

Sorainen Law Offices

Parnu mnt. 15
10141 Tallinn, Estonia
Tel: +372-6 400 900
Fax: +372-6 400 901
Email: sorainen@sorainen.ee

Kr. Valdemara iela 21
LV-1010 Riga, Latvia
Tel: +371 7 365 000
Fax: +371 7 365 001
Email: sorainen@sorainen.lv

Jogailos g. 4
LT-01116 Vilnius, Lithuania
Tel: +370-5 2685 040
Fax: +370-5 2685 041
Email: sorainen@sorainen.lt

Museokatu 9 B 17
00100 Helsinki, Finland
Tel: +358-9 4369 0840
Fax: +358-9 4369 0841
Email: sorainen@sorainen.com

EUROPEAN UNION

.eu Domains: Registration Launched

To allow organisations and companies to protect their domain name against abusive registration, a phased registration system is in place. The first phase ('the Sunrise period') from 07.12.2005 – 07.02.2006, involving reception of applications to register .eu domain names, is focused on providing domain names for holders of protected trademarks (either national or Community). Only holders of trademarks registered in the EU or a member state are entitled to domain names with the format www.name.eu before these become generally available after 07.04.2006 ('the Land Rush period').

It is only possible to register domain names fully corresponding to national or Community trademarks already registered. If an application to register a trademark is still being processed, then its proprietor is not entitled to expedited domain name registration.

The second phase starts from 07.02.2006 – 07.04.2006, when the holders of other priority rights (unregistered trademarks, family names, trade names, signs, artistic and literary titles) protected under respective member state national law may file their applications. Company names can also be registered in that phase.

The European Registry of Domain Names (EURid) is administering the registry of main domains for the EU. Requests to register .eu domains can be made through accredited .eu registrars. The list of accredited registrars is available at: <http://www.eurid.eu/en/registrant/>

Important note: those unable to prove a prior existing right by applying and paying now, may establish their sequence of priority in which national registrars will be submitting applications to the EURid when the Land Rush registration period starts. This means that it is strongly advisable to apply now, even if not Sunrise-eligible.

Additional information:

Renata Berzanskiene
e-mail: renata.berzanskiene@sorainen.lt

ESTONIA

CIVIL LAW

Expedited payment order procedure – a simplified way for collecting monetary claims

The new Code of Civil Procedure entered into force on 01.01.2006, stipulating a new formal possibility – **the expedited payment order procedure**. This method can be applied in cases of **monetary claims of specific amounts** prior to regular court proceedings. The new procedure enables creditors to obtain execution documents (payment orders) more quickly and less expensively. Expedited payment order proceedings are carried out without court proceedings or hearings. Opening expedited payment order proceedings is decided by the court within seven days, solely on the basis of the respective application. To simplify the proceedings, special application forms have been provided, available from the homepage of the Ministry of Justice at www.just.ee and from courts. Applications have to be accompanied by payment of the state fee of 1 per cent of the amount claimed, but not less than 200 Estonian Kroons.

When processing an application for expedited payment order, the court does not check whether the claim is justified. However, the application has to meet the legal requirements and be convincing. If the application is granted, then the court issues the creditor a **payment request** by injunction, to be delivered to the creditor complete with a blank form for declaration of objection. Upon receipt of the payment request, the creditor may within three weeks submit to the court substantiated objections against all or part of the total claim. In that case, the claim will be processed via ordinary action proceedings. If the debtor submits no objections to the payment request, but fails to pay the required amount, then the court issues a **payment order** for collection of the amount, to be executed immediately. Nevertheless, the debtor has three weeks to present objections, after which the claim will be processed via ordinary action proceedings.

Estonia

Several amendments to tax laws

Latvia

Information Society Services Law amended

Lithuania

Amendments to the Lithuanian Corporate Income Tax Law

Sorainen Law Offices

Seminar on Litigation: Tallinn, 2 March 2006

Supporting the M&A conference in Riga

Until 01.01.2010, the expedited payment order procedure does not apply to non-contractual claims (except requests for child alimony), contractual claims exceeding 100 000 Kroons, and collateral claims under contracts in amounts exceeding the principal claims.

The reason for creating the expedited payment order procedure was that in many cases debtors have no legal objections as to claims presented but have simply chosen not to perform their obligations (e.g., they have simply failed or neglected to pay their electricity or telephone bills).

The new expedited payment order procedure enables creditors to avoid formal court proceedings, which are often lengthy and expensive.

Another innovation in the Civil Code Procedure is approval and execution of European enforcement documents. The Code repeats the principle laid down in Council regulation 805/2004, according to which European enforcement documents issued in other member states are to be unconditionally and compulsorily executed in Estonia without any proceedings for formal recognition. This considerably simplifies the execution of such judgments. Approval of Estonian court judgments as European enforcement documents is to be performed by Harju County Court.

Additional information:
Carry Plaks
e-mail: carry.plaks@sorainen.ee

ENVIRONMENTAL LAW

Tax burden to be increased by new law on environmental fees

On 01.01.2006 a new law on environmental fees entered into force, covering regulations on all environmental fees. These include fees both for use of natural resources, and pollution payments.

The new law lays down rates of pollution payments for the years 2006-2009. Compared to the previous law, pollution payments will considerably increase in 2006 and most pollution payment rates will be doubled. In future, rates will undergo annual 20% increases until 2009.

To urge polluters to reduce air emissions, use less polluting fuels, and increase efficiency of energy use, the rates of payment for air emissions have also been increased considerably – two-fold compared to 2005. Under Estonia's EU membership agreement, the country's electricity market has to be at least 35% open to competition by 2009, when excise tax on electricity will be introduced in Estonia to be paid by all businesses selling electricity there, replacing the carbon

dioxide (CO₂) pollution fee. Imported electricity will also be taxable by excise tax.

Additionally, pollution fees for non-hazardous waste will be considerably increased, with fees doubled if waste is taken to sub-standard disposal sites. By 16.07.2013, all sub-standard waste disposal sites have to be closed down and their land improved.

The new law enables the authority issuing environmental permits to impose penalty payments up to 10 000 Kroons on violators of legal requirements, which may continue until cessation of the violation.

The tax burden will be considerably higher for businesses causing major pollution of both air and water, resulting in accumulation and storage of environmentally hazardous waste.

Additional information:
Toomas Prangli
e-mail: toomas.prangli@sorainen.ee

TAX LAW

Amendments to Value Added Tax Act

In January 2006, extensive amendments to the Value Added Tax Act entered into force, regulating some practical issues and problems. Additionally, amendments to the wording of the Act eliminate possibilities of multiple interpretations.

One major amendment affects sale of considerably improved - i.e., renovated - buildings or parts thereof. From 01.01.2006, sales of considerably improved buildings, before the buildings are taken into use following improvements, are taxed as sales of new buildings, i.e., VAT has to be paid as well. Importantly, buildings are defined as considerably improved if improvement-related costs exceed 10% of acquisition cost.

Another major amendment is creation of tax warehouses. With introduction of this institution, goods stored and sold there are taxable at zero VAT rate, subject to the condition that they do not leave the warehouse as a result of the transaction

unless delivered to another tax warehouse. Tax warehouses may only be used for storing goods of Community status pursuant to the list of goods provided in Appendix J of the sixth directive (e.g. cereals, potatoes, motor fuel). Requirements as to tax warehouses, the procedure for issuing and cancelling permits for keeping tax warehouses, and the procedure for storage and delivery of goods stored in tax warehouses, are to be established by a regulation of the Minister of Finance.

Another major amendment enables tax authorities to extend the refunding date of VAT up to 90 calendar days in exceptional cases. The extension date of a claim for refund can only be extended by 30 calendar days at a time, and on each occasion the extension has to be supported by a substantiated written decision by the tax authority. The decision has to contain specific reasons for extending execution of the claim for refund, explaining the need to extend the period by the time indicated in the decision. Checking of refund applications can be extended in cases where checking the return of VAT cannot be done within a 30-day period and sufficient doubt exists that if the claim for refund is satisfied immediately, it may prove impossible to reclaim it later.

In addition, the law defines 'mediation service'. Mediation defines as acting in the name and on the account of another person. A mediator's turnover comprises only the mediation fee agreed between the mediator and the actual service provider or transferor of goods. Service providers themselves (a) provide services, (b) are liable, and (c) issue invoices to clients. If issuing an invoice is not mandatory, e.g., in case of services rendered to natural persons, then it is not required to issue an invoice for the main service mediated. However, if the mediator is acting on the account of another person, but in its own name, then the mediator becomes the service provider and must then record the total cost of the service in its turnover.

Additional information:
Kaido Loor
e-mail: kaido.loor@sorainen.ee

	2005	2006		
	Rate	Sum (EEK)	Rate	Sum (EEK)
<i>Employee</i>				
Gross salary		10 000		10 000
Tax free minimum	1700		2000	
Income tax	24%	1920	23%	1780
Unemployment insurance	1%	100	0,6%	50
Pension insurance	2%	200	2%	200
Net salary		7780		7960
<i>Employer's cost</i>				
Unemployment insurance payment	0,5%	50	0,3%	30
Social tax	33%	3300	33%	3300
Total		13 350		13 330

New tax rates

On 01.01.2006, laws on amending the Income Tax Act, Social Tax Act, and consequent amendments to other laws, entered into force. Additionally, the Estonian Government established new rates for minimum salary and unemployment insurance payments for 2006. The minimum salary rate is now 3000 EEK, while the minimum hourly salary rate is 17.80 EEK. From 2006, the monthly rate to be used as a basis for calculating social tax is 1400 EEK instead of the previous 700 EEK. Changes in other tax rates shown in the table below have been calculated based on employee gross salary of 10 000 EEK.

See the table on the previous page.

Additional information:

Kaido Loor
e-mail: kaido.loor@sorainen.ee

Selection of acts entering into force 01.01.2006

- Code of Enforcement Procedure
- Law Amending the Commercial Code
- Law on e-money Institutions
- Law Amending the Courts Act and Other Laws for Reorganising Territorial Jurisdiction of Courts
- Law Amending Notarial Acts
- Law Amending the Law on Foreigners

LATVIA**INSURANCE LAW****Amendments to the Law on Insurance Companies and Supervision**

On 27.12.2005, amendments to the Law on Insurance Companies and Supervision Thereof came into effect. The amendments:

- Prohibit brokers from using the terms "insurance" and "insurer" in a misleading manner - if using these terms may confuse third parties as to brokers' right to offer the insurance or insurance intermediary services;
- Allow outstanding debts against persons linked to an insurer to be accepted as coverage for technical reserves;
- Require that information on possible risks be disclosed to the policyholder in unit-linked life assurance contracts;
- Set out several exclusions on coverage for technical reserves for unit-linked life assurance contracts;
- Lay down additional requirements for transferring risks for reinsurance.

For further, detailed information on these amendments as well as information on other legal news related to Latvian

insurance market, please refer to **Insurance Baltic Legal Update (Winter 2006)** to be issued in February 2006.

Additional information:

Anete Rubene
e-mail: anete.rubene@sorainen.lv

IT LAW**Information Society Services Law amended**

The Latvian Parliament has adopted amendments to the Information Society Services Law, which became effective on 14.12.2005. This completes full implementation of several EU Directives: 2000/31/EK – the e-commerce Directive; 98/48/EK – Directive laying down procedure for provision of information in the field of technical standards and regulations and of rules on information society services; and 2002/58/EK – Directive on privacy and electronic communications.

The most important amendments aim to supplement the prohibition on sending unsolicited commercial messages – 'spam'. In this relation, the amendments introduce a new definition of electronic mail (e-mail). E-mail is defined as a type of service whereby the users of computers that are connected to the electronic communication network are enabled to send and receive messages.

Before the amendments, the law merely prohibited sending commercial messages or other disturbing messages by e-mail without the recipient's prior consent. From the outset of adoption of the law, Latvia had chosen the so-called 'opt-in' system with regard to commercial messages. The opt-in system means that unless a person explicitly agrees to receive certain commercial messages, then sending such messages to that person is not allowed. The opt-out system means that sending such messages is in general allowed but must stop when a person explicitly opts out from receiving commercial messages.

Now the law has been supplemented with more detailed and specific rules about automated commercial messaging, extending the prohibition to telecommunication channels of communication (mobile telephones, sms, fax). Using automated calling systems operating without human intervention, e-mail, or fax to send commercial messages is prohibited if the recipient has not given explicit prior consent.

Specific rules have been adopted with regard to use of e-mail address for sending other commercial messages if the service provider has obtained the recipient's e-mail address in the course of its commercial transactions. It is prohibited to send any commercial messages by e-

mail if the sender's identity is not disclosed. Finally, and importantly, each prohibited commercial message sent constitutes a separate violation of the law. Indeed, the Cabinet of Ministers has already approved amendments to the law stipulating that natural and legal persons will be subject to an administrative penalty for each violation of the prohibition on sending unsolicited commercial messages. Thus, administrative penalties could reach substantial amounts where a large amount of spam is sent out. It is envisaged that natural persons will be subject to warning or money penalty from LVL 100 to 350, while legal entities from LVL 500 to 5000. The State Data Inspection will be responsible for applying penalties and supervising compliance with the Information Society Services Law.

Additional information:

Agris Repss
e-mail: agris.repss@sorainen.lv

LABOUR LAW**Amendments to the Labour Law**

Amendments to the Latvian Labour Law came into effect on 16.11.2005. In essence, these stipulate that failure to acceptance of amendments to the employment contract alone cannot serve as a valid ground for termination of the employment contract.

Previously, an employer complying with a certain notification period was entitled to give written notice to terminate an employment contract on condition that the employment would be terminated if the employee did not agree to continue the employment in conformity with amendments to the employment contract proposed by the employer.

Although some scholars had strongly insisted to the contrary, the Supreme Court in several cases had declared that it could be used as a separate ground for terminating an employment contract. Moreover, the Supreme Court even stated that in such cases the employer is not obliged to obtain previous consent from the respective trade union (if the employee belonged to one) in order to present a termination notice.

Additional information:

Andis Burkevics
e-mail: andis.burkevics@sorainen.lv

PROPERTY LAW**The Riga City Council has approved the Riga Development Plan**

The Riga City Council has approved the Riga Development Plan, which consists of three mutually related documents: Riga Long Term Development Strategies Until

2005, Riga Development Programme for 2006-2012 as well as the Riga Territorial Plan 2006-2018.

The Riga Territorial Plan provides the allowed use of the territory and the prohibitions of use. The graphical part of the Territorial Plan and the provisions of the territory use and construction have been issued as the Riga City Council 20.12.2005 Regulations No. 34 "Regulations on Riga Territory Use and Construction" coming into force on 04.01.2006.

Hopefully, the approval of the new Riga Development Plan will put an end to the uncertainty of the allowed use of the city territory and will promote the development of the city environment and real estates.

Parliament adopts amendments to the Land Register Law at 2nd reading

According to the draft law, certification of the consent of the creditor to a request for corroboration will not have to be enclosed if the person claiming corroboration of the mortgage right is the owner of the real estate.

The draft law further stipulates that signatures of private persons on a request for corroboration will not be necessary in certain cases. Employees of the Land Registry will be authorised to approve signatures. However, this will only apply to cases where a request for corroboration is submitted in person by the applicant and the request is grounded on the following documents:

- a. A court decision.
- b. A transaction concluded under notarial act.
- c. An administrative act on reinstatement of property rights.
- d. A contract on obtaining real estate property rights on privatisation of State or local government property.

Taking into account the need for these documents for this advantage to apply, in practice the amendments are unlikely to be of real significance.

The draft law was adopted at 2nd reading on 24.11.2005, and is expected to come into force on 01.06.2006.

Additional information:
Girts Ruda
e-mail: girts.ruda@sorainen.lv

TAX LAW

New Natural Resources Tax Act

Shortly before Christmas, the Latvian Parliament adopted the new Natural Resources Tax Act, which completely replaces the previous law in the field. One of the most important features of the new Act is that it finally sets tax rates for electric and electronic equipment (EEE), as a result

of which producers of EEE will be required to pay natural resources tax for EEE put on the Latvian market. However, producers of EEE may be relieved from paying natural resources tax. Firstly, the relief is available if the producer makes an agreement with the Environment Ministry regarding application of the EEE waste management system (WEEE) and ensures WEEE approval in conformity with applicable legislation. Secondly, the producer can make an agreement with a WEEE manager (company) that in turn has entered into an agreement with the Environment Ministry regarding WEEE management system application and ensures WEEE approval in conformity with applicable legislation.

Amendments to the Law "On Taxes and Duties"

Amendments adopted to the Law "On Taxes and Duties" and to the respective Regulations of the Cabinet of Ministers, stipulate replacement of registered waybills by a number allocated by the State Revenue Service for use on waybills in assessing taxes and satisfying accounting needs. This does not apply to excise goods, medicinal products, and timber products, which should continue to use registered waybills.

A range of Cabinet of Ministers regulations adopted in the customs field

Generally, the new regulations have taken over issues regulated by the former internal rules of the State Revenue Service. Examples include, e.g.:

- regulations on extending the term for paying customs duty (in force as of 27.12.2005),
- regulations on applying customs debt security in State Revenue Service Customs Institutions (in force as of 27.12.2005), and
- procedure for submitting customs declarations in electronic form (in force as of 27.12.2005).

Additional information:
Janis Taukacs
e-mail: janis.taukacs@sorainen.lv
and
Edgars Koskins
e-mail: edgars.koskins@sorainen.lv

TRADE LAW

Amendments to the Goods and Services Lotteries Law

In order to promote trading in their goods and services, traders and service providers in Latvia are more often using lotteries, where persons take part by purchasing a specific good or service and after that have a possibility to win a prize. These lotteries are regulated by the Goods and Services Lotteries Law, amendments to which entered into force on 01.01.2006. The most important changes brought about by these amendments are:

1) Lifting of the prohibition on using intangibles as prizes in goods lotteries. This had previously caused lack of clarity in the practical application of the law. In the future, prizes in both goods and services lotteries will be subject only to explicit restrictions in the law – prizes forbidden include alcohol, tobacco, medicines, and participation in gambling.

2) From now on, goods lottery permit holders will not have to ensure a copy of the lottery rules at every point of sale of lottery goods, if the packaging of goods contains information about the possibility to read the rules, and the duration of the lottery.

3) Lottery permit holders will have to prepare a protocol on every raffle of prizes, while representatives of state institutions will only be present at lottery raffles where the prize pool exceeds LVL 7,000.

Additional information:
Rudolfs Engelis
e-mail: rudolfs.engelis@sorainen.lv

Changes in the gambling regulatory framework

A new Gambling and Lotteries Act was adopted by the Latvian Parliament after heated debates and controversial opinions. One major change in the gambling regulatory framework consists of elimination of the right of local authorities to ban gambling in territories subject to their authority. Therefore, the Act arguably neutralises the efforts of the Riga City Council on 13.09.2005, when an amendment was adopted to the binding regulation "Ban on organising gambling activities in Riga", which effectively limited gambling activities in the city of Riga to eight hotels in the city. The new act also increases from 10 to 20 the minimum number of slot machines to be held in gambling houses, thus promoting elimination of the spread of "pocket" gambling houses. As of 01.01.2007, a gambling license will be issued only to companies meeting the criterion of minimum share capital of LVL 1.000.000,00.

Additional information:
Edgars Koskins
e-mail: edgars.koskins@sorainen.lv

Selection of relevant acts and amendments adopted 01.11.2005-31.12.2005:

- Regulations on corporate income taxation annual return and the procedure for its completion (in force as of 06.12.2005).
- Regulations on declarations and reports on real estate tax of buildings and constructions (in force as of 13.12.2005).
- Amendments to the Strike Law (in force as of 14.12.2005).
- Amendments to the Civil Procedure Law (in force as of 31.12.2005).
- Amendments to the Patent Law (in force as of 12.01.2006).

LITHUANIA

ADMINISTRATIVE LAW

The right to obtain information

On 10.11.2005, the Parliament adopted a law amending and supplementing the Law on the Right to Obtain Information from State and Municipal Institutions. The new law implements Directive 2003/98/EC on the re-use of public sector information, which establishes that information or documents held by public sector bodies should be re-usable in the private sector for commercial or non-commercial purposes. Preference should be given to provision of information by electronic means.

The main objective of the law is to define and consolidate the basis of legal regulation of public relations over individuals' right to obtain information disposed by institutions. One of its main tasks is to set favourable conditions for applicants to ascertain institutionally maintained information that they need, and to use it for their own lawful purposes.

The law regulates the provision of private information to individuals about themselves, information about institutional activities, and information used in institutions for dealing with public administrative tasks, so that applicants can familiarise themselves with it or re-use it to achieve commercial or non-commercial objectives. It describes information as knowledge disposable by State or municipal institutions or agencies.

Additionally, the law

- defines general principles of information provision;
- prohibits discrimination and exclusive arrangements in information provision;
- sets conditions for claiming compensation for information provision;
- sets the procedure for determining compensation, and
- clarifies information to which the law does not apply.

The law is in force as of 26.11.2005.

Additional information:

Rita Svedaite
e-mail: rita.svedaite@sorainen.lt

CONSTRUCTION LAW

Supplements to the Law on Construction

On 17.11.2005 the Parliament adopted a Law Amending Article 2 and Annex to the Law on Construction and Supplementing the Law with Article 43¹. This implements Article 7 of Directive 2002/91/EC on the energy performance of buildings.

Article 2 is supplemented by Paragraphs 85 and 86. These respectively define the energy performance of a building, and certification of a building's energy performance. The Law is also supplemented by Article 43¹ (Minimum requirements of the energy performance of buildings and certification of buildings' energy performance). This establishes to which buildings minimum energy performance requirements are applied or not applied, and to which buildings certification of energy performance is obligatory or not.

The Law notes that the procedure for certification of buildings will be applied from 01.01.2009, except for newly constructed buildings, which have to be certified from 01.01.2007. The Law is in force as of 04.01.2006.

Additional information:

Marius Urbelis
e-mail: marius.urbelis@sorainen.lt

ENVIRONMENTAL LAW

Regulations on registration of producers and importers

On 17.11.2005 the Minister of the Environment adopted Order No. D1-555 Regarding the Approval of the Regulations on Registration of Producers and Importers. These Regulations establish the order for registering - with the Digest of Producers and Importers - producers and importers that put lubricants, vehicles, electric and electronic equipment (EEE), taxable products, or product-filled packages (hereinafter - the Products) on the internal market of Lithuania.

The Regulations define "put on the market" as follows:

- transferring the Products produced in Lithuania – with or without remuneration – to any other person in Lithuania, or
- using the Products for producers' needs, or
- transferring the Products imported or brought to Lithuania from another EU member state – with or without remuneration – to any person in Lithuania, or
- using the Products for importers' needs, or
- producing, importing, or bringing to Lithuania the Products of a company under liquidation or reorganization and not transferred to another person from another EU member state.

The Regulations also establish the general requirements for registering producers and importers with the Digest and separately set requirements for registering producers and importers of EEE. It is also established that importers and producers may register with the Digest themselves or through organizations of producers and importers. The Regulations set a deadline of 31.03.2006 for registering with the Regional Department of Environmental Protection under the Environment Ministry. For the Products put on the Lithuanian internal market after 31.03.2006, the deadline to register expires on 31 March of the calendar year next following. These Regulations are in force as of 25.11.2005.

Additional information:

Marius Urbelis
e-mail: marius.urbelis@sorainen.lt

TAX LAW

Amendments to the Lithuanian Corporate Income Tax Law

On 20.12.2005 the Parliament adopted a law amending and supplementing the Corporate Income Tax Law of the Republic of Lithuania. The purpose of the law is to implement Council Directive 2005/19/EC on the common system of taxation applicable to mergers, divisions, transfers

We are pleased to inform you that
on 2 March 2006,
Sorainen Law Offices in Tallinn
will hold a litigation seminar on
"How to avoid and win disputes?"

Additional information is available on our webpage www.sorainen.com

of assets and exchanges of shares concerning companies of different Member States.

In addition, the law is supplemented by concepts of goodwill and negative goodwill.

The law establishes that for corporate tax purposes, goodwill (including negative goodwill) is regarded as the difference between the **purchase price** paid for an acquired business entity (in the case of business transfer) or a company's shares (share transfer) and its **net asset value**.

Under the general rule established by law, goodwill (or negative goodwill) is recognized at the moment of its emergence, except where shares of another company are acquired with the purpose of controlling its net profit and activities. In that case, goodwill (or negative goodwill) is recognized at the moment of later reorganization or transfer of assets. This law is in force as of 01.01.2006.

Additional information:

Tomas Davidonis

e-mail: tomas.davidonis@sorainen.lt

Selection of relevant acts and amendments adopted 01.11.2005-31.12.2005

Treaty between Lithuania and Austria Regarding Avoidance of Double Taxation for Income and Capital, ratified by Lithuanian law on 13.10.2005, is in force as of 17.11.2005.

Law supplementing the Labour Code with Article 162(1) (in force as of 22.12.2005). Law Amending and Supplementing Articles 19 and 23 of the Law on Labour Councils (in force as of 03.12.2005).

Law on Ratification of the Treaty between Lithuania and Canada on Social Security (in force as of 08.12.2005).

Government Resolution Amending the Resolution on Reorganization of the State Register of Administrators of Personal Data and Confirmation of the Regulation of the Register and the Order of Notices of Administrators Related to Administration of Data (in force as of 07.12.2005).

Contributed by Lea Liigus, Katri-Helen Agur, Estonia; Gita Rivdike, Latvia; Gytis Malinauskas, Lithuania. Edited by Girts Ruda, Latvia.

NEWS IN SORAINEN LAW OFFICES

Recent deals

Assistance in acquisition of Zakusala estates SIA

On 1 December, SIA Merks, a subsidiary of AS Merko Ehitus, acquired 50% in Zakusala estates SIA. Zakusala estates SIA enjoys land use rights to 126,000 sq.m. of property on Zakusala island in central Riga. Lawyers from Sorainen Law Offices in Riga acted as main legal counsel for the transaction including LDD, preparing transaction documentation, and closing the deal. Partner Gints Vilgerts took the lead role in the case. Through this transaction, the Firm again demonstrated its position as a leading law firm in the real estate development projects market.

Acquisition of Turgel Grupp by Finnish Road Enterprise

Tallinn office assisted Finnish Road Enterprise, the leading service provider in Finland's infrastructure sector, in its acquisition of a majority shareholding in Estonian road building company AS Turgel Grupp. Advice included performing legal due diligence, drafting and negotiating acquisition documentation. The leading lawyers for this transaction were partner Toomas Prangli and associate Jane Eesbold.

Acquisition of Eurolabo by Intertek Caleb Brett

Tallinn office assisted major global laboratory testing and inspection services provider Intertek Caleb Brett in its acquisition of Eurolabo OÜ, the Estonian laboratory involved in attestation and certification of liquid fuel conformity. Advice included performing legal due diligence, drafting and negotiating purchase documentation, and carrying out the closing. The transaction was led by partner Toomas Prangli and associate Jane Eesbold.

Assisting Danish investors in acquisition of Estonian farm

Tallinn office assisted Danish investors in their acquisition of Harjanurme farming company in Central Estonia. Our team of lawyers, led by partner Toomas Prangli and senior associate Paul Kunnapp, carried out legal due diligence of the target, structured and negotiated the transaction, and

provided support in closing and post-closing matters.

Advising Handelsbanken in its Estonian branch set-up

Tallinn office advised Handelsbanken in regulatory requirements for establishing and registering its Estonian branch. The case was handled by partner Pekka Puolakka and senior associate Risto Agur.

Employees

Ms. **Silja Luide**, associate, and Ms. **Ella Jakobson**, English translator, have joined the Tallinn office. Silja worked previously with the Ministry of Finance and will strengthen our M&A and Corporate Law practice groups. She has a Master of Law (mag.iur) degree from Tartu University and speaks Estonian and English. Ella has several years of experience in translating legal texts for multinational businesses in the areas of privatization, PR, oil transit, and ICT. She speaks Estonian, English, Finnish, German and Russian.

Mr. **Janis Likops** has joined the Riga office as an associate. Mr. Likops worked previously at the law firm Klavins & Slaidins. He has graduated the University of Latvia, Faculty of Law, (LL.B.) and the University of Latvia, Faculty of Economics and Management (BSE). His main practice areas are Property Law and Consumer Protection Law. He speaks Latvian, English and Russian.

Ms. **Indre Galdikaite** has joined our Vilnius office as a general assistant. With a Bachelor's degree in Lithuanian and Turkish languages from Vilnius University Faculty of Philology, she is fluent in English, Lithuanian, Russian, and Turkish.

Articles

Selection of articles written in November-December 2005:

Newspaper *The Baltic Times*:

- Luc Nijs: Income mutation or ordinary sale of shares

- Luc Nijs: Lisbon strategy: at the junction between now and then

Handbook: International arbitration. A country-by-country look at alternative dispute resolution methods around the globe:

- Chapter on Estonia: Aku Sorainen, Mart Angerjarv
- Chapter on Lithuania: Renata Berzanskiene

Articles written by lawyers from Sorainen Law Offices are available on our website www.sorainen.com.

Seminars

Support to the 2nd International Conference “Mergers and Acquisitions in the Baltic States: Modern Tendencies and Development Forecast”

Sorainen Law Offices is supporting the 2nd International Conference “Mergers and Acquisitions in the Baltic States: Modern Tendencies and Development Forecast”, which will take place on 24 February 2006 at the Radisson SAS Daugava Hotel in Riga. Pekka Puolakka and Toomas Prangli, partners at Sorainen Law Offices in Tallinn are going to deliver a presentation “Mitigating M&A transaction risks for the buyer and for the seller”. For more detailed information please see www.rmsforum.lv.

Participation in international investment event NEPIX 2005

On November 2–4 an international investment event “North European Property & Investment Exhibition” took place in Copenhagen. Triin Toomemets in cooperation with Thomas Salicath, a partner from Dania Advokater, delivered a presentation on “Legal concerns in real estate transactions in the Baltic States”.

Participation in Lithuanian Business Days in Tallinn

On 3-4 November the Lithuanian Embassy in Tallinn, with support from the Lithuanian Ministry of the

Economy, organized a National Fair “Lithuanian Business Days in Estonia”. Partner Kestutis Adamonis participated in the event and delivered a presentation on the “Legal environment for investments in Lithuania”. The objective of the event was to present Lithuanian industry’s potential for the Estonian market and to develop economic and cultural relations between the two Baltic States that joined the single EU market a year and a half ago.

Seminar presentation on Protection of Intangible Assets

On 9 November the Finnish Trade Guild organized a seminar on Protection of Intangible Assets. Senior associate Juhani Siira delivered a presentation on Intellectual Property to Finnish Trade Guild members.

Investment seminar presentation in Vienna

On 14 November the Austrian Trade Commission organized a seminar for Austrian investors “Go international” in Vienna, where senior associate Evelin Parn-Lee delivered a presentation on the “Legal and tax environment in the Baltics”.

Participation in Lithuanian Business Delegations

Partner Renata Berzanskiene participated with the President of Lithuania in Lithuanian Business Delegations in Bulgaria and Romania, held respectively on 21 November and 8 December, delivering presentations on the topic of the “Legal environment for investment in Lithuania”.

Round table discussion organized

On 14 December Vilnius office organized a round table discussion: “Attraction of funds issuing and offering shares and bonds: legal and practical aspects” The discussion was held at our Vilnius office premises. Algirdas Peksys, senior associate, and Algimantas Variakojis from Finasta FMI, made presentations during discussion.

Presentation on EU Law

On 16 December, senior associate Carri Ginter, attorney-at-law, delivered a lecture on the topic “EU and the European Constitution – what it means for citizens” in a public seminar organised for the local municipality in Põlva.

Presentation on changes in the Estonian Commercial Code

On 21 December, partner Karin Madisson delivered a presentation on “Changes in the Commercial Code” in a seminar organised by the Union of Estonian Lawyers.

Other news

Support to ELSA in Latvia

Sorainen Law Offices in Riga supported Professor Karlis Dislers’ moot court competition organised by ELSA (the European Law Students’ Association) in Riga.

Sorainen Law Offices would like to thank everybody
for marvellous Christmas cards!

OVERVIEW OF TAX REFORM IN LITHUANIA

By Tomas Davidonis,
e-mail: tomas.davidonis@sorainen.lt

The year 2006 brings substantial – and substantive - changes in taxation relevant both to businesses and individuals.

The good news is a gradual reduction in individual income tax. The bad news is the extended tax basis of the real estate tax and the new social tax for corporate undertakings.

NEW SOCIAL TAX

The Law on Social Tax, effective as from 01.01.2006, introduces a temporary social tax, to be applied during the tax periods 2006 and 2007.

Social tax has been construed on the basis of corporate profit tax. The main elements of social tax are generally the same as in the case of normal corporate profit tax.

Social tax is applied on an annual basis. The rate of social tax for the year 2006 is 4%, while in 2007 the rate will be 3%. Therefore, one could say that corporate profit tax with a standard rate of 15% will be increased by 4% in 2006 and 3% in 2007.

Undertakings liable to social tax are corporate undertakings whose profits are subject to corporate profit tax (with some exceptions).

The tax base of social tax is profit subject to corporate profit tax.

Social tax must be paid by advance payments calculated on the taxable profit of the previous year. The remaining amount of tax must be paid and a tax return delivered by the 1st day of the tenth month of the following tax year.

REAL ESTATE TAX REFORM

In the opinion of tax officials, the law aims at creating a transparent system of real estate, introducing internationally accepted valuation methods in respect of the tax value of real estate and preventing tax evasion through transfer of real estate to natural persons and subsequent lease back schemes.

Until now, real estate tax was applied to individuals only in respect of land. Thus, in contrast to corporate undertakings, individuals were not required to pay tax on other real estate, such as buildings.

The new Law on Real Estate Tax, coming into effect on 01.01.2006, establishes that this tax is levied on premises, buildings, and constructions registered in the Lithuanian Real Estate Register, owned by corporate undertakings or individuals.

The Law provides a list of real estate exempt from tax. This includes: living premises, gardens, farms, greenhouses, buildings and constructions relating to farming, buildings for scientific, religious, or recreational purposes, and buildings for fishing and engineering purposes. Notably, such real estate is not taxed only when it is not used in business activity and has not been transferred for use by corporate undertakings for more than one month.

Real estate tax will be applied on an annual basis and the rate will be 1%. The tax will be applied on the market value of real estate, calculated by way of mass valuation conducted by state valuers. Taxpayers that do not agree with the value established under mass valuation will be entitled to apply for an individual valuation.

Further, as from the application of the new Law on Real Estate Tax, valuation will be conducted on the basis of internationally accepted valuation methods, instead of the current recuperation method, which in the future will be used only in a limited number of cases.

Clearly, a real estate tax with an extended base will have a negative impact on business. Mass valuation, which is already in progress, is likely to result in an increased tax base, especially in the case of city-centre commercial property. Further, commercial leases from individuals are expected to increase in the near future.

CHANGES IN PERSONAL INCOME TAX

Currently, the basic rate of personal income tax is 33%. As from 01.07.2006, this rate will be reduced to 27%. Further, as from 01.01.2008, the basic rate of personal income tax will be 24%.

The reduced rate of 15%, applicable to dividends, royalties, interest, and other listed income, remains unchanged.

Another positive amendment relates to the taxation of expatriates. Previously, Lithuania had abolished double taxation of foreign income received by Lithuanian residents from countries that either have valid tax treaties with Lithuania or are entered in a special list.

Now Lithuanian residents, when paying taxes in Lithuania on income received abroad, will be entitled to get those taxes credited in terms of Lithuanian personal income tax, unless the foreign state in question is recognised as an offshore territory.