

Investment Card

Doing business in the Baltics –
a snapshot of the most relevant
commercial conditions

As of
1 January 2022

SORAINEN



Indicator	Estonia	Latvia	Lithuania
Competitiveness and neutrality of tax system (International Tax Competitiveness Index 2021 ¹ ranking)	1 st	2 nd	6 th
Corruption rate in the public sector (Corruption Perception Index 2021 ² ranking)	13 th	36 th	34 th
Preparedness to prevent cyber threats and manage cyber incidents (Global Cybersecurity Index 2021 ³ ranking)	3 rd	15 th	6 th
Economic freedom (2022 Index of Economic Freedom Study ⁴ ranking)	7 th worldwide and 4 th in Europe	18 th worldwide and 13 th in Europe	17 th worldwide and 12 th in Europe
Time taken to register company	From 1 business day online with ID card	From 1 business day	From 3 business days
Minimum share capital (private limited liability companies)	EUR 2,500 Not required to be paid in establishment if all founders are natural persons and the share capital does not exceed EUR 25,000.	EUR 2,800	EUR 2,500
Residence/citizenship requirements for management/ shareholders	None	None	None
Minimum gross monthly salary	EUR 654	EUR 500	EUR 730
Average gross monthly salary (estimate)	EUR 1,593	EUR 1,297	EUR 1,504
Corporate income tax	0% on retained or reinvested earnings/20% postponed to payment of dividends	0% on retained or reinvested earnings/20% postponed to payment of dividends	15% (5% reduced rate)
Taxation treaties with	62 countries	64 countries	58 countries
Currency	Euro	Euro	Euro
Incentives available	Yes	Yes	Yes

¹ <https://taxfoundation.org/2021-international-tax-competitiveness-index/>

² <https://www.transparency.org/en/cpi/2021>

³ <https://www.itu.int/en/publications/ITU-D/pages/publications.aspx?parent=D-STR-GCI.01-2021&media=electronic>

⁴ <https://www.heritage.org/index/ranking>



Estonia

Why Estonia?

- Estonia is the knowledge-economy leader out of all the EBRD regions and a leading country for international cyber-security
- Ranks 7th best country in Europe for startups in 2022 (Statista **study** based on StartupBlink data⁵)
- Politically stable modern market-based economy
- Predictable legal and regulatory environment
- Minimal bureaucracy and no discrimination between local and foreign investment
- Good location and connections to the whole Baltic Sea region and between East and West
- Some of the cleanest air in the world, with almost 50% of its territory covered by forests
- Front-runner in IT and communications technology solutions
- Highly skilled labour force – 41% with higher education (**2021 census**⁶).
- Competitive company cost structure
- Electronic ID, e-residency solutions for foreign citizens, digital signature and access to e-government resources for eligible non-residents
- Most transactions and administration can be done electronically by ID card

Estonia can offer

Corporate laws

- Estonian companies can be registered, established, and administered (e.g. filing annual reports, registering corporate changes) entirely online on the Estonian Company Registration Portal without having to go to a notary or any other official, if the persons signing the required documents possess an e-Residency card or ID card
- Cost of running a business in Estonia is far lower than in the neighbouring Scandinavian countries
- Monetary contributions to a company can be made via a payment account with a credit or payment institution founded in any EEA state
- Natural persons can register a company without paying in share capital
- Only one management board member required
- Supervisory board is mandatory only for public limited liability companies
- Meetings can be held via e-mail, letter, or virtually by using e-solutions
- Share transfers may be carried out either in notarised form or without any formal requirements, if certain additional criteria are met

⁵ <https://www.statista.com/statistics/1274933/top-countries-for-startups-in-europe/#:~:text=In%202022%2C%20according%20to%20data,Sweden%2C%20Germany%2C%20and%20France.>

⁶ <https://rahvaloendus.ee/en/results/education>

Employment regulation

- Simple and straightforward labour legislation
- Highly skilled workforce – 92% of adults speak at least one foreign language (Statistics Estonia 2020)
- Wide freedom of contract
- Few trade unions or collective agreements
- Favourable immigration regulations for startups for hiring qualified non-EU nationals and intra-group transfers of foreign employees
- Low costs for redundancy (compensation up to one month's average wages), and 15 days to three months' notice of termination
- High social security and good public support system for unemployment and redundancy

Tax system

- Dividends, interest and royalties not subject to withholding tax
- Buildings not subject to real estate tax (only land is)
- Value-added tax (VAT) – 20%; reduced rate – 9%
- Personal income tax rate – 20%, including capital gains
- Resident companies pay CIT deferred to actual distribution of profits
- Reduced CIT rate 14% on regular dividend payments
- Social security contributions: employer pays social tax (33% of gross salary) plus unemployment contribution (0.8%) and withholding of employee's unemployment contribution (1.6% of gross salary)
- Online tax declarations and communication with the tax board
- Easy to claim VAT refunds



Estonia

Investment incentives

- Among the leading countries in Central/Eastern Europe in terms of foreign direct investment per capita
- Resident companies can apply for grants from EU structural funds
- Wide range of national grants available in order to support competitiveness and innovation – e.g. a foreign recruitment grant to support recruitment of foreign information and communication technology or science and engineering specialists
- Estonia offers e-Residency — a transnational digital identity available worldwide for managing a location-independent business, as well as company formation and administration online
- Favourable migration policy for startups – the employees of startups are exempt from the applicable national migration quota
- Estonia offers the Startup Visa programme, allowing non-EU nationals to come and work for Estonian startups, relocate existing startups or establish new ones in Estonia without having to fulfil various requirements in force for acquiring a residence permit. The visa can also be issued to an applicant's close family members under the same favourable conditions.



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Latvia

Why Latvia?

- Predictable legal and regulatory environment
- Prime geographical location and developed port and railroad infrastructure – crossroads between North, East and West
- Capital of Latvia: Riga – a key business hub with excellent air connectivity
- Financial incentives available, mainly as subsidies
- Favourable environment for running service centres for foreign businesses
- Temporary residence permits⁷ for financial investment, investment in real estate or in company share capital, and special temporary residence permit for establishing startups

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
- Most establishment steps can be done under a power of attorney

Employment regulation

- Highly skilled workforce speaking at least one foreign language
- Possibility to apply flexible work-time organisation forms (e.g. 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
- Favourable immigration regulation for hiring qualified non-EU nationals (including EU Blue Card system) and for intra-group transfers of foreign employees

Tax system

- Corporate income tax 0% on retained or reinvested earnings/20% postponed to payment of dividends
- Dividends received by a Latvian company can be distributed without further tax liability (except dividends from blacklisted jurisdictions)
- Dividend income is tax-exempt at the natural person level
- Progressive personal income tax rates – 20%, 23% and 31%
- Standard value added tax rate – 21% (12% and 5% reduced rates)
- Social security contributions: employee rate – 10.5% of gross salary, employer rate – 23.59% on top of gross salary
- Social security contributions not payable on salary over EUR 78,100 threshold annually
- Salary over EUR 78,100 is subject to solidarity tax of 25%

⁷ These regulations do not apply to citizens of Russia or Belarus.

- Binding advance tax rulings and advance pricing agreements available. Binding advance rulings possible at no charge.
- Holding regime – no withholding tax on interest and royalties and participation exemption for withholding taxes on dividends (except payments to blacklisted jurisdictions)
- Online tax reporting

Investment incentives

- Tax and other benefits for businesses within special economic zones and free ports.
- Special measures and tax framework available for developing startups.
- Credit guarantees of up to EUR 5 million, depending on the size of the company, available in certain state-supported sectors for up to 80% of the principal amount of financing.⁸
- State aid programmes to improve competitiveness, to support startups and growth.
- Subordinate or mezzanine loans up to EUR 5 million, subject to restrictions regarding the business sector and financial situation.⁹
- ES Funding available in certain state-supported sectors.¹⁰
- Possible land tax reduction from municipalities

⁸ <https://www.altum.lv/en/services/enterprises/export-credit-guarantees/> and <https://www.altum.lv/en/services/enterprises/credit-guarantees/>

⁹ <https://www.altum.lv/en/services/enterprises/mezzanine-loan/>

¹⁰ <https://www.esfondi.lv/es-fondi-2021---2027>



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Lithuania

Why Lithuania?

- One of the most cost-effective countries in Europe
- 12th in Europe and 17th worldwide in 2022 Index of Economic Freedom Study (Heritage Foundation)
- Predictable and non-discriminatory legal and regulatory environment
- Highly educated talent pool – 1st for Mathematics, Technology, and Science graduates in EU; 4th highest in the EU for the share of young adults (25-34 years) with tertiary education: 57.5%; proficiency in English 80% among young professionals
- Lithuania has the highest ratio of young people in Central/Eastern Europe
- Prime geographical location – crossroads between North, East and West.
- Developed infrastructure – Lithuania offers the best regional road network.
- Leading broadband internet speed in the EU and 37th globally; 1st globally for public WiFi speed.
- Available financial incentives mainly as tax deductions and subsidies.

Lithuania can offer

Corporate laws

- Lithuanian companies can be registered, established and administered (e.g. filing annual reports, registering corporate changes) entirely online on the self-service system of the Centre of Registers, without having to go to a notary or any other official, if the persons signing the required documents possess a qualified electronic signature
- Establishment process is fast and most of the steps involved can be handled by a simple power of attorney (without personal presence required)
- Cost of running a business in Lithuania is far lower than in the neighbouring Scandinavian countries
- Share capital formation takes up to 1-2 business days
- Meetings can be held via e-mail, letter, or virtually by using e-solutions
- No residence requirements for management
- One-person management sufficient; formation of board optional
- Supervisory board is mandatory only for public limited liability companies
- Share transfers may be done either in notarised form, or without any formal requirements if securities accounting is transferred to professionals

Employment regulation

- Flexible employment regulation, reasonable dismissal costs, various options for fixed-term contracts, flexible rules for overtime work
- Cost-efficient approach to working time rules
- Social security system run by the state
- Collective action rare; statutory regulation limits strike possibilities
- Favourable immigration regulation for hiring qualified non-EU nationals, especially by using the EU Blue Card system and for intra-group transfers of foreign employees

Tax system

- Personal income tax rates:
 - A flat 15% rate applies to dividends and income from individual activities (the taxable income from individual activities not exceeding EUR 20,000 per year is taxed at a rate of 5%. Taxable income from EUR 20,000 to EUR 35,000 is taxed by applying the PIT credit formula, and is taxed at a progressively increasing rate (until the 15% PIT rate is reached). Taxable income exceeding EUR 35,000 is subject to a 15% PIT rate
 - progressive 15%/20% rate applies to annual income not relating to employment or substantially equivalent relations
 - progressive 20%/32% rate applies to annual income from employment or substantially equivalent relations
- Social security contributions: employee rate – 12.52% (and an additional 2.7% or 3% in cases where the person has chosen to accrue additional contributions in respect of pension) withheld from gross salary; for employers – 1.77% (including payments to the Long-term Employment Benefit Fund and Guarantee Fund) on top of gross salary. An additional 0.72% is levied by the employer on top of the gross salary paid under fixed-term employment contracts. Social security contributions are subject to a ceiling.
- Compulsory health insurance contributions apply to employees only at a rate of 6.98% withheld from the gross salary
- Threshold from which the higher rate of personal income tax starts to apply, and ceiling from which no social security contributions are levied are as follows:
 - 60 state average monthly salaries as of 2022 (EUR 90,246 in 2022). The amount is determined by the Lithuanian Parliament on an annual basis)
- Value-added tax (VAT) rate – 21%
- Participation exemption for withholding taxes on dividends
- Unlimited carry-forward of losses
- Intra-group transfer of losses permitted
- Advance binding tax rulings and advance pricing agreements available



Lithuania

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
- Three times of R&D costs could be deducted
- Possible land lease reduction and land tax exemption from municipalities



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Our services

Our services

Many of the clients we've worked with over the years have been foreign investors and international corporations operating in the region, or their subsidiaries, meaning that we have accumulated vast experience in assisting foreign investors in the Baltics.

We can help you with:

- Selecting the right corporate and tax structure for your investment project and operations
- Advice on the business environment and regulatory requirements
- Setting up a corporate entity and advice on its location (special economic zones, industrial parks, free ports)
- Advice on available foreign investment support schemes and investment incentives
- Negotiating incentive packages and investment agreements with governmental authorities
- Bringing employees from abroad (residence and work permits)
- Office lease and construction of facilities for your investment project

Selected transaction experience

<p>Avia Solutions Group (ASG)</p> <p>Conducting legal due diligence on the ASG companies in Lithuania, Latvia and Estonia and advice on the acquisition of a stake in ASG by Certares involving a EUR 300 million structured equity investment.</p>	<p>HKScan</p> <p>Advising the Nordic food company on the construction of their new pan-Baltic logistics centre, located in Estonia.</p>
<p>Bolt</p> <p>Advising the fastest-growing mobility platform in the world on raising capital in the three biggest investment rounds in the Baltics to date – EUR 150 million in 2020, EUR 600 million in 2021, and EUR 628 million in 2022.</p>	<p>Veriff</p> <p>Advising the global identity verification service company founded and headquartered in Estonia on raising USD 100 million in Series C funding round.</p>
<p>Ignitis Group</p> <p>Advising the state-owned energy company Ignitis Group on entering the Latvian renewable energy market.</p>	<p>Ministry of Transport of Latvia</p> <p>Assisting the Ministry to prepare an application to the European Commission to obtain OECD Cape Town discount for the Latvian aviation industry for the acquisition of essential aviation assets.</p>
<p>Pon.Bike</p> <p>Advising on the construction and opening of a new factory which will operate in the 13-ha Kėdainiai Free Economic Zone.</p>	<p>Dexcom</p> <p>Assisting Dexcom in opening global business service centre in Vilnius, Lithuania.</p>