



SORAINEN

BALTIC TAX FIRM OF THE YEAR

Awarded by:

International Tax Review (2014, 2012, 2011, 2010)

TAXES IN NUTSHELL 2015

for Estonia, Latvia, Lithuania and Belarus

Effective 1 March 2015



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 20% 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 20% 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, i.e. substantial debt financing at market rate interest is tax neutral.
- Taxation treaties with 56 countries.
- Transfer pricing 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

- Rate of land tax 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 20%, including capital gains.
- Tax deductions allowed for interest related to acquisition of personal residence.
- Dividends received from an Estonian company do not attract personal income tax.

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.

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 5 years for intentional tax avoidance.

ADVANCE (BINDING) RULINGS POSSIBLE EXCEPT FOR PRICES IN TRANSFER PRICING

- Fee for companies – EUR 1,180.
- Fee for individuals – EUR 300.



LATVIA

CORPORATE INCOME TAX (CIT)

- Flat rate – 15%. Reduced rate on turnover applies to registered micro-enterprises (for income below EUR 7,000 – 9%, for income from EUR 7,000.01 to EUR 100,000 – 11%) instead of CIT and payroll taxes to employees.
- **Capital gains on sale of shares in subsidiaries are exempt.**
- Carry forward of losses for an unlimited period.
- 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”;
 - royalties – 0% to any jurisdiction except “off-shores”;
 - 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% to 30% – for certain payments the State Revenue Service may grant relief.
- Thin capitalisation rules: debt-to-equity ratio of 1:4 or 1.57 times short-term interest rate as provided by the Bank of Latvia; the “less favourable” of the two criteria applies. Exemption for credit institutions established in the EU/EEA or tax treaty country.
- Tax treaties with 57 countries.
- Transfer pricing methods in use: comparable uncontrolled price, resale price, cost-plus, transactional net margin method and profit split method. Threshold when transfer pricing documentation is mandatory: turnover over EUR 1.43 million and transaction with a related party – over EUR 14,300; advance pricing agreements also possible for transactions over EUR 1.43 million per annum (for a charge of 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 and EU/EEA dividends (no particular shareholding required).

VALUE ADDED TAX (VAT)

- Standard rate – 21%; reduced – 12%.
- Registration threshold EUR 50,000.

PROPERTY TAX

- 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 EUR 56,915, 0.4% – for cadastral value from EUR 56,915 to EUR 106,715, and 0.6% – for cadastral value exceeding EUR 106,715, unless the municipality has set a different rate.

INCENTIVES TO INVEST

- **No CIT payable up to 25% of the amount invested (minimum investment – EUR 10 million) in specified industries. The incentive must be applied for and granted by 2020, 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% of the cadastral value of real estate. 1%, if invested in share capital. No duty in case of reorganisation. No material notary fees.

PERSONAL INCOME TAX

- General flat rate of 23% also includes the self-employed.
- A 10% tax 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: 10.5% of gross salary; employer rate 23.59% on top of gross salary. Annual salary exceeding EUR 48,600 is not subject to social security contributions.

NATURAL RESOURCES TAX: Imposed on use of natural resources, pollution, and use of packaging materials.

TAX AUDITS: Can be performed normally going back 3 years, except for transfer pricing – 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 EUR 300,000), 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).
- Losses carried forward cannot exceed 70% of an entity's profit received during a fiscal year. This restriction does not apply to legal entities entitled to apply the reduced corporate tax rate of 5%.
- 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 a 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 56 countries.
- Transfer pricing 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 residential premises (applies until 1 July 2015), as well as on books, periodical and non-periodical press and passenger transportation (on scheduled routes) services, which apply indefinitely. A reduced rate of 9% is also applicable as of 1 January 2015 to accommodation at hotels and other special accommodation services. Reduced rate of 5% applies to fully or partially compensated pharmaceuticals and means of medical aid, as well as on technical assistance equipment for disabled individuals, which applies indefinitely.
- General VAT payer registration threshold – EUR 45,000.

PROPERTY TAX

- Land tax: 0.01-4% of the market value of the land. Exact rate(s) of land tax are set 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 set by municipalities. Individuals owning residential real estate with a total value exceeding EUR 220,000 (or exceeding EUR 286,000, if individuals raise three or more children or a disabled child) are taxed at 0.5% 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 EUR 28.96 and no more than EUR 5,792.40 or EUR 14,481 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 15%.

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 transfer pricing agreements available at no charge.

BELARUS

CORPORATE INCOME TAX (CIT)

- General flat rate – 18%; dividends – 12%; banks and insurance companies – 25%.
- Withholding taxes on income of foreign residents from Belarusian sources: dividends and income from sale of shares – 12%; royalties – 15%; interest – 10%; freight forwarding services – 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 (direct or indirect sum-of-years' digits or declining balance method) or productive method.
- Taxation treaties in force with 62 countries.
- Transfer pricing methods in use: comparable uncontrolled price, resale price, cost plus, transactional net margin profit (the last three are supplementary methods).
- Thin capitalisation rules: debt-to-equity ratio 1:3 (1:1 – for Belarusian companies which produce excisable goods).

VALUE ADDED TAX (VAT)

- Standard rate – 20%. Reduced rates – 0%, 10%, 9.09%, 16.67%.
- No special registration for VAT purposes.
- Delay for 90 days in VAT recovery for goods imported from non-Eurasian Economic Union countries and sold without any change.

PROPERTY TAX

- Land tax: by default, 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).
- Local Councils of Deputies may increase or decrease the tax rate for certain categories of taxpayers but by no more than two and a half times.

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. 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 VAT payment, tax rates are: 3% or 5%.

PERSONAL INCOME TAX

- General flat rate – 13% (including dividends).
- Other rates apply to specific income: 16% on income from entrepreneurial, private notarial and advocacy activities; 9% on income received from High Technology Park residents under labour agreements.

SOCIAL SECURITY CONTRIBUTIONS

- Employee rate is 1% of gross salary; for employer – generally 34% 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 to the customs territory of the Eurasian Economic Union; 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 years.

ADVANCE (BINDING) RULINGS NOT POSSIBLE

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

- tax and customs advice and optimisation:
 - advance 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.

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