

## SORAINEN TAX CARD 2012

Main comparative corporate tax principles for  
Estonia, Latvia, Lithuania and Belarus

Effective 1 Feb 2012



## ESTONIA

### CORPORATE INCOME TAX (CIT)

- European Court of Justice decisions in the cases of Test Claimants in the FII Group Litigation (C-446/04), Oy AA (C-231/05), and Burda GmbH (C-284/06) confirm that the Estonian CIT system complies with EU law.
- Estonia provides a unique CIT system as resident companies do not pay tax on retained or reinvested earnings. The tax obligation is deferred to the moment of distributing profits. CIT is levied at a gross rate of 21% (down to 20% in 2015) on company profit distributions, dividends, gifts, fringe benefits, non-business expenditure and excessive capital reductions.
- Tax is payable based on monthly declarations.
- Unlimited carry forward of losses and unlimited depreciation for tax purposes.
- Dividends (no participation requirement), interest (not exceeding market interest rate) and royalties (payments within the EU and 25% participation) are not subject to withholding tax.
- Only capital gains derived by a non-resident from sale of Estonian real estate or shares in and liquidation proceeds of “real estate companies” are subject to 21% income tax.
- Liquidation proceeds, capital reduction payments, and share buy-backs exceeding capital contributions are taxable at the company level.
- No traditional thin capitalisation rules, ie substantial debt financing at market rate interest is tax neutral.
- Taxation treaties with 48 countries.
- Transfer pricing (TP) methods in use: comparable uncontrolled price, resale price, cost plus, profit split, transactional net margin or any other sufficiently substantiated method.
- Liberal participation exemption for distribution of dividends received (10% shareholding required, if dividends received are subject to tax abroad or are received from the EU).

### VALUE ADDED TAX (VAT)

- Standard rate – 20%. Reduced rate – 9%.
- Registration general threshold – EUR 16,000.
- Reverse charge on internal supply applicable to real estate and scrap metal transactions.

### LAND TAX (LT)

- Rate of LT ranges from 0.1% to 2.5% of cadastral value of land excluding buildings. Rate is set by municipalities by 31 January each year.

### REAL ESTATE TRANSFER DUTY

- Notarial and state duties may be up to 0.5% of transaction value.

### PERSONAL INCOME TAX

- General flat rate of 21%, including capital gains.
- 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 unemployment contribution of 1.4% and withholds employee’s unemployment contribution of 2.8% from gross salary.

### CUSTOMS & EXCISE

- Mainly based on EU law.

### LOCAL TAXES

- Insignificant local taxes, such as advertisement tax and boat tax, apply.

### TAX AUDITS

- Tax audits can be performed going back 3 years from the date tax becomes payable.
- Limitation period 6 years for intentional tax avoidance.

### ADVANCE (BINDING) RULINGS POSSIBLE EXCEPT FOR PRICES IN TP

- Fee for companies – EUR 767.
- Fee for individuals – EUR 192.



## LATVIA

### CORPORATE INCOME TAX (CIT)

- Flat rate – 15%. Reduced rate of 9% on turnover applies to registered micro-enterprises (income below LVL 70,000 (approx EUR 100,000), less than 5 employees, shareholders – individuals).
- Carry forward of losses for an unlimited period; transfer of losses within a group is possible.
- Accelerated depreciation (10%-70%) of fixed assets using the declining-balance method, except for concessions, patent licenses and trademarks, using the straight-line method over 5 or 10 years. For a new registered patent or trade mark and new production equipment the cost base increases 1.5 times.
- Withholding taxes: on dividends (0% – mostly to EU, European Economic Area (EEA) and Latvian residents; in other cases – 10%, as of 2013 – 0% to any jurisdiction except “off-shores”), interest (0% – on payments to unrelated parties; for related parties – 10% (5% for EU and EEA entities and then 0% as of 1 July 2013, as of 2014 – 0% to any jurisdiction except “off-shores”), management and consulting fees (10%, can be reduced to 0% under a tax treaty), royalties (15% – on literature or art; 5% – in other cases, as of 2014 – 0% to any jurisdiction except “off-shores”), use of property located in Latvia (5%), sale price of real estate located in Latvia or shares in “real estate companies” (2%, can be eliminated under some tax treaties), payments to “Black list” “off-shore” jurisdictions (15% – the SRS may grant relief); 0% for all payments to Lithuania.
- Notional interest deduction – on retained profit treated as loan equivalents.
- Thin capitalisation rules: debt-to-equity ratio of 1:4 or 1.2 times short-term interest rate as provided by the Statistics Department; the “less favourable” of the two criteria applies.
- Taxation treaties with 50 countries.
- Transfer pricing (TP) methods in use: comparable uncontrolled price, resale price, cost-plus and two profit based methods (transactional net margin method and profit split method). Threshold when TP documentation is mandatory: turnover over LVL 1 million (approx EUR 1.43 million) and transaction with a related party – over LVL 10,000 (approx EUR 14,300), to be submitted to SRS within 1 month as of the request; advance pricing agreements also possible – all expected to be adopted within 2012.
- Gains from disposal of fixed assets are not taxable if the assets are substituted by similar new ones within 12 months, as of 2013 – 0% on gains from sale of shares in subsidiaries in any jurisdiction except “off-shores”.
- Liberal participation exemption for distribution of dividends received (no particular shareholding required if dividends are received from the EU or EEA (as of 2013 – relating to all jurisdictions except “off-shores”; 25% participation elsewhere, except no participation exemption if received from “off-shores”).

### VALUE ADDED TAX (VAT)

- Standard rate – 22%. Reduced rate – 12%.
- Registration general threshold LVL 35,000 (approx EUR 49,800).

### PROPERTY TAX (PT)

- 1.5% of the cadastral value of land and buildings.
- Residential property is now taxed at 0.2% – for cadastral value not exceeding LVL 40,000 (approx EUR 57,000), 0.4% – for cadastral value from LVL 40,000 to LVL 75,000 (approx EUR 106,700), and 0.6% – for cadastral value exceeding LVL 75,000.

### INCENTIVES TO INVEST

- In Special Economic Zones in Rezekne and Liepaja or Free Ports in Riga and Ventspils, rebates can be obtained (after investing in production for exports) on: property tax (80% to 100%), CIT (80%), VAT (0%).
- A special tonnage tax for Latvian shipping companies and reliefs for sailors.
- Reduction of CIT payable equal to 25% of the amount invested in large projects in specified industry categories between LVL 3 million (approx EUR 4.3 million) and LVL 35 million (approx EUR 49.8 million) and reduction of tax payable equal to 15% of the amount invested over LVL 35 million. Allowable tax savings must be claimed within a 16 year period. POLARIS Process program.

### PERSONAL INCOME TAX

- General flat rate of 25% also includes the self-employed. A 10% tax now applies to dividend, interest and rental income and 15% to capital gains.

### SOCIAL SECURITY CONTRIBUTIONS

- Employee rate: 11% of gross salary; employer rate 24.09% on top of gross salary.

### NATURAL RESOURCES TAX

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

### TAX AUDITS

- Tax audits can be performed normally going back 3 years, except for TP – 5 years.

### ADVANCE (BINDING) RULINGS POSSIBLE AT NO CHARGE

## LITHUANIA

### CORPORATE INCOME TAX (CIT)

- General flat rate – 15%. Reduced rate of 5% applies to small companies (income lower than LTL 1,000,000 (approx EUR 289,500), less than 10 employees).
- Unlimited carry forward of losses (losses from transfer of securities and derivative financial instruments may be carried forward for 5 years). Intra-group transfer of losses permitted (subject to specific requirements).
- Fixed assets depreciated using straight-line method; for certain groups of fixed assets, the double-declining method may also be used.
- Withholding taxes: on dividends (0% to foreign residents owning at least 10% shares for 12 months; in other cases – 15%), interest (0% if paid to the European Economic Area, or to a country with which Lithuania has an effective tax treaty; in other cases – 10%), royalties (0% if paid to the company resident in the EU and qualifying under the EU Interest and Royalties Directive, in other cases – 10%), capital gains from sale and lease of Lithuanian real estate (15%), income from performing and sports activities (15%), annual bonuses to supervisory board members (15%); 0% for all payments to Latvia.
- Thin capitalisation rules: debt-to-equity ratio 1:4. Interest-free loans not included in controlled debt.
- Taxation treaties with 48 countries.
- Transfer pricing (TP) methods in use: comparable uncontrolled price, resale price and cost-plus, transaction net margin and profit split methods (the last two are supplementary methods).

### VALUE ADDED TAX (VAT)

- Standard rate – 21%. Reduced rate of 9% applies to heating energy, hot and cold water intended for heating of residential premises (applies until 31 December 2012) as well as on books and non-periodical press, which apply indefinitely. Reduced rate of 5% applies to fully or partially compensated pharmaceuticals and means of medical aid (applies until 31 December 2012).
- General VAT payer registration threshold – LTL 155,000 (approx EUR 45,000).

### PROPERTY TAX (PT)

- Land tax: 1.5% of cadastral value of land.
- Real estate tax (on real estate other than land): 0.3%-1% of the value of real estate. The exact real estate tax rate is established by the respective municipality. As of 2012, individuals owning residential real estate with a total value exceeding LTL 1 million (approx EUR 289,500), are taxed with 1% real estate tax on the excess.

### INCENTIVES TO INVEST

- Free Economic Zones (FEZ) in Klaipeda and Kaunas. A company with investments of EUR 1 million or more operating in FEZ is exempt from CIT for 6 years and enjoys a 50% reduction of CIT in the next 10 years.
- For entities running investment projects (under defined conditions) taxable profit is reduced by up to 50%.

### REAL ESTATE TRANSFER DUTY

- No transfer duty; notary fees apply (0.45% of transaction value, but no less than LTL 100 (approx EUR 30) and no more than LTL 20,000 (approx EUR 5,800) or LTL 50,000 (approx EUR 14,500) in case of transfer of multiple objects).

### PERSONAL INCOME TAX

- General flat rate – 15%; reduced 5% applies to certain activities carried out by self-employed individuals; dividends taxed at a rate of 20%.

### COMPULSORY HEALTH INSURANCE CONTRIBUTIONS

- Employee rate – 6% withheld from gross salary; for employer 3% on top of gross salary.

### SOCIAL SECURITY CONTRIBUTIONS

- Employee rate – 3% withheld from gross salary; for employer 27.98% on top of gross salary.

### NATURAL RESOURCES TAX

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

### TAX AUDITS

- Tax audits can be performed going back 5 years.

### ADVANCE (BINDING) RULINGS

- Binding tax rulings and advance TP agreements available at no charge.

## BELARUS

### CORPORATE INCOME TAX (CIT)

- General flat rate – 18%; dividends – 12%; income from sale of shares in Belarusian companies is taxed at 9%.
- Withholding taxes on income of foreign residents from Belarusian sources: dividends and income from sale of shares – 12%; royalties – 15%; interest – 10%; freight – 6%; other income (eg sale of real estate, securities, services (eg consulting, audit, management, insurance, advertising), agency contracts, contractual penalties) – 15%.
- Losses can be carried forward for 10 years.
- Fixed assets can be depreciated according to 1 of 3 methods at the discretion of the company: straight-line method, reducing balance method (sum-of-years' digits or declining balance method) or productive method.
- Taxation treaties with 63 countries.
- Transfer pricing methods in use: comparable uncontrolled price, resale price, cost plus (the last two are supplementary methods).
- Thin capitalisation rules are to be introduced as of 1 January 2013.

### VALUE ADDED TAX (VAT)

- Standard rate – 20%. Reduced rates – 10%; 0.5%.
- No special registration for VAT purposes.

### PROPERTY TAX (PT)

- Land tax: tax base is cadastral value of land. Rates vary significantly depending on the functional use of land.
- Real estate tax: general tax rate – 1% of the residual value of real estate (buildings, constructions, car parking spaces); 2% may apply to objects of incomplete construction. For individuals – 0.1% (tax is calculated by tax authorities based on the assessed value of the real estate object).

### INCENTIVES TO INVEST

- Six Free Economic Zones. A company has to invest at least EUR 1 million. Exemption from some taxes and duties, certain taxes at reduced rates.
- High Technology Park (HTP). Residents – exempt from almost all taxes and duties.
- Beneficial tax regime if a production business is operating in rural areas and small town centres.
- Simplified Taxation System. Companies that meet certain requirements on number of personnel and amount of gross revenue may pay a unified tax imposed on gross revenue. Depending on circumstances, tax rates are: 2%; 5%; 7%; or 15%.

### PERSONAL INCOME TAX

- General flat rate – 12% (including dividends).
- Other rates apply to specific income: 15% on income from private notarial and advocacy activities; 9% on income received from HTP residents under labour agreements.

### SOCIAL SECURITY CONTRIBUTIONS

- Employee rate is 1% of gross salary; for employer approx 34-35% on top of gross salary.

### CUSTOMS & EXCISE

- Excise duties are imposed on both import and manufacture of a list of goods. Customs are imposed on imports; a limited number of goods are subject to export duties.

### ECOLOGICAL TAX AND NATURAL RESOURCES TAX

- Ecological tax is imposed on volume of waste, emissions, waste-water discharges, and ozone-depleting substances imported to Belarus.
- Natural resources tax is imposed on volume of used natural resources (eg water, oil, sand, clay, salt).

### TAX AUDITS

- Tax audits are performed normally going back 3 to 5 years.

### ADVANCE (BINDING) RULINGS NOT POSSIBLE



# SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS

**SORAINEN offers expertise in all key tax and customs areas in the Baltic States and Belarus, including:**

- tax and customs advice and optimisation, including, but not limited to:
  - advance ruling requests;
  - transfer pricing compliance;
  - local and cross-border mergers;
  - managing the “effective tax rate”;
  - market entry strategies and structuring;
  - permanent establishment risks;
  - input VAT deductibility optimisation;
  - best use of tax benefits in special economic zones and free ports;
  - withholding tax and other direct tax optimisation possibilities;
- tax and customs disputes at all levels;
- tax due diligence and local tax compliance reviews.

**Non-exclusive cooperation partner of World Tax Service (WTS) Alliance  
Member of Transfer Pricing Associates global network  
See Twitter for weekly tax updates in the region: [twitter.com/Sorainen\\_tax](https://twitter.com/Sorainen_tax)**

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## Tax & Customs contact partners

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### ESTONIA



**Kaido Loor**  
Partner

Pärnu mnt 15  
10141 Tallinn  
phone +372 6 400 900  
fax +372 6 400 901  
[estonia@sorainen.com](mailto:estonia@sorainen.com)

### LATVIA



**Jānis Tukačs**  
Partner, Regional Head of  
the Tax & Customs Team

Kr. Valdemāra iela 21  
LV-1010 Rīga  
phone +371 67 365 000  
fax +371 67 365 001  
[latvia@sorainen.com](mailto:latvia@sorainen.com)

### LITHUANIA



**Tomas Kontautas**  
Partner

Jogailos 4  
LT-01116 Vilnius  
phone +370 52 685 040  
fax +370 52 685 041  
[lithuania@sorainen.com](mailto:lithuania@sorainen.com)

### BELARUS



**Maksim Salahub**  
Partner

ul Nemiga 40  
220004 Minsk  
phone +375 17 306 2102  
fax +375 17 306 2079  
[belarus@sorainen.com](mailto:belarus@sorainen.com)

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