



SORAINEN

EUROPEAN LAW FIRM OF THE YEAR  
Awarded by The Lawyer

# INVESTMENT CARD

Doing business in the Baltics and Belarus –  
a snapshot of the most relevant commercial terms

Effective 1 September 2016



Indicator	Estonia	Latvia	Lithuania	Belarus <sup>1</sup>
<b>Ease of doing business (World Bank Report 2016 ranking)</b>	16	22	20	44
<b>Registering property (World Bank Report 2016 ranking)</b>	4	23	2	7
<b>Enforcing Contracts (World Bank Report 2016 ranking)</b>	11	25	3	29
<b>Establishment term</b>	From 1 business day online with an ID card	From 1 business day	From 3 business days	From 1 business day
<b>Minimum share capital (for private limited liability companies)</b>	EUR 2,500 Natural persons can register a company without paying up share capital	EUR 2,800	EUR 2,500	No requirements
<b>Residence requirements for management/shareholders</b>	No citizenship or residence requirements	No citizenship or residence requirements	No citizenship or residence requirements	No citizenship or residence requirements
<b>Minimum gross monthly salary</b>	EUR 430	EUR 370 (may be raised to EUR 380 as of 1 January 2017)	EUR 380	EUR 110
<b>Average gross monthly salary</b>	EUR 1,163	EUR 838	EUR 770	EUR 340
<b>Corporate income tax</b>	0% on retained or reinvested earnings/20% postponed to payment of dividends	15% (9% reduced rate for companies and individuals obtaining "micro-enterprise" status)	15% (5% reduced rate)	18% (with exceptions)
<b>Taxation treaties with</b>	56 countries	58 countries	53 countries	67 countries <sup>1</sup>
<b>Incentives available</b>	Yes	Yes	Yes	Yes

<sup>1</sup> <http://www.nalog.gov.by/uploads/documents/Stranitsy-iz-NB-45-04-12-2015-2.pdf>

<sup>2</sup> <http://www.nalog.gov.by/ru/podtverjdenie-nalogovogo-rezidentstva-ru/>

## ESTONIA

### Why Estonia

- Ranks 16 out of 189 economies in overall ease of doing business (World Bank *Doing Business 2016* report).
- Ranks 3<sup>rd</sup> in Europe and 9<sup>th</sup> in the world in 2016 Index of Economic Freedom Study by Heritage Foundation.
- Politically stable modern market-based economy.
- Good location and connections to the whole Baltic Sea region and between East and West.
- Front-runner in IT and communications technology solutions.
- Highly skilled labour force – 39.1% with higher education (Statistics Estonia 2016).
- Offers competitive cost structure for a company.
- Little bureaucracy and no discrimination between local and foreign investments.
- Most transactions and bureaucracy can be done electronically by ID card.
- Electronic ID, digital signature and access to e-government resources available for eligible non-residents.

### Estonia can offer

#### Corporate laws

- Registering a company online with an ID card in a matter of minutes.
- Minimum share capital EUR 2,500.
- Natural persons can register a company without paying in share capital.
- Only one management board member required; no citizenship or residence requirements.
- Corporate changes can be registered and annual reports filed online.
- Meetings can be held via e-mail or letter.

#### Employment regulation

- Wide freedom of contract.
- Termination notice period (for economic reasons) 15 days to 3 months; only one month's average salary as compensation.
- Minimum salary – EUR 430.
- Average gross monthly salary (estimate for 2016) – EUR 1,163.
- Few trade unions.
- Favourable immigration regulation for hiring qualified non-EU nationals and for intra-group transfers of foreign employees.

#### Tax system

- 0% corporate income tax (CIT) on retained or reinvested earnings for resident companies.
- 20% CIT deferred until dividend payments are actually made.
- Dividends, interest and royalties not subject to withholding tax.
- No traditional thin capitalisation rules.
- Value added tax (VAT) – 20%; reduced rate – 9%.
- Personal income tax rate – 20%, including capital gains.
- Income tax free minimum salary EUR 170 monthly.
- Social security contributions: employer pays social tax of 33% from gross salary. Employer pays unemployment contribution of 0.8% and withholds employee's unemployment contribution of 1.6% from gross salary.
- Online tax declarations and communication with the tax board.
- Easy to claim VAT refunds.

#### Investment incentives

- Treaties for avoidance of double taxation with 56 countries.
- The Estonian cost level is significantly lower than that of neighbouring Scandinavian countries.
- Buildings are not subject to real estate tax (only land is).
- Resident companies can apply for grants from EU structural funds.
- Estonia offers e-Residency — a transnational digital identity available to anyone in the world interested in managing a location-independent business online, which also allows establishing or administering a company online.
- Among leading countries in Central Eastern Europe in terms of foreign direct investment attracted *per capita*.



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## LATVIA

### Why Latvia

- Ranks 22 (out of 189 economies) in overall ease of doing business (World Bank *Doing Business 2016* report).
- Predictable legal and regulatory environment.
- Prime geographical location and developed port and railroad infrastructure – crossroads between North, East and West.
- Available financial incentives mainly as tax deductions and subsidies.
- Favourable environment for running service centres for foreign businesses.
- Temporary residence permits for financial investment, investment in real estate or investment in company share capital.

### Latvia can offer

#### Corporate laws

- No residence requirements for the management board.
- Supervisory board mandatory only for public limited liability companies.
- One-person management board sufficient.
- Minimum share capital – EUR 2,800.
- No restrictions on shareholder's nationality or residence.
- Most establishment steps can be done under a power of attorney.

#### Employment regulation

- Skilled workforce speaking at least one foreign language.
- Possibility to apply flexible work-time organisation forms (eg aggregated working time).
- Social security system is run by the state and removes costs from the employer.
- Low trade union membership rate in private sector.
- Minimum salary – EUR 370 (may be raised to EUR 380 as of 1 January 2017).
- Average gross monthly work remuneration – EUR 838.
- Favourable immigration regulation for hiring qualified non-European Union nationals (including EU Blue Card system) and for intra-group transfers of foreign employees.

#### Tax system

- One of the lowest rates of corporate income tax (15%) in the EU, capital gains on sale of shares exempt from corporate income taxes.
- Standard personal income tax rate – 23%.
- Standard value added tax rate – 21% (12% reduced rate).
- Social security contributions: employee rate – 10.5% of gross salary, employer rate – 23.59% on top of gross salary.
- Social security contributions not payable for salary over EUR 48,600 threshold annually (may change as of 1 January 2017).
- Salary over EUR 48,600 is subject to solidarity tax: employee rate – 10.5% of gross salary, employer rate – 23.59% on top of gross salary.
- Unlimited carry forward of tax losses.
- Binding advance tax rulings and advance pricing agreements available.
- Holding regime – no withholding tax on interest and royalties and participation exemption for withholding taxes on dividends (except payments to black-listed jurisdictions).
- Triple deduction of research and development (R&D) costs of qualifying projects for corporate income tax purposes.
- Online tax reporting.

#### Investment incentives

- Tax and other benefits for businesses within special economic zones.
- Corporate income tax rebates for investment projects exceeding EUR 10 million.
- Credit guarantees of up to EUR 1.5 million.
- Five state aid programmes to improve competitiveness, to support start-ups and growth.
- Subordinate or mezzanine loans for up to EUR 5 million for ordinary, developing companies.
- Funding for research and development (R&D) incentives.
- Possible land tax reduction from municipalities.



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## LITHUANIA

### Why Lithuania

- Ranks 20 (out of 189 economies) in overall ease of doing business (World Bank *Doing Business 2016* report).
- One of the most cost-effective countries in Europe.
- Fastest productivity growth in the EU 2005-2013 (Eurostat).
- 6<sup>th</sup> in Europe and 13<sup>th</sup> in the world by 2016 Index of Economic Freedom Study by Heritage Foundation.
- Predictable and non-discriminatory legal and regulatory environment.
- Highly educated talent pool – 90% of population has secondary or higher education and speaks at least one foreign language.
- Prime geographical location – crossroads between North, East and West.
- Developed infrastructure – Lithuania has the best regional road network.
- Leading broadband speed in the EU and top 7 globally, 3<sup>rd</sup> most affordable internet in the EU.
- Available financial incentives mainly as tax deductions and subsidies.

### Lithuania can offer

#### Corporate laws

- No residence requirements for management.
- One-person management sufficient; formation of board optional.
- Minimum share capital – EUR 2,500.
- No restrictions on shareholder nationality or residence.
- Most establishment steps can be done under a power of attorney.

#### Employment regulation

- Flexible rules for overtime work.
- Cost-efficient approach towards working time rules and compensation that the employer must pay for failure to pay salary on time.
- Social security system is run by the State and removes costs from the employer.
- Collective action rare; statutory regulation and court practice limit strike possibilities.
- Minimum salary – EUR 380.
- Average gross monthly salary – approx EUR 770.
- Favourable immigration regulation for hiring qualified non-EU nationals by using EU Blue Card system and for intra-group transfers of foreign employees.
- Undergoing liberalisation of labour laws.

#### Tax system

- Among the lowest corporate income tax rates (15%) in the EU (5% reduced rate in some cases).
- Standard personal income tax rate – 15%.
- Value added tax (VAT) rate – 21%.
- Social security contributions: employee rate – 3% withheld from gross salary; for employer – 27.98% on top of gross salary.
- Compulsory health insurance contributions: employee rate – 6% withheld from gross salary; for employer – 3% on top of gross salary.
- Participation exemption for withholding taxes on dividends.
- Unlimited carry forward of losses.
- Intra-group transfer of losses permitted.
- Binding advance tax rulings and advance pricing agreements available.

#### Investment incentives

- Corporate income tax and real estate tax exemption in free economic zones.
- Financial incentives for high value-added projects.
- Compensation of training and employment costs.
- R&D costs deducted three times.
- Possible land lease reduction and land tax exemption from municipalities.



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## BELARUS

### Why Belarus

- Ranks 44 (out of 189 economies) in overall ease of doing business rating (World Bank *Doing Business 2016* report).
- Member of the Eurasian Economic Union (and part of the Eurasian Customs Union (EACU)) – free access to markets in Russia, Kazakhstan, Armenia and Kyrgyzstan.
- Favourable geographical location – crossroads between North and South, East and West.
- Highly educated labour force – 90% of population has secondary or higher education.
- Developed infrastructure, including road and rail networks.
- Available investment incentives, mainly as tax and customs exemptions.
- Free niches available in many market segments compared to other countries in the region.
- A wide choice of investment instruments, including public-private partnership.

### Belarus can offer

#### Corporate laws

- Company registration takes 1 day; all establishment steps can be done under a power of attorney.
- No minimum share capital requirement for a limited liability company. Low minimum share capital requirements for other types of company<sup>3</sup>.
- Formation of share capital after company establishment.

#### Employment regulation

- Limited grounds for termination of employment contract at employee's initiative.
- Flexible rules for overtime work.
- Moderately priced labour force (minimum salary – approx EUR 110<sup>4</sup>; average monthly salary – approx EUR 340<sup>5</sup>).
- Comparatively low costs and flexible procedures in case of staff reduction.

#### Tax system

- Active reforms in taxation system resulting in lower administrative and overall tax burden.
- Low corporate income tax rate – 18% (with exceptions, eg 25% for banks and insurance companies).
- Low flat personal income tax rate – 13%.
- Value added tax (VAT) rate – 20% (reduced rates applicable).
- Social security contributions: for employee – 1% of gross salary; for employer – 34% on top of gross salary.
- Carry-forward of losses for 10 years possible.
- Agreements on avoidance of double taxation with 67 countries.

#### Investment incentives

- Preferential tax and customs regime in 6 free economic zones, rural areas and small towns, High Technology Park and China-Belarus Industrial Park.
- Exemptions from corporate income tax (during the first 5-10 years) and real estate tax for companies operating in rural areas, registered in free economic zones or residents of China-Belarus Industrial Park.
- Exemption from corporate income tax, VAT and other taxes and duties for company residents of High Technology Park.
- Simplified taxation system available to companies meeting requirements related to number of personnel and amount of gross revenue.

<sup>3</sup> 100 basic units for closed joint-stock companies and 400 basic units for open joint-stock companies

<sup>4</sup> As of 1 September 2016.

<sup>5</sup> As of 1 September 2016.



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## Our services

Sorainen offers full legal and tax advice for entering the Estonian, Latvian, Lithuanian and Belarus markets, including:

- selecting corporate and tax structure;
- setting-up a company/branch/representative office;
- corporate secretary services;
- advising on employment and regulatory issues;
- obtaining blue cards, residence and work permits;
- advising on legal requirements related to application for incentives;
- other legal and tax support.

## Our experience

 <p>Full advice in relation to setting up a global technology centre in Vilnius (corporate and tax matters), including investment incentive matters and Investment Agreement – the first after many years in Lithuania.</p>	 <p>Full advice in relation to setting up an international shared service centre in Vilnius (corporate and tax matters), including investment incentive matters.</p>	 <p>Full advice in relation to setting-up a new technology and business support competence centre in Vilnius.</p>
 <p>Advice on converting a regulated investment firm into an Estonian commercial bank and passporting elsewhere in the Baltics.</p>	 <p>Advice on setting up a local subsidiary in Estonia and providing current legal advice on aspects of corporate law, procurement law and others.</p>	 <p>Advice on setting up a branch in Estonia for company business activities in construction of a 300MW CFB boiler and providing legal advice on employment, taxation and other related matters.</p>
 <p>Continuous support in expanding its business in the Baltics.</p>	 <p>Advice on setting up companies in Latvia and Lithuania and providing legal advice on all related legal matters.</p>	 <p>Advice on setting up companies in the Baltics and providing legal advice on all related legal matters.</p>
 <p>Assistance on setting up Baltic entities and providing continuous legal advice to group entities throughout the Baltics.</p>	 <p>Advice on Investment Agreement with the Republic of Belarus on Minsk World, a landmark development project in Minsk..</p>	 <p>Advice on Investment Agreement with the Republic of Belarus supporting a manufacturing joint venture.</p>



# SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS

## Who we are

- Leading fully integrated regional law firm in Estonia, Latvia, Lithuania and Belarus.
- Established in 1995, today Sorainen numbers more than 170 lawyers and tax advisers.
- Regional know-how and quality management system, the first to be ISO-certified among Baltic and Belarus law firms.
- 10 integrated regional teams covering all areas of business law and 6 regional sector groups.
- Experience from over 55,000 transactions.

## Our awards



The head of the Sorainen Investment Incentives Practice is Algirdas Pekšys.  
Local heads of the Sorainen Investment Incentives Practice are:

### ESTONIA

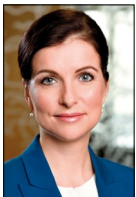


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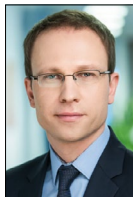


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