



SORAINEN

BALTIC TAX FIRM OF THE YEAR

Awarded by:

International Tax Review (2012, 2011, 2010)

SORAINEN TAX CARD 2013

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

Effective 1 Feb 2013



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% (20% from 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 50 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, scrap metal and gold 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% (20% from 2015), 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% and withholds employee’s unemployment contribution of 2% from gross salary.

CUSTOMS & EXCISE

- Mainly based on EU law.

LOCAL TAXES

- Insignificant local taxes, such as advertisement 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.

For more info about using Estonia in tax planning please see:

<http://www.sorainen.com/UserFiles/File/Publications/briefing.Estonian-corporate-income-tax-system-advantages-and-specifics.2012.pdf>

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) instead of CIT and payroll taxes to employees. Capital gains on sale of shares in subsidiaries are exempt.
- Notional interest deduction – on retained profit treated as loan equivalents.
- 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 trade marks, 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% to any jurisdiction except “off-shores”;
 - interest – 0% to any jurisdiction except “off-shores”, if % is paid out as of 2014; in 2013 for related parties – 10% (for EU and EEA entities – 5% up to 1 July 2013 and 0% thereafter);
 - royalties – 0% to any jurisdiction except “off-shores”, if paid as of 2014 (15% – on literature or art; 5% – in other cases);
 - management and consulting fees – 10%, can be reduced to 0% under tax treaties;
 - 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 and under the new Latvian holding regime;
 - payments to “Black list” “off-shore” jurisdictions – 15% – the SRS may grant relief.
- 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. Exemption for credit institutions established in the EU/EEA or tax treaty country.
- Tax treaties with 52 countries.
- Transfer pricing (TP) methods in use: comparable uncontrolled price, resale price, cost-plus, 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); advance pricing agreements also possible for transactions over LVL 1 million per annum (for a charge of LVL 5,000 (approx EUR 7,114)).
- Gains from disposal of fixed assets are not taxable if the assets are substituted by similar new ones within 12 months.
- Liberal participation exemption for inbound dividends (no particular shareholding required).

VALUE ADDED TAX (VAT)

- Standard rate – 21%; reduced – 12%.
- Registration threshold LVL 35,000 (approx EUR 49,800).

PROPERTY TAX (PT)

- Municipality may set rate(s) between 0.2%-3% of the cadastral value of land and buildings. If the municipality does not use the discretion to set a particular rate, a default rate – 1.5%.
- Residential property is 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, unless the municipality has set a different rate.

INCENTIVES TO INVEST

- No CIT payable up to 25% of the amount invested (minimum – LVL 3 million (approx EUR 4.3 million)) in specified industries. The incentive must be applied for and granted in 2013, investments must be made in 5 years as of acceptance by the government, and tax savings must be claimed within 16 years.
- In Special Economic Zones or Free Ports, tax rebates can be obtained (after investing in production for exports) on: property tax (80%-100%), CIT (80%), VAT (0%).
- A special tonnage tax for Latvian shipping companies and tax reliefs for sailors.

REAL ESTATE TRANSFER DUTY

- 2%, capped at LVL 30,000 (approx EUR 42,900). 1%, if invested in share capital, capped at LVL 1,000 (approx EUR 1,430). No duty in case of reorganisation. No material notary fees.

PERSONAL INCOME TAX

- General flat rate of 24% also includes the self-employed (as of 2014 – 22%, as of 2015 – 20%). A 10% tax now applies to dividends, interest and rental income and 15% – to capital gains.
- Stock option exemption scheme introduced as of 2013.

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 million (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 2013), as well as on books, periodical and non-periodical press and passenger transportation (on scheduled routes) services, which apply indefinitely. Reduced rate of 5% applies to fully or partially compensated pharmaceuticals and means of medical aid (applies until 31 December 2013), as well as on technical assistance equipment for disabled individuals, which applies indefinitely.
- General VAT payer registration threshold – LTL 155,000 (approx EUR 45,000).

PROPERTY TAX (PT)

- Land tax: 0.01%-4% of the market value of the land. Exact rate(s) of land tax are established by municipalities.
- Real estate tax (on real estate other than land): 0.3%-3% of the market value of real estate. Exact real estate tax rate(s) are established by municipalities. 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: debt-to-equity ratio 1:3.

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.
- China-Belarus Industrial Park. Residents – a wide range of tax benefits.
- 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%, 3% or 5%.

PERSONAL INCOME TAX

- General flat rate – 12% (including dividends).
- Other rates apply to specific income: 15% on income from entrepreneurial, 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, focusing on the new Baltic holding opportunities;
 - permanent establishment risks;
 - input VAT deductibility optimisation;
 - special economic zones and free ports;
- tax and customs disputes at all levels;
- tax due diligence and local tax compliance reviews.

Cooperation partner of WTS

Member of Transfer Pricing Associates Global

See Twitter for weekly tax updates in the region: twitter.com/Sorainen_tax

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