a property company resulting from a change in equity or capital injection can give rise to capital gains tax and stamp duty.

2. Is there a stamp duty on debt granted to a local company?

5 % stamp duty is chargeable on transfers of real estate in Malta and on transfers of securities in Maltese companies owning real estate. Certain exceptions and exemptions apply including group transfers.

Real Estate Investment in

Mexico

A. Legal/General

1. Are non-residents entitled to acquire real estate in Mexico? Does the acquisition have to be carried out by an Austrian corporation?

According to the Mexican Constitution, only Mexican by birth or naturalization and Mexican corporations have the right to acquire domain over lands, waters and their appurtenances.

Nonetheless, the Mexican Government may grant the same right to foreigners, provided that they agree before the Ministry of Foreign Affairs to consider themselves as nationals in respect to such property and not to invoke the protection of their governments in reference to said property. In case of defaulting the agreement, the property forfeits in benefit of the Mexican Government.

However, the Constitution also states that in no case may foreigners acquire direct domain over lands or waters in a zone of 100 kilometers along international borders or 50 kilometers along the shore.

Regarding this restriction, it has been common practice to use Trusts for the acquisition of real estate in the abovementioned zone, so that a non-resident does not acquire directly such real estate.

This restriction is intended to be eliminated. A proposal of amendment is in process of being approved.

2. Which importance does the Mexican land register have?

Property rights should be registered in the Real Estate Registry. Although ownership is transferred contractually, once registered, the transfer of property is opposable against third parties. The person who first registers has a preferential right regarding a specific property against third parties.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

The corporate income tax rate is 30 %.

The personal income tax rate is based on a tariff that establishes different tax rates for individuals in accordance with their taxable income. The range of rates established in the Income Tax Law would be from 23.52 % to 35 %.

No international participation exemptions are established in the Mexican tax provisions.

2. What is the tax depreciation period for real estate in Mexico? Are there depreciation categories? Which depreciation method is used?

The Income Tax Law establishes maximum tax depreciation annual rates that are applicable to the different types of fixed asset to be deducted or depreciated.

In such a case, the only method that is then acceptable in terms of the Mexican tax provisions is the straight-line method.

In the particular case of immovable properties, the Mexican income tax provisions establish that real estate would be depreciated at a maximum 5 % rate, that is, the real estate would be depreciated in a 20 year period.

It is important to point out that depreciable fixed assets do not include land.

3. When is a foreign investor subject to limited tax liability in Mexico?

Non-resident tax liability is limited to Mexican source income. Withholding rates apply depending on the type of income.

Permanent establishments are treated as resident entities or persons, but only the income obtained from activities carried out by the permanent establishment are taxable in Mexico, that is, the revenue that is attributable to such permanent establishment.

4. Are asset deal and share deal possible in Mexico? What are the main consequences?

As explained before, direct real estate acquisition is prohibited by the Mexican Constitution for foreigners. A foreign investor has to either acquire real estate through a Mexican company or through a Mexican Trust. Since both ways of acquiring real estate are through resident entities, all local regulations apply.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

The Income Tax Law establishes thin capitalization rules that limit the deduction of interest deriving from debts granted to Mexican entities by their foreign related parties, when such debts exceed the stockholders' equity of the Mexican entity on a 3:1 ratio.

An other requirement established in the Income Tax Law for the deduction of interest payments is that the loans from which the interest derive are invested in business activities.

Also, in case that the loan agreement was entered into by and between a Mexican resident and one of his related parties, the transaction should be carried out according to the arm's length principle. However, in case that such related party is a non-resident, the Mexican company would have to request the elaboration of its transfer pricing study. The taxpayer has to either obtain or produce a transfer pricing study using one of the methods approved by the Income Tax Law.

6. Can acquisition costs/financing fees/interest be deducted?

In general terms, the acquisition cost of a land is not a deductible expense for the taxpayer that purchases such immovable property. However, such cost could be deducted from the income obtained from the sale of the land, at the moment in which such a transaction takes place.

Acquisition costs of other immovable properties such as constructions can be deducted from the income tax basis by applying the annual depreciation rate to such costs (updated with Mexican inflation).

Certain financing fees are considered to be interest payments for the purpose of the Mexican Income Tax Law.

Interest payments can be deducted from the income tax basis taking into account some other requirements that were already described in question 5, which are, in general terms, the thin-capitalization rules, that the loans are invested in the business activities. In case that the loans were requested from a related party, the interest payments derived from such loans should be agreed at fair market value. If the related party is a foreign resident for tax effects, the Mexican taxpayer would have to request the elaboration of its transfer pricing study.

As mentioned, this transfer pricing study can be produced by the taxpayer, or requested to an independent consultant.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Yes, but thin capitalization rules apply. Also, the company would need to have a clear business purpose for the operation.

8. Is there a withholding tax on interest payments paid by local company to- creditor?

Interest payments are deemed to derive from a Mexican source if they are paid by a Mexican resident. Hence, interest paid by a Mexican resident to a foreign creditor would be taxable in Mexico at the corresponding rate.

The applicable withholding tax rate varies according to the recipient of the payments. In case that the effective beneficiary of the interest is a resident of a country with which a Treaty for the Avoidance of Double Taxation has been entered into by Mexico, the 4.9 % withholding tax rate applies; for an effective beneficiary that is resident in another country (which does not have a preferential tax regime) the 10 % rate applies, and for a person that is not a bank, in general terms, the 35 % rate is applicable.

Notwithstanding the above, in case that the effective beneficiary of the interest is a resident of a country with which a Treaty for the Avoidance of Double Taxation has been entered into by Mexico, the Mexican resident has to determine if the benefits of such a convention can be obtained so that the reduced tax rate can be applied. In such a case, it is up to the resident taxpayer to ensure that the requirements for obtaining such a tax treaty benefit are observed.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Loss carry back is not possible in Mexico.

However, the Income Tax Law allows tax payers to carry forward losses and offset them in the future. Tax payers have ten years to offset losses against taxable income. This right is not limited to any amount, but if a taxpayer is in possibility to offset losses and does not do it, he will lose the right to offset such losses in the amount of the taxable basis obtained in the tax year.

If the losses are greater than the taxable income after the set-off, the taxpayer can carry forward the remaining amount of the losses.

C. Real Estate Taxes

1. Does Mexico levy a real estate transfer tax on sale of real estate or shareholdings?

Real estate transfer tax is a local tax burden established by the states or municipalities of Mexico respectively. Almost in all cases, the local tax provisions mention that the sale of land and constructions, or both, are burdened with real estate transfer tax.

In order to determine the tax base, in most of the cases, the higher of the acquisition value, commercial value (appraisal value) and the cadastral value is taken into account.

The real estate transfer tax rate varies according to the place in which the immovable property is located. However, in the case of Mexico City (Federal District), a tariff is applicable which is based on the value of the real estate whose applicable rates range from 3.7 % to 4.6 %.

2. Is real estate subject to any real estate tax? At which rate?

Real estate tax is a local tax imposed by the states or municipalities of Mexico that should be paid by the owner of an immovable property based in the cadastral value of the real estate.

The real estate tax rate varies according to the place in which the immovable property is located. In the case of a real estate located in Mexico City (Federal District), the rates established in the tariffrange from 0.1 % to 0.2 %.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

A real estate sale is taxed pursuant to the VAT law at a 16 % rate. The sale of real estate properties for residential use is VAT exempt.

2. What are the VAT consequences of renting/leasing of real estate?

All types of leasing are subject to VAT at a 16 % rate. However, the lease of residential real estate is VAT exempt.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Netherlands

A. Legal/General

1. Are non-residents entitled to acquire real estate in The Netherlands? Does the acquisition have to be carried out by a Dutch corporation?

Any (legal) person, including non-residents, can acquire real estate in the Netherlands so the acquisition does not have to be carried out by a corporation. Any acquisition of real estate must be carried out by a notary who also reports the transfer in the 'Kadaster' (land register).

2. Which importance does the land register have?

The primary duty of the Kadaster is to keep record of immovable property (land, homes, buildings etc) as well as certain movable properties (ships and airplanes). The Kadaster provides legal certainty regarding the ownership of property and what the exact measures and locations of that property are. The Kadaster also keeps record of any mortgages regarding the property.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Corporate income tax

The corporate income tax rate for 2014 is 20 % regarding profits up to € 200,000 and 25 % regarding profits exceeding € 200,000.

If a Dutch resident company (which is not a qualifying collective investment company) or Dutch permanent establishment holds shares in Dutch or foreign companies, dividends received from such companies or capital gains or losses with respect to the shareholdings in these companies are exempt from Dutch corporate income tax, provided the participation exemption applies. Furthermore, expenses related to the acquisition or alienation of shareholdings that qualify for application of the participation exemption are not deductible. Profit taxes levied by other jurisdictions on income or capital gains (like withholding tax on dividends received) to a shareholding to which the participation exemption applies, cannot be credited against Dutch tax and cannot be deducted in the Netherlands. The participation exemption has to be applied on a continuous basis, which can lead to compartmentalization of profits and losses with respect to the shareholding in case the participation exemption did not apply to the entire holding period of the shares. In general, the participation exemption applies when at least 5 %

of the share capital of a company is owned by a shareholder. The participation exemption does not apply to shares in qualifying collective investment companies and passive portfolio investments that are not sufficiently taxed or hold certain qualifying assets. Real estate companies (companies that mainly own real estate), provided they are not qualifying collective investment companies, qualify for the participation exemption even if they are not sufficiently taxed or are held as a passive portfolio investment.

Personal income tax

In the Netherlands, there are three 'boxes' in which the income of natural persons is taxed. Box 1 includes all active income, such as wages (including pensions) and business profits. The personal income tax rate in case of an active investment in real estate ranges (in 2014) from 5.1 % to 52 % and is levied on the actual income. In box 2 the income from share capital is taxed when 5 % or more of the shares is (in-)directly owned by a private person. The tax rate for box 2 is 25 %. In box 3 all (passive investment) assets are taxed which are not included in boxes 1 and 2. These passive investments (which could include real estate) are deemed to have an income of 4 % of the net asset value (in case of real estate: value of the building -/- loan financing). This deemed income is taxed at a tax rate of 30 % which results in an effective tax rate of 1.2 % of the net value.

There are no special income tax rates regarding real estate.

2. What is the tax depreciation period for real estate in The Netherlands? Are there depreciation categories? Which depreciation method is used?

Depreciation on buildings is usually calculated on a straight-line basis using economic principles, which is for personal income tax purposes only relevant if it concerns box 1 income. The municipality makes an annual valuation to determine the 'WOZ-value' (WOZ = "Waardering Onroerende Zaken" which means "valuation of property") of each property, which is the basis for the municipal real estate tax and should be a measure of the fair market value of the property. The depreciation of a property is limited to 100 % of the calculated WOZ-value excluding the value of the land. When the building is used for more than 30 % by the owner for his own business or the business of related parties (and for example not rented out to unrelated parties), the depreciation is limited to 50 % of the WOZ-value.

3. When is a foreign investor subject to limited tax liability in The Netherlands?

Corporate income tax

A foreign investor, being a legal entity, is subject to Dutch corporate income tax in case it has a permanent establishment in the Netherlands which conducts a business in the Netherlands. Real properties located in the Netherlands are considered permanent establishments by fiction. So in case a foreign entity invests in real estate in the Netherlands, it is liable to pay Dutch corporate income tax. If the entity investing in Dutch real estate qualifies for the special regime for collective investment companies, then a tax rate of 0 % applies. This special regime is only available for corporate tax payers if certain requirements are met with respect to its legal form, activities, the composition of its shareholders, maximum debt financing and an obligation to distribute its annual profits.

In certain cases, an investment of more than 5 % in a Dutch company can make the foreign corporate investor subject to Dutch corporate income tax, i.e. if the investment is not part of the active business of the investor and the structure has the purpose to avoid Dutch personal income tax or dividend withholding tax.

Personal income tax

A foreign investor, being a private person, is subject to Dutch personal income tax in case he has income from one of the three boxes mentioned in question B.1, as far as it concerns Dutch sourced income, like from employment or a business in the Netherlands (box 1), large shareholdings in the Netherlands (box 2) or Dutch real estate (box 3) if it is not taxed in box 1 or 2.

4. Are asset deal and share deal possible in the Netherlands? What are the main consequences?

In the Netherlands both asset deals and share deals are possible to acquire or sell real estate for income tax purposes. In general, for corporate income tax and personal income tax (box 1 only) purposes, an asset deal means triggering any hidden reserves in the real estate in question, while a share deal avoids this. However, gains on selling real estate can in certain cases be deferred for up to three years provided there is sufficient proof that there is a concrete intention to reinvest in the Netherlands.

Besides, there could be some VAT and/or real estate transfer tax consequences depending on which form is chosen.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

In the Netherlands, corporate tax payers are since 2013 no longer subject to general thin capitalization rules which can result in the limitation of interest deduction. Though the general thin cap rule has been abolished, two other specific thin cap regulations have been introduced fairly recently, one regarding acquisitions of companies that are joined in a Dutch fiscal unity, and another one regarding holding companies. In addition, there are many more interest deduction restrictions as well as limitations to the depreciation of loans that may apply to a specific situation. Due to the amount and complexity of these regulations this cannot be elaborated in this overview any further.

6. Can acquisition costs/financing fees/interest be deducted?

In general, financing fees and interest can be deducted from the taxable profit but acquisition costs may have to be capitalized on the assets that are acquired. Several specific limitations for the deduction of (interest) expenses exist.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

In general, the possibilities to allow pooling of financing cost with income of a target through a fiscal unity or legal merger, for example, are restricted. However, depending on the situation, it may be possible to achieve the desired result in whole or part through careful (cross-border) structuring.

8. Is there a withholding tax on interest payments paid by local company to creditor?

No, unless the interest is not at arm's length or it concerns certain long term profit participating loans.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Corporate income tax

Losses suffered by a tax payer in the Netherlands can be offset against the profit of the previous taxable year (carry back). The losses which could not be settled against the profits of the previous year can be offset against future taxable profits. This carry forward of losses is limited to nine years. Some specific rules may apply that can restrict the utilization of the losses in case of a change in (indirect) ownership and/or activities of a tax payer.

Personal income tax

A negative income for a year in box 1 can be carried back to positive income of the previous three years. Losses that cannot be carried back can be carried forward for a period of nine years. Negative income for a year in box 2 can be carried back one year and carried forward nine years. Box 3 income cannot be negative by definition, so loss carry back and carry forward rules are not applicable at all for box 3 income.

C. Real Estate Taxes

1. Does The Netherlands levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

When real estate is sold, real estate transfer tax (RETT) is due, unless an exemption applies. The RETT rate is 6 % (2 % for private homes) of the value and is due by the buyer. In some cases (legal) entities with a capital divided into shares are considered deemed real estate. The transfer of the shares in these entities is then also taxable with RETT. Not only the legal transfer, but also the economic transfer of real estate is in principle subject to RETT. Certain exemptions exist, for example in case of transfers within a group of companies.

2. Is real estate subject to any real estate tax? At which rate?

Depending in which city the property is located, the owner of real estate must pay municipality taxes (OZB) regarding the property. The municipality makes an annual valuation to determine the 'WOZ-value' of each property. The WOZ-value is used to calculate the annual OZB. In 2014 the rates range from 0.0451 % to 0.2300 % of the WOZ-value of the property.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The sale of real estate is in general VAT exempt unless the property is sold within two years after it has been taken into use for the first time. In that case the sale is taxable with Dutch VAT. When the VAT exemption applies, it is possible for buyer and seller to opt for a VAT taxable sale (provided the real estate will be used for VAT taxable activities).

After the deduction of VAT that was charged for the sale of real estate, the use of the property will be monitored for ten years. If the property is sold within these ten years and the buyer and seller did not opt for a VAT taxable sale then the seller of the property must pay back 10 % of the deducted VAT for each remaining year, so 40 % in case the property is sold after six years. This revision of the deducted input VAT must be paid at once after the VAT-exempt sale of the property.

2. What are the VAT consequences of renting/leasing of real estate?

The lease of real estate is VAT exempt. The lessor and lessee can opt for VAT taxable lease in case the lessee uses the property for activities which give right to deduct at least 90 % of charged VAT. In some cases (if the lessee is a realtor, travel agency etc.) the percentage is 70 %. In order to opt for taxation, the parties must file a joint request at the Tax Authorities or complete some administrative conditions in the lease agreement. When in case of a VAT audit it is concluded that the parties did not meet the conditions for opting taxation, then the lease should have been exempt. If the lessor deducted any input VAT regarding the property, the Tax Authorities can impose additional assessments to the lessor. The revision period mentioned at the sale section above, could also result in additional assessments from the Tax Authorities.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

The Netherlands does not levy capital tax for equity injected into a local company.

2. Is there a stamp duty on debt granted to a local company?

There is no stamp duty on debt granted to a local company in the Netherlands.

Real Estate Investment in

Norway

A. Legal/General

1. Are non-residents entitled to acquire real estate in Norway? Does the acquisition have to be carried out by a Norwegian corporation?

There are no general restrictions as to who can own property. Any domestic or foreign person or legal entity recognized in Norway may own real estate – and also register their rights in the Land Registry (see below). However, restrictions may apply under the Norwegian General Concession Act. An acquisition of some specific agricultural properties must be specifically authorized under the applicable legislation.

2. Which importance does the land register have?

All land in Norway is divided into registry units with unique numbers for identification and registration purposes. The registry is called the Land Registry ("Grunnboken"). Ownership, mortgages, long term leases as well as easements are commonly registered in the Land Registry. The records maintained by the Land Registry are open to public inspection.

A foreign legal entity must be registered in the Norwegian Register of Business Enterprises and must obtain a Business Register Number in order to have title to a property registered in the Land Registry. Likewise, a foreign individual must obtain a Norwegian identification number in order to have title registered. Obtaining a Business Register Number or an identification number is usually a swift and uncomplicated process.

Both a registration fee and stamp duty must be paid for the registration of a new owner of the property. The registration fee is modest being approximately € 200. For the registration of rights other than ownership, only the registration fee is payable. Stamp duty is payable by the buyer of commercial, residential or industrial property. Payment of stamp duty is not a condition for the buyer's ownership to the property in question to become effective, but it is a requirement if the buyer wants his ownership to be registered in the Land Registry. Stamp duty for previously used properties amounts to 2.5 % of the total value of the property. Stamp duty for newly erected buildings amounts to 2.5 % of the value of the land on which the building is erected (or part of the land if the property being purchased is a unit within a building).

It is not compulsory to register ownership or other rights over real estate in the Land Registry and registration is not a requirement for the ownership or right to become effective, but it is highly recommended as it is the only way to gain full legal protection for such rights against third parties.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Corporate tax
A flat tax rate of 27 % applies to corporate taxable profits (ordinary income). The tax base is the sum of operating profit/loss, financial revenues and net capital gains minus tax depreciation.

Personal income tax
The general combined rate of national and municipal income taxes is 27 %. A lower rate of 23.5 % applies for the counties of Finnmark and Nord-Troms. The maximum effective marginal tax rate on earned income (excluding employers' national security contribution) is 47.2 %. This occurs for income over NOK 741,700 and is made up of Social Security contributions of 8.2 %, tax on ordinary income of 27 % and surtax of 12 %.

Real estate
If the investment is made directly or through a general or limited partnership (i.e. without using a Norwegian limited liability company), payment of rental income to foreign lessors is not subject to any withholding tax in Norway. However, net rental income from real estate situated in Norway is subject to general corporate income tax at a rate of 27 % and this principle is followed in all 85 double tax treaties entered into by Norway.

Participation exemptions
Capital gains derived by Norwegian limited companies on the disposal of shares in other Norwegian or EEA resident limited companies are exempt from taxation. For gains realized on the disposal of shares in a company in a low-tax jurisdiction within the EEA, the exemption only applies if real business activities are conducted in that jurisdiction. Capital gains realized by Norwegian limited companies from shares in companies resident in non-EEA countries are exempt from taxation if at least 10 % of shares have been held for at least two years and the foreign company is not a resident in a low-tax jurisdiction. A low tax jurisdiction is assumed if the tax payable is less than two-thirds of the tax that would have been payable in Norway.

If the investment is made through a Norwegian limited liability company, the company will be taxed on its net income derived. The tax rate is 27 %. Dividends payable to non-resident corporate investors are subject to a withholding tax of 25 %, unless the recipient is protected by a double tax treaty or is resident in the EEA area.

For corporate investors resident in the EEA area no withholding tax applies. For corporate investors resident elsewhere, the withholding rate is usually reduced to 15 % or a lower level depending on the size of the holding in the Norwegian company and the relevant double tax treaty.

2. What is the tax depreciation period for real estate in Norway? Are there depreciation categories? Which depreciation method is used?

Assets used for business purposes with an expected life of more than three years and costing more than NOK 15,000 are depreciable. Taxable depreciation applies the reducing balance method.

According to current tax law, the maximum depreciation rate on industrial buildings and hotels etc. is 4 % p.a. This increases to 8 % if the useful life is less than 20 years. For commercial buildings the maximum depreciation rate is 2 % p.a. Parts of the acquisition cost may in certain cases also be eligible for a more favourable rate (for example machinery used in production and underground garages, but not fixed plant such as air conditioning systems and electrical installations).

Note that the purchase price of the land in itself will not be subject to depreciation.

3. When is a foreign investor subject to limited tax liability in Norway?

Resident companies are subject to corporation tax on worldwide profits and capital gains. Non-resident companies are subject to limited taxation in Norway on Norwegian sourced income, e.g. corporation tax on Norwegian sourced profits, including income derived from a permanent establishment in Norway.

Limited companies incorporated in Norway and foreign companies with their effective management and control in Norway are treated as resident in Norway. Norwegian taxable income is based on worldwide income, unless exempt under a double tax treaty. Branches are taxed similar to Norwegian limited companies, but only on Norwegian sourced income.

Non-resident individuals are taxed on income received from real and personal property in Norway, including income from employment in Norway, but Norway's right to tax may be limited by an applicable double tax treaty. All individuals domiciled or permanently resident in Norway are subject to Norwegian income tax on their worldwide income.

4. Are asset deal and share deal possible in Norway? What are the main consequences?

Investment in real estate in Norway may be effected in two ways; either through direct acquisition, i.e. an asset deal, or through indirect acquisition, i.e. a share deal, in other words a purchase of the corporate vehicle that owns the real estate.

Asset deal

For asset sales including the transfer of real estate or leaseholds, a stamp duty of 2.5 % of the market value of the real estate in question or the aggregate rental for the first 20 years is levied on the buyer.
The acquired net assets receive a step-up or a step-down to market value equal to the purchase price for the buyer to determine the depreciation for tax purposes and the gain or loss in a future asset sale.

Share deal

An investment in real estate may also be effected by purchasing the shares in the company that owns the real estate. Share deals are often favoured in order to avoid stamp duty and registration fees as it is the company itself which is the registered owner of the real estate in the Land Registry. A purchase of shares in a company does not trigger stamp duty, and nor do mergers.

Indirect investment through corporate vehicles in Norway may be achieved using various types of corporate vehicles with limited liability or types of partnership.

Capital gains and dividends from shares held or acquired by corporate entities in Norway and companies resident in an EU or EEA member state are tax exempt. Losses from the disposal of shares are not deductible.

The fact that the gain derived from the sale of shares in companies is tax free in Norway implies that most foreign based real estate investments in Norway take place using a Norwegian (limited liability) company. If the investor in the Norwegian company is also resident in a state with which Norway has a relevant double tax treaty which applies the exemption method for income derived from real estate (and often from shares in companies whose assets are real estate), the gain from the investment in Norway may, in certain cases, be structured to be tax free.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

There are no relevant formal thin capitalization regulations in Norway. The debt/equity ratio must be based on an arm's length principle. A ratio of 1:5 (equity vs. debt) was commonly accepted as a guideline for tax purposes, but must not be taken for granted as the Norwegian Tax Authority has put the ratio under severe scrutiny in recent cases.

6. Can acquisition costs/financing fees/interest be deducted?

From 2014 new rules for limitation of deductions on interest paid to related parties are introduced. A creditor of the debt is treated as a related party if the creditor owns or controls 50 % or more of the shares/votes in the debtor. A third party creditor can also be considered "related" if a related party has guaranteed for the debt on behalf of debtor. If a threshold of NOK 5.0 million in net interest cost (both paid to related and non-related creditors) is exceeded the deduction on interest paid to related parties is denied for the part of the interests that exceeds 30 % of specially calculated EBIT in the company or PE in question.

Within the interest deduction limitation rules that is introduced, a deduction against income generated by the property is usually available for interest paid on debt used to finance the acquisition of the property. Interest payable to non-residents is not subject to withholding tax.

Even though new interest deduction limitation rules are introduced the arm's-length test still has to be performed in order to assess the deductible amount of intra-group interest. If the loan in question would not have been granted by a third party, the part of the interest accrued which is not at arm's-length will not be deductible for tax purposes.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Norwegian legislation for limited companies provides limitations for the target company in terms of taking on debt related to the owner or parent company. The target company may not take on debt from the buyer related to the acquisition of shares in itself, but a merger may take place between target and parent company at a later stage.

The prohibition only applies to acquisitions of shares in Norwegian companies. Thus, the prohibition does not apply if the buyout is structured as an asset acquisition rather than a share acquisition. If the target has non-Norwegian subsidiaries, these subsidiaries will in general not be subject to the prohibition. Thus, a foreign subsidiary of the target may, subject to the laws of its jurisdiction of incorporation, in general provide security in respect of the acquisition financing of the target – whereas a Norwegian subsidiary of the target would not have this opportunity.

Legal distributions of equity by the target are allowed. The target may distribute dividends or resolve to decrease its share capital or share premium through distributions to its shareholders and thereby enable the sponsor to partly repay its acquisition financing.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Norway does not levy withholding tax on interest (or royalty) payments.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Losses may be carried forward without time limitations ("evergreens") regardless of reorganization or changes in ownership, provided that exploitation of the loss was not the main objective behind the change. Losses may be set against income from all sources including capital gains. The new interest deduction limitation rules that is introduced cf. Section B.6 above limit the time of carrying forward denied interest deductions to ten years. Denied interest deductions are thus not treated as losses.

Generally, losses may not be carried back, but liquidation losses may be offset against profits of the two preceding years.

C. Real Estate Taxes

1. Does Norway levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

There are no 'transfer taxes' other than stamp duty in Norway.

Stamp duty is normally payable in Norway on the acquisition of real estate situated in the country whether commercial, residential or industrial. The registration of transaction in immovable property in the Land Registry attracts the stamp duty. The stamp duty is 2.5 % of the sale value of the property. To calculate the sale value normal arm's-length conditions are deemed to apply. Registration of the new ownership in the Land Registry is optional and an application will not be accepted unless stamp duty is paid. The application must disclose the purchase price. Because of this, the Land Registry does not necessarily contain all relevant information about the ownership of the property, as some buyers may decide to avoid the stamp duty by not having their ownership registered. This is not recommended.

A transfer of shares in a limited liability company or a partnership that owns real estate will not trigger stamp duty. A transfer of real estate through a merger or de-merger of limited companies is also exempt from the duty.

Taken together with the Tax Exemption Model (see Section B.1 and B.4) this gives an incentive to buy and sell real estate companies instead of the property itself. For the same reasons, office buildings are often held in single purpose entities. Since future Norwegian buyers usually would not find it interesting or practical to acquire the shares in a foreign company in order to obtain real estate located in Norway, the best exit planning tool would be to own the property through a Norwegian entity.

2. Is real estate subject to any real estate tax? At which rate?

State net wealth tax

Non-resident limited liability companies are liable to net wealth tax of up to 0.4 % on approximately 30 % of the fair market value of their real estate less the par value of debt related to the estate. Taxpayers can avoid net wealth tax where a double tax treaty is in place or by relying on the EEC principle of free movement of capital. Please note that any claims based on EEC regulations can be expected to be challenged by the Norwegian tax authorities.

Local Property tax

Property tax may be imposed by the municipal council. Local authorities may levy a property tax in urban areas, varying between 0.02 % to 0.07 % of the taxable fiscal value of the property (around 10 - 30 % of the fair market value).

Transfer by gift or on death

The gift and inheritance tax has been abolished as of 2014. However, the inheritor no longer receives a step-up or step-down to market value.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Value added tax (VAT) is not payable in respect of the transfer or purchase price of real estate.

The construction of real estate however is subject to VAT. In principle the VAT is reclaimable, provided the real estate is used for taxable purposes when finished. The taxable use of the real estate is monitored for ten years following completion of the works. VAT deductions related to the construction or reconstruction of buildings may have to be repaid to the tax authorities if the buildings are sold, rented out or otherwise disposed of within ten years of completion in a manner outside the scope of VAT. Assuming for example, the owner is not using the building for taxable purposes from year seven onwards, he will have to pay back 40 % of the amount of VAT that was deducted earlier. The same applies to works of extension and refurbishment.

The standard rate of VAT in Norway is 25 %.

2. What are the VAT consequences of renting/leasing of real estate?

The letting out of real estate is in the main not subject to VAT; however, a voluntary registration model has been introduced for lessors who rent out business premises for the use in activities which do attract VAT. The purpose of voluntary registration is to give the lessor the opportunity to deduct input VAT on purchases of goods and services used in the business of letting out real estate.

Generally, all domestic sellers of goods and providers of services are liable to registration. However, some goods and services are exempted from the scope of the tax, for instance financial services, educational services, health and social services and a range of services within the area of sport and leisure. For this reason, renting out property to such enterprises may prevent voluntary registration.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Poland

A. Legal/General

1. Are non-residents entitled to acquire real estate in Poland? Does the acquisition have to be carried out by a Polish corporation?

In general, citizens and corporate entities of the EEA may freely acquire real estate. In special cases (the purchase of agricultural or forest land or a second house) they need a governmental permit by the Ministry of Internal Affairs and Administration. Other foreigners generally require such a governmental permit (some exceptions exist).

It is not necessary that the acquisition is carried out by a Polish corporation.

2. Which importance does the Polish land register have?

The legal status of Polish Real Estate is codified in the Land and Mortgage Register maintained by Polish Courts. It provides information about the land ownership, the security and consistency for land transactions, mortgages, encumbrances, historical details etc. The Register is publicly accessible.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

- → Corporate income tax rate: 19 %
- → Personal income tax rate: 18 % - 32 %
- → Participation exemption is applied if the Polish company has held at least 10 % capital participation in the foreign subsidiary for an uninterrupted period of at least two years.

2. What is the tax depreciation period for real estate in Poland? Are there depreciation categories? Which depreciation method is used?

Tax depreciation rates for real estates depend on the intended purpose. The depreciation rate for house buildings and leased residential buildings is 1.5 %, for non-house buildings 2.5 %, for underground garages and roofed car parks 4.5 % and for kiosks and bungalows 10 %.

Land is not subject to tax depreciation.

3. When is a foreign investor subject to limited tax liability in Poland?

In the case of taxpayers who do not have their registered office or management (or place of residence) in the territory of Poland, only the income earned by them in the territory of Poland is subject to taxation in Poland.

Under provisions of the Polish Personal Income Tax Act, a natural person is a Polish tax resident (a resident of Poland for tax purposes) if he or she has his or her centre of personal or economic interests (centre of vital interests) in Poland, or is present in the territory of Poland for longer than 183 days within a tax year.

In order to establish the appropriate tax treatment of the particular case, provisions of a relevant double tax treaty should be applied.

4. Are share deal and asset deal possible in Poland? What are the main consequences?

Real estate can be sold either through the direct sale of the property (an asset deal) or indirectly through the sale of the shares in the company owning the property (a share deal).

Capital gains realized by a Polish company upon the sale of real estate are subject to regular corporate income tax at the standard rate of 19 %.

The same is true for capital gains on the sale of shares. Individuals have to apply their individual income tax rate.

The sale of shares in the Polish company is subject to a 1 % civil law transaction tax (on the market value of shares) payable by the buyer. It is irrespective of where the transaction takes place or where the parties to the transaction are resident for tax purposes.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Under the Polish thin capitalisation rules, the interest due on loans or credits granted to the taxpayer by (i) the shareholders holding directly, individually or jointly, not less than 25 % of the voting rights in the loan beneficiary (mother companies) or by (ii) sister companies where the same shareholder holds directly at least 25 % of the voting rights in both of these companies (the borrowing and the lending company), may not be recognized as tax deductible cost in the part of which the borrowing company's debt to equity exceeds the ratio of 3:1.

No thin capitalisation restrictions are provided to third party banks or financial institutions.

6. Can acquisition costs/financing fees/interest be deducted?

In general, interest on loans and acquisition costs (e.g. advisory and financing costs) are tax deductible.

7. Are there any possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Group

In Poland, tax capital groups may be formed under Corporate Income Tax law. In order to form a tax group certain quite restrictive requirements have to be met:

- → Only joint stock companies and companies of limited liability can form a group
- → Average share capital is not lower than PLN 1 million
- → Minimum holding requirement of 95 % owned by the parent company
- → Minimum period for joint tax settlements of three years
- → Profitability ration of the group is not lower than 3 % for each tax year

Taxable income for the group is calculated by combining the incomes and losses of all group members. No transfer pricing regulations apply to a tax group.

Merger

Under the Polish tax law it is possible to implement a debt push down strategy through an up-stream merger.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest payments to foreign creditors are subject to 20 % withholding tax in Poland. A lower rate may be provided in the applicable double tax treaty. Furthermore, Poland incorporated into the domestic legislation the EU Directive on Interest and Royalty Payments.

Dividend repatriation to a foreign company is subject to withholding tax in Poland. The withholding tax from dividends amounts to 19 % of the value of the revenue. A lower rate may be provided for by an applicable double tax treaty and/or by the EU Parent Subsidiary Directive for group purposes.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Yes, a Loss Carry Forward is granted for a maximum period of five years. The annual amount deductible cannot exceed 50 % of the total loss.

In Poland, a Loss Carry Back is not possible at all.

C. Real Estate Taxes

1. Does Poland levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

In Poland no real estate transfer tax exists.

However, a real estate transfer may trigger Polish civil law transaction tax if the transfer is not subject to VAT (see D.1). The tax rate for selling real estate is 2 % of the market value.

2. Is real estate subject to any real estate tax? At which rate?

Yes, in Poland a real estate tax is charged to the owner of the land/building/infrastructure used for business activities. The real estate tax rates are set by regional authorities. However, there are maximum tax rates which are governed by national tax regulations. The local authorities may grant exemptions for certain types of real estate.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

In general, the sale of real estate is VAT exempt, except for the supply of (part of a) building/infrastructure in the course of its first occupation or when made within two years of the first occupation.

Despite the existing exemptions there is the possibility of taxing real estate sales if a transaction is carried out between registered taxpayers of Polish VAT. VAT rate for selling of real estate is 23 %. However, residential buildings and separate apartments are subject to 8 % VAT rate. However, if the usable surface of a single-family house exceeds 300 m^2 or if the usable surface of an apartment exceeds 150 m^2, the 8 % VAT applies only to the tax base corresponding to the share of the

usable surface. The 23 % rate applies to the tax base corresponding to the surface exceeding the above limits.

If selling real estate is not subject to or exempt from Polish VAT, it is subject to the tax on civil law transactions. The rate of civil law transaction tax for selling real estate is 2 % of the market value.

2. What are the VAT consequences of renting/leasing of real estate?

As a rule, renting/leasing of real estate is subject to Polish VAT. The VAT rate for renting/leasing of real estate is 23 %. This VAT is added to the rent due.

Rental of residential units for housing is tax exempt.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Under the Polish tax law, there is no capital tax for equity injected into a local company. Under the provisions of the Polish Corporate Income Tax Act the following income is not taxable:

- → Additional payments contributed to a company if they are paid in accordance with separate provisions, amounts and values in excess of the nominal value of shares, received upon the issue of shares and allocated to the supplementary capital;
- → Revenue received for the purpose of establishing or raising the share capital,

Under the Polish tax on civil law transactions act, the equity financing involves civil law transactions tax at the rate of 0.5 %. There are certain exceptions for restructuring, reorganization transactions and changing the company and partnership agreements resulting in an increase of capital. No civil law transactions tax applies to the increase of share premium.

2. Is there a stamp duty on debt granted to a local company?

Loans involve a civil law transactions tax of 2 % of the loan principal. Certain loans are exempt from taxation, e.g. loans granted by shareholders to a limited liability company or joint stock company (exemption in force from January 1, 2009) or loans granted by foreign entities which are engaged in credit and financing activities.

Real Estate Investment in

Portugal

A. Legal/General

1. Are non-residents entitled to acquire real estate in Portugal? Does the acquisition have to be carried out by a Portuguese corporation?

There are no restrictions in Portugal for non-resident individuals to acquire real estate in Portugal. In fact non-residents may acquire real estate in the same way as residents, not being necessary to carry out the acquisition through companies.

2. Which importance does the land register have?

The purpose of the land register is to give publicity of the legal status of real estate property, as a safeguard to legal trade.

Despite the registration of the facts related with real estate being mandatory, including legal actions, respective effects will still become valid inter parties and their inheritors if they are not registered. But if they are registered, those effects can be invoked erga omnes.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Tax rates

Tax Resident Individuals

Portuguese tax resident individuals are subject to personal income tax (IRS) on their worldwide income at progressive tax rates ranging from 14.50 % up to 48 % (the maximum rate of 48 % only applies to income exceeding € 80,000).

During the tax year of 2014, an additional surcharge of 2.5 % is applicable to taxpayers with a taxable income exceeding € 80,000 up to € 250,000 and a rate of 5 % is applicable to the taxable income exceeding € 250,000. Also, an extraordinary surtax of 3.5 % will be applicable to income subject to PIT that exceeds per individual taxpayer, the annual minimum salary (€ 6,790).

Rents are taxed at an autonomous rate of 28 %.

Only 50 % of the capital gains arising on the sale of real estate are subject to tax. Gains may be excluded from taxation, provided that the sale value is reinvested in real estate, i.e. for private residence purposes.

Non-tax resident individuals
Capital gains arising from the sale of properties and from rents are taxed at a 28 % tax rate.

Tax resident Companies
Companies located in Portugal mainland and Madeira are taxed at a tax rate of 23 %, and are also subject to a municipal (ranging up to 1.5 % of the taxable profit depending on the municipality) and state surcharge (ranging from 3 % for taxable profits between € 1,500,000 and € 7,500,000; 5 % for taxable profits between 7,500,000 and 35,000,000; 7 % if the taxable profits exceed € 35,000,000).

Companies located in Azores are taxed at a different tax rate and companies located in Madeira tax free has a special tax regime.

Non-tax Resident companies
Capital gains arising from the sale of real estate or rents are taxed at 25 % tax rate.

Note: Please note that there are special rules to compute the capital gains arising from the sale of real estate obtained by companies or individuals (Portuguese resident or non-resident in PT) for both corporate and individual income tax.

Participation exemptions

If certain requirements (under domestic tax law and under the EU Parent-Subsidiary Directive) are met dividends distributed to foreign companies or to resident companies may not be subject to withholding tax.

Under the domestic tax rules, dividends distributed to individuals are subject to a 28 % tax rate.

2. What is the tax depreciation period for real estate in Portugal? Are there depreciation categories? Which depreciation method is used?

Depending on the activity pursued by the company, and on the type of real estate tax depreciation rates for real estate may change, ranging from 2 % up to 5 %, and the method adopted by the Regulatory Decree no. 25/2009 is the straight-line method.

However, this method excludes a maximum of 25 % of the land value on real estate to be depreciated.

3. When is a foreign investor subject to limited tax liability in Portugal?

A foreign investor is subject to limited liability in Portugal on the income derived from Portuguese sources if he should not be deemed to be considered a tax resident in Portuguese territory.

4. Are asset deal and share deal possible in Portugal? What are the main consequences?

Yes, real estate investors may opt between acquiring the property directly (asset deal) or indirectly, by means of the acquisition of shares of a company which owns the property (share deal). The main differences between the alternatives are the property transfer tax on the acquisition and the capital gains taxation in case of a disinvestment (sale).

Asset deal

The acquisition of real estate is subject to property transfer tax (IMT) and Stamp Tax, see below under C.1. Gains arising from the sale of the land are subject to taxation at the IRS and IRC general tax rates.

Share Deal

The acquisition of shares on public limited companies ("Sociedades Anonimas") is not subject to IMT and Stamp Tax.

The acquisition of shares of a private limited company ("Sociedade por quotas") or of a general partnership ("Sociedade em nome colectivo") or of a partnership association ("Sociedade em comandita simples"), is subject to IMT (i) if these companies hold properties, and (ii) if due to the share acquisition, one of the shareholders will hold at least 75 % of the share capital, or the number of shareholders will reduce to two, these being spouses, married under the regime of general community property.

Capital gains realized by non-resident individuals on the transfer of shares of Portuguese based companies may be IRS and IRC exempt, except, namely, for:

- → Capital gains obtained by individuals or companies domiciled in a black-listed territory;
- → Gains derived from the transfer of shares in the capital of a company resident in the Portuguese territory, whose assets consist of more than 50 % of real estate situated therein or, in case of entities managing or holding corporate rights, if such companies have a controlling position in respect of companies resident in the Portuguese territory whose assets consist of up to 50 % of real estate situated therein.

Please also note that capital gains obtained from the disposal of shareholdings are not subject to taxation in Portugal if the parent company (PT tax resident Company) holds, uninterruptedly, for a period of 24 months, 5 % or more of the share capital or 5 % of the voting rights. Please note that capital gains obtained from the disposal of shareholdings in which the value of real estate, directly or indirectly held, represents more than 50 % of the assets (except immovable property allocated to an agricultural, industrial or commercial activity) are excluded from the participation exemption regime.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

As a general rule, net financing expenses are only deductible up to the higher of the following limits:

- € 1,000,000; or
- 30 % of earnings before depreciations, net financing expenses and taxes.

Any exceeding financing expenses of a given tax year may be deductible in the following five tax years, after deducting the financing expenses of each year, provided that the above-mentioned limits are not exceeded.

Whenever net financing expenses do not exceed 30 % of earnings before depreciations, net financing expenses and taxes, the unused part increases the maximum deductible amount, until the following fifth tax year.

For the identification of the non-deductible financing expenses and the unused limit that could increase the amount deductible in the following periods, should be firstly considered the financing expenses and the limited computed firstly.

The carry forward of the amounts mentioned above can be limited in case the ownership of the share capital or the voting rights of the tax payer changes for at least 50 %.

There is a transitional period in force. As such, between 2014 and 2017, the applicable percentage rates limiting the tax deductibility of the net financing expense will be:

- 2014 – 60% of earnings before depreciations, net financing expenses and taxes;
- 2015 – 50% of earnings before depreciations, net financing expenses and taxes;

- → 2016 – 40% of earnings before depreciations, net financing expenses and taxes;
- → 2017 – 30% of earnings before depreciations, net financing expenses and taxes.

6. Can acquisition costs/financing fees/interest be deducted?

Yes, upon certain limits.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Debt push down following a share deal may be possible.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Yes, there is a withholding tax. The payment of interests derived from a local company is subject to a withholding tax of 25 %. This rate may be reduced upon the application of EU Directives and Double Tax Treaties.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Tax losses generated in tax years prior to 1 January 2010 can be carried forward for six years. Tax losses generated from 1 January 2010 until 31 December 2011 can be carried forward for four years.

Tax losses generated from 1 January 2012 until 2013 can be carried forward for five years. Tax losses generated from 1 January 2014 onwards can be carried forward for twelve years.

From 1 January 2014 onwards, the deduction of tax losses carried forward, even if the tax losses were generated before 2014, is limited to 70 % of the taxable profit assessed in the relevant fiscal year

C. Real Estate Taxes

1. Does Portugal levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

The acquisition of real estate in Portugal is subject to stamp tax and IMT.
Stamp tax rate is 0.8 % and applies to the higher of the acquisition price or the tax property registration value.

The IMT depends on the type of property acquired as follows;

Property Type	Tax Rate
Residence property	0 % - 6 %
Other Urban property	6.5 %
Rural property	5 %
Property held by entities located in offshore	10 %

One way to avoid IMT is to acquire and sell real estate through Real Estate Companies (IMT exemption if certain requirements are met).

2. Is real estate subject to any real estate tax? At which rate?

There is also another tax, the Property Tax, which is computed on the tax registration value of urban and rural properties located in Portuguese territory. It is due by the property owner, the usufructuary, or the holder of the surface right of a real estate unit with reference to 31 December of the relevant year.
The tax registration value is determined by means of valuation, based on the type of property, as follows:

Property Type	Tax Rate
Urban property	0.3 % - 0.5 %
Rural property	0.8 %
Property held by entities located in offshore	7.5 %

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The sale of real estate is generally VAT exempt.

However, providing that some conditions are met, taxable persons can waive the VAT exemption on the sale of real estate and opt to apply for the general tax rate (presently at 23 %). In this case no Stamp Tax is levied on the acquisition of real estate.

2. What are the VAT consequences of renting/leasing of real estate?

In general, the renting/leasing of immovable property is VAT exempt. However, providing that some conditions are met, taxable persons can waive the VAT exemption on the lease of real estate and opt to apply for the general tax rate (presently at 23 %).

Operations subject to VAT are not subject to Stamp tax.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

No.

2. Is there a stamp duty on debt granted to a local company?

Loans granted to resident entities, regardless of the nature or place of domicile of the lender, are in general subject to stamp duty ranging from 0.04 % up to 0.6 %, depending on the period of time of the credit or loan given.

However, the Stamp Duty Code provides for some exemptions applicable to intra-group loans, namely, as follows:

- → Long term loans qualified as "suprimentos" for the Portuguese commercial law purposes, granted by the shareholder to the company;
- → Short term cash management loans granted by Parent Companies to their Subsidiaries providing that the participation complies with a minimum holding period of one year and a minimum shareholding of 10 %.

Real Estate Investment in

Romania

A. Legal/General

1. Are non-residents entitled to acquire real estate in Romania? Does the acquisition have to be carried out by a Romanian corporation?

Starting with January 2012, foreign individuals and foreign legal entities are allowed to buy land in Romania. For land to be used for agricultural purposes, the restriction was valid until January 2014.

Nevertheless, starting February 2014, the legislation imposes the observance of the pre-emption right (i.e. the right to be preferred) regardless of citizenship/nationality, under equal terms and for an equal price in favour of (a) co-owners, (b) tenant farmers, (c) owners of adjoining plots, (d) the Romanian State through the State Property Agency. Such pre-emption right shall apply to all sale contracts for agricultural land situated extra muros (outside of built-up areas) concluded between (i) individuals and/or (ii) legal entities that are citizens/nationals of an EU Member State (including Romania), of a state that is a party to the EEA Agreement and the Swiss Confederation.

Non-resident investors are allowed to buy buildings or parts of a building (i.e., apartments). The acquisition of real estate may be done through a Romanian legal entity.

2. Which importance does the Romanian land register have?

The ownership right shall be entered in the Land Registry on the basis of the document through which it has been constituted or validly transmitted. The registrations shall be opposable to third parties on the date the request has been filed and will automatically be filed by the Public Notaries as their lawful obligation (as a general rule). Basically, if you are the owner of a piece of land, you must appear in the Land Registry as owner.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

→ Corporate income tax rate:
- 16 %
- Taxpayers deriving revenues from nightclubs, bars, casinos and betting activities should pay the higher of corporate income tax (16 %) and 5 % applied on such revenues.
- A so-called "micro-enterprise" tax regime applies to certain companies that fulfill certain conditions on 31 December of the previous fiscal year:
  - Income is obtained from activities other than banking, insurance, capital market, incomes from gambling,
  - Less than 20 % of total revenues is obtained from consultancy and management;
  - The obtained income did not exceed the equivalent in RON of EUR 65,000 (excepting forex revenues, including forex gains);
  - Share capital is held by persons other than the State and local authorities
  - The respective company is not in liquidation.

  Instead of paying the regular corporate tax on profit, micro-enterprises must pay a tax of 3 % of the total gross revenue.

→ Personal income tax rate:
- 16 %
- 2 % / 3 % (depending on the value of the transaction) for real estate applied to the entire income derived from the sale of real estate;

→ Participation exemptions:
- Full exemption for dividends received from a Romanian company;
- For inbound dividends additional requirements for EU Member States apply (minimum 10 % shareholding in the subsidiary and minimum holding period of one year).

2. What is the tax depreciation period for real estate in Romania? Are there depreciation categories? Which depreciation method is used?

Mainly, the depreciation period for buildings is between 40 to 60 years according to the Government Decision no. 2,139/2004 regarding the depreciation register of the fixed assets. In accordance with the Romanian Fiscal Code the depreciable fixed assets do not include land.

Also, according to the fiscal legislation for constructions only the straight-line method of depreciation is applicable.

3. When is a foreign investor subject to limited tax liability in Romania?

Non-residents performing activities in Romania are subject to income tax on the Romanian source income. Provided that residency conditions are met, after the first year, the worldwide income is subject to taxation in Romania.

Foreign entities are generally subject to Romanian tax on the income derived from Romania. The extent to which a foreign entity is subject to Romanian taxation depends on its activities undertaken in, or related to Romania.

A foreign entity can be subject to taxation by establishing a branch, creating a permanent establishment, representative office or by becoming subject to withholding tax on the Romanian sourced income.

4. Are asset deal and share deal possible in Romania? What are the main consequences?

The real estate investor can acquire real estate located in Romania in the way of an asset deal (e.g. direct acquisition of real estate) or share deal (e.g. acquisition of corporation owning real estate). Please find below a short overview of the main advantages and disadvantages with respect to the above mentioned ways used for acquisition of real estate:

	Advantages	**Disadvantages**
Share deal	no VAT on transfer of shares no need to adjust input VAT lower tax on buildings	lower depreciation expenses and higher taxable profits
Asset deal	higher depreciation expenses and lower taxable profits	higher tax on building

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Deductibility threshold

The law limits the level of deductibility for loans obtained from companies other than banks, their branches, credit cooperatives, leasing and mortgage companies, at

- the National Bank of Romania's (NBR) reference interest rate – for RON denominated loans; and
- an annual interest rate for foreign currency denominated loans, a rate which is periodically updated by the Government. This interest rate is 6 % for 2014.

The interest expense in excess of the above limits is treated as non-deductible expense and its disallowance is permanent.

Debt-equity ratio (D/E)

The deductibility of interest expenses as well as of foreign exchange expenses is also subject to limitations based on the computation of the debt-equity ratio (i.e. borrowed capital divided by own capital).

For the purposes of the above ratio, the debt represents all credits and loans with a term longer than one year, including supplier credit, but excluding bank loans and lease operations. The interest expenses are deductible if the debt-equity ratio is positive and less than or equal to 3. If it is higher than 3 or negative, the interest is non-deductible; however, it can be carried forward and deducted in future tax periods, when the ratio drops to 3 or below.

6. Can acquisition costs/financing fees/interest be deducted?

The costs relating to the acquisition including transaction costs (e.g. due diligence costs, consultancy fees for structuring, valuation costs, etc.) and interest expenses of debt financed acquisition are deductible for corporate income tax purposes, provided that the general deductibility rule is fulfilled, namely "expenses are deductible only if they are incurred with the scope of obtaining taxable income". Other conditions that must be fulfilled by any type of expense in order to ensure that it is deductible for the computation of taxable profit refer to the fact that they must be recorded in accounting based on a justifying document proving the performance of transaction or the entry into patrimony.

Expenses for management services, consulting, assistance or other services are not deductible for corporate tax computation if the taxpayer cannot prove their necessity for the purpose of carrying out its own activity and if there are no contracts concluded for rendering them.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

The Romanian legislation does not allow tax grouping for corporate income tax purposes.

A merger or a conversion is legally possible. According to the Romanian tax legislation, the interest related to a loan is deductible only if this loan is used in order to obtain taxable income. Generally, shares are not considered to generate taxable income, therefore the interest related to the loan for the acquisition of shares could be considered as non-deductible for corporate income tax purposes. However, in case that a debt push down structure will be used for financing purposes, the related interest expense could be deductible for corporate income tax purposes.

8. Is there a withholding tax on interest payments paid by local company to creditor?

The tax rate applicable for the revenue obtained from Romania by a non-resident entity is the more favorable tax rate between internal legislation (16 % tax rate on interest revenues derived from Romania), EU legislation or double tax treaty, if specific documentation is provided.

EU legislation is applicable only in cases of transactions between Romania and EU Member States.

Application of EU legislation – Romania has implemented the Interest and Royalties Directive. Starting 1 January 2011, provided that the actual interest beneficiary is an EU resident legal person and the foreign entity holds at least 25 % of the shares of the Romanian tax payer for an uninterrupted period of at least two years ending when the interest payment is made, the interest income would be exempt from withholding tax in Romania.

For the application of EU legislation, the non-resident beneficiary must provide the income payer, besides the fiscal residency certificate, with a liability declaration disclosing the fulfillment of following conditions as the beneficiary of the

interest income from Romania: minimum ownership period, and the minimum percentage of ownership of the share capital of the Romanian legal entity.

If one of the above conditions is not met, the provisions of double tax treaties or the local legislation might nevertheless be applied.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

The taxpayers are allowed to carry forward fiscal losses as declared in the yearly profit tax returns for a period of five years based on a First-In, First-Out (FIFO) method.

As an exception, the fiscal loss incurred starting with year 2009 and onwards may be carried forward for a period of seven years.

For foreign legal persons, this rule (i.e. carry forward of losses) applies only to revenues and expenses attributable to their permanent establishment in Romania.

In Romania, a Loss Carry Back is not possible at all.

C. Real Estate Taxes

1. Does Romania levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

No real estate transfer tax is applicable in Romania.

2. Is real estate subject to any real estate tax? At which rate?

In Romania real estate are subject to local taxes and duties which are regulated by the Fiscal Code.

Taxes on Buildings
For buildings owned by individuals, the rate for calculating the tax is 0.1 %. The rate applies to the taxable base established by law according to the type of building.

For buildings owned by legal entities, a 0.25 % - 1.50 % rate applies to the gross book value of the building, accounted for in the financial statements.

In case of buildings which have not been revalued for a period of three years prior to the year of taxation, the tax due represents 10 % - 20 % of the gross book value of the building.

In case of buildings which have not been revalued for a period of five years prior to the year of taxation, the tax due represents 30 % - 40 % of the gross book value of the building.

A lower building tax is due for buildings which are fully depreciated. No taxes on buildings are due on certain buildings and special constructions.

Taxes on special constructions

This tax of 1.5 % is applied starting 1 January 2014 for special constructions which are not subject to tax on buildings (examples: tracks and platforms, loading – unloading ramps, road infrastructure, fencing, power supply and lightening networks, power transportation lines, electrical power installations, water supply constructions, sewer networks, sewerage and heating pipelines, transformation stations and substations, switching stations, overhead telecommunication lines and cables, support for telecommunication broadcasts through fibre optic cables, hydroelectric power plants, stacks and cooling towers, basins, greeneries, solaria, tanks, reservoirs, cans and barrels for the storage of beverages).

The tax on constructions is computed by applying a 1.5 % rate to the value of the special constructions recorded in the taxpayers' books as on 31 December of the previous year, with the value determined in accordance with the provisions of the law.

Tax payers are obliged to compute and report the tax until 25 May of the year in which the tax is due and pay the tax in two equal instalments (i.e. until 25 May and until 25 September).

Taxes on Land

This tax is calculated annually as a fixed amount per square meter and is payable in two installments, on 31 March and 30 September. The tax varies in accordance with the location of the land and its destination.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate (asset deal/share deal)?

Asset deal
The sale of old buildings and of ancillary land, as well as land which is not meant to be used for construction is exempt without deduction right.

New buildings (or part of buildings) and land that could be used for constructions sold by VAT payers do not benefit of this exemption. The sale of a new building means a sale made at the latest on 31 December of the second year following the first occupation or use, as the case may be.

The supplier has the option to apply VAT on the exempt transactions.

If a taxable person has deducted VAT related to a real estate and sells or rents immovable property under the VAT exemption regime, adjustments for the deduction right should be performed. The adjustment period is 20 years for immovable property built, acquired or modernized after 1 January 2007.

Share deal
No VAT applicable on transfer of shares.

2. What are the VAT consequences of renting/leasing of real estate?

With respect to the VAT on rent or leasing of real estate, after the EU accession, the rental or leasing of immovable goods is exempt without right of deduction, except for certain cases explicitly specified by law. In case of a sale of immovable property, the taxpayer has the option to apply VAT on these operations.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a duty on debt granted to a local company?

N/A

Real Estate Investment in

Russia

A. Legal/General

1. Are non-residents entitled to acquire real estate in Russia? Does the acquisition have to be carried out by a Russian corporation?

Real estate may be acquired by individuals or corporations. Certain types of real estate may not be owned by foreign individuals or foreign entities (non-residents). This specifically relates to land adjacent to the national borders and agricultural land. However, those types of land may be leased.

2. Which importance does the land register have?

All legal rights with respect to real estate arise only upon registration. Therefore, any title in respect to real estate as well as any change therein should be registered in the Russian public register ("cadaster" – starting from 2013 and onwards). One should note that Russian civil law considers buildings and land as separate objects of legal rights and therefore they are recorded in the register as separate objects.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Corporate tax (CIT)
The Russian corporate profit tax rate is 20 %. CIT is calculated on income net of deductible expenses, provided they meet the business purpose test. There are no special rates for real estate.

Personal income tax (PIT)
Russia uses a flat scale taxation. A general PIT rate for tax residents is 13 % and 30 % for non-residents (Russian tax residency is acquired if an individual spends in Russia at least 183 calendar days during a period of 12 consecutive months). The duration of stay test is the only criterion for individuals in order to be considered as Russian resident for tax purposes.

No special rates for real estate exist.

Capital gains
Russian tax law does not know special capital gains tax.

- Real estate: Capital gains received by Russian companies from the sale of real estate are subject to CIT at a general rate of 20 %. Sale of real estate by individuals is subject to 13 % / 30 % – depending on their tax status.

  An exemption of capital gains derived from the disposal of real estate is available for Russian residents individuals only, provided that a property is held for more than three years and is used for private purposes only. A limited exemption of capital gains in the amount of RUB 1m is provided in case a property is held less than three years.

- Shares in real estate holding company: With respect to the sale of shares in real estate holding companies the same rates apply as in case of a direct sale of a real estate asset (20 % – CIT / 13 % or 30 % PIT).

  These capital gains may be exempt from taxation (new rule starting from 1 January 2011). This exemption particularly applies to capital gains from the disposal of stocks in Russian companies if the shares qualify as non-listed and its holding duration is at least five years (starting from 2011). A special rule exists in respect to listed stocks (only for high-tech companies).

  As a general rule, capital gains received by foreign companies from the disposal of shares in Russian legal entities are not taxed in Russia. The exclusion to this rule are capital gains from sale of shares in real estate holding companies (minimum of 50 % of assets are real estate). However, this exclusion may be overridden by applicable double tax treaty provisions.

Dividends

The general tax rate for dividends received by Russian corporations or individuals is 9 %.

Participation exemption (0 % rate) is available for dividends received by a Russian company if it holds at least 50 % of the capital of the distributing subsidiary for a period of not less than 365 calendar days. The exemption is unavailable if the subsidiary is an offshore company or resides in a country that does not support the exchange of information procedures (black list if defined by Russian Ministry of Finance).

Dividends payable to foreign legal entities are subject to general 15 % withholding tax and may be reduced under an applicable double tax treaty.

2. What is the tax depreciation period for real estate in Russia? Are there depreciation categories? Which depreciation method is used?

In Russia different types of asset are divided into categories. For each category of assets a useful life period is defined by law. The useful life of real estate assets is usually 30 years (the last group – 10).

For tax purposes a corporation may depreciate real estate using the straight-line method only and no accelerated depreciation is available. The base for depreciation are the acquisition of production costs of a real estate, less 10 % deduction which may be applied upon putting an asset into operation

The acquisition costs for a plot of land are not depreciable, except in cases when land is acquired from a public or municipal owner.

The different tax treatment of audition cost for building and plots of land in practice requires to make a price split in the asset purchase agreement.

3. When is a foreign investor subject to limited tax liability in Russia?

A foreign investor may be subject to limited taxation in Russia if he directly holds real estate assets.

If the investors' real estate business activity does not create a permanent establishment in Russia, rental incomes, capital gains from the disposal of real estate and the disposal of shares of real estate holding companies (minimum of 50 % of assets are real estate) are subject to withholding taxation at source at a rate of 20 %. As a general rule, the withholding tax is levied on gross income. In case of disposal of real estate or shares in real estate holding companies acquisition expenses may be deducted – a tax base is calculated by a tax agent who shall be provided with documents confirming the acquisition expenses prior to the payment of income to a foreign investor. Income from the sale of shares in real estate holding companies may be protected by an applicable double tax treaty.

If the investor's business activity creates a permanent establishment in Russia, a profit attributed to such permanent establishment (income less expenses) will be subject to general CIT rate at 20 %.

Foreign (non-resident) individuals are subject to limited taxation levied on the gross income received from the rental of real estate, sale of real estate or sale of shares in real estate holding companies. The general applicable tax rate is 30 %.

Foreign (non-resident) individuals are personally liable for the payment of tax and should declare their tax liability by filing a tax return.

4. Are asset deal and share deal possible in Russia? What are the main consequences?

Acquisition of real estate in Russia may be realized by way of an asset deal or share deal. There are no special transfer taxes applicable.

In case of a share deal the real estate asset value remains unchanged in the target company's books. Special attention should be paid to interest / cost of financing deduction if the acquisition is debt financed (please see sections B.5 - B.7 for details). Share deals are exempt from VAT.

If a transaction is structured as an asset deal, a real estate asset's value for the acquiring investor is defined as the purchase price. A step up of the asset's value to the purchase price increases the property tax base of the acquiring investor compared to the seller's tax base which was at the level of asset's residual value (unless the property tax base is defined as a cadastral value of property - see Section C.2).

Asset deals are usually subject to VAT at the rate of 18 % (except land).

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Russian thin capitalization rules may apply if:

- A Russian company has an outstanding debt to a foreign company which owns directly/ indirectly more than 20 % of the Russian company's share capital; or
- The above debt is owed to a Russian affiliate of the above foreign company; or
- A debt is guaranteed by an above foreign company (or its Russian affiliate);
- Debt to equity ratio is 3 : 1 (12.5 : 1 for banks and leasing companies).

The current tax law also provides for a general threshold for the deduction of interest which shall be applied irrespective of the application of thin capitalization rules. In particular:

- The amount of tax deductible interest should not deviate for more than 20 % from the amount of interest under other comparable loans, or alternatively (upon choice of the tax payer)

- For the period of 2013 - 2014 the interest rate should not exceed 14.85 % for loans in Russian national currency and 6.6 % for loans in foreign currency. The above limits are calculated based on the Bank of Russia's refinancing rate available since 14 September 2012.

If the new rules for 2015 and onwards are not enforced, the old threshold which was applied prior to 2010 will be again in force: The Bank of Russia's refinancing rate multiplied by 1.1 for loans in Russian rubles and 15 % for foreign currency loans.

6. Can acquisition costs/financing fees/interest be deducted?

Financing costs (fees / interest) are not capitalized and are deductible as expenses of the current period. Possible limitations for the deduction of financing fees and interest are described in detail above in section B.5.

If a transaction is structured as a share deal through a Russian SPV and the SPV's income is merely represented by dividend distributions from the acquired target company, the SPV's financing costs cannot be deducted against its dividend income. In this case financing fees form losses which may be deducted against general (operational / non-operational) income.

Costs for the acquisition of shares in real estate holding companies may be deducted against profits from the disposal of these shares. In order to achieve full deductibility of the debt finance costs in a share deal transaction, a debt push down option may be used (please see below).

Costs for the direct acquisition of real estate can be deducted for tax purposes by one of two options: depreciation (please see Section B.2 for details) and deduction of acquisition costs (residual value) against profit derived from the sale of real estate.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

It is possible to pool debt financed expenses for acquisition of a real estate company (target) with income of the target by way of down-stream or upstream merger.

If the target is absorbed by the parent company (upstream merger) the real estate asset is transferred at the tax value according to the records of a merged (target) company, i.e. tax neutrally.

Other debt push down options as for e.g. setting up a tax group is not practically available for most investors due to the very high assets value thresholds for group consolidation.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest paid by a Russian company to a foreign creditor is subject to Russian withholding tax at a general tax rate of 20 %. Withholding tax on the above payments can be reduced or eliminated based on the provisions of an applicable double tax treaty. No withholding taxation applies in case of interest payment in favor of a resident creditor.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Operating losses incurred by resident companies and by foreign companies with a permanent establishment in Russia may be carried forward to the following ten years without limitations. A loss carry back is not allowed.

Losses from the sale of a real estate asset are tax deductible in equal installments over the remaining depreciation period.

C. Real Estate Taxes

1. Does Russia levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Russia implies no real estate transfer tax on sale of real estate or shareholding.

2. Is real estate subject to any real estate tax? At which rate?

Real estate tax is levied on property of Russian companies and of a foreign company's property qualifying as fixed assets including buildings. As a general rule the property tax base is the average net book value of the fixed assets. The maximum tax rate is currently 2.2 % for corporations, but rates may vary depending on the region.

Starting from 2014 the property tax base for administrative, trade and office centers, public catering facilities as well as real estate of the foreign companies which have no permanent establishment in Russia and real estate of foreign companies if this property does not relate to the activities of these foreign companies in Russia

is the cadastral value of this property. Cadastral property in practice is usually much bigger than the net book value. Cadastral value is determined on 1 January of the corresponding year. The property tax rates for the above objects of property are for Moscow as follows: 1.5 % - for FY 2014, 1.7 % - for FY 2015, 2 % - for FY 2016 and the following years. The property tax rates for other places in Russia are as follows: 1 % - for FY 2014, 1.5 % - for FY 2015, 2 % - for FY 2016 and the following years.

Land tax is a local tax payable on land which is owned by a resident or non-resident company. The tax basis is the cadastral value of the land which is set by corresponding local authorities on 1 January each year. The rate depends on the specific kind of land. The maximum rates are 0.3 % for land used for housing purposes and 1.5 % for other types of land. However, specific rates are set up by the local authorities.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

VAT at a rate of 18 % applies to sales of commercial real estate realised in Russia. VAT is payable to the budget on an accruals basis. The sale of residential property and plots of land is not subject to Russian VAT.

2. What are the VAT consequences of renting/leasing of real estate?

Lease of commercial property is generally subject to VAT. However, lease of property to foreign individuals or legal entities accredited in Russia is exempt from VAT if the foreign individuals are residents of and foreign legal entities are incorporated in countries listed by the Government of the Russian Federation. These are 113 countries, including EU states, USA, Australia etc.). This exemption is mandatory.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Russia imposes no capital taxes for contribution of equity into Russian entities.

2. Is there a stamp duty on debt granted to a local company?

Russia imposes no stamp duty to debt financing granted to a Russian entity.

Real Estate Investment in

Serbia

A. Legal/General

1. Are non-residents entitled to acquire real estate in Serbia? Does the acquisition have to be carried out by a Serbian corporation?

Non-resident (foreign) individuals and non-resident (foreign) companies can acquire real estate 'needed for performance of their business' under the 'reciprocity principle'. Yet, in practice a Serbian subsidiary is frequently used for the purchase of real estate in Serbia (in order to avoid adverse interpretation of the term 'real estate needed for performance of their business activities'). These special purpose vehicles are used in order to avoid administrative requirements imposed on a foreigner in order to acquire land and for taxation purposes.

2. Which importance does the Serbian land register have?

Rights of ownership over real property are acquired by their registration in the Real Estate Cadastre. This unified registry is the public record of real estate objects and the rights established on them. It contains information about factual and legal data of real properties. Prior to the registration of the ownership of the purchaser in the registry, the real estate is still in the ownership of the seller. The creditors of the seller can settle their receivables towards the seller from the real estate in question until the respective amendment has been effected. In such a situation, the purchaser would only have a claim for the refund of the paid price and potentially damage compensation if such damage occurred.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

- → Corporate income tax rate:
  - › 15 %
  - › The Corporate Income Tax Act provides for a tax holiday for large investors. Large investors, who invest (currently) at least RSD one billion (approx. € 8.6 million) and employ at least 100 workers for an indefinite time, are entitled to a tax holiday of 10 years.

- Personal income tax rate: 10 - 20 %
- Special tax rates for real estate: The ownership over real estate in Serbia is subject to the annual property tax. The annual property tax amounts up to 0.4 % of the market value of the real estate as of 31 December of the year preceding the year of the tax assessment. For tax payers keeping business books, the 0.4 % is levied on the book value of the real estate.
- Participation exemptions:
  There is no international participation exemption. However, withholding tax on dividends received by a Serbian resident company holding for at least a year a minimum of 10 % of the shares in the non-resident company, which is subject to tax in its state of residence, can be fully credited against the income tax of the Serbia holding company.

2. What is the tax depreciation period for real estate in Serbia? Are there depreciation categories? Which depreciation method is used?

Real estate is depreciated over its useful life at a single annual tax depreciation rate of 2.5 %. There are no different depreciation categories for real estate.

3. When is a foreign investor subject to limited tax liability in your country?

A foreign investor is subject to limited liability in Serbia on income from: dividends, interest, royalty, excess bankruptcy and liquidation mass distributed to shareholders, capital gains, lease of movable and immovable property and income from artistic, entertainment, sports and similar programs performed in Serbia. In addition, taxpayers from black-listed countries are subject to limited tax liabilities on services supplied to Serbian taxpayers.

4. Are asset deal and share deal possible in Serbia? What are the main consequences?

A foreign investment company has two options:

- Incorporation of an Acquisition Company and purchase of real estate:
  The Serbian Enterprise Law provides for very few conditions for incorporation of a company. The usual form of a company is the limited liability company. The incorporation of a Serbian limited liability company does not trigger any taxation. Once the Acquisition Company is set up by the Investment Corporation, it can purchase real estate in Serbia.

→ Purchase of a local company owning real estate:
The Investment Company can opt to purchase an existing Serbian company which holds real estate. The purchase of a Serbian company is tax neutral.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

→ Thin capitalization rules:
In case the loan is granted to the Serbian company by a related party, thin capitalisation rules need to be obeyed. A related party is a company or an individual holding directly or indirectly at least 25 % of the shares, stock or votes of the other company or if a company or an individual has control or influence concerning business decisions of the other company. According to Serbian Corporate Income Tax Law, the deductible interest is limited to 4*own capital of the Serbian tax payer.

→ Transfer pricing:
Transactions between related entities must be on arm's length basis. Serbia has documentation requirements as of 2013.

6. Can acquisition costs/financing fees/interest be deducted?

The purchase price paid for acquisition of real estate is capitalised. The only additional acquisition cost which can be capitalised along with the purchase price is the property transfer tax at the rate of 2.5 %, if it was paid by the purchaser. All other expenses (financing fees, interest from initial loan and refinancing, evaluation, lawyers' fees etc) are immediately deductible.

7. Are there any possibilities to allow pooling of debt financed interest with income of target (debt push down)?

The Serbian Enterprise Law allows both up-stream and down-stream mergers. Mergers are tax neutral. After the merger is performed, all the financing costs (interest and similar) are deductible from the profit of the newly established company. Same refers to potential refinancing expenses. Serbian laws do not contain provisions on cross-border merger.

The Serbian legislation does allow tax grouping for corporate income tax purposes. The parent company must own at least 75 % of the shares or stock of the other company. The group files a consolidated tax return (losses and gains of the group members from the same year are offset).

8. Is there a withholding tax on interest payments paid by local company to creditor?

Dividend distributions, i.e. interest payments from one Serbian company to another Serbian company are not subject to withholding tax. On the other hand, dividends and interest paid by a Serbian company to a non-resident shareholder are subject to 20 % withholding tax unless reduced under an applicable double tax treaty. Exceptionally, withholding tax on interest paid to a creditor from a black-listed country is subject to 25 % withholding tax.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Tax losses incurred in a Serbian corporation can be carried forward for five years. No Carry Back is allowed.

C. Real Estate Taxes

1. Does Serbia levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Every sale of real estate built after 1 January 2005 other then the first transfer (and provided no VAT is opted for) and sale of real estate built before 1 January 2005 is subject to 2.5 % property transfer tax. The tax payer is the seller, but in practice the tax burden is regularly shifted to the purchaser. The taxable base is the market value of the real estate.

2. Is real estate subject to any real estate tax? At which rate?

Serbian real estate (buildings and land plots) is subject to property tax. The tax depends on the location of the real estate. For taxpayers who maintain business accounts the tax rate is up to 0.4 %, calculated on the market value. The property tax rate is set by the municipalities, which have the right to stipulate it up to the amount of 0.4 %.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The real estate investor can acquire Serbian real estate by way of an asset deal (e.g. direct acquisition of real estate.

The sale of residential real estate is taxable at the rate of 10 % VAT, the sale of other types of real estate is subject to 20 % VAT, provided that the real estate is built after 1 January 2005 and that the sale of real estate represents the first transfer. Precisely, under the Serbian Value Added Tax Law, the first transfer of real estate built after 1 January 2005, is subject to VAT. In addition to the recent changes in the VAT Act, also every other transfer of real estate can be subject to VAT in case the seller and purchaser are registered for VAT and if they opt for VAT in the sale – purchase agreement.

Sale of shares is not subject to VAT.

2. What are the VAT consequences of renting/leasing of real estate?

The leasing of real estate for business purposes is subject to VAT at the rate of 20 %. Leasing of residential premises however is VAT exempt. Therefore, only leasing of business premises qualifies the lessor to input VAT deduction, whilst the lessor of residential real estate bears cost of VAT charged to it.

E. Other taxes

N/A

1. Is there a capital tax for equity injected into a local company?

No.

2. Is there a stamp duty on debt granted to a local company?

No.

Real Estate Investment in

Slovakia

A. Legal/General

1. Are non-residents entitled to acquire real estate in Slovakia? Does the acquisition have to be carried out by a Slovakian corporation?

As of the date of accession of Slovakia to the EU on 1 May 2004, foreigners (all natural persons or legal entities not resident in Slovakia, including branch offices of foreigners – except branch offices of a foreign bank) may acquire ownership of real estate.

There were some restrictions concerning agricultural and forest property till the end of the transitional period until 31 May 2014. Since 1 June 2014 a new law is effective that regulates transfer of ownership of agricultural land and determines conditions for persons to whom the transfer of the ownership can be executed.

The acquisition does not have to be carried out by a Slovakian corporation (possible exception: agricultural land).

2. Which importance does the Slovakian land register have?

The ownership to real estate that is transferred under the contract passes over to the buyer as soon as the ownership right is registered with the Cadastral Register ("kataster nehnuteľnosti"). The standard application for registration of the ownership within a period of 30 days is charged with an administrative fee of € 66 or in an accelerated time period of 15 days with an administrative fee of € 266.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

- Corporate income tax rate: 22 %;
- Personal income tax rate: 19 % (up to the amount of tax base of EUR 35 022,31) and 25 % (tax base of EUR 35 022,31 and more;
- Participation exemptions: No.

2. What is the tax depreciation period for real estate in Slovakia? Are there depreciation categories? Which depreciation method is used?

Buildings – that belong to the fourth depreciation group – have a tax depreciation period of 20 years (since 1 January 2004). If the buildings were acquired by way of financial leasing, they can be depreciated in 12-20 years. There is also a possibility of the component depreciation of the particular building equipment which is a part of buildings (e.g. computer networks, elevators and lifts, air conditioning), and which can be depreciated in a shorter time (six years, twelve years). Both straight-line and accelerated methods of depreciation are allowed.

Land cannot be depreciated.

3. When is a foreign investor subject to limited tax liability in Slovakia?

Individual non-resident investors
An individual real estate investor is non-resident in Slovakia if he has neither a domicile nor his habitual place of abode in Slovakia.

Non-resident individuals are taxed on real estate only with respect to income from the following sources:

- Income from rentals, leasing and other usage if the immovable property is located in Slovakia;
- Income from the sale of real estate located in Slovakia within the five-year holding period in the case of ownership of the real estate.

Non-resident individuals with Slovak-source real estate income have to file tax returns. The 19 % and 25 % tax rates applies (depending on the amount of the tax base).

Corporate non-resident investors
A corporate real estate investor is a non-resident in Slovakia if the place of management or the legal seat is not situated in Slovakia.

Income of non-resident corporations (comparable to Slovak corporations) from immovable property (including capital gains) situated in Slovakia is taxable as business income.

The 22 % flat tax rate applies.

4. Are asset deal and share deal possible in Slovakia? What are the main consequences?

The real estate investor can acquire Slovak real estate by way of an asset deal (e.g. direct acquisition of real estate) or a share deal (e.g. acquisition of a corporation owning real estate).

Direct investment (asset deal)
A foreign entity may directly acquire Slovak real estate. Interest expenses for a debt-financed acquisition may be deducted from the income from real estate if real estate is rented out or used for own business. No real estate transfer tax is applied.

If the investment fund is considered to be a transparent company in the state of its residence (outside Slovakia), it is considered to be a transparent company by Slovak law, too. The income of shareholders is subject to the personal income tax rates of 19 % and 25 %.

If the investment fund is considered to be a non-transparent company in the state of its residence (outside Slovakia), the tax base is computed by the company's income and is subject to the corporate income tax rate of 22 %.

Indirect investment (share deal)
Investment through a resident corporation: The tax base is computed by the company's income. The income of shareholders (dividends) is not subject to taxation in Slovakia.

Investment through a resident partnership: The income of a general partnership (v.o.s.) is split between the shareholders and is subject to the personal income tax rates of 19 % and 25 %. The income of limited partnerships (k.s.) is split between the unlimited and limited partners. Income of the limited partners is subject to the corporate income tax as a whole (22 % tax rate applies). Income of the unlimited partners is taxed separately at the level of each unlimited partner. The tax rates are 19 % and 25 % for unlimited partners.

For other tax consequences (VAT, capital tax, property tax etc.) see the Sections below.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capital rule

Currently there are no thin capital rules in Slovak legislation.

Transfer pricing rules

The Slovak rules for transfer pricing (Income Tax Act) are in line with the OECD Transfer Pricing Guidelines, it means the arm's length principle applies. As from January 2009, transfer pricing documentation in line with the OECD Code of Conduct is obligatory. If requested by the tax authority during a tax audit it must be submitted within 15 days. Two types of transfer pricing documentation can be used, depending on the size of the company and some other criteria. In a simplified way – a smaller company can use simplified documentation.

6. Can acquisition costs/financing fees/interest be deducted?

Acquisition costs can be deductible by shareholders. Interest expenses for a debt-financed acquisition may be deducted from the income from real estate if real estate is rented out or used for own business.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

In general, each corporate entity is regarded as a separate entity for income tax purposes. Thus, parent corporations and subsidiaries are taxed separately. Resident parent corporations and resident subsidiaries may not elect for taxation as a fiscal unity. Any agreement in this regard is not valid for tax purposes.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Yes, generally the withholding tax rate on interest and royalty payments is 19 % of the gross amount of income. A lower rate may be provided in the applicable double tax treaty and per applying the EU Interest and Royalty Directive for group purposes. Payments for financial leasing are considered as interest.

Dividends are not subject to withholding tax.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Tax losses arisen in the taxable period that ended in the year 2009 may be deducted from the tax bases of not more than five consecutive tax periods provided that the losses were computed according to generally accepted accounting principles and adjusted for purposes of the ITA.

Tax losses arisen in any taxable period that ended in the years 2010 till 2013, which were not used till 31 December 2013, may be deducted from the tax bases of four consecutive tax periods, equally (this means one fourth per tax period) provided that the losses were computed according to generally accepted accounting principles and adjusted for purposes of the ITA.

Tax losses generated in taxable period that end in the year 2014 and tax losses generated in taxable periods that start after 1 January 2014, may be deducted only equally from the tax bases of not more than four consecutive tax periods (i.e. one half or third or fourth per tax period) provided that the losses were computed according to generally accepted accounting principles and adjusted for purposes of the ITA.

There is no obligation to invest an amount equivalent to the losses. A loss carry forward is also possible for the legal successor (if the legal entity is not dissolved solely with the aim of reducing or evading its tax liability). It is not possible to carry back losses to previous periods.

C. Real Estate Taxes

1. Does Slovakia levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

As from 1 January 2005, no real estate transfer tax is levied in Slovakia.

2. Is real estate subject to any real estate tax? At which rate?

Real estate tax is levied on Slovak real property, which comprises land, buildings and flats. For land the taxable base is the assessed value of 1 m^2 of land multiplied by the area in m^2.

Lower and higher annual tax rates are limited by law. The Slovak municipalities may apply their local tax rates and exemptions with effect from 1 January 2005.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The delivery (sale) of real estate or part of real estate is VAT exempt if the delivery is carried out after five years from the first use. The VAT registered person may opt to charge the VAT within the first five years. The seller is only entitled to a full input VAT deduction for services received related to the acquisition of real estate and the acquisition costs if the following sale is subject to VAT without exemption. The same has to be considered for VAT on some major repairs undertaken within twenty years of the sale. If input VAT was deducted, a VAT-exempt sale within twenty years leads to a pro-rata reversal of input VAT deduction. This new period (twenty years) will be applied for real estate acquired after 1 January 2011. For real estate acquired before 31 December 2010, the previous ten years period is valid.

The delivery of land which is used for construction purposes as a building plot is always subject to VAT.

The current tax rate is 20 %.

2. What are the VAT consequences of renting/leasing of real estate?

In general, leasing or subleasing of immovable property or a part thereof is exempt from VAT. Excluded are rents of premises and sites for parking vehicles, accommodation facilities (hotel, hostel, pensions, etc.). The taxpayer who rents out immovable property to a taxable person (it is irrelevant if this taxable person is or is not registered for VAT purposes in Slovakia), may decide not to have the lease exempt from VAT.

The leasing agreement with the obligation to buy the subject of the leasing is treated as delivery of goods. A leasing agreement with the right to buy is treated as supply of services.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a duty on debt granted to a local company?

N/A

Real Estate Investment in

Slovenia

A. Legal/General

1. Are non-residents entitled to acquire real estate in Slovenia? Does the acquisition have to be carried out by a Slovenian corporation?

Citizens of the Member States of the European Union (EU) and the European Economic Area (EEA) may acquire real estate in Slovenia under the same conditions as Slovenian citizens. The same regime applies for citizens of the Member States of the OECD and individuals with a Slovenian status without being in possession of Slovenian citizenship.

Citizens of the countries having EU candidate status may acquire real estate in Slovenia under the reciprocity principle.

Citizens of other countries may become owners of real estate in Slovenia only in accordance with inheritance law and the reciprocity principle. However, each particular case shall be analysed on a case-by-case basis.

It is common practice that the acquisition of real estate for business purposes is carried out by Slovenian corporations.

2. Which importance does the Slovenian land register have?

According to civil law regarding real estate, the ownership right may only be acquired with the incorporation of the property right in the land register (Zemljiška knjiga). The registration normally takes place within approximately one month.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

The Corporate income tax rate is 17 %. Additionally, there is a special tax rate of 0 % that applies to:

- investment funds established under the law on investment funds if at least 90 % of the profit generated in the preceding tax period is distributed by 30 November of the tax period;
- pension funds established under the law regulating pension and disability insurance; and

- insurance companies authorized to manage pension schemes under the law regulating pensions and disability insurance, within the qualified activities.

For personal income tax the following progressive tax rates shall be applied:

Taxable income (€)	Tax Rates (%)
up to 8,021.34	16
8,021.34 – 18,960.28	27
18,960.28 – 70,907.20	41
70,907.20 and over	50[1]

Capital gains, dividends, interest and rental income is taxed separately at a flat tax rate of 25 %[2] . There are no special tax rates for real estate. From 1 January 2014 onwards the special tax rate of 70 % applies for taxation of income where a taxpayer cannot explain its source. The 70 % tax rate may apply only in the special tax assessment procedure started by the Tax Authorities when they find out that an individual disposes of assets or income which exceeds the income reported to the Tax Authorities. The Tax Authorities in this procedure determine the tax base by valuation.

Under the international participation exemption the taxpayer may exempt received dividends and other similar income, except hidden reserves, if the dividend payer is:

- a resident of an EU Member State for tax purposes under the law of that Member State and is not deemed to be a resident outside the EU due to a tax treaty with a non-Member State; and
- liable to pay tax comparable to the Slovenian CIT and not resident in a country or in the case of a business unit not situated in a country in which the general, average nominal corporate tax rate is less than 12.5 %.

The above provisions also apply to a non-resident recipient if the recipient's participation in the equity capital or management of the person distributing profits is connected with business activities performed by the non-resident in or through a permanent establishment in Slovenia.

1 A special rate of 50 % for taxable amounts exceeding € 70.907,20 has been adopted temporarily for the years 2013 and 2014.

2 For capital gains the actual tax rate depends on the holding period.

However, expenses relating to participation are not recognized in an amount which is equal to 5 % of the received dividends.

2. What is the tax depreciation period for real estate in Slovenia? Are there depreciation categories? Which depreciation method is used?

The highest annual tax depreciation rate for building projects including investment property generally amounts to 3 %. For parts of buildings, including investment property the highest annual tax depreciation rate,is 6 %. Depreciation over a shorter useful life is permitted for financial accounting purposes but not recognized for tax purposes. For tax purposes only the straight-line depreciation method may be used.

3. When is a foreign investor subject to limited tax liability in Slovenia?

A foreign investor is subject to limited tax liability in Slovenia if he receives income which has its source in Slovenia.

A non-resident corporation (i.e. with neither place of management nor legal seat in Slovenia) is subject to limited corporate tax liability from:

→ Income attributed to a permanent establishment (PE) in Slovenia;
→ Income from immovable property and from the rights pertaining to immovable property if the immovable property concerned is located in Slovenia;
→ Income from agricultural and forestry activities if the activity is performed on land located in Slovenia;
→ Income from exploitation or the right to exploitation of deposits of ores, sources or other natural resources if the deposits of ores, sources or other natural resources are located in Slovenia;
→ Profits from disposal and dividends, including income similar to dividends and income from holdings sourced in financial instruments and/or of all types financial investments such as securities and ownership shares if issued by entities set up in accordance with the regulations of Slovenia, local authorities or the Bank of Slovenia, and/or from holdings in companies, cooperative societies and other types of organizations set up in accordance with the regulations of Slovenia;
→ Interest if borne by a resident or non-resident through his/her business unit in Slovenia;
→ Income from the use or the right to use copyrights, patents, brand names and other property rights, and income from other similar rights if borne by a resident or a nonresident through his/her business unit in Slovenia;

- Profit from disposal of a resident's or non-resident's business unit in Slovenia;
- Profit from disposal of the immovable property located in Slovenia (including also the profit from disposal of equity holdings and the rights arising from equity holdings in a company, cooperative society or other type of organization if over one half of the value thereof arises directly or indirectly from immovable property and the rights pertaining to immovable property located in Slovenia);
- Income from services provided by performing artists or sportsmen, belonging to another person if such services are provided in Slovenia;
- Income from services if services are performed in Slovenia or borne by a resident or non-resident through his/business unit in Slovenia.

A non-resident individual is subject to limited tax liability from:

- Employment income, directors´ fees, social security pension, dividends, interest, income deriving from the transfer of intellectual property, rental income and any other income not listed below if it is paid out or economically borne by a Slovenian resident company or by a PE of a non-resident in Slovenia;
- Income attributed to a fixed base of an individual performing business activities in Slovenia;
- Income from immovable property and from the rights pertaining to immovable property if the immovable property concerned is located in Slovenia;
- Income from agricultural and forestry activities, which shall be considered to have its source in Slovenia, if the activity is performed on land located in Slovenia;
- Capital gains from disposal of shares in legal entities established in Slovenia and income deriving from investments coupons (including capital gains from disposal of the investment coupons) if the investment fund is established in Slovenia.

Certain exemptions are provided for capital gains and interests under special conditions.

4. Are asset deal and share deal possible in Slovenia? What are the main consequences?

A real estate investor may acquire Slovenian real estate in form of an asset deal or a share deal (e.g. acquisition of a corporation owning real estate).

Capital gains due to an asset deal or a share deal are not treated equally for corporate income tax purposes. Only 50 % of capital gains due to a share deal are subject to corporate income if all conditions prescribed by the Corporate Income Tax Act are met. Capital gains due to an asset deal are subject to the general corporate income tax (no exemption).

Capital gains due to an asset deal or a share deal are treated equally for personal income tax purposes. The tax rate for capital gains depends on the holding period:

- 25 % for a holding period of up to 5 years,
- 15 % for a holding period from 5 to 10 years,
- 10 % for a holding period from 10 to 15 years,
- 5 % for a holding period from 15 to 20 years and
- 0 % for a holding period longer than 20 years.

This tax is a final (flat) tax. Capital gains derived from the direct disposal of immovable property acquired before 1 January 2002 are not taxable. Gains on immovable property used as a permanent home of the taxpayer for at least three years before the disposal are exempt under certain conditions.

In case of an asset deal the purchase price forms the new tax basis for depreciation. In case of a share deal the depreciation basis is rolled over to the acquirer.

For other tax consequences (VAT, capital tax, property tax etc.), see the questions below.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capitalization rules apply to loans from shareholders who hold directly or indirectly at least 25 % of the capital or voting rights at any time during the tax period. From 1 January 2014 the thin capitalization rule is applicable also to sister companies. According to the rules, the interest on loans from such shareholders may not be deducted if the loans exceed four times the value of the lender's share in the capital of the company unless the taxpayer provides evidence that he/she could have received the loan surplus from a lender who is a non-associated enterprise.

The share capital of the shareholder for the purposes of the "thin-cap" rule is calculated differently from January 2014 on. The term share capital shall include all capital items according to the Companies Act and accounting standards with

the exception of net profit or loss of the current financial year. Therefore, according to the amendment the new calculation shall also contain transferred business losses and revaluation reserves, which are part of the capital items. The average capital is calculated as the average of the state of the capital items at the beginning and at the end of the tax year.

Pursuant to the general rule interest payments are not deductible if they are not required to acquire taxable income. These are considered to be interest for which, in respect of the facts and circumstances, it follows that:

- They are not a direct condition for performing activities and are not a consequence of performing activities;
- They are of a private nature;
- They do not conform with normal business practice.

There is a special rule regarding the interest paid to associated enterprises. Any interest rate exceeding the arm's length rate shall not be deductible for corporate income tax purposes. However, even if the interest rate exceeds the arm's length rate, it might be deductible for corporate tax purpose if a taxpayer provides evidence that it could have received the loan with a higher interest rate from a non-associated enterprise.

6. Can acquisition costs/financing fees/interest be deducted?

Interest on the debt-financing of the acquisition of a participation in a (resident or non-resident) corporation is in general tax deductible regardless of the fact that the participation exemption provides for a tax exemption on income from the acquired participation. However, expenses relating to participation are not recognized in an amount which is equal to 5 % of the amount of received dividends/capital gains.

Interest expenses for a debt-financed acquisition of real estate may, in general, be deducted from the income from real estate if the real estate is rented out or used for the own business. The thin capitalization and arm's length principle are applicable in case of debt-financed acquisition from associated enterprise.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

In Slovenia neither a tax group nor a conversion are legally possible to generate a debt push down, whereas a corporate income tax neutral merger is in principle allowed. However, a debt push down/up by down-stream or up-stream merger

is not possible in Slovenia, since interest paid after mergers is not recognized as expenditures for tax purposes (official opinion of Tax Authorities no. DT 42150-1/2008-2).

8. Is there a withholding tax on interest payments paid by local company to creditor?

Generally, a withholding tax rate of 15 % applies to interest if the creditor is a corporation. However, there are exceptions for interest on inter-bank loans, on loans raised by the Slovenian State and securities issued by the Slovenian State under certain conditions.

No withholding tax is levied on interest paid to a resident taxpayer or a PE of a non-resident if the latter notifies the interest payer of its tax number.

The EU Directive on the common system of taxation applicable to interest and royalty payments effected between associated companies of different Member States have been implemented in Slovenia as well. Thus, if the conditions from the Directive are met, the withholding tax may be eliminated. In addition, the withholding tax may be reduced or eliminated on the applicable tax treaty basis.

Interest paid to individuals is in general subject to a withholding tax at the rate of 25 %.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Losses derived from business activity may be carried forward without limitation on the period of such loss carry forward , provided the loss was computed according to generally accepted accounting principles. A reduction of the tax base due to tax losses from previous preceding tax periods may only be allowed to a maximum of 50 % of the tax base for the tax period.

There is no loss carry back in Slovenia.

C. Real Estate Taxes

1. Does Slovenia levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Transfer of real estate and comparable rights
The real estate transfer tax is levied on the transfer of immovable property if VAT has not been charged on such property. Taxable transactions include the sale and – inter alia – the exchange of immovable property. The same applies for financial lease.

In general, the person liable to tax is the seller of the immovable property. The tax rate is 2 % of the contractual price. If the contractual price is 20 % lower than the general market value determined by a special rule, the tax base is 80 % of the market value.

The following transfers of immovable property are exempt i.a.:

- transfers to diplomatic and consular missions and to other international organizations according to international contracts and conventions;
- transfers made under the privatization process;
- transfers of agricultural land and transfers connected to the enforcement of tax collection; transfers of immovable property as contribution in kind for the purposes of the establishment the company or increasing the share capital of the company;
- transfers under the reorganizations regulated by the Companies Act; transfer in case of distribution of the property to the shareholders or stockholders in liquidation procedure.

The taxpayer must submit details of the transfer to the local tax administration on a prescribed form within 15 days of the contract date. The tax office must issue a tax decision within 30 days and the tax due is payable within 30 days.

Transfer of shares
Real estate transfer tax is not levied in the case of a transfer of shares in companies owning immovable property in Slovenia. Therefore, the real estate transfer tax may be avoided by establishing a new company and preferring a share deal to an asset deal. However, if this is done solely for tax purposes there is a high tax risk that the Tax Authorities would apply the general anti-avoidance rule and not consider the transaction for tax purposes.

Tax on profit from land use change
It is levied on the profit from the sale of land whose use, since the time of the acquisition, has been altered into building use. Land which was already designated for building use at the time of acquisition is not subject to taxation.

The person liable for the tax is the person (individual or company) selling the land. The taxable amount is the difference between the value of the land at the time of the disposal and the value of the land at the time of the acquisition (taking into account certain expenses incurred upon acquisition/disposal). If the land was acquired before 1 June 2012, the acquisition value is determined as of 1 June 2012 based on the mass valuation of real estate data. The taxable person can demonstrate a different value by means of acquisition document. The applicable tax rates depend on the duration from the change of use until the sale:

- 25 % – less than 1 year
- 15 % – from 1 to less than 3 years
- 5 % – from 3 to incl. 10 years
- 0 % – more than 10 years.

2. Is real estate subject to any real estate tax? At which rate?

There is no general real estate tax. The new Real Estate Tax was enacted in 2013, however, it was declared as unconstitutional by the Constitutional Court and consequently, does not apply. However, a land and building compensation duty is imposed on owners or users (renters, etc.) of plots of land and buildings. The tax rates are set up by the municipalities. The duty is deductible if the property is used as business property.

In addition, a property tax is levied on individuals who own premises (including plots of land and buildings that are also subject to the above duty). The taxable base for premises is the value determined by law. In general, the first 160 m^2 of an apartment are exempt from property tax if the owner or his family members live in the apartment. The tax rates are progressive and depend on the type of the premise and on its value. In general, the rates range from 0.1 % to 1.5 % of the value.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Revenues from the sale of real property are VAT exempt, with the option to taxation. However, the sale of buildings, parts of buildings and land on which the buildings are located is not VAT exempt:

- → if the supply is effected before the buildings or parts of buildings are used for the first time; or
- → if the supply is effected before two years after the first use

Transfer of building land is always subject to VAT. If VAT was deductible when buying real estate and later this real estate is sold under VAT exemption, an adjustment of the deductible VAT has to be made over a period of 20 years, starting with the year in which the VAT was deducted. The same holds for other tangible assets whereby the correction period is only five years.

2. What are the VAT consequences of renting/leasing of real estate?

The leasing of real estate for business purposes is, in general, VAT exempted. The lessor may opt for taxation if the lessee has a 100 % right for VAT deduction. In that case the lessor would charge VAT at a rate of 22 % on the rent. Before charging the first rent with VAT, both the lessor and the lessee have to send a note to their respective tax offices electronically (eDavki) to inform them about the option for taxation (same procedure is applied when buying a real estate). The lessor is entitled to VAT deduction for services received in connection to his taxable activity – leasing by charging VAT. Financial leasing has the same consequences as the sale of real estate.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Spain

A. Legal/General

1. Are non-residents entitled to acquire real estate in Spain? Does the acquisition have to be carried out by a Spanish corporation?

In Spain there is no restriction with regard to the acquisition of real estate. Residents as well as non-residents can purchase real estate.

Therefore, the acquisition of Spanish real estate does not have to be effected by using a Spanish acquisition company.

2. Which importance does the land register have?

The registration is not a prerequisite for rights with respect to real estate to become effective between the contracting parties. However, such rights are not effective against third parties before they are registered.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Personal Income Tax (IRPF)
For rental and lease income, generally, the difference between income and all necessary expenses, including interest, is taxable. A 40 % reduction applies to this net income if it is earned over a period of more than two years.

Furthermore, a reduction of 60 % for housing rental is granted, provided the taxpayer reports these earnings. This means the reduction does not apply if the income is not reported but discovered by the tax authorities. Under certain circumstances, for rental to young people (between 18 and 30 years old) this reduction may be increased to 100 %.

Urban properties (designated under land registry rules) that are (i) not rented/leased, (ii) not used for business purposes and (iii) not the owner's primary residence (e.g. holiday flats located in Spain), result in imputed annual income of 2 % or 1.1 % of the cadastral value. The rate depends on whether the cadastral value was adjusted after 1 January 1994.

The progressive IRPF tax rate depends on the respective autonomous region in which the taxpayer resides. The minimum rates vary between 23.75 % and

24.75 %. The maximum of the progressive rates varies between 51.9 % and 56 %. It should be noted that these rates, temporarily raised for the years 2012 and 2013 as part of austerity measures, have been extended for year 2014.

Capital Gains:
This category refers mainly to profits from the sale of assets. The Spanish Personal Income Tax Act (LIRPF) contains a definition of this category and a list of valuation rules.

This system provides an adjustment of the acquisition value to offset the inflation. The nominal acquisition value is multiplied by a factor that is determined according to the year of acquisition.

In addition, the capital gain derived from assets that are not used for business purposes and that were acquired before 31 December 1994, may be reduced to the percentage of taxable capital gains attributed to the period between the acquisition date and 20 January 2006.

With regard to capital gains generated in a one-year period, as part of the general tax base, the tax rate is the aforementioned progressive rate that depends on the respective autonomous region where the taxpayer resides. And regarding the capital gains generated over a one-year period, as part of the saving tax base, the applicable tax rates are 21 % for the amount of the taxable base up to € 6,000, 25 % for the amount between € 6,000 and € 24,000, and 27 % for the exceeding amount of € 24,000.

Corporate tax
The general tax rate for corporate tax purposes amounts to 30 %.

Small and medium companies (their turnover of the previous year has to be lower than € 10m) are charged at a reduced tax rate: 25 % for the first € 120,202, and 30 % for any exceeding amount.

Small companies (their turnover is lower than € 5m and they have between 1 and 25 employees), provided that certain payroll retain criteria are met, can be taxed as a reduced tax rate: 20 % for the first € 300,000, and 25 % for any amount beyond that.

A special corporate tax regime applies to companies whose principal business purpose consists of housing lease. Under this regime a 85 % - 90 % reduction of the tax portion corresponding to the income derived from such lease is granted. The requirements are:

- Minimum stock offered for lease: 8 properties;
- No transfer of the houses at least for a three-years period;
- Separate bookkeeping of the activity consisting of real estate development and housing lease with the necessary detail in order to determine the income corresponding to each property.
- At least 55 % of company's income should derive from housing lease, and alternatively at least 55 % of assets value are houses able to be used in lease activity.

Requirements for the application of the participation exemption rule:

- Participation in the distributing company of at least 5 % during one year.
- The distributing entity must be subject to a tax comparable to the Spanish corporate tax. This requirement is deemed to be fulfilled where a double tax treaty exists that includes the exchange-of-information-clause.
- At least 85 % of the income of the distributing company must derive from entrepreneurial activities, i.e. activities that are not subject to CFC rules.

A special tax regime applies to Spanish REITs vehicles: SOCIMIs.

- Company tax treatment:
  - 0 % Corporate Tax rate.
  - A special tax rate of 19 % is levied when profits are distributed to shareholders provided that (i) the shareholder owns at least 5 % of the share capital, (ii) and either dividend tax exemption applies or tax rate on dividend does not exceed of 10 % at shareholder level.

- Investor tax treatment:
  - Dividends are subjected to withholding tax, regardless of whether the shareholder is a corporation or an individual, resident or non-resident in Spain. Nevertheless, withholding tax is not applicable (i) if the dividends come from income subject to the special tax rate of 19 % and the shareholder is a non-resident in Spain or (ii) in case the EU Parent-Subsidiary Directive rules are applied.
  - Spanish Corporate Tax payers or non-residents with a PE in Spain shall include dividends or capital gains in their tax base without entitlement to double taxation relief or an exemption derived from the transfer of listed securities obtained by non-residents from a State with a bilateral tax treaty and an exchange-of-information-clause.
  - Spanish individuals shall include dividends or capital gains in their Personal Income Tax, but in case of dividends there is no entitlement to the exemption for the first € 1,500.
  - Non-residents without a PE in Spain are liable to a withholding tax

of 19 % (temporarily increased to 21 % for 2012, 2013 and 2014) in case of dividends and capital gains, unless a reduced tax treaty rate is applicable.

Non-Resident Income Tax (IRNR)

Income from business activities obtained through permanent establishments (PE) of non-resident entities and individuals are taxed at a 30 % tax rate on the net income and capital gains. Spanish domestic legislation provides a 19 % (temporarily increased to 21 % during 2012, 2013 and 2014) branch tax when income is transferred abroad; this is applicable to entities' PE but not to individuals. This tax could be avoided if the head office is situated in an EU Member State or in a country that has signed a treaty with Spain, which does not contain any provisions on branch tax, subject to reciprocal conditions.

Other income obtained without an intermediary PE by non-residents is taxed at a general rate of 24 % (temporarily increased to 24.75 % during 2012, 2013 and 2014), but reduced tax rates are applicable to certain types of income, like 19 % for capital gains (temporary increased to 21 % during 2012, 2013 and 2014), which can be lower under the provisions of certain tax treaties signed by Spain.

When a non-resident, without a PE in Spain, transfers a property located in Spain, the acquirer is obliged to withhold 3 % of the price, on the account of the transferor's income tax.

2. What is the tax depreciation period for real estate in Spain? Are there depreciation categories? Which depreciation method is used?

- → Personal Income Tax: 3 %
- → Corporate Tax: depreciation rates are
  - › Industrial buildings and warehouses: 3 %
  - › Administrative buildings, commercial buildings and housing: 2 %

Depreciation rates can be doubled in case of buildings considered as used assets.

As an alternative to the straight-line depreciation method a progressive or declining-balance depreciation method can be applied. Furthermore, if it can be justified, a special depreciation plan can be proposed to the tax authorities.

Land is not depreciable.

3. When is a foreign investor subject to limited tax liability in Spain?

According to Spanish law, individuals are considered to be subject to Personal Income Tax on their worldwide income and capital gains when they have their habitual residence in Spanish territory. Individuals are deemed to have his habitual residence in Spanish territory either when they are in Spanish territory for more than 183 days during a calendar year or their main nucleus or base of their business activities or interest is situated therein.

Nevertheless, non-resident individuals are subject to tax on Spanish sourced income (limited tax liability), such as income derived from Spanish real estate (income and capital gains), in accordance with tax treaties signed by Spain and Spanish domestic rules as contained in the Non-Residents Income Tax Act.

According to Spanish domestic law, resident corporations and entities are also considered to be subject to Corporate Tax on their worldwide net income and capital gains. Entities are deemed to be resident in Spain if (i) they have been incorporated in accordance with Spanish law; (ii) if their registered office is in the Spanish territory; and (iii) if their effective management is in Spanish territory. An entity having its headquarters in a low-tax country or a tax heaven can be deemed to be resident in Spain provided that its main assets are located or its main activity is performed in Spanish territory, unless it can be proven that the effective management takes place abroad or the business purpose test is passed.

However, non-resident corporations and entities are solely subject to tax on Spanish sourced income (limited tax liability), such as income derived from business activities performed through a PE located in Spain, returns or capital gains derived from real estate located in Spain, or from disposal of Spanish companies whose main assets consist of real estate located in Spain, in accordance with tax treaties and Spanish domestic rules as contained in the Non-Residents Income Tax Act.

4. Are asset deal and share deal possible in Spain? What are the main consequences?

Both ways of acquisition are possible in Spain.

In case of a share deal possible tax risks and liabilities are transferred. However, in case the asset deal implies the transfer of a business, tax risks and liabilities deriving from such business are transferred, as well. In order to limit this risk, the business purchaser could request from the Spanish Tax Authorities a certification of tax debts before the transfer of business deal is sealed.

In case of a share deal regarding a company whose assets consist of more than 50 % of real estate not used for business purposes (taking into consideration real values, not book values) the transfer is subjected to transfer tax or VAT in the case that it would be applicable, if the purchaser acquires the control over such company. The tax base for such transfer tax is the real value of the real estate multiplied by the acquired stake.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

For tax purposes, the amount of financial expenses exceeding the financial income (net financial expenses) is only deductible up to 30 % of the operative profit of the company (EBITDA + financial income of investments in equity instruments). This limit does not apply if the net financial expenses do not exceed € 1 m. Non-deductible financial expenses can be carried forward during the following five years.

6. Can acquisition costs/financing fees/interest be deducted?

Personal Income Tax
In case of lease income interest is deductible within the limits of the income obtained.

In order to determine a capital gain, interest paid is not deductible.

Corporate Tax
Interest does not increase the book value and is deductible within the limits mentioned in this document under B.5 and B.7 and within the limits of the arm's length principle where applicable.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Financial expenses derived from the indebtedness to entities belonging to the same group and incurred in order to acquire intergroup participations or to make intergroup contributions are not deductible unless a business purpose can be justified.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Interest payments within Spain are generally subject to a 19 % withholding tax (in 2012, 2013 and 2014: 21 %). Interest payments made to residents of other EU Member States are exempt from withholding tax. Interest payments made to non-EU residents are generally subject to a 19 % withholding tax (during 2012, 2013 and 2014: 21 %). If a double tax treaty is applicable, a reduced withholding tax rate may apply.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

A Loss Carry Back is not granted.

Personal Income Tax
In general, losses can be carried forward during the following four years. Losses derived from lease can only be offset against profits derived from lease and other income included in the general tax base. Capital gains and losses generated in a one-year period, can be offset against each other and a negative balance can be offset against a positive balance of other income included in the positive general tax base. In such cases there is a limit of 10 %. Capital gains and capital losses generated over a one-year period can only be offset against each other.

Corporate Tax
Tax losses can be carried forward during the following 18 years.

During 2011, 2012, 2013, 2014 and 2015 the loss carry forward is subject to the following restrictions:

- → If the turnover of the last twelve months exceeds € 20 m: tax losses can be offset against up to 50 % of the previous taxable basis (or up to 75 % for 2011).
- → If the turnover of the last twelve months exceeds € 60 m: tax losses can be offset against up to 25 % of the previous taxable basis (or up to 50 % for 2011).

As a consequence there is a minimum taxation of 50 % respectively 75 % of the taxable income.

C. Real Estate Taxes

1. Does Spain levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Transfers undertaken by a non-entrepreneur
These transfers are generally subject to transfer tax at a fixed rate which varies from 6 % up to 10 % depending on the autonomous region where the property is located. The tax base is the real value of the real estate transferred.

Transfers undertaken by an entrepreneur
According to Article 7.5 of the Spanish Transfer Tax Act, an immovable property transferred within the assets and liabilities of an autonomous branch of activity is subject to transfer tax if such transfer is not subject to VAT. Additionally, transfer tax is also triggered in case of rural land transfers and second transfers of buildings that are VAT exempt (see D.1). The transfer is an additional cost of the transaction unlike VAT. Also, see B.4 above regarding the transfer of shares or participations in entities holding real estate.

Furthermore, it should be pointed out that renting/leasing of real estate by non-entrepreneurs is subject to transfer tax (progressive tax rates range from 0.002 % to 0.004 % depending on the amount of rent/lease for all contractual periods. In Catalonia new provisions have stated a fixed tax rate of 0.3 % for 2014 and 0.5 % for 2015).

2. Is real estate subject to any real estate tax? At which rate?

Wealth Tax
Resident individuals are subject to wealth tax on their worldwide net wealth (real estate properties included) at the end of the calendar year, and non-resident individuals on their net assets located in Spain. In 2008 this tax was abolished in practice through a 100 % tax rebate for both resident and non-resident individuals. However, from 2011 onwards, autonomous regions have been entitled to reintroduce this tax and currently only the region of Madrid region keeps the 100 % tax rebate. The habitual abode is tax-exempt up to € 300,000 and only wealth exceeding € 700,000 have been entitled to be taxed at progressive tax rates that range from 0.2 % to 3.75 % depending on the respective autonomous region in which the taxpayer resides, and in case of non-resident taxpayers at a progressive national tax rate that ranges from 0.2 % to 2.5 %.

Local tax on property

Real estate is subject to a local tax on property. This local tax is based on the value of rural and urban lands, and on immovable properties with special characteristics, and has to be paid by the owner, usufructuary or holder of a usufructuary right under public law. The tax base is the cadastral or land value determined by the tax authorities.

The tax rate is between 0.3 % and 1.1 % depending on the area where the property is located. The general tax rate on immovable properties with special characteristics is 0.6 %. These tax rates may vary in different municipalities depending on the population and other facts.

Local tax on the Increase in value of urban land

This local tax accrues upon the transfer of an urban land. The taxpayer is the seller. The tax base is calculated by applying coefficients of a maximum of 3 and 3.7 stated in every tax municipal ordinance to the cadastral value of the land depending on the periods of land tenure. The tax rate applicable varies upon tax municipality ordinance where the urban land is located within the limit of 30 %.

Local tax on construction, installation and works

This tax is levied on construction, installation and works and is applicable to the effective costs of the work. The taxpayer is the owner of the construction work, which is not necessarily the owner of the building. The maximum tax rate can be up to 4 %, depending on the municipality where the works are carried out.

Local business tax

Any business developed in Spain is subject to business tax, levied on a yearly basis. The business tax cost will depend on the specific activity carried out by taxpayers. For renting activity the tax charge is 0.10 % of the cadastral value of the leased surface within the national territory. If the total cadastral value is lower than € 601,012, no business tax is charged under this concept. Corporations with an annual turnover under € 1 m (according to the last corporate income tax return filed) and individuals are tax-exempt. Furthermore, the first two years of activity are also exempt.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

In general terms, if the seller is an entrepreneur or professional, the transfers of new buildings or urban land are subject to VAT. The general VAT rate is 21 %, but a reduced tax rate of 10 % applies to the transfer of buildings or parts thereof fit for used as dwellings (with a maximum of two units) and 4 % to transfers of dwellings qualified as subsidized housing by the Government and houses acquired by companies whose principal business purpose consists of housing lease applying the special Corporate tax regime.

However, if the sold assets represent an autonomous economic unit, which is able to develop its entrepreneurial activity independently, such transfer will not be subject to Spanish VAT.

In addition, transfers of rural land or second transfers of buildings are exempt of Spanish VAT. Second transfers are those not undertaken by the building developer or those undertaken by the developer but after one year as per finishing the construction works. However, if the purchaser is an entrepreneur for VAT purposes and entitled to deduct the whole input VAT regarding a predictable use of the land only for business purposes, the seller can waive such an exemption and the transfer can be subject to VAT, the reverse charge mechanism then being applicable.

Normally, a 0.5 % to 2 % Stamp Duty arises jointly with VAT as a result of real estate transactions are documented in a public deed.

2. What are the VAT consequences of renting/leasing of real estate?

Renting/leasing of real estate by non-entrepreneurs is subject to transfer tax

If it is undertaken by entrepreneurs it triggers Spanish VAT at the general tax rate of 21 % if the rented/leased immovable properties are lands, offices or commercial properties, business facilities, etc. Nevertheless, renting for housing purposes constitute VAT-exempt services, which prevent entrepreneurs from deducting input VAT related to such activities or may require a pro-rata adjustment of the input VAT.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

No, as per 3 December 2010.

2. Is there a stamp duty on debt granted to a local company?

No.

Real Estate Investment in

Sweden

A. Legal/General

1. Are non-residents entitled to acquire real estate in Sweden? Does the acquisition have to be carried out by a Swedish corporation?

Residents as well as non-residents may acquire Swedish real estate.

It is not required that the real estate acquisition is carried out by a corporation or other legal entity.

2. Which importance does the land register have?

The Swedish land register ensures security for real estate owners and provides for a functional credit sector.

In the land register ownership is registered when a real estate is acquired, and it is required that a registration of a change of ownership of a real estate is applied for within three months from the acquisition.

Further, easements, site leaseholds and mortgages on a real estate are also registered in the land register.

Lantmäteriet is the Swedish land registry authority.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Corporations, such as limited liability companies (Swedish: aktiebolag)

Corporate income tax
Corporate income tax is currently levied with 26.3 %.

Participation exemption
Under the Swedish participation exemption regime dividends and capital gain on business related shares are tax exempt.

The Swedish participation exemption regime covers business related shares in a Swedish limited liability company or equivalent foreign legal entities, which are held by e.g. a Swedish limited liability company or equivalent foreign legal

entities. Further, the shares must be held as capital asset (not stock) and (i) be unquoted or, if quoted, (ii) correspond to at least 10 % of the voting rights in the company, or (iii) held for organizational purposes.

Partnership interests in Swedish limited partnerships or foreign equivalents are also covered by the Swedish participation exemption regime provided that the holder of the interest is e.g. a Swedish limited liability company or equivalent foreign entity. Further, dividends and capital gain received by a Swedish limited partnership held by e.g. a Swedish limited liability company or equivalent entities are tax exempt under the Swedish participation exemption provided that the dividend and/or capital gain would have been tax exempt under the Swedish participation exemption regime should the holder of the interest in the limited partnership have received the dividend/capital gain directly.

Shares in companies holding real estate are generally covered by the Swedish participation exemption regime. However, shares in companies holding real estate may constitute stock items if the shareholder conducts e.g. proprietary trading, and/or building and construction services. Additionally, shares may also constitute stock items if the shareholder conducts trading with shares or securities.

With regard to quoted shares a minimum holding period of one (1) year is required for tax exemption. In order for a disposal of quoted shares to be tax exempt it is thus – provided that the requirements above are fulfilled – also required that the shares have been held by the seller for a minimum of one year prior to the disposal.

A capital loss on shares covered by the Swedish participation exemption regime is not deductible for tax purposes.

Tax consolidation

It is possible to tax consolidate in a group of companies through the use of group contributions, provided that certain requirements are fulfilled. A group contribution is a taxable income for the receiver and a deductible cost for the distributor.

One of the fundamental requirements for the distribution of tax deductable group contributions is that the distributor and the receiver are corporate entities taxable in Sweden. A permanent establishment in Sweden held by a foreign company within the EEC is generally considered as qualifying for the tax liability requirement.

In addition, the following requirements need to be met for a group contribution to be deductible between a parent company and its subsidiary:

- Disclosure: The group contribution must be fully disclosed in the tax returns by both the distributor and the receiver
- Ownership: The parent company must have held at least 90 % of the shares in the subsidiary during the entire fiscal year of both companies or since the subsidiary started to conduct business
- Tax exemption: If the group contribution is distributed by the subsidiary to the parent company, dividend distributed from the subsidiary to the parent company in the same fiscal year must be tax exempt (i.e. the shares must be business related and qualify for Swedish participation exemption).

Group contributions may also be distributed between fully owned subsidiaries and other Swedish companies within the same corporate group. A group contribution may also be transferred through a chain of companies, as long as the criterions stated above are fulfilled in every step of the chain and provided that the receiver is tax liable in Sweden. A foreign company established within the EEC may be part in the chain of companies, provided that the receiver of the group contribution is tax liable in Sweden.

Income and capital gain on real estate
Income and capital gain assignable to real estate is subject to normal corporate taxation.

A capital loss assignable to real estate is generally only deductible against capital gains on real estate. Such loss may also be deducted against a capital gain on real estate incurred in another company within the same group of companies, provided that the company reporting the capital loss and the company reporting the capital gain may distribute deductible group contributions between each other. A capital loss from the sale of real estate may be carried forward indefinitely.

Individuals

Personal income tax rate
The personal income tax rate on salary income is progressive.

Personal income tax rate (2014):

- Up to SEK 420,800: approx. 30 % (local/municipality tax);
- From SEK 420,800: approx. 30 - 57 % (local/municipality tax and state tax)

Capital income/gains tax

Capital tax is levied at a rate of 30 % on capital income and capital gains. However, with regard to capital gains the actual tax rate may sometimes be reduced depending on the type of asset disposed of.

A capital gain assignable to disposal of real estate held for housing is subject to an effective tax rate of 22 % and a corresponding capital loss on real estate is tax deductible to 50 %. A capital gain assignable to real estate held for business purposes by individuals is subject to an effective tax rate of 27 % and a corresponding capital loss is tax deductible to 63 %.

2. What is the tax depreciation period for real estate in Sweden? Are there depreciation categories? Which depreciation method is used?

The acquisition cost for real estate, including stamp duty, may be depreciated for tax purposes.

Cost for acquiring land cannot be depreciated for tax purposes; however, for other parts of a real estate different depreciation rates and methods are applied depending on the category type.

Acquisition cost for building is subject to depreciation of 2 - 5 % p.a. in accordance with recommendations from the Swedish Tax Agency. The applicable depreciation rate is based on the estimated economic lifetime of the building and depends on the type of building (e.g. rental building or industrial building etc.). Costs for new,-add- or rebuilding of a property are added to the acquisition cost for the building and, thus, also subject to depreciation.

Land improvements are subject to depreciation with 5 - 10 % p.a.

Acquisition costs for building- and land equipment are subject to depreciation at a rate of 20 - 30 % p.a. It is also possible to depreciate at a rate of 25 % based on the tax base value.

Subject to certain requirements, maintenance costs, such as e.g. repairs and customizations for tenant purposes, can be deducted immediately.

3. When is a foreign investor subject to limited tax liability in Sweden?

In general, foreign investors are subject to limited tax liability in Sweden and thus only taxable for certain income deriving from Sweden.

Foreign corporate investors with a limited tax liability are taxable in Sweden for income assignable to a permanent establishment or real estate located in Sweden.

Further, foreign corporate investors with a limited tax liability are in general subject to Swedish withholding tax on dividends distributed from Swedish limited liability companies at a rate of 30 %. However, corporate investors may be exempt from the liability to pay Swedish withholding tax due to the Swedish participation exemption regime (please see section B.1) or due to the EEC Parent/Subsidiary Directive. The withholding tax may also be fully or partly reduced due to provisions in double tax treaties.

Individual foreign investors with a limited tax liability are taxable in Sweden for e.g. income and capital gain deriving from a Swedish real property, a Swedish permanent establishment or for certain salary income deriving from Sweden.

Further, individual foreign investors with a limited tax liability are subject to Swedish withholding tax on dividends distributed from Swedish limited liability companies at a rate of 30 %. However, the applicable withholding tax may be reduced due to provisions in double tax treaties (normally to 15 %).

4. Are asset deal and share deal possible in Sweden? What are the main consequences?

A real estate investor may sell and acquire a Swedish real estate by way of an asset deal or as a share deal. In general, no limitations apply from a tax perspective.

Asset deal

In general, capital gain from the sale of real estate is subject to taxation. A capital gain or loss from the sale of real estate is generally equivalent to the difference between the purchase price and the tax value (or acquisition cost). For corporate tax purposes, a capital loss is normally only deductible against capital gain on real estate. For capital tax purposes a loss is deductible.

In an asset deal it is possible for the acquirer to deduct the acquisition cost for tax purposes by way of tax depreciations. For tax depreciation purposes the acquisition cost for real estate is divided into land, building, land- and building equipment and land improvement. Please see section B.2.

An asset deal may trigger Swedish stamp duty. Please see section C.1.

An asset deal is exempt from Swedish VAT. Please see section D.

Share deal

Under the Swedish participation exemption regime a share deal can be carried out without any tax implications for the seller. This may also apply to the disposal of interest in limited partnerships. Please see section B.1. A capital gain from the sale would not be subject to tax and a corresponding loss would not be deductible for tax purposes.

However, it should be noted that shares in companies holding real property may constitute stock if the shareholder conducts e.g. proprietary trading, and/or building and construction services. Additionally, shares may also constitute stock if the shareholder conducts trading with shares or securities. Should the shares qualify as stock the Swedish participation exemption does not apply. Consequently, a gain from the disposal would be taxable and a corresponding loss would be deductible for tax purposes.

In a share deal the tax value of the real estate is not subject to a step-up and the tax depreciation plans remain unchanged in the target company. Further, the acquirer may not depreciate the acquisition cost for tax purposes.

A share deal does not trigger Swedish withholding tax or stamp duty.

A share deal is exempt from Swedish VAT. Please see section D.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Currently, Sweden does not have any thin cap rules.

As a general rule, interest costs are deductible for tax purposes. However, some limitations as to this general rule apply.

First, interest between related parties must be set on market conditions and thus at arm's length. According to case law from the Swedish Supreme Administrative Court, the arm's length criteria should not be the only decisive factor when determining the market conditions of a loan between a parent company and its subsidiary Due to the reduced credit risk involved in intra-group loans, and depending on the conditions in each specific case, the interest rate sometimes needs to be set at another (in this case lower) rate than usually applied between independent parties.

Second, Sweden introduced rules on limitation of interest deductions as of 1 January 2009. New, extended, rules were introduced as from 1 January 2013. The rules are highly complex, but could in brief be described as follows.

The rules cover interest on all debt between related companies regardless of the purpose of the debt. E.g. internal/external acquisitions of shares, business assets and receivables are covered as well as loans for financing and contributions. However, third party loans are excluded.

"Related company" is defined as a company having substantial influence (normally 40 - 50 percent) over another company. If the recipient beneficial owner of the corresponding interest income is taxed with at least 10 % (the "10 % rule"), the interest is deductible for tax purposes, provided that the main reason (approx. 75 %) for the debt being raised is not that the affiliated companies should receive a substantial tax benefit.

There is an exception for loans that are motivated mainly by business reasons (approx. 75 %). The scope of the exception is limited to the interest recipient being resident within the EEC or in a jurisdiction covered by a tax treaty. When assessing the applicability of the exception for loans motivated mainly by business reasons, consideration should be taken into whether the transactions could instead have been financed through a capital contribution.

It should be noted that the Swedish Tax Committee in June 2014 presented two new alternatives for interest deduction limitation rules. The proposed alternatives are very different from the current interest deduction limitation regime, and the main alternative includes an abolishment of the current rules. The new rules are proposed to come into force as of 1 January 2016, should they be adopted by the Swedish Parliament.

6. Can acquisition costs/financing fees/interest be deducted?

If the acquisition costs are funded by debt, the interest costs could be deducted from the acquiring company's profits. However, certain restrictions as to the right to deduct interest apply. Please see section B.5.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

In general, debt push down into the target company is possible. However, certain restrictions apply. Please see section B.5.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Swedish withholding tax is not levied on interest payments.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Tax losses can generally be carried forward for an unlimited period of time and be set off against future profits or group contributions received (losses may not be carried back).

Certain restrictions as to this general rule apply e.g. when a loss company is subject to a change of ownership whereby the new owner/owners obtain(s) the direct/indirect decisive control over the company (i.e. generally more than 50 % of the voting capital), there are certain restrictions as to the right to set off tax losses carry forward from previous fiscal years (the capital restriction and the group contribution restriction).

Briefly, a capital restriction resulting in losses exceeding 200 % of the total consideration paid for obtaining the decisive control of the loss company, may not be carried forward and be set off against future profits. When calculating the total consideration paid, the consideration should normally be reduced by any formal/informal capital contributions, such as e.g. shareholder's contributions made to the acquired company (or other companies within the same group of companies both before and after the acquisition) during the acquisition year and the two previous fiscal years.

Briefly, a group contribution restriction results in tax losses carried forward not being permitted to be set off against group contributions received from companies not within the same group of companies prior to the change of ownership. The restriction applies during a five-year period after the year of the change of ownership.

Tax losses incurred in the year of the change of ownership are not subject to utilization restrictions.

Further, company mergers may affect tax loss carry forwards in both the transferring company and the surviving company. First, the capital restriction is triggered if the surviving company has no decisive control over the transferring company prior to the merger. Second, a merger restriction could affect the possibility for the surviving company to utilize own tax loss carry forwards as well as tax loss carry forwards assignable to the transferring company during a six-year period.

C. Real Estate Taxes

1. Does Sweden levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Stamp duty is levied on acquisitions of real estate. No stamp duty or other transfer taxes are levied on transfer of shares.

With regard to real estate acquisitions stamp duty is levied at a rate of 4.25 % (1.5 % if the acquirer is an individual) of the highest of the purchase price and the real estate tax assessment value for the year prior to the year when the acquisition is registered in the Swedish land registry.

Certain types of real estate acquisitions are exempt from stamp duty, e.g. land mergers and company mergers. However, the majority of real estate acquisitions triggers stamp duty.

If a real property is acquired due to an intra-group transaction, the stamp duty may normally be deferred as long as the seller and acquirer are part of the same group of companies or until the real estate is transferred.

2. Is real estate subject to any real estate tax? At which rate?

Real estate tax is normally levied with 1 % for commercial premises and 0.5 % for industrial premises on the real estate tax assessment value. However, other tax rates apply (between 0.4 % and 2.4 %) depending on the type of real estate. A real estate which is used for certain specific purposes, such as e.g. nursing, communications or education, may be exempt from real estate tax.

As a general rule, the real estate tax assessment value should be equivalent to 75 % of the market value of the real estate.

The owner of the real estate is liable to pay the real estate tax at the beginning of each calendar year (1 January). Real estate tax is deductible for tax purposes.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

A sale of real estate through an asset deal is exempt from Swedish VAT. In general, the exemption applies to all transfers of real estate for consideration in return. A sale of real estate as a share deal is also VAT exempt in Sweden.

With regard to optional VAT treatment for letting of buildings the optional VAT treatment normally follows the transfer of the real estate. Please see section D.2.

A sale of real estate normally involves a transfer of rights and obligations to adjust input VAT on investments. The owner is responsible for adjusting input VAT on investments for ten years from the time of the investment. The seller of real estate is required to issue a document that specifies the necessary adjustment information. The document is used by the acquirer if adjustment of input VAT has to be reported to the Swedish Tax Agency before the end of the ten-year adjustment period of each investment.

Should the rights and obligations to adjust input VAT on investments not be transferred, or not be possible to be transferred, the sale of the real estate will result in VAT adjustment.

2. What are the VAT consequences of renting/leasing of real estate?

As a general rule, letting of buildings is exempt from Swedish VAT. However, letting of buildings or part of buildings may be subject to optional VAT taxation. Where the requirements for optional VAT are met, a commercial landlord would normally opt for VAT so that the most possible extent of the lettings are subject to VAT with a right to deduct input VAT to the same extent.

As from 1 January 2014, letting of buildings or part of buildings is subject to optional VAT if VAT is charged on the rent and the other requirements for optional VAT are met. If the usage of the building is changed so that it is no longer let according to the provisions of optional VAT, optional VAT and the right to deduct VAT connected to the premises ceases. The right to deduct VAT applies only to the extent that the costs are related to the area for which optional VAT applies.

Deductions of input VAT on investments on real estate can be subject to adjustment for a period of ten years after the investment was carried out. Adjustments could be made either due to a change in the usage of the investment that increases or decreases the right to deduct input VAT or due to a sale of the real estate. However, in case of a sale the buyer normally succeeds into the seller's legal position with regard to the input VAT corrections. Please see section D.1.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

N/A

2. Is there a stamp duty on debt granted to a local company?

N/A

Real Estate Investment in

Switzerland

A. Legal/General

1. Are non-residents entitled to acquire real estate in Switzerland? Does the acquisition have to be carried out by a Swiss corporation?

In Switzerland restrictions exist with regard to the acquisition of real estate by persons being non-residents. The respective requirements are defined in a specific legal act called "Lex Koller". The fulfillment of these requirements will be checked by the responsible land register of the canton where the real estate is located.

In case the potential buyer of a real estate has the citizenship of an EU- or EFTA-country and has the permission for residency the purchase of a real estate in Switzerland should be possible. Otherwise the option to purchase real estate has to be clarified in detail.

In case the acquisition of the real estate should be carried out by a corporation, the similar law as mentioned above will be applicable. This means concretely that the ultimate beneficial ownership of a corporation will also be a criterion if the purchase of the real estate is in line with the existing legal requirements.

2. Which importance does the land register have?

Rights with respect to real estate are to be recorded in the land register as such rights only come into existence upon registration.

In Switzerland the land register is in the competence of each of the 26 cantons. Therefore, the concrete procedure and also the costs of the acquisition of a real estate may vary depending on the canton where the real estate is located.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

The tax system in Switzerland is organized on three different levels. Any individual or legal person is liable for taxation on federal, cantonal and communal level. The tax rates on cantonal and communal level depend on the concrete domicile of the taxpayer while on federal level – depending on whether the taxpayer is an individual or a legal person – the tax rates are uniform.

Corporate tax rates:

- → On federal level the income tax rate is 8.5 % flat.
- → On cantonal and communal level a broad range of income tax rates exists. Depending on the domicile of the company the income tax rate may vary between 5 % and 25 % (flat rates or progressive rates). Furthermore, on cantonal and communal level a capital tax, calculated on the amount of the company's taxable equity by end of the tax period, is levied. The rates for capital taxes are 0.1 % up to 0.6 %.
- → In Switzerland, all taxes due by corporate taxpayers are tax deductible costs, which is different to most other countries. Therefore, the overall effective income tax rates on all levels for corporations vary between 12 % and 25 %.

Tax rates for individuals on income and wealth:

- → The personal tax rates depend on the domicile (canton and municipality) of the individual. In general, Swiss income and wealth tax rates are progressive. Very often, different rates apply for married and single taxpayers, as the income of husband and wife is aggregated and taxed together.
- → On federal level the maximum income tax rate is 11.5 %, while no wealth tax is owed.
- → The cantonal and communal rates vary considerably. Usually, the tariff mentioned in the cantonal tax act only results in so-called "basic rates". These rates are subject to annually fixed cantonal and municipal multipliers. Church taxes are levied in the same way. Maximum income tax rates on cantonal and communal level are between 15 % and 35 %, respectively, up to 1 % for the wealth tax.

Participation exemption on federal and cantonal/communal level for corporations:

- → Dividend income generated by qualifying participations will be indirectly tax exempted – using a special calculation method – due to the so called participation exemption. A qualifying participation means a participation in a legal entity, corresponding to a portion of the share capital of such a legal entity of at least 10 % or having a fair market value of at least CHF 1,000,000.
- → Capital gains generated by the disposal of a participation in a legal entity which corresponds to a portion of at least 10 % of the share capital of such legal entity are also subject to the participation exemption, but only if the holding period of the relevant participation is at least one year before the disposal and if the sales price of the participation exceeds the initial acquisition costs.

Participation exemption on federal and cantonal/communal level for individuals:

- On federal level only 50 % of the net dividend income (and similar income such as liquidation proceeds or deemed dividends) derived from a participation in a legal entity with at least 10 % of the share capital is taxable in case the participation is qualified as business asset respectively 60 % in case the participation is qualified as private asset.
- On cantonal/communal level there exists in most cantons a similar taxation for participations with at least 10 % of the company's capital. In some cantons the percentage of the tax exemption of the dividend income is even more favorable than the solution on federal level.

2. What is the tax depreciation period for real estate in Switzerland? Are there depreciation categories? Which depreciation method is used?

For real estate held by individuals and qualifying as private assets no tax effective depreciation is possible.

For real estate held by companies or by individuals in their business assets the straight-line or declining depreciation method is possible. Using the declining method the general annual depreciation rates are 1.5 % to 2 % for apartment buildings, 3 % to 4 % for office buildings, 4 % to 6 % for hotels and 7 % to 8 % for industry buildings, depending on whether the depreciation is calculated only on the value of the building or on the value of the building and the ground. Generally, there is no depreciation on the value of the ground.

3. When is a foreign investor subject to limited tax liability in Switzerland?

Non-resident taxpayers as individuals may be subject to Swiss taxes only with respect to income from certain Swiss sources. Important examples – as long as not restricted by double tax treaties – are:

- Income from Swiss real estate (assessed tax);
- Income from business performed through a permanent establishment located in Switzerland (assessed tax);
- Income from employment performed in Switzerland if paid by an employer being resident in Switzerland or having a permanent establishment in Switzerland (withholding tax);
- Director's fee (withholding tax);
- Interest income secured by mortgage on Swiss real estate (withholding tax);
- Income from dealing with Swiss real estate or acting as a broker;
- Pensions and similar payments related to a former employment in Switzerland (withholding tax).

Non-resident companies may be subject to Swiss corporate taxation if they:

- → Are partners of a business in Switzerland;
- → Have a permanent establishment in Switzerland;
- → Own Swiss real estate;
- → Have claims secured by mortgage on Swiss real estate;
- → Deal with Swiss real estate or act as a broker.

4. Are asset deal and share deal possible in Switzerland? What are the main consequences?

According to Swiss civil and tax law both possibilities an asset or a share deal can be chosen.

From a pure tax perspective, the main consequence of a share deal is the fact that the book value of a participation may only be depreciated under certain economical conditions, e.g. if the fair market value of the participation is lower than the initial acquisition value. Furthermore, in case of a sale of the participation, any reversal of former depreciations will be fully taxable and only the difference between the sales price and the initial acquisition costs, if all other requirements are fulfilled, will be tax exempted due to the participation exemption rule.

In case of an asset deal the investor has the possibility to depreciate the assets and therefore to realize income tax deductible costs. Due to that – besides other legal requirements or reasons – the purchase of a business using an asset-deal may be more favorable for an investor.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

According to federal and cantonal tax law detailed thin capitalization rules exist. The basis to calculate the potential thin capitalization are the assets of a company (book value or fair market value if higher) and – due to a pre-defined percentage as per asset-category – the calculation of the maximal allowed debt. Afterwards, the total of the calculated debt capacity is compared with the effective debt of the company. In case of an existing shareholder or related party loan – or a bank loan guaranteed by the shareholder or a related party – the portion of the company's debt above the calculated limit will be qualified as so called hidden equity for tax purposes.

Any interest expenses on the debt exceeding the allowed debt capacity of a company, i.e. identified thin capitalization will not be accepted as income tax deductible cost. This will lead to an increase of the income tax expense of the company.

Furthermore, due to the qualification as deemed dividend, federal withholding tax of 35 % is to be paid by the company.

With regard to interest on loans from or also to the shareholder or group-companies so-called safe haven rules exist. At the beginning of each calendar year the federal tax authority publishes in a circular letter the minimal and maximal interest rates for shareholder- and/or group-company-loans in Swiss francs but also in other relevant currencies. In case a company is not in line with these "official" interest rates, the fulfillment of the dealing at arm's length principle needs to be proven.

6. Can acquisition costs/financing fees/interest be deducted?

If all requirements are fulfilled, e.g. no interest on hidden equity exist, and the company does not have a special tax status (e.g. a holding privilege with full income tax exemption on cantonal level) any acquisition costs as well as financing fees and interest will be fully income tax deductible.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Compared to other countries the possibility of creating a tax group does not exist for income tax purposes. Due to that, a direct pooling of debt financed interest with the income from the target is not possible.

Furthermore, certain restrictions for a merger of the acquiring company with the target exist. Normally, after a certain time – in general a period of five years should be adequate – a debt push down by merging the two companies should be possible. Nevertheless, any transaction leading to a debt push down should be agreed to by the tax authorities before the respective merger is realized.

8. Is there a withholding tax on interest payments paid by local company to creditor?

In case the company is not qualified as a bank or the debt is not qualified as a bond in the sense of the federal withholding tax law and the interest payment is not qualified as deemed dividend due to other reasons (hidden equity, interest rate is not in line with the safe haven rules, see above under section B.5) there is no withholding tax on interest payments effected by a local company to the creditor.

With regard to the qualification as a bank in the meaning of the Swiss withholding tax law and the qualification of a loan as a bond, the following general remarks can be made:

- → Status of a bank
  A company qualifies as a bank in the meaning of the Swiss withholding tax law if it shows more than 100 non-bank-creditors of interest-bearing loans and if the total amount of such loans exceeds CHF 5,000,000.
- → Qualification of a loan as a bond
  For Swiss withholding tax purposes, there is an issue of a bond if there are more than ten non-bank-creditors granting a loan to the Swiss issuer based on debt securities having identical conditions and if the overall debt amount exceeds CHF 5,000,000, or if a Swiss resident borrows funds from more than twenty non-bank-creditors to similar conditions on an ongoing base and if the overall debt amount exceeds CHF 5,000,000.

9. Is a loss carry forward or carry back granted and what are the restrictions?

According to federal and cantonal tax law any realized – tax accepted – loss of the company may be offset against taxable profits for a period of seven years. However, a loss carry back does not exist due to federal and cantonal tax law.

C. Real Estate Taxes

1. Does Switzerland levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

Most of the cantons of Switzerland levy a real estate transfer tax of up to 3 % on the purchase price of a real estate. Not only the legal change of ownership of a real estate but also the economic transfer of ownership – e.g. by the purchase of the shares of a real estate company – is liable to the cantonal real estate transfer tax. The assessment of a real estate transfer tax depends on the canton where the real estate is located. Therefore, in case a company is owner of a real estate, the domicile according to the commercial register is not decisive. The real estate transfer tax is only avoidable in case the requirements for a tax neutral restructuring are fulfilled.

For the sake of completeness it needs to be mentioned that the cantons of Switzerland also levy a real estate gain tax. Two different systems of taxation of real estate gain exist. Some of the cantons levy a special real estate gain tax for each sale of real estate, regardless of whether the real estate was owned by an individual or a company, which is the so called “monistic system”. Some of

the cantons only levy real estate gain tax on transactions of individuals, which is the so-called "dualistic system". In the second case, the cantons levy taxes on the sales of real estate by companies according to the normal income tax law as described in section B.1.

2. Is real estate subject to any real estate tax? At which rate?

- → For the income from real estate no special tax rates exist.
- → In case the real estate is owned by an individual, the income derived from the real estate is taxed as part of the overall income of the person. In case of a personal use of the real estate there exists a special system in Switzerland. For such real estate a fictive income, the so called "rental value", is taxed but also relevant costs for financing and for maintenance may be deducted.
- → For real estate owned by companies the realized income is taxed with the other income according to the statutory accounts of the company. In certain cantons there exists a minimum taxation which is based on the tax value of the real estate. This means that – even if a company has realized a loss in the relevant tax period – a minimum real estate tax of up to 2 % of the tax value is levied. Normally, this kind of real estate tax is calculated by a certain amount of per mill of the tax value of the real estate.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Based on the federal VAT law, the sale of real estate is generally VAT exempted without credit of input VAT. Therefore, the sales price of a real estate is not liable to Swiss VAT. Any VAT on the costs of the real estate (e.g. construction costs, etc.) may not be recovered as input VAT.

Nevertheless, in case the real estate is not used for private but for business purposes, the seller may opt to treat the sale of the real estate as VAT-liable. In that case, the seller has – except for the value of the land which cannot be VAT-liable at any time – to calculate Swiss VAT of currently 8.0 % on the sales price. If all requirements are fulfilled, the purchaser of the real estate may recover the paid VAT as input-tax.

2. What are the VAT consequences of renting/leasing of real estate?

Like the sale of a real estate also the renting or the leasing of such is generally VAT-exempted without credit of input-VAT. However, for renting or leasing of a real estate – except for real estate which is only used for private purposes – there exists the possibility of opting for VAT as well. The rent or lease is then subject to Swiss VAT.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Any foundation, respectively, increase of equity of a Swiss company is subject to Swiss stamp issuance duty of 1 % calculated on the value contributed to the company but at least on the newly founded share capital. The first CHF 1,000,000 newly created equity (share capital and/or share premium) is stamp issuance duty exempted. Furthermore, if a transaction is qualified to be tax neutral restructuring due to the fact that the legal requirements for such qualification are met, no stamp issuance duty is levied. Eventually, if the foreseen changes in the tax law are realized, Swiss stamp issuance duty should be abolished within the next two years, i.e. by 2016.

There is a capital tax for equity injected into a company which is levied on cantonal/communal level (see section B.1). The basis of the cantonal/communal capital tax also includes the portion of the debts of the company which was qualified as hidden equity for tax purposes according to the thin capitalization rules.

2. Is there a stamp duty on debt granted to a local company?

On federal level there is no stamp duty on debt granted to a local company. On cantonal level it is possible that such stamp duty may be levied on certain financial contracts.

Real Estate Investment in

Turkey

A. Legal/General

1. Are non-residents entitled to acquire real estate in Turkey? Does the acquisition have to be carried out by a Turkish corporation?

Foreign nationals may acquire real estate and limited immovable rights in Turkey provided that they are a citizen of one of the 183 countries that have been listed by the Council of Ministers of Turkish Parliament.

Additionally, foreign commercial companies having legal personality established abroad according to the laws of those countries can acquire real estate in Turkey only in accordance with the provisions of Private Laws (Law for Encouragement of Tourism Numbered 2634, Petroleum Law Numbered 6326, Industry Zones Law Numbered 4737).

Other foreign legal entities (e.g. foreign charities, foundations, societies) cannot buy property in Turkey.

Legal entities established in Turkey by foreign investors can acquire real estate in Turkey in line with operational purposes set in the company's articles of association.

The same rule applies to properties that are acquired by other companies established in Turkey by foreign investors or if a foreign investor acquires a Turkish company owning a property. With respect to the definition of the "companies with foreign capital", a foreign capital Turkish company is defined by Law No:6302 as:

- A company having a legal personality and established in Turkey; and,
- 50 % or more shares of which belong to foreign nationals, international institutions, or legal entities established under the laws of foreign countries; or,
- Where the above listed persons have the right to assign or depose the majority of the persons having the management rights in that company.

The limit of the amount of land that a foreigner can acquire is 30 hectares and this limit can be doubled per person by the decision of the Council of Ministers.

Notwithstanding the above, the amount of land that can be acquired by a foreign national in one district cannot exceed 10 % of the total surface area of private properties of the district concerned.

It is compulsory for foreign nationals and foreign legal entities to submit a "project plan" regarding the acquired real estate that does not have any construction on it to the relevant Ministry within two years and obtain an approval from there. Non-compliance with the project plan submitted or realized would cause a compulsory sale of the relevant real estate.

2. Which importance does the Turkish land register have?

In Turkey, the entry in the property register is performed by an official of the Property Registry Department. It is legally compulsory for both sides (the seller and the buyer) to be present at the entry. It is possible to authorize another person to do so. Agreements of commitment to sell real estate may only be concluded at a public notary, otherwise they are considered null and void. Rights on real estate such as rights of pre-emption, rights of repurchase, or rights of construction (superficies) can only be established at the Property Registry Department. Rights of this type that have not been registered at the Property Registry Department shall be deemed null and void. A charge at the rate of 0.683 % is applied on the rights of redemption.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

- Corporate income tax rate: 20 %
- Personal income tax rate: 15 % - 35 %
- Participation exemptions:
  - National participation exemption: Dividends derived by a resident company from a participation in another Turkish corporation are exempt from corporate income tax.
  - Foreign participation exemption: Dividends derived from a participation in a foreign corporation or limited liability company are exempt from corporate tax under the following conditions:
    - Equity participation of at least 10 % in a foreign corporation for a minimum uninterrupted period of one year;
    - The profits out of which the dividends are paid were subject to a foreign income tax of at least 15 %[1];

1 The profits out of which the dividends are paid were subject to a foreign income tax of at least 20 % if the corporate subject of the respective entity falls under financial institutions, insurance providers and real estate investors.

- Participation income should be transferred to Turkey until due date of the corporate tax declaration of the respective financial year.

2. What is the tax depreciation period for real estate in Turkey? Are there depreciation categories? Which depreciation method is used?

The general depreciation period for buildings is 50 years. Buildings which are used as factories that are built from concrete, iron or steel are depreciated over 40 years, factory buildings which are built from other material than the ones mentioned will be depreciated over a period between 10 - 25 years depending on the material used. Leasehold additions and improvements on buildings are depreciated over the life of the lease agreement (i.e. over the lease period).

3. When is a foreign investor subject to limited tax liability in Turkey?

Those individuals who are not 'settled' in Turkey are taxed solely upon the earnings and revenues they have acquired in Turkey as they are considered as "limited tax liable".

Those whose residence is in Turkey and those who reside in Turkey for more than six months during one calendar year are considered as settled in Turkey and their taxation is made according to the rules of full tax liability.

The foreigners who are businessmen, scientists, experts, officials, press correspondents, and other individuals whose situation resembles these, as well as those who have arrived in Turkey for purposes of education, medical treatment, rest, or of travel shall not be considered as settled in Turkey, even if they have stayed in the country for more than six months in a calendar year.

4. Are share deal and asset deal possible in Turkey? What are the main consequences?

Generally, capital gains derived by a foreign company

- → from the disposal of Turkish company shares (share deal)
- → from the asset sales transaction (asset deal)

are subject to 20 % corporate tax on the profit realized from the sales transaction.

There is a 75 % capital gains exemption for the sale of shares (share deal) and immovable property (asset deal) which has been owned by the company for a minimum period of two years and of which the proceeds have been kept within

the company for a period of five years. This provision is not applicable to companies that are active in trading of marketable securities and immovable property and have been holding these assets for trading purposes.

For certain Turkish joint stock companies, capital gains generated from sales of participation shares that are held at least for two years in foreign companies are exempt from corporate income tax. This rule applies to Turkish joint stock companies, if 75 % of their assets are constituted of at least 10 % of shares of foreign corporations or foreign limited liability companies.

For other tax consequences see the questions below.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Under Turkish thin capitalization rules, if a loan obtained by a corporation directly or indirectly from shareholders or from related parties is more than three times higher than the net equity at any given day within an accounting period, the exceeding amount is considered as thin capitalization (debt to equity ratio 3:1). Expenses (interest expense and foreign exchange losses) related to the exceeding amount are not only treated as non-deductible expenses when determining the corporate tax base but they are also regarded as disguised profits. If the shareholder or related party is a bank or finance institution, the debt to equity ratio applied is 6:1.

6. Can acquisition costs / financing fees / interest be deducted?

Interest expenses as well as foreign exchange differences incurred by Turkish corporate taxpayers in connection with the business purpose are considered as deductible expense.

Interest expenses and foreign exchange losses accrued within the purchase year for loans acquired to finance the purchase of fixed assets shall be capitalized as a part of the cost of the asset. After the purchase year, the buyer may freely decide to capitalize such expenses or accept them as deductible financial expenses. Interest expenses incurred for the acquisition of participation shares are also considered as deductible expenses.

7. Are there any possibilities to allow pooling of debt financed interest with income of target (debt push down)?

The Turkish Corporate Tax Code allows Turkish corporate taxpayers to merge in a tax-free manner under certain conditions stipulated by law. Accordingly, Turkish companies may accomplish a tax free merger if all of the items of the balance sheet of the merged entity are transferred to the acquiring entity. Typically, if one of the companies has an outstanding debt in principle, there is no restriction to transfer the loan to the acquiring entity. The interest expenses arising from this loan can still be deducted at the level of the acquiring entity.

There is no tax consolidation (fiscal unity) regulation under Turkish tax rules.

8. Is there a withholding tax on interest payments paid by local company to creditor?

If the interest is being paid for a loan received from a foreign government, international financial organization, or from a foreign bank or financial institution, the withholding tax to be imposed on such payments is 0 %. In other words, there is no withholding tax to be applied with regard to these loans.

For loans that are obtained from non-resident persons or entities other than mentioned above, the withholding tax rate on interest payments is 10 %.

Dividends distributed from Turkish companies to non-resident entities and non-resident persons are subject to 15 % withholding tax. The withholding tax can be reduced in line with the provisions of applicable double tax treaties.

"Resource Utilization Supporting Fund" (RUSF) is applicable to the loans. RUSF is a type of charge levied on the loans (as well as importations made with delayed payment) obtained by Turkish companies and real persons. The rate and application of the RUSF charge depends on the maturity, type and currency of the loan. RUSF is not applicable to foreign currency loans obtained from foreign countries which have an average maturity of three years or longer. Foreign currency loans derived from foreign entities other than banks and financial institutions in foreign exchange with an average maturity of less than three years are subject to RUSF over the principal amount of the loan as described in the scale below:

- → 3 % If the loan's maturity date is up to one year;
- → 1 % If the loan's maturity date is between one year and two years;
- → 0,5 % If the loan's maturity date is between two years and three years;
- → 0 % If the loan's maturity date is more than three years.

Turkish Lira loans (TL loans) obtained by Turkish residents other than banks and financial institutions are subject to 3 % RUSF without any maturity condition but the TL loans derived in this respect are subject to RUSF at a rate of 3 % over the interest amount regardless of the maturity of the loan.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Under Turkish tax regulation, losses can be carried forward for a period of five years. There is no tax loss carry back.

C. Real Estate Taxes

1. Does Turkey levy a real estate transfer tax on sale of real estate or shareholdings?

Conveyance of title is subject to a transfer tax corresponding to 4 % of the sales price. Normally this tax is split between buyer and seller (each bearing 2 %) but it is also possible that one side pays the whole amount. If real estate, either in the form of a plot of land or building, would be subject to transfer as part of an asset deal, there would be 4 % title deed levied on this transaction.

2. Is real estate subject to any real estate tax? At which rate?

Property Tax is applied and levied on immovable properties such as land, lots and buildings on an annual basis. It is paid to the municipality of the area where the concerned real estate is located.

The value that will be taken as basis in the calculation of the tax is determined through appraisal procedures that are performed every four years. The tax value is determined separately for each street and road.

An annual property tax[2] on the tax value applies to residences (0.1 %), buildings other than residences (0.2 %), cultivated land (lots) (0.3 %) and uncultivated land (0.1 %). The tax value is determined via appraisal procedures that are performed every four years. The procedures are performed for each city, each street and each road. The rates are applied twice for property located in the metropolitan municipality areas like Istanbul, Ankara or Izmir.

2 Stated rates are increased by 100 % if the property is within the boundaries of metropolitan municipality.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The supply of real estate is subject to VAT. The general VAT rate is 18 %.

For Turkish corporate taxpayers that are engaged in real estate business, the sale of residential and commercial property is subject to 18 % VAT. VAT is not applied on the sale of real property held for a period of at least two years by corporate entities who are not engaged in the trading of real estate.

Under Turkish VAT rules, input VAT is offset against output VAT. As a general rule, if input VAT is larger than output VAT, VAT that cannot be credited is deferred to the following month.

2. What are the VAT consequences of renting / leasing of real estate?

The rental of real estate is also subject to the general VAT rate of 18 %. Renting of immovable properties that are not held for commercial purposes is VAT exempted.

E. Other relevant business-related taxes

1. Is there a capital tax for equity injected into a local company?

There is no "Capital Tax" application in Turkey. The equity amounts injected into companies are not subject to taxation.

2. Is there a stamp duty on debt granted to a local company?

Stamp tax applies to a wide range of documents, including but not limited to agreements, financial statements and payrolls. Stamp tax is levied as a percentage of the monetary value stated on the agreements at the rate of 0.948 %. In case of an asset deal, 0.948 % stamp duty for each copy of the contracts is triggered.

Real Estate Investment in

Ukraine

A. Legal/General

1. Are non-residents entitled to acquire real estate in Ukraine? Does the acquisition have to be carried out by a Ukrainian corporation?

In general, non-resident citizens as well as foreign legal entities may acquire real estate, buildings or structures, freely on the same grounds as Ukrainian citizens or Ukrainian companies.

However, the rights of non-residents to acquire plots of land are limited.

On 25 October 2001 the Parliament of Ukraine adopted a new Land Code which came into effect on 1 January 2002. This Code strictly prohibits foreign citizens, legal entities and governments from acquiring agro-industrial land. Moreover, most transactions regarding agro-industrial land even between Ukrainian residents are prohibited at least till 1 January 2016 but most likely this prohibition will be prolonged further.

Foreign citizens may acquire non-agricultural land within the boundary of populated areas. However, foreign citizens may only acquire ownership rights to a non-agricultural plot of land outside the boundaries of populated areas if they have privately-owned real estate already located on such property.

Foreign legal entities may acquire ownership rights to land plots of non-agricultural designation (a) within populated areas, if the property acquisition of real estate will be improved by buildings or other objects related to the company's business activities in Ukraine; or (b) outside the boundaries of populated areas in case of an acquisition of real estate.

In other cases (except transactions with agro-industrial land) acquisition have to be carried out by a Ukrainian corporation. Ukrainian corporation means legal entity incorporated in Ukraine by Ukrainian citizens or resident Ukrainian companies.

2. Which importance does the Ukrainian land register have?

Article 210 of the Civil Code effective as of 1 January 2004 stipulates a general rule that an agreement on real estate shall be registered. This code provides for real property rights, defines the holder of real estate and regulates real estate transactions.

Under Article 125 of the Land Code of Ukraine the title to the plot of land, as well as lease rights under the land lease agreement may be considered as fully acquired only after state registration of such rights in the state register.

Since 1 January 2013 the new State Register of Proprietary Rights to Real Estate has been introduced. Among others the rights subjected to mandatory registration are:

- Title to a plot of land;
- Title to buildings or structures;
- Lease rights under the land lease agreement;
- Long-term (more than three years) lease rights to non-land real property.

Rights to real estate which appeared and were duly registered before 1 January 2013 do not require immediate re-registration until there are no transactions with such real estate.

A Certificate or an extract form the State Register of Proprietary Rights to Real Estate are official documents confirming title to a plot of land which was registered after 1 January 2013. Title to land, which was registered before 1 January 2013, is confirmed by the documents issued or certified according to applicable procedures at that time (e.g. state acts to plots of land or certified agreements on land transfer).

Next to the registration of proprietary rights, plots of land themselves (as objects of civil rights) are registered with the State Land Cadastre. Applying for registration of the plot of land is required in case a new plot of land is created (e.g. during first allotment of a plot of land from the lands of state or municipal property, consolidation or division of plots of land, etc.).

Additionally, owners (users) of agricultural land are obliged to keep the Agricultural Chemical Passport of the plot of land, which contains detailed information regarding chemical and radiation conditions of the soil on the plot of land. Data of the Agricultural Chemical Passport should be updated by the owner (user) every five years and is taken into account, among other, during normative and expert plot of land evaluation.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

Corporate income tax rate:

- starting from 1 January 2014 the rate is set at 18 %;
- 15 % general rate of withholding tax is applicable to income of non-residents from Ukraine sources;
- 0 % for life insurance companies;
- simplified taxation for small legal entities possible (optional): 3 % of sales proceeds for VAT registered and 5 % of sales proceeds for non-VAT registered entities.

Personal income tax rate:

- 15 % for the income below the threshold of ten minimum salaries as of beginning of the year (minimum salary for 2014 amounts to UAH 1,218 about € 76);
- 17 % for the portion of income in excess of this threshold Tax on individual income in the form of interest, dividends, royalty and investment profit for dividends effective from 1 January 2015:
- 15 % for the portion of income below the threshold of 204 times the minimum subsistence level (UAH 1,176, about USD 100 in 2014);
- 20 % for the portion of income exceeding 204 times and up to 396 times the minimum subsistence level;
- 25 % for the portion of income exceeding 396 times the minimum subsistence level.

Participation exemption: no.

2. What is the tax depreciation period for real estate in Ukraine? Are there depreciation categories? Which depreciation method is used?

Under the Ukrainian Tax Code, for tax depreciation purposes fixed assets are classified into 16 groups. Buildings, constructions and transmitting terminals belong to the third group. The depreciation period (“minimum period of beneficial use”) is 20 years for buildings, 15 years for constructions and 10 years for transmitting terminals.

Normally land is not depreciable unless the real estate and the corresponding land are purchased together. In this case the land can be depreciated together with the value of the real estate.

The following depreciation methods are available for real estate:
- straight-line depreciation;
- declining-balance method;
- cumulative method (The depreciation expense is computed by multiplying the depreciated value by the cumulative coefficient. The cumulative coefficient is determined by dividing the remainder of years of beneficial use by the overall number of years of beneficial use);
- production method (similar to the units-of-production depreciation method).

3. When is a foreign investor subject to limited tax liability in Ukraine?

A foreign investor (hereinafter "non-resident") is subject to limited tax liability in Ukraine on income from Ukraine sources.

According to Article 160 of the Ukrainian Tax Code non-resident entities are subject to withholding tax at a rate of 15 % on Ukraine-sourced income. Ukraine-sourced income subject to withholding tax includes:
- interest;
- dividends;
- royalties;
- income from engineering work;
- lease payments and rentals;
- income from the sale of real estate located in Ukraine;
- profit on transactions in securities, derivatives and other rights in companies;
- income from joint ventures and long-term contracts carried out in Ukraine;
- insurance payments;
- commission/brokerage fees and remuneration;
- other income from business activity in Ukraine, except for proceeds from the sale of goods, services or works preformed by non-residents for Ukraine residents.

Ukrainian entities paying the income are responsible for withholding and paying the tax.

If the activity of a non-resident in Ukraine triggers a permanent establishment recognition, the permanent establishment must be registered with the Ukrainian tax authorities (except for dependent agent permanent establishments already registered as Corporate Income Tax payers). The general definition of 'permanent establishment' is provided for in the Ukrainian Tax Code. It is generally in line with the OECD Model Income Tax Treaty definition, yet there are differences.

Permanent establishments are subject to general Corporate Income Tax and must conduct respective accounting and submit periodic tax returns under the general rules. Special Corporate Income Tax payment regimes may be available for the permanent establishment, for example the imputed profit method. According to this method, a taxable profit is assumed at 30 % of the revenue received during the period in question, without the permanent establishment having to account for expenses.

4. Are asset deal and share deal possible in Ukraine? What are the main consequences?

Asset deal

The feasible option for an asset deal will be to set up an acquisition company in Ukraine. The real estate is purchased under the agreement between the acquisition company and the Ukrainian company owning the real estate. The acquisition company may be financed by loans from a non-Ukrainian investment corporation or a bank.

For the Ukrainian company (as the seller) the positive margin between the book value of real estate and the sale price will be taxable with the profit tax at the regular rate of currently 21 %.

Share deal

The share deal is quite frequently used for acquiring real estate in Ukraine. There are two principal options for the share deal.

First, a non-Ukrainian investment corporation directly acquires 100 % of the shares of the Ukrainian company owning the real estate. The sum paid by the non-Ukrainian investment corporation for the purchase of the shares (corporate rights, which are not in the form of securities) may be deducted only from the revenue gained in case respective shares are alienated in future. In case of securities, a taxpayer may use the expenses for offsetting against the revenue from the sale of other securities of the same groups, which are the group of listed securities and the group of non-listed securities, per reporting period.

The Ukrainian Tax Code stipulates that in case of proceeds from trading with shares it is the profit (rather than the revenue) from such trading that constitutes Ukraine-sourced income of a non-resident. Respectively, a Ukrainian withholding tax at the general rate of 15 % shall be applied to the profit rather than the revenue.

Second, an alternative structure which provides the opportunity for a debt push down is to incorporate an acquisition company in Ukraine. This acquisition company will acquire the shares in the Ukrainian company owning the real estate.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Thin capitalization
There are no general thin capitalization rules in Ukraine.

Special rules provide for timing limitation on the deductibility of interest for Ukrainian legal entities held by non-residents at 50 % or more with respect to loans from such non-residents or affiliated parties of those. Namely, in cases where the aforementioned timing limitation is applicable, the interest expense allowed for a deduction in a given reporting period is limited by the interest income received in the same period from own assets grossed up with 50 % of the taxable profit of the period exclusive of such interest income. The non-deductible interest expense may be carried forward for deduction in subsequent periods, again subject to the same limitation.

Transfer pricing rules
The transfer pricing (TP) rules are envisaged in Article 39 of the Tax Code and are applicable only with respect to "controlled transactions". Namely: (i) transactions with related non-resident entities; (ii) transactions with related resident entities in some specific cases (e.g. declared tax losses, tax benefits); (iii) transactions with non-residents, registered in low tax states (areas) with an income tax rate which is at least five percentage points lower than in Ukraine. In order to be deemed "controlled" the annual aggregate value of the transactions in any of the above cases must be equal to or exceed UAH 50m with each of the counterparties.

The established TP methods are in line with the OECD Guidelines. At the same time, the comparable uncontrolled price method is set as the "basic" method according to the Tax Code.

Taxpayers are required to file annual reports on controlled transactions before 1 May of the year following the reporting one (in 2014 the deadline was shifted to 1 October 2014).

6. Can acquisition costs/financing fees/interest be deducted?

Share deal

Costs which are related to the purchase of a Ukrainian company (e.g. due diligence costs, valuation costs etc.) are deductible provided that such payments are related to business activities of the taxpayer. Although legally there are no direct restrictions for the deduction of such acquisition-related costs, the tax authorities often deem acquisition as non-business related activity and hence, deny the right to deduct these costs.

In some cases there is a timing limitation on the deduction of interest, as outlined above. In addition to that, Ukrainian tax authorities may disallow the deduction of interest under the loans used for the acquisition of shares claiming that such use of a loan is not related to the business activity as such. Therefore, the conservative approach would be not to deduct interest used for financing acquisition of shares.

Asset deal

The interest under the loan used for the acquisition of assets shall be immediately deductible provided that such assets will be used in connection with the business activity. Other expenses of the acquisition company for purchase of real estate will be capitalized and subject to depreciation for profit tax purposes.

7. Are there any possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Merger

The principal option that may allow pushing down the debt to the operating level under Ukrainian legislation is a merger under universal succession. The merger is Corporate Income Tax and VAT neutral.

Group

Ukrainian law does not provide for consolidation or group relief (grouping) for tax purposes with each legal entity within a group being recognized as a separate taxpayer.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Foreign legal entities deriving income from Ukraine – but not through a permanent establishment in Ukraine – are subject to withholding tax in respect of types of income that are specifically listed in the Tax Code. The general withholding tax

rate for interest, dividends and royalties is 15 %. Normally Ukrainian withholding tax may be capped at a lower rate by virtue of the double tax treaties concluded by Ukraine. The applicable rate may be substantially lower in case the loan is granted by a non-resident financial institution.

9. Is a loss carry-forward or carry back granted and what are the restrictions?

Tax losses can be carried forward for an unlimited period of time.

For the sake of completeness please note that in July 2012 the Tax Code of Ukraine has been amended.

Restrictions on the loss carry forward of losses realized as of 1 January 2012 by taxpayers with turnover as per results of 2011 in excess of UAH 1mwere introduced.

According to this limitation starting from the second half of 2012 and valid until 2015, the taxpayer has the right to carry forward 25 % of the losses to the second half of 2012 and each following year. If the amount of losses is not used until the end of 2015, a further loss carry forward of such unused losses will be disallowed. The Ukrainian Tax Code does not provide for a loss carry back.

C. Real Estate Taxes

1. Does Ukraine levy a real estate transfer tax on sale of real estate or shareholdings? Is it avoidable?

For the transfer of real estate according to Ukrainian legislation the state duty at the rate of 1 % and the contribution to the pension fund at the rate of 1 % shall be paid based on the value of the agreement on transfer of real estate, i.e. the purchase price of the real estate.

The transfer of shares in a real estate owning company is not subject to any transfer tax in Ukraine.

2. Is real estate subject to any real estate tax? At which rate?

For owning and using land a land tax is charged in Ukraine. The level of the tax rate varies depending on the nature and location of the land. If the land has an estimated value then the land tax is calculated as 1 % of that estimate.

Natural and legal entities (including non-residents) owning residential real estate are subject to tax on real estate in Ukraine. The tax is set in the percentage from the minimal wage amount, set as of 1 January of the year (UAH 1,218, around USD 103 in 2014), per 1 m^2 of the space of real estate object. The rate differs depending on the type of residential real estate object and its space.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The sale of real estate will be subject to Ukrainian VAT at a regular rate of 20 %.

The sale of pure land is exempt of VAT.

Sale purchase of shares is not subject to Ukrainian VAT provided that the shares are paid with monetary funds or sold in return for other shares (securities).

2. What are the VAT consequences of renting/leasing of real estate?

The leasing of real estate (including land) is subject to VAT in Ukraine at the standard rate of 20 %.

E. Other taxes

1. Is there a capital tax for equity injected into a local company?

The equity injected into a local company is not subject to a capital tax in Ukraine. For the sake of completeness, if the injection of equity into a local company is accompanied by the issue of securities (i.e. in joint stock companies), such issue would be subject to the state duty at the rate of 0.1 % of their nominal value. However, this amount must not exceed 50 times the annual minimum wage as of January of the relevant year.

2. Is there a stamp duty on debt granted to a local company?

No stamp duty is payable on debt granted to a local company.

Real Estate Investment in

United Kingdom

A. Legal/General

1. Are non-residents entitled to acquire real estate in the UK? Does the acquisition have to be carried out by a British Corporation?

Yes, non-UK residents are entitled to acquire real estate in the UK. The acquisition can be carried out through any vehicle, and is not restricted to a British Corporation.

2. What importance does the land register have?

The Land Registry registers the ownership of property. The most common types of title to be registered are estates in land, which broadly covers both freehold and leasehold estates where the lease has been granted for a term exceeding seven years.

A registered title has three parts:

- The property register describes the property and any beneficial rights.
- The proprietorship register records who owns the property.
- The charges register gives details of mortgages or rights that may affect the property.

Registering title provides an up-to-date official record of who owns land, and is guaranteed. If somebody suffers a loss because of a mistake or an omission from the register, they may be able to get compensation.

B. Income Tax

1. What are the corporate and personal income tax rates? Are there special tax rates for real estate? Are there any participation exemptions?

Income Tax

Non-UK resident individuals are, in general, liable to income tax only on income that arises in the UK (with certain specific exemptions). They are not liable to UK tax on income arising outside the UK.

Where a non-UK resident company receives rental income in respect of a UK property, this is subject to income tax under the Non Resident Landlord scheme described in further detail below.

The income tax rates for the 2013/14 tax year are as follows:

Taxable income £	Rate %
0 – 32,010[1]	20
32,011 – 150,000	40
Over 150,000	45

1 For the 2014/15 tax year, the basic rate of 20 % will apply to taxable income of £ 0 to £ 31,865.

Income from UK land and buildings is usually charged to tax as property income, except for income from (i) furnished holiday lettings, or (ii) the provision of accommodation in hotels or guest houses, which is treated as trading income for the purpose of certain reliefs. The distinction between trading income and property income is important for capital gains tax (CGT) purposes because an investment property does not qualify for CGT rollover relief when it is replaced.

The treatment of income from furnished holiday lettings as trading income used to be significant in relation to the treatment of losses, but from April 2011 the treatment of such losses changed. See section B.9 for further details.

Income tax on rents is usually paid as part of the half-yearly payments on account on 31 January in the tax year and 31 July following, with a balancing adjustment on the next 31 January.

Non Resident Landlords

Where a non-UK resident receives rental income (whether an individual, trustee or a company), there are special regulations that apply. Known as the Non-Resident Landlord scheme, they will be liable to income tax at the basic rate (currently 20 %) on property income, net of allowable expenses and net of any VAT on the rent where this has been charged. Unless a successful application is made to HMRC, this income tax will be deducted from the rental payments received by the landlord. If a successful application is made, then the rents are paid gross, and the landlord is obliged to fill in a self-assessment tax return for each tax year.

Corporation Tax

The corporation tax rates are as follows:

	Financial year commencing 1 April	
	2014	**2015**
Small profits rate	20 %	20 %
Lower limit – profits on which the small profits rate of tax applies	£300,000	N/A
Upper limit – profits on which the main rate of tax applies	£1,500,000	N/A
Effective marginal relief rate (applicable to total profits that fall between the lower and upper limit)	21.25 %	N/A
Main rate of corporation tax	21 %	20 %

UK Companies pay corporation tax on all their profits under self-assessment. The due date is normally nine months after the end of the accounting period, except for certain large companies who are required to pay their tax by instalments.

The property business profit assessed to UK Corporation Tax is the income accrued in the accounting period. This income is pooled together in calculating the UK tax charge due.

Dividends and other distributions

Distributions paid by a UK or overseas company are chargeable to corporation tax on the recipient, although in practice most distributions will be exempt. However, details of the provisions are complex and therefore it is important to review carefully.

Withholding Tax on REIT dividends

The UK does not normally impose a withholding tax on dividends. However, a UK REIT is required to withhold tax at 20 % (i.e. basic rate) on distributions except where the recipient is a company subject to UK taxation (or an exempt body such as a charity).

2. What is the tax depreciation period for real estate in the UK? Are there depreciation categories? Which depreciation method is used?

Capital Allowances

Depreciation charged in the accounts is not an allowable deduction for tax purposes. Instead, it is replaced by a system of capital allowances which are available on certain types of fixtures, fittings, and other plant and machinery within a commercial building. Broadly, if available, they can be claimed on a reducing

basis at either 8 % or 18 %, depending on the type of equipment purchased. They are also available to a purchaser of UK property where part of the purchase price is attributable to plant and machinery.

Capital allowances are not available on residential property, except for furnished holiday lettings.

Other methods of relief for capital expenditure
In place of capital allowances, a wear and tear allowance of 10 % of rents can be given for furnished lettings (but not furnished holiday lettings). Where this allowance is claimed, no further deduction can be given for the cost of renewing furniture and other chattels, but renewing fixtures such as baths may be treated as a repair and deducted against taxable profits.

A concessionary renewals basis applied before 6 April 2013 so that when furniture and furnishing were first acquired the expenditure was not relieved, but the cost of replacing those items was allowed as an expense. This concession has now been withdrawn.

If a capital gains calculation is required upon disposal of the property, the following expenditure can be deducted from the UK proceeds received in respect of the property when calculating the capital gain on the property:

- → The cost of acquiring the land plus any incidental costs;
- → Incidental costs of disposal, valuation of disposal such as professional fees, and advertising costs; and
- → Capital expenditure incurred on the enhancement of the property.

In respect of leased properties, dependent on the term of the lease an annual deduction may be available for any premium on the purchase of the lease.

3. When is a foreign investor subject to limited tax liability in the UK?

Individuals
As a general rule an individual is not liable to capital gains tax upon the disposal of their UK real estate if they are not resident and (prior to 2013-14) not ordinarily resident in the UK. From 6 April 2013, if the year is a split year, gains accruing during the overseas part of the year are not chargeable to capital gains tax. Residency can be a complex area, and would need to be reviewed on a case by case basis.

Companies
A non-UK resident company is chargeable to corporation tax only if it carries on a trade in the UK through a permanent establishment (broadly, a fixed place of business) in the UK. The company is liable to tax on profits, wherever they arise, that are attributable to the permanent establishment.

If a non-UK resident company does not trade in the UK through a permanent establishment, it is not liable to corporation tax but is liable to income tax (at the basic rate of 20 %) on UK sources of income e.g. on rental income from UK property.

A non-UK resident company will only be charged to tax on capital gains where the property is used by a permanent establishment in the UK.

Gains realised by both UK and non-UK resident companies and certain other non-natural persons on a disposal of a high value residential property that falls within the ATED regime (see Section C.2) are chargeable to capital gains tax (currently set at 28 %). Increases and decreases in the value of the property before 6 April 2013 are outside the CGT charge but remain subject to the existing corporation tax or income tax rules on chargeable gains.

It should be noted that in March 2014, HMRC issued a consultation document on the extension of capital gains tax to non-residents (both non-UK resident individuals and companies) disposing of UK residential property. This change is currently intended to be introduced from April 2015, and only to gains arising from that date.

4. Are asset deal and share deal possible in the UK? What are the main consequences?

Asset deals and share deals are possible in the UK. The main difference for the purchaser is the rate of Stamp Duty and Stamp Duty Land Tax. For further details see Section C.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Transfer Pricing
The UK transfer pricing provisions require non-arm's length transactions between associated persons to be adjusted for tax purposes to the normal arm's length price. These provisions apply not only where one of the companies is non-resident but also where both are UK resident. There are, however, exemptions for most small and medium-sized companies.

Thin capitalisation

Finance costs are allowable on funds borrowed from associated and connected persons. This includes non-UK residents. However, transfer pricing rules will restrict deductibility where loans are not commercial or borrowed by companies that are thinly capitalised. Where there is an excessive debt-to-equity ratio, there is a possibility of a disallowance for tax purposes.

Worldwide Debt Cap

The Worldwide Debt Cap may further restrict the availability of tax relief for the financing costs of large groups of companies. The Debt Cap rules, where they apply, limit the amount of financing costs for which the UK group can claim a deduction to the amount of the gross consolidated finance expenses of the worldwide group.

6. Can acquisition costs/financing fees/interest be deducted?

A non-UK resident company that is trading in the UK through a permanent establishment, and obtains conventional finance from a third party lender for property investment is entitled to a tax deduction for the related finance costs, including but not limited to: interest payable; costs of obtaining loan finance; and abortive expenditure and expenses incurred in connection with a loan facility which is never drawn. The deduction for the interest and other costs is normally given on the same basis as in the accounts.

Where the acquisition is financed by funding from a related party, some of the restrictions in Section B.5 may apply.

HMRC are in the process of simplifying and clarifying the existing loan relationship tax regime. Any changes are expected to be introduced in the 2014 and 2015 Finance Bills.

For a non-UK resident company with rental income, or a non-UK resident individual, the deduction is limited to finance costs of a revenue nature. However, in principle, 'capital' costs such as legal, accounting and bank fees relating to the borrowing may be allowable as incidental costs of obtaining finance.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

A debt push down may be effected by refinancing the acquired company (target). Alternatively, interest expenses may be surrendered to another UK group company (within a 75 % group) to offset against its profits under the group relief provisions.

The deductibility of any interest may be restricted by the various limiting provisions in the UK (please see answer to Section B.5).

8. Is there a withholding tax on interest payments paid by local company to creditor?

Broadly, a 20 % withholding tax is imposed on interest payments to non-UK residents. This rate may be reduced under an applicable tax treaty. Furthermore, an application can be made to exempt payments to qualifying EU companies that meet the conditions for the EC Interest and Royalty Directive as implemented in UK law.

9. Is a loss carry forward or carry back granted and what are the restrictions?

All lettings carried on by a particular person are amalgamated for UK tax purposes and treated as a single property business. Thus, if some properties are loss-making and others profitable, the set-off for tax purposes is made automatically.

Income from a furnished holiday lettings (FHL) business is treated as trading income. However, one of the reliefs that was previously available has now been removed. For accounting periods beginning on or after 1 April 2011, corporation tax relief against total profits is not available and for the tax year 2011-12 onwards (for individuals or companies chargeable to income tax) loss relief against general income and terminal loss relief are not available for income tax purposes. Losses from a FHL business can, therefore, only be carried forward and set against income from the same UK or EEA FHL business.

Income tax

An income tax UK property business loss is carried forward against any future income from that business. It cannot be set against income from other sources with the exception that a rental loss by a builder from a property held as trading stock can by concession be allowed as a trading expense instead of being carried forward as a UK property business loss.

Corporation tax

A UK property business loss of a company chargeable to corporation tax (e.g. a non-UK resident company with a permanent establishment in the UK) can be set against total profits of the accounting period. It can also be surrendered to another group company, with any unrelieved balance being carried forward to set against future total profits.

C. Real Estate Taxes

1. Does the UK levy a real estate transfer tax on sale of real estate of shareholdings? Is it avoidable?

Stamp duty land tax (SDLT) on the purchase of real estate

SDLT is chargeable on the price paid for the acquisition of any interest in UK property. It is payable by the purchaser.

The current rates of SDLT are as follows:

SDLT on residential property, based on consideration	Rate
£ 125,000 or less	Nil
Over £ 125,000 up to £ 250,000	1 %
Over £ 250,000 up to £ 500,000	3 %
Over £ 500,000 up to £ 1,000,000	4 %*
Over £ 1,000,000 up to £ 2,000,000	5 %*
Over £ 2,000,000	7 %*

* with effect from 21 March 2012, residential properties over £ 2 million purchased by companies and certain other non-natural entities are liable to SDLT at 15 %. With effect from 20 March 2014, the SDLT rate of 15 % will be applied to residential properties valued at £ 500,000 or more where purchased by a non-natural person.

SDLT on non-residential property, based on consideration	Rate
£ 150,000 or less	Nil
Over £ 150,000 up to £ 250,000	1 %
Over £ 250,000 up to £ 500,000	3 %
Over £ 500,000	4 %

Stamp Duty on the purchase of shares

There is a charge to Stamp Duty in the UK on the sale or transfer of stock or marketable securities. The charge is a percentage of the consideration given for the transfer of the shares. The percentage rate is 0.5 % and the Stamp Duty is rounded up to the nearest multiple of £ 5. Stamp Duty is payable by the purchaser.

There are various reliefs available in order to minimise UK Stamp Duty. These are complex rules and are applied based on the facts on a case by case basis. The most common Stamp Duty relief is on intra group transfers between group companies.

It should be noted that where an interest in UK real estate is acquired indirectly (via shares or units in a separate vehicle), there is always a risk that the vehicle has pre-existing tax or other liabilities. Appropriate due diligence should be carried out so that any risks can be identified and quantified and accounted for in the transaction.

2. Is real estate subject to any real estate tax? At which rate?

Annual Tax on Enveloped Dwellings
From 1 April 2013, the tax regime relating to high value residential property has been extended to incorporate an annual tax on enveloped dwellings (ATED). The ATED applies to UK residential property worth more than £ 2 million that is acquired by companies and certain other non-natural entities. From 1 April 2015 this will be extended to residential property worth more than £ 1 million, and to residential property worth more than £ 500,000 from 1 April 2016.

The annual rates of the ATED are as follows:

Taxable value of the interest on the relevant day	Annual chargeable amount*
£ 500,001 to £ 1 million (from 1 April 2016)	£ 3,500
£ 1,000,001 to £ 2 million (from 1 April 2015)	£ 7,000
£ 2,000,001 to £ 5 million (from 1 April 2013)	£ 15,000
£ 5,000,001 to £ 10 million (from 1 April 2013)	£ 35,000
£ 10,000,001 to £ 20 million (from 1 April 2013)	£ 70,000
More than £ 20 million (from 1 April 2013)	£ 140,000

* The annual chargeable amounts for ATED are increased each year in line with the Consumer Prices Index (CPI).

There are reliefs (e.g. for property rental businesses and property developers) and exemptions (e.g. for charities) that may apply to the ATED.

Rates
In addition, the UK imposes a local property tax, called Rates, collected from the property owners. Rates are based on the annual rental value of the property as assessed by the Valuation Office Agency, an executive agency of HMRC.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

Commercial Property
The sale of a commercial property is generally exempt from VAT and as such no VAT can be recovered on costs directly relating to the sale. However, there are two instances where the standard rate of VAT will apply (currently 20 % in the UK):

a) Where it is the outright sale (freehold) of an incomplete or new (completed in the three years prior to sale) commercial property; and

b) Where the owner of the property has opted to tax (i.e. elected to charge VAT on the sale or letting).

Charging VAT on the sale enables VAT to be recovered on the transaction costs. Therefore, it is not uncommon for sellers to opt to tax the property prior to sale.

If the property is let, then a sale may be treated as a Transfer of a Going Concern, provided certain conditions are met. In that situation, it will not be subject to VAT, reducing funding costs and SDLT.

Where the property is a "Capital Goods Scheme" item, significant VAT adjustments may be required on sale depending on the use of the property prior to sale, particularly where the sale is exempt from VAT. Capital Goods Scheme Items arise where in the preceding ten years, £ 250,000 was spent on acquiring, constructing, altering, extending or refurbishing land or buildings.

Residential Property

The sale of a residential building is generally exempt from VAT and as such no VAT can be recovered on costs directly relating to the sale. However, the first sale of the freehold (or grant of a lease of more than 21 years) by a person constructing a residential building is subject to VAT at the zero rate. Therefore, VAT incurred on the construction or sale can be recovered in that instance.

The sale of a furnished holiday accommodation is exempt from VAT, unless sold within three years of construction when it is subject to the standard rate of VAT.

2. What are the VAT consequences of renting/leasing of real estate?

Commercial Property

Where an owner of a property has opted to tax (i.e. elected to charge VAT on the sale or letting), then the rental or lease of a commercial property will be subject to VAT at the standard rate. Otherwise, the rental or lease will be exempt from VAT.

If a landlord does not opt to tax the property, it will not generally be able to recover any of the VAT it pays when acquiring, maintaining or refurbishing the property, and that VAT will become an absolute cost.

Residential Property

The rental or lease (other than the first grant of a lease exceeding 21 years by the person constructing) of a residential property is exempt from VAT, and VAT on costs relating to the letting such as maintaining the property is not recoverable.

Rental of a furnished holiday let is subject to VAT at the standard rate. Any VAT incurred on costs relating to the rental is recoverable subject to the normal conditions for input VAT recovery.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

No.

2. Is there a Stamp Duty on debt granted to a local company?

There is no Stamp Duty payable on debt granted to a local company. However, if there is debt involved in respect of the sale or transfer of shares then this may form part of the ‘chargeable consideration’ used to calculate the Stamp Duty payable on the shares (see in conjunction with the answer to Section C.1).

Real Estate Investment in

United States of America

A. Legal/General

1. Are non-residents entitled to acquire real estate in the US? Does the acquisition have to be carried out by a US corporation?

In general nonresidents may acquire US real estate and are treated the same as US persons. Some states, however, have laws restricting foreign ownership of certain types of real estate, such as land used in agriculture. Some states also have restrictions relating to the inheritance of real estate by foreign persons. Often, it is possible to structure an investment to avoid the applicability of such laws.

2. Which importance does the US land register have?

The ownership of real estate is generally governed by state and local law which varies from state-to-state. States maintain land registers through which the ownership of land is publicly recorded. Although in many states an ownership interest and real property may be conveyed by way of a private contract (e.g., a deed), in order to establish ownership rights with respect to third parties, filing with the land register is generally required.

B. Income Tax

1. What are the corporate and the personal income tax rates? Are there special tax rates for real estate? Are there international participation exemptions?

Individual income tax rates range from 15 % to 39.6 % and corporate income tax rates range from 15 % to 35 %. Individuals (but not corporations) are entitled to a preferential federal tax rate of 20 % on long-term capital gains. Gain on the sale of real estate held for at least one year generally qualifies for this rate (assuming it is not treated as inventory).

2. What is the tax depreciation period for real estate in the US? Are there depreciation categories? Which depreciation method is used?

Generally, commercial real estate is depreciated over 39 years and residential real estate is depreciated over 27.5 years. Depreciation for real estate is on a straight-line basis. Land is not subject to depreciation deductions, although certain natural resources (e.g., minerals) may give rise to a depletion deduction.

3. When is a foreign investor subject to limited tax liability in the US?

Gain on the sale of US real estate, including shares in a so-called US Real Property Holding Corporation ("USRPHC"), is generally taxable to a foreign investor. Rental income may be subject to gross-basis or net-basis taxation, depending on whether the rental activities constitute a "US trade or business." If the activities do not constitute a US trade or business, the gross rental income paid to a foreign person is generally subject to a 30 % tax. An election can be made to apply net-basis taxation even in the absence of a US trade or business.

4. Are asset deal and share deal possible in the US? What are the main consequences?

Yes, it is possible to sell the shares of a real estate holding company or the real estate directly. The direct sale of real estate is taxable to a foreign investor as noted above. The buyer takes a tax basis in the real estate equal to the purchase price and a new depreciation period and depreciations basis starts. The sale of a USRPHC is also taxable to a foreign investor, but does not result in a new depreciation period or tax basis.

5. Are thin capital rules applicable? Are there other limitations of interest deduction applicable?

Yes, thin cap rules apply to corporations with related party debt (paid to a non-US entity) and a debt to equity ratio in excess of 1.5 to 1. Generally, the interest deduction on related party debt (including 3rd party debt with a related party guarantee) is limited to 50 % of taxable income not including interest income and deductions for interest expense, depreciation and amortization.

6. Can acquisition costs/financing fees/interest be deducted?

Generally, acquisition costs must be capitalized and depreciated over the life of the real estate. Arm's length Interest on acquisition indebtedness can generally be deducted subject to various limitations such as passive activity rules, basis limitation and, for a corporate entity, earnings stripping rules.

7. Are there possibilities to allow pooling of debt financed interest with income of target (debt push down)?

Yes. Subject to earnings stripping rules, debt versus equity principles and other limitations relating to the deductibility of interest, an acquisition can generally be structured to leverage a target entity.

8. Is there a withholding tax on interest payments paid by local company to creditor?

Generally, interest paid to a non-US person is subject to a 30 % withholding tax. There are several exemptions and also possibility to reduce the withholding tax through application of a double tax treaty.

9. Is a Loss Carry Forward or Carry Back granted and what are the restrictions?

Ordinary losses may be carried back 2 years and forward for 15 years.
Capital losses may be carried back 3 years and forward for 5 years.

C. Real Estate Taxes

1. Does the US levy a real estate transfer tax on sale of real estate or shareholdings?

Yes, as noted above, gain on the sale of real estate or shares in a USRPHC is generally subject to income tax. In addition, states and localities may impose a transfer tax based on the value or sale price of the real estate. Some states also impose the transfer tax on the sale of holding company shares. Rates are typically under 1 %, although in some location the rate is over 1 %,

2. Is real estate subject to any real estate tax? At which rate?

States and localities generally impose an annual property tax on the assessed value of real estate. The rates vary significantly from location to location. The average is rate is around 1.4 %.

D. Value Added Tax

1. What are the VAT consequences of a sale of real estate?

The US does not impose VAT. States typically impose sales tax on a sale of real estate, but not on real estate transactions. Instead, a real estate transfer tax is typically imposed.

2. What are the VAT consequences of renting/leasing of real estate?

Some states impose sales tax on rental payments. This is more typically the case with commercial real estate.

E. Other Taxes

1. Is there a capital tax for equity injected into a local company?

Generally no.

2. Is there a stamp duty on debt granted to a local company?

Generally no. However if a loan is secured by a mortgage on real estate, the mortgage document should be recorded with the land register and a recording fee is generally imposed.

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