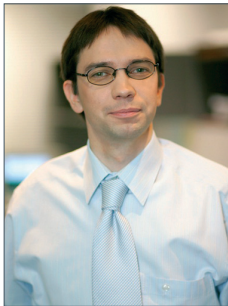


2007 Baltic States Tax Summary Estonia, Latvia and Lithuania

Effective as of 1 July 2007

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ESTONIA

CORPORATE INCOME TAX

- Tax rate 0% on reinvested profits and 22/78 on dividends, fringe benefits, gifts and expenses not related to business activities. The tax rate is scheduled to be decreased to 18/82 by 2011.
- No carry-forward of losses and depreciation available for tax purposes.
- Qualifying dividends (15% participation), interest (not exceeding market interest rate) and royalties (payments within EU and 25% participation) are not subject to withholding tax.
- Capital gains from sale of Estonian real estate or shares in "real estate companies" are subject to 22%.
- No thin capitalisation rules, so substantial debt financing is possible.
- Taxation treaties with almost 40 countries.
- Transfer pricing rules exist for transactions with "related parties". Methods used are comparable uncontrolled price, resale price, cost plus, profit split, and transactional net margin.

VALUE ADDED TAX

- Standard rate 18%. Reduced rate of 0% and 5% in some instances.
- Registration general threshold – EEK 250,000 (EUR ~ 16,000).

LAND TAX

- Rate of land tax from 0.1% to 2.5% of the cadastral value of land and buildings. The rate is set by municipalities by 31 January in each year.

PERSONAL INCOME TAX

- General flat rate of 22%. The rate will be decreased to 18% by 2011.
- Tax deductions allowed for interest related to acquisition of personal residence.

SOCIAL SECURITY CONTRIBUTIONS

- Employer pays social tax of 33% from gross salary.
- Employer pays employer's unemployment contribution of 0.3% and withholds employee's unemployment contribution of 0.6% from gross salary.

CUSTOMS & EXCISE DUTIES

- Mainly based on EU law with a transition period on some excise duty rates.

REAL ESTATE TRANSFER DUTY

- No duty applies; but notary's and state fees may be up to 0.5% of transaction value.

TAXATION AUDITS

- Taxation audits can be performed going back 3 years from the date tax became payable.
- In case of intentional violations of law the limitation period is 6 years.

ADVANCE (BINDING) RULINGS ARE POSSIBLE AS OF 1 JANUARY 2008

LATVIA

CORPORATE INCOME TAX (CIT)

- Flat rate of 15%.
- Carry-forward of losses for 5 years; transfer of losses within group is possible.
- Accelerated depreciation (10% - 70%) declining-balance method, except for intangible assets with straight-line method over 5 or 10 years.
- Withholding taxes apply to: dividends (0% - mostly apply to EU and Latvian residents; in other cases - 10%), interest (0% - on payments to unrelated parties; for related parties - 10%, for related banks – 5%), management and consulting fees (10%, can be reduced to 0% under a tax treaty), royalties (15% - on copyrights on a work of literature or art; 5% - in other cases), use of property located in Latvia (5%), sale price of real estate located in Latvia or shares in “real estate companies” (2%), payments to “Black list” jurisdictions (15%), the SRS may relieve from the latter.
- Thin capitalisation rules: debt – equity ratio of 4:1 or interest rate not exceeding 8.76% as at 31 December.2006 - the “less favourable” of the two criteria applies.
- Taxation treaties with 44 countries.
- Transfer pricing rules in place for transactions with “related parties”. The methods used for adjustments are: comparable uncontrolled price, resale price, and cost-plus.

VALUE ADDED TAX

- Standard rate 18%. Reduced rate of 5% in some instances.
- Registration general threshold – LVL 10,000 (EUR ~ 14,300).

PROPERTY TAX

- 1.5% of the cadastral value of land and buildings. (Potentially down to 1% in 2008).

INCENTIVES TO INVEST

- In Special Economic Zones in Rezekne and Liepaja or Free Ports in Riga and Ventspils, rebates are obtainable on (after making investments in production): property tax (80% up to 100%), CIT including withholding tax (80%), VAT (0%), extended loss-carry-forward period up to 10 years.
- A special tonnage tax is in place instead of the CIT - to Latvian shipping companies.

PERSONAL INCOME TAX

- General flat rate of 25% (from 2008 - 15% payable by self-employed persons).

SOCIAL SECURITY CONTRIBUTIONS

- Employee rate is 9% of gross salary; for employer - 24.09% on top of gross salary.
- Contributions cease once annual gross salary exceeds LVL 23,800 (EUR ~ 33,900). As of 2008 the limit is expected to increase up to LVL 29,600 (EUR ~ 42,100).

CUSTOMS & EXCISE DUTIES

- Mainly based on EU law with a transition period on some excise duty rates.

NATURAL RESOURCES TAX

- Imposed on use of natural resources, pollution, and use of packaging materials.

REAL ESTATE TRANSFER DUTY

- 2% up to 4% on the highest value of the following: purchase price, cadastral value, mortgage valuation; capped at LVL 30,000 (EUR ~ 42,900). No major notary's fees.

TAXATION AUDITS

- Taxation audits can be performed going back 3 years.

ADVANCE (BINDING) RULINGS POSSIBLE

LITHUANIA

CORPORATE INCOME TAX (CIT)

- Flat rate of 15%. Due to the application of temporary social tax, the effective CIT rate is 18% in 2007. As of 2008 – a CIT rate of only 15% applies.
- Carry-forward of losses for 5 years. Income-basket limitations for carrying forward losses accrued in trade in securities. Intra-group transfer of losses not permitted.
- Fixed assets are depreciated according to the straight-line method. However, for certain groups of fixed assets, the double-declining method may also be used.
- Withholding taxes: on dividends (0% - applies to foreign residents owning at least 10% shares for 12 months; in other cases - 15%), interest and royalties (10%; in limited cases can be reduced), supply of know-how (10%; 0% for payments to Latvia), franchise fees (10%, abolished by tax treaties), capital gains from sale and lease of Lithuanian real estate (10%).
- Thin capitalisation rules (controlled debt – equity ratio of 4:1). Interest-free loans are not included in controlled debt.
- Taxation treaties with 44 countries.
- Transfer pricing rules in place for transactions with “related parties”. Methods used for adjustments are: comparable uncontrolled price, resale price and cost-plus, transaction net margin, and profit split methods (last two – supplementary methods).

VALUE ADDED TAX

- Standard rate 18%. Reduced rates of 5% and 9% in cases explicitly listed by law.
- Registration general threshold – LTL 100,000 (EUR ~ 29,000).

REAL ESTATE AND LAND TAX

- Land tax: 1.5% of the cadastral value of land.

- Real estate tax (on real estate other than land): 0.3% - 1% of the cadastral value of real estate. The exact real estate rate is established by the respective municipality.

INCENTIVES TO INVEST

- Free Economic Zones (FEZ) in Klaipeda and Kaunas;
- Companies with investments of MEUR 1 or more and operating in FEZ are exempted from CIT for 6 years and pay 50% of CIT in the 10 following years.

PERSONAL INCOME TAX

- General flat rate of 27%, reduced to 24% as from 2008.
- Reduced rate of 15% applies to listed income, such as interest, royalties, capital gains, dividends received from Lithuania and “White List” countries.

SOCIAL SECURITY CONTRIBUTIONS

- Employee rate is 3% of gross salary; for employer - ca. 31% on top of gross salary.

CUSTOMS & EXCISE DUTIES

- Mainly based on EU law with a transition period on some excise duty rates.

NATURAL RESOURCES TAX

- Imposed on use of natural resources, pollution, and use of packaging materials.

REAL ESTATE TRANSFER DUTY

- No duty applies; but notary's fees (% of transaction value) apply.

TAXATION AUDITS

- Taxation audits can be performed going back 5 years.

ADVANCE (BINDING) RULINGS NOT POSSIBLE