

# Taxes at a Glance\*

## 2009

Albania  
Armenia  
Azerbaijan  
Bosnia and Herzegovina  
Bulgaria  
Croatia  
Czech Republic  
Estonia  
Georgia  
Hungary  
Kazakhstan  
Latvia  
Lithuania  
Macedonia  
Moldova  
Montenegro  
Poland  
Romania  
Russia  
Serbia  
Slovakia  
Slovenia  
Ukraine  
Uzbekistan



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# Preface

Central and Eastern Europe (CEE) represents a market of approximately 350 million people. The region offers attractive business opportunities, with competitive tax regimes and cost-saving planning strategies.

The PricewaterhouseCoopers network of firms has had a presence in the CEE for many years, through which it has gained in-depth knowledge and developed a good understanding of each local culture, business environment and tax system. This is an important asset, which can add value to international businesses already operating or planning to operate in the CEE.

Our CEE International Tax Structuring (ITS) Network comprises 96 specialists, including 13 partners, working together as part of our overall regional practice of 1,914 people, with around 66 partners owning and managing the business.

The CEE ITS Network enables us to assist you better in developing your tax strategies and managing your global tax position.

Taxes at a Glance briefly summarizes the tax systems of the CEE countries. The purpose of this publication is to indicate some key tax parameters and to highlight attractive features of the tax systems from an international tax planning and structuring perspective. We intend to update the publication annually.

# Albania

Capital:	Tirana
Official language:	Albanian
Official currency:	Albanian Lek (ALL)
Population:	3,327,000 (2007)
Area:	28,748 km <sup>2</sup>
GDP growth (%):	6 (2007)
GDP per capita (USD):	3,256 (2007)
Double Tax Treaties:	28*
FDI (USD):	602 million (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



\* In force only 24 treaties

## Highlights – Corporate taxes in Albania

- Local or foreign entities whose annual sales' turnover is under ALL 8 million (EUR 64,000) are not required to register for VAT purposes. These entities are classified as "Small Businesses".
- A foreign entity operating in Albania through a PE for a certain period may choose not to register in Albania. However, the entity's total turnover will be subject to 10% withholding tax.
- An unregistered PE that is subject to VAT in Albania can appoint a tax representative (either a local entity or an individual) to file and pay the VAT in Albania.
- Certain services are exempt from VAT with no credit rights.
- The VAT on machinery and equipment imported by Albanian-registered entities for any type of business activity will be subject to the VAT deferral scheme under which the payment of the VAT is postponed for up to twelve months.
- Foreign employees working in Albania under a foreign employment contract are not subject to the Albanian social security contribution scheme.
- Albanian-registered entities that import certain machinery and equipment (as defined by law) for use in their business activity will be subject to custom duties at the zero rate. This applies to all types of business activity.

# Corporate Taxation

Rate	10%	The following entities, among others, are exempt from tax on profit: <ul style="list-style-type: none"> <li>• Central Bank of Albania;</li> <li>• Foundations or non-bank financial institutions established to support the government's development policies through credit activities; and</li> <li>• Film studios for cinematographic productions that are licensed and founded by the National Cinematographic Centre.</li> </ul>
Thin capitalization (debt:equity ratio)	4:1	Applicable to loans obtained not only from related parties but also from other parties, including banks and other financing institutions.
Tax loss carry forward	3 years	Losses may not be carried forward if more than 25% of direct or indirect ownership of the share capital or voting rights of the entity is sold/transferred during the tax year.
Withholding tax	10%	Withholding tax is levied on interest, royalties, dividends and shares of partnerships' profits paid to non-resident companies, with some exemptions when a Double Tax Treaty is in place.
Special features		Transfer pricing rules apply. No group taxation. There is no Controlled Foreign Company (CFC) legislation.

## Value Added Tax

General rate	20%	All businesses that are not "Small Business".
Reduced rate	N/A	
Refund period	30 days	Only when the VAT credit is above ALL 400,000 for more than three consecutive months.
Special features		The standard VAT period is one calendar month.

## Individual Taxation

Personal Income Tax	10%	If monthly income is ALL 30,000 or less, the first ALL 10,000 is tax exempt.
Mandatory Social Security Contributions	Employer: 21.7%	The minimum and maximum monthly contribution bases are ALL 14,830 and ALL 74,150 respectively.
	Employee: 11.2%	
Special features		Benefits in kind (among other items) are not subject to personal income tax.

## Other Taxes

Property tax		On agriculture land and buildings. The tax rate varies according to the size, location and age of the assets.
Property sales tax		The tax rate varies according to the size, location and purpose of the assets.
Other		Excise tax, customs duties, local taxes, and tax on small businesses.

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Exchange rate: ALL 123.55 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2009.

# Armenia

Capital:	Yerevan
Official language:	Armenian
Official currency:	Dram (AMD)
Population:	3,219,200 (2006)
Area:	29,800 km <sup>2</sup>
GDP growth (%):	13.7 (2007)
GDP per capita (USD):	2,843 (2007)
Double Tax Treaties:	29
FDI (USD):	582 million (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights – Overview of reforms in Armenia

### Tax administration reform

- An initiative is underway to create a more efficient and transparent tax administration.
- The seven goals of the initiative are to:
  - ensure complete, consistent and timely taxation of large taxpayers.
  - establish a low but fair tax burden for small businesses, with minimised reporting and filing requirements.
  - address corruption in the State Tax Services (STS).
  - fully introduce the principle of voluntary compliance (self-assessment), minimising contacts between taxpayers and tax officials; this will include the transition to mail or electronic submission of reports to the tax authorities.
  - introduce risk-based selection of taxpayers for audit.
  - create an efficient management scheme for the STS.
  - create an efficient management of tax administration IT flows.

### Tax changes

- Simplified taxation for qualifying small legal entities with gross turnover not exceeding AMD 50 million (approximately EUR 115,000) was rescinded with effect from 1 January 2009.
- A VAT turnover threshold was introduced. Businesses with annual sales not exceeding AMD 58.35 million (approximately EUR 134,000) will not be subject to VAT in the subsequent year, unless they register voluntarily. However, once sales in the subsequent year exceed AMD 58.35 million, businesses will be required to account for VAT on the excess.
- The VAT turnover threshold does not apply to businesses that require an operating license costing more than AMD 100,000 (approximately EUR 230), or to businesses producing excisable goods.

# Corporate Taxation

Rate	20%	The taxable base for residents is worldwide income; the taxable base for non-residents is Armenian-sourced income.
Thin capitalization (debt:equity ratio)	N/A	No specific rules: the interest rate should be reasonable for deduction purposes.
Tax loss carry forward	5 years	No specific rules.
Withholding tax	5%/10%	5% – Insurance, reinsurance, transportation 10% – Interest, dividends, royalties, rental income, etc.
Special features		N/A

## Value Added Tax      Individual Taxation

General rate	20%	<b>Personal Income Tax</b> Up to AMD 960,000 – 10% of taxable income Over AMD 960,000 – AMD 96,000 plus 20% of the taxable income exceeding AMD 960,000	
Reduced rate	N/A		
Refund period	30 days		
		<b>Mandatory Social Security Contributions</b> Employer: Up to AMD 20,000 – AMD 7,000 flat; AMD 20,000-AMD 100,000 – 15%; Over AMD 100,000 – 5% Employee: 3%	Paid by individual VAT-registered entrepreneurs on annual basis: Up to AMD 1,200,000 – 15%, but not less than AMD 60,000; Over AMD 1,200,000 – AMD 180,000 + 5% of the amount exceeding AMD 1,200,000

## Other Taxes

Property tax	0.2%-1%	The taxable base is the cadastral (i.e. registered) value. Tax exemption applies if the cadastral value of the taxable object is up to AMD 3,000,000.
Land tax	0.5%-1%	The taxable base is the cadastral value. For land plots used for industrial purposes: 1% if located within settlements and 0.5% if located outside settlements.
Other		Some service (e.g. hairdressing, photo services, auto repairs, computer gaming, parking) are subject to presumptive taxes at various fixed rates.

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# Azerbaijan

Capital:	Baku
Official language:	Azerbaijan
Official currency:	Azerbaijan Manat (AZN)
Population:	8,629,900 (Jan. 2008)
Area:	86,100 km <sup>2</sup>
GDP growth (%):	10.8 (2008)
GDP per capita (USD):	5,498.1 (2008)
Double Tax Treaties:	28
FDI (USD):	6,202.2 m (Oct. 2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights – Tax Regimes in Azerbaijan

### Tax Regimes

- Currently, Azerbaijan has three different types of tax regime:
  1. the statutory tax regime;
  2. the Production Sharing Agreement (PSA) tax regime;
  3. Host Government Agreement (HGA) tax regime (for the Baku-Tbilisi-Ceyhan and South Caspian Pipelines).
- Each PSA and HGA contains its own tax regime.
- Generally, the PSA and HGA regimes apply to
  - operating companies;
  - foreign investors functioning as contracting parties;
  - foreign service companies providing services to the above parties.

### PSA Tax Regime

- Currently, there are 28 ratified PSA's (but about half of them are either inactive or have been terminated).
- Each has its own separate taxation regime, e.g.:
  - 0% rate VAT;
  - simpler corporate tax regime.
- PSAs are ratified by the Azerbaijan Parliament and, having the force of law.
- PSAs override statutory legislation if it contradicts or is inconsistent with a PSA's provisions.

Azerbaijan is the member of the Council of Europe.

# Corporate Taxation

Rate	22%	Banks and insurance companies are exempt from profit tax for three years with effect from 1 January 2009.
Thin capitalization (debt:equity ratio)	N/A	
Tax loss carry forward	5 years	No loss carry-back.
Withholding tax	4%-14%	4% – Financial leasing and insurance payments; 6% – Freight income and telecommunication services; 10% – Dividends, interest, other income; 14% – Royalties, rent of movable and immovable property.
Special features		Fair market prices should be applied in transactions between related parties, in import and export operations and in barter transactions.

## Value Added Tax

General rate	18%
Reduced rate	N/A
Refund period	5 years

## Individual Taxation

Personal Income Tax	14% and 35%	35% on income over AZN 24,000 per annum.
Mandatory Social Security Contributions	Employer: 22%	
	Employee: 3%	

## Other Taxes

Property tax	1%	Payable on the annual average residual value of an enterprise's fixed assets (except cars).
Other		Land tax, road tax, mining tax.

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Exchange rate: AZN 1.0658 = EUR 1.00. This is the official rate of the National Bank of Azerbaijan for 28 January 2009.

# Bosnia and Herzegovina

Capital:	Sarajevo
Official language:	Bosnian, Croatian, Serbian
Official currency:	Bosnian Administrative Mark (BAM)
Population:	3,842,762 (estimated in 2006)
Area:	51,129 km <sup>2</sup>
GDP growth (%):	5.5%
GDP per capita (USD):	6,600 (2008 estimate)
Double Tax Treaties:	24
FDI (EUR):	1.083 billion

- EU
- NATO
- OECD
- \* WTO
- IMF
- EBRD



\* Bosnia and Herzegovina is an observer at the WTO

## Highlights – Personal Income Tax

### Personal Income Tax Laws in the Federation of Bosnia and Herzegovina

A new Personal Income Tax Law and amendments to the Law on Social Security Contributions became effective from January 2009 in the Federation of Bosnia and Herzegovina.

The major change is that 5% of wage tax on net salary is replaced by 10% of personal income tax on gross salary. The tax base is the difference between gross salary in one tax period and total deductions which are recognized as costs incurred in the income-generating activity. Monthly personal deductions are: paid contributions from salary (31%), BAM 300 individual deduction, BAM 150 for every supported family member, BAM 150, BAM 210, BAM 270, for the first, second, third and every successive child, respectively, and BAM 90 for every other dependant family member. Interest on mortgage loans, paid life insurance premiums and health care-related expenses are deductible on an annual basis.

Social Security Contributions have been decreased from 43.5% to 41.5% on gross salary.

Personal income tax and contributions have to be calculated and paid with every income payment. Reporting obligations are monthly and annually.

### Personal Income Tax Laws in the Srpska Republic

An amendment to the Law on Personal Income Tax and to the Law on Social Security Contributions were entered into force in 1 January 2009.

The personal income tax rate was amended from 15% and 10% on net salary to 8% on gross salary. The tax base is the difference between total taxable income generated in one tax period and total deductions. Monthly personal deductions are: BAM 300 individual deduction, BAM 90 for every supported family member, and BAM 100 for voluntary pension insurance and interest on mortgage loans.

The Social Security Contributions rate was changed from 42% on net salary to 30.6% on gross salary.

Personal income tax and contributions have to be calculated and paid with every income payment. Reporting obligations are monthly and annually.

# Corporate Taxation

Rate	10%	In both the Federation BiH and the Srpska Republic.
Thin capitalization (debt:equity ratio)	N/A	There are no thin capitalization rules.
Tax loss carry forward	5 years	In both the Federation BiH and the Srpska Republic.
Withholding tax	5%/10%	Interest, royalties, fees for market research, tax advisory services, audit services, and insurance and reinsurance premiums are subject to a final withholding tax in the Federation BiH, and there is 5% withholding tax on dividends. In the Srpska Republic, 10% withholding tax is payable on interest paid to non-residents, revenue paid to foreign legal persons, interest paid on loans to PEs or subsidiaries from their foreign partners, royalties, fees for management, consulting, financial, technical or administrative services. These rates can be reduced to 0% under Double Tax Treaties.
Special features		Tax incentives in the Federation BiH are available to taxpayers in the year in which they are established. Incentives in the form of a CIT exemption are available if over 30% of total income is generated through exports. Also a taxpayer that invests a minimum amount of BAM 20 million over five consecutive years in production in the Federation Bosnia and Herzegovina is also exempted from CIT, but BAM 4 million have to be invested in the first year. Taxpayers can be exempted from corporate income tax for the year in which they employ more than 50% of invalids or people with special needs in the workforce. The Corporate Income Tax law in the Srpska Republic does not offer tax incentives.

## Value Added Tax

General rate	17%	The standard rate is 17%. The VAT regime is valid throughout the Federation BiH and in the Srpska Republic.
Reduced rate	N/A	
Refund period	60 days	30 days for export companies.
Special features		Exported services and goods and the supply of goods and services related to the international transport of goods or passengers are zero-rated.

## Individual Taxation

Personal Income Tax	10%/8%	Personal income tax rate is 10% in the Federation BiH and 8% in the Srpska Republic. Personal Income Tax rates apply on the difference between total taxable income generated in one tax period and total deductions which can be recognized as cost incurred in the income-generating activity.
Mandatory Social Security Contributions	Employer: 10.5% in FBiH 30.6% in RS  Employee: 31% in FBiH	In both entities, base is gross income. In the Srpska Republic, the employer, as the income payer, bears the total cost of contributions. In the Federation BiH, the employer bears contributions of 10.5%, but also has to calculate, withhold and pay the employee's contributions of 31%.
Special features	0.5% tax for disasters protection and 0.5% tax for water protection	These taxes apply in the Federation BiH. The employer has to calculate and pay them on the base of net salary.

## Other Taxes

Local business tax		
Other	3%	In the Srpska Republic, sales tax is 3% of the estimated property value. In the Federation BiH, cantonal laws determine the tax rate according to the value of the immovable property.

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# Bulgaria

Capital:	Sofia
Official language:	Bulgarian
Official currency:	Bulgarian Lev (BGN)
Population:	7,640,238 (2007)
Area:	110,910 km <sup>2</sup>
GDP growth (%):	6.2 (2007)
GDP per capita (EUR):	3,773 (2007)
Double Tax Treaties:	65
FDI (EUR):	6,517 million (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights – Main features of the Bulgarian tax system

In the last decade Bulgaria has gradually reduced its direct tax rates, used VAT as a major tax revenue source, and has increased the average level of tax compliance by improving the administrative practices relating to taxation.

- One of the lowest corporate and personal income tax rates in Europe (10%).
- Reasonable definition of “taxable profit” – genuine business expenses are normally tax-deductible.
- Compliance with EU and OECD requirements against harmful tax practices.
- Transition to substance-over-form tax practices. Trend towards more efficient administration of taxes.
- Exemption from corporate income tax for production activities in high unemployment regions.
- Special preferential VAT regime for imports of non-excisable goods related to large investment projects.
- Dividends distributed by Bulgarian companies to entities resident in EU Member States and the EEA are not subject to withholding tax.
- Opportunities for tax efficient mergers and other company reorganisations in accordance with EU tax legislation.
- Special purpose investment companies, UCITS and closed-end investment companies are exempt from corporate tax.
- Income gained from transactions on a licensed Bulgarian, EU Member State or EEA stock exchange is exempt from corporate and withholding tax.
- Deductibility of costs of fixed intangible assets created as a result of R&D.
- EU customs legislation is directly applicable.
- No stamp duty or transfer taxes for investors in securities.
- 65 effective Double Tax Treaties.

Investors and international traders can benefit from the business opportunities in Bulgaria, its low direct taxes, specific tax planning opportunities, EU membership and political stability, as well as from specific encouragement measures and other favourable conditions for potential investments.

# Corporate Taxation

Rate	10%	Special purposes investment companies, UCITS and closed-end investment companies are exempt.
Thin capitalization (debt:equity ratio)	3:1	If the debt-to-equity test fails, a specific formula applies.
Tax loss carry forward	5 years	Tax loss carry back is available in limited cases.
Withholding tax	5%/10%	5% – Dividends and liquidation quotas if distributed to individuals and non-EU/EEA companies; 10% – Interest, royalties, management and technical services fees, rental payments, capital gains.
Special features		Transfer pricing rules; no group taxation; specific tax regimes for gambling and commercial marine shipping.

## Value Added Tax

General rate	20%	
Reduced rate	7%	For hotel accommodation that is part of a package tour offered by a tour operator or a tourist agent.
Refund period	4.5 months	30 days under certain conditions.

## Individual Taxation

Personal Income Tax	10%	Flat rate taxation.
Mandatory Social Security Contributions	Employer: 17.7%+ (0.4%-1.1%) Employee: 13%	Maximum monthly taxable base: BGN 2,000

## Other Taxes

Real estate annual tax	0.05%-0.2%	The rate is determined by each municipality according to the location of the real estate. The taxable base can be the market price, the tax value or the gross book value. No tax for agricultural land and forests.
Transfer tax (for transfer of real estate and vehicles)	1.3%-2.6%	
Other		Taxes on certain expenses (e.g. representative), Vehicle tax, Donation tax, Inheritance tax.

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# Croatia

Capital:	Zagreb
Official language:	Croatian
Official currency:	Croatian Kuna (HRK)
Population:	4,550,000 (2005)
Area:	56,594 km <sup>2</sup>
GDP growth (%):	5.3 (2007)
GDP per capita (USD):	10,927 (2007)
Double Tax Treaties:	46
FDI (USD):	4.727 million (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

### VAT

- The new Regulation on Modifications and Amendments to the VAT Ordinance came into force on 26th March 2008, introducing new customs duty and tax relief on financial aid from the European Union. The VAT Regulations set tax relief rates for the provision of goods and services abroad when this is stated in the international agreement\* which is binding on the Republic of Croatia. There is a wider range of customs duty and tax relief, and special tax and VAT relief for project beneficiaries who have received financial aid from the European Union for the purchase of goods and services from abroad or inland. (\*: the agreement between European Commission and Croatian Government regarding the participation of Croatia in the EU programs that are being financed from the EU supported programs).

### Modified Free Zone Act

- The Free Zone Act has been amended with effect from 21 July 2008. This Act regulates the establishment of free zones, the control of free zones and the conditions for commercial activity. A Free Zone is a specially designated area of Croatia, in which the commercial activities are carried out under special conditions. One of the most important provisions enables Free Zone users (domestic and foreign natural and legal entities) to perform commercial activities within a zone provided that they are registered in Croatia and that they fulfil the conditions set by this Act.

### Personal Income Tax

- On 1 July 2008, the basic personal tax allowance increased to HRK 1,800 (approx. EUR 250) per month, from the previous figure of HRK 1,600 (approx. EUR 225).
- Due to this mid year change in the personal tax allowance, the progressive taxation of individual annual income for 2008 also changed, as shown in the following table:

Income bracket (in HRK)	Income Tax
Up to 40,800	15%
40,800-102,000	6,120 + 25% on the amount above 40,800
102,000-285,600	21,420 + 35% on the amount above 102,000
Above 285,600	85,680 + 45% on the amount above 285,600

# Corporate Taxation

Rate	20%	
Thin capitalization (debt:equity ratio)	4:1	Any interest on loans received from non-financial institutions that exceeds the 4:1 debt equity ratio will not be tax-deductible.
Tax loss carry forward	5 years	
Withholding tax	15%	Interest, royalties and other intellectual property rights (copyrights, patents, licenses, trade marks, designs or patterns, production processes, production formulas, drafts, plans, industrial or scientific know-how and similar rights) and service fees (for market research services, tax and business advisory and auditor service fees paid to non-residents).
Special features		Tax incentives available, depending on the amount of investment and number of employees.

## Value Added Tax

General rate	22%	
Reduced rate	10%	Services related to organized stays (accommodation) are subject to the 10% rate. Also, VAT is due at the 10% rate on certain magazines and newspapers.
	0%	A 0% rate applies to deliveries of certain products or services.
Refund period	30 days	

## Individual Taxation

Personal Income Tax	15%-45%	The highest rate applies on taxable income exceeding fourteen times the taxpayer's basic personal allowance (over HRK 25,200 per month).
Mandatory Social Security Contributions	Employer: 17.2%	Employee contributions are capped at HRK 537,120.
	Employee: 20%	

## Other Taxes

Real estate transfer tax	5%	Levied on the agreed (i.e. market) value.
Other		Excise taxes, Inheritance and Gift Tax, Tax on road and motor vehicles, Consumption Tax, Tax on trade names, Tax on the use of public land, Tax on unused entrepreneurial real estate, Tax on undeveloped building land.

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Exchange rate: HRK 7.33 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2009.

# Czech Republic

Capital:	Prague
Official language:	Czech
Official currency:	Czech Koruna (CZK)
Population:	10,446,157 (Sept 2008)
Area:	78,866 km <sup>2</sup>
GDP growth (%):	6 (2007)
GDP per capita (USD):	16,840 (2007)
Double Tax Treaties:	75
FDI (USD):	8,466 million (2008)

- EU
- NATO
- OECD
- WTO
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- EBRD



## Highlights – Tax holidays and other tax benefits

- **Investment incentives** are available to both multinational and domestic investors for large-scale manufacturing projects or “strategic services” and “technology centres”. Investment incentives are available in the following forms:
  - corporate income tax relief (tax holidays);
  - grants for job creation or training/re-training of employees;
  - subsidies for eligible costs (up to 40% of eligible costs);
  - site support and industrial zones.
- Investment incentives in the manufacturing industry are expected to be abolished (estimated final deadline for filing application is July 2009).
- Support from **structural funds** is available for a wide range of activities carried out by newly established or already existing companies/entrepreneurs.
- A special tax allowance is available as part of the support for **R&D activities**. The costs incurred on R&D can be deducted from the income tax base twice (as “normal” tax-deductible costs and then again as a special tax allowance).
- Taxpayers can request **binding rulings** on e.g.: transfer pricing (APAs), use of tax losses carried forward, the classification of an expense as technical appreciation of an asset versus repairs and maintenance, eligibility of a cost of the aforementioned R&D tax allowance, etc.
- The **Parent/Subsidiary Directive** is fully implemented and provides for the tax exemption of dividends paid and received between EU companies (holding condition: 10% of the shares for at least 12 months).
- Tax exemption under similar conditions is also available for dividends paid to Switzerland, Norway and Iceland and received from double tax treaty countries outside the EU if (i) the subsidiary was subject to corporate income tax at the nominal rate of at least 12% in the year when the distribution was approved and in the previous year; and (ii) the subsidiary has a legal form similar to a Czech limited liability company or a joint stock company.
- A **participation exemption** is available for capital gains realised by Czech and EU corporations on the sale of shares in subsidiaries under conditions similar to the dividend exemption (see above).
- **Capital gains realised by individuals** on the sale of shares and units in mutual funds in certain cases are fully tax exempt (a holding period threshold of six months or five years apply, depending on the type of shares).

# Corporate Taxation

Rate	20%	Decrease of the tax rate was approved: 19% (2010).
Thin capitalization (debt:equity ratio)	2:1	4:1 (6:1 for insurance companies and banks) for related party loans, loans guaranteed by a related party or „back-to-back“ credits and loans (credit and loans between related parties provided through an unrelated intermediary, e.g., a bank); interest from profit-participating loans is fully non-deductible.
Tax loss carry forward	5 years	Tax loss carry forward is subject to specific rules (the “same business” test upon a change of ownership or a merger).
Withholding tax	15%	15% – Dividends, interest, royalties, and certain services.
Special features		The Income Taxes Act incorporates the Parent-Subsidiary, Merger, Interest-Royalty and Savings Directives. A participation exemption regime is available. Advance pricing agreements and other rulings are available. No tax grouping.

## Value Added Tax

General rate	19%	
Reduced rate	9%	Applicable to the majority of foodstuff and non-alcoholic beverages; pharmaceuticals; regular mass land, air and water transport; books and magazines in specific cases; sporting and recreational activities; some leisure activities, etc.
Refund period	30 days	

## Individual Taxation

Personal Income Tax	15%	Flat tax rate calculated from a “super-gross” salary (the social security and health insurance paid by the employer is included in the tax base).
Mandatory Social Security Contributions	Employer: 34%	These percentages include social security and health insurance (maximum base is capped at 48 times the average monthly salary).
	Employee: 11%	

## Other Taxes

Real estate transfer tax	3%	The tax base is either the sales price or the officially assessed value, whichever is the higher.
Other		Gift tax, inheritance tax, real estate tax, road tax, environmental taxes.

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Exchange rate: CZK 26.930 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2009.

# Estonia

Capital:	Tallinn
Official language:	Estonian
Official currency:	Estonian Kroon (EEK)
Population:	1,342,000 (2007)
Area:	45,227 km <sup>2</sup>
GDP growth (%):	6.3 (2007)
GDP per capita (EUR):	11,380 (2007)
Double Tax Treaties:	41
FDI (EUR):	1.8 billion (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

- Since 2000, Estonia has operated a corporate income tax system under which all undistributed corporate profits are exempt from income tax. This exemption applies to both active (e.g. trading) and passive (e.g. dividends, interest, royalties) income, as well as capital gains.
- Estonian companies qualify for the benefits of EC directives and Estonia's tax treaties and may therefore be used for a combination of holding, financing and other activities.
- There are presently no thin capitalization rules in Estonia and no withholding tax is collected from cross-border interest payments made by Estonian companies, unless the interest significantly exceeds the arm's length rate.
- Apart from the general exemption on retained earnings, a participation exemption applies to qualifying dividends from the foreign company (in which the Estonian company has at least a 10% shareholding), allowing the tax exempt distribution of such dividends by Estonian holding companies.
- From 1 January 2009 there is no withholding tax on any dividends paid to non-residents.
- Estonia has a flat Personal Income Tax rate of 21% which applies to all items of income derived by a resident taxpayer. The tax rate will be reduced to 20% in 2010, to 19% in 2011 and to 18% in 2012.
- Tax reporting and payments can be handled electronically.

# Corporate Taxation

Rate	21%	Undistributed corporate profits are tax-exempt. Distributed profits are generally subject to 21% corporate tax (21/79% on the net amount of a profit distribution). The rate will be reduced to 20% in 2010, to 19% in 2011 and to 18% in 2012.
Thin capitalization (debt:equity ratio)	N/A	Estonian tax legislation does not include thin capitalization rules.
Tax loss carry forward	N/A	
Withholding tax	0%-21%	Certain payments to non-residents and resident individuals are subject to withholding taxes.

## Value Added Tax

General rate	18%	
Reduced rate	9%	Books, periodicals (with a few exceptions), hotel accommodation services and listed pharmaceuticals.
Refund period	30 days	Within six months for foreign businesses.
Special features		Estonia operates an extended reverse-charge VAT regime.

## Individual Taxation

Personal Income Tax	21%	Flat rate
Mandatory Social Security Contributions	Employer: 33.3% (until 30 June 2009) 33.5% (from 1 July 2009)  Employee: 0.6-2.6% (until 30 June 2009) 1%-3% (from 1 July 2009)	2% contribution to the compulsory cumulative pension scheme (withheld from the employee by the employer) applies to individuals who have joined the scheme.

## Other Taxes

Land tax	0.1%-2.5%	Land tax is calculated on the assessed value of land and does not include the value of buildings. The applicable rate is determined by each municipality.
Local taxes		Advertisement tax, road/street closure tax, sales tax, boat tax, motor vehicle tax, a tax on keeping animals and entertainment tax may be imposed.
Other		Excise duties on tobacco, alcohol, some packaging materials, electricity and motor fuel.  Heavy goods vehicle tax, gambling tax, state fees, pollution charges.

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# Georgia

Capital:	Tbilisi
Official language:	Georgian
Official currency:	Georgian Lari (GEL)
Population:	4,630,000 (2008 est.)
Area:	69,700 km <sup>2</sup>
GDP growth (%):	6.7% (2008 est.)
GDP per capita (USD):	5,000 (2008 est.)
Double Tax Treaties:	23
FDI (USD):	1,092 bn (Q1-3 2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights – Recent changes in Georgia

In addition to its rich history and exciting tourist destinations, Georgia is catching the eye of foreign investors for its:

- low tax rates;
- strategic geographical location;
- competitive trade regimes with low import tariffs;
- liberal labour code and high literacy rate;
- simplified licensing and permit procedures.

Under amendments introduced to the tax code in late December 2008, the following tax rates became effective from 1 January 2009

- personal income tax decreased to a 20% flat rate;
- withholding tax on dividends decreased to 5%;
- withholding tax on interest decreased to 7.5%.

### Future Developments

- Personal Income Tax will be further reduced to 18% in 2011 and 15% in 2012.
- Withholding tax on dividends and interest will also be decreased according to the following schedule:

#### WHT on Dividends:

2009 – 5%  
 2010 – 5%  
 2011 – 3%  
 2012 – 0%

#### WHT on Interest:

2009 – 7.5%  
 2010 – 5%  
 2011 – 0%

# Corporate Taxation

Rate	15%	The taxable base is gross income minus deductible expenses.
Thin capitalization (debt:equity ratio)	N/A	No specific rules; interest expenses are tax deductible if the interest rate does not exceed 24% per annum.
Tax loss carry forward	5 years/ 10 years	Tax loss carry-forward is available for five years, which might be extended to 10 years. In this case, the statute of limitations would increase to 11 years, subject to specific rules.
Withholding tax	5%/7.5%	5% – Dividends. 7.5% – Interest.
Other withholding tax	4%/10%	4% – International telecommunications services and international transportation services. 10% – Other service fees related to Georgian source income paid to non-residents (consultancy, management, etc.).

## Value Added Tax

General rate	18%	Most goods are taxable at this rate.
Reduced rate	0%	Some specific transactions are taxable at 0%.
Refund period	3 months	In practice the refund process can be longer.

## Individual Taxation

Personal Income Tax	20%	Flat rate.
Mandatory Social Security Contributions	Employer: N/A  Employee: N/A	Cancelled from 1 January 2008.

## Other Taxes

Property tax	1%	Accrued on the average balance value of fixed assets.
Excise duties		Various; depends on type of goods, e.g.: alcohol, tobacco, petroleum products.
Other		Land Tax – various based on land type and location.

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Average exchange rate for 2008 was GEL 2.19 = EUR 1.00.

# Hungary

Capital:	Budapest
Official language:	Hungarian
Official currency:	Hungarian Forint (HUF)
Population:	10,033,000 (2008)
Area:	93,030 km <sup>2</sup>
GDP growth (%):	0.8 (2008)
GDP per capita (USD):	13,800 (2008)
Double Tax Treaties:	65
FDI (USD):	5,766 million (2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights – Hungary as an attractive investment location

- A standard EU tax system and OECD compliance.
- No withholding on interest, royalty or dividends.
- 50% of net interest income from related parties is tax-deductible.
- 50% of gross royalty income is tax-deductible.
- Incentives for R&D.
- No tax on gains arising from the sale of registered share participations held for more than one year.
- Corporate tax exemption on dividend received.
- Exemption from tax on profits of permanent establishments abroad through most of the tax treaties.
- No set substance requirements.
- Advance binding rulings are available.
- Deductibility of investment costs.
- No capital tax on registration.
- No stamp duty/transfer tax except on real estate.
- Capital and books may be kept in a foreign currency if criteria are met.
- Flexible depreciation rules.
- A party to major international treaties and conventions on intellectual property rights protection.
- Extensive double tax treaty network.
- VAT grouping opportunities.
- Separation of seat and central place of management.

# Corporate Taxation

Rate	16% + 4%	The general rate is 16%. If certain conditions are met, the tax rate is 10% up to HUF 50 million. In addition, a special profit tax of 4% is levied on entities subject to corporate tax.
Thin capitalization (debt:equity ratio)	3:1	The thin capitalization rules cover liabilities that entail the payment of interest (except interest from financial institutions).
Tax loss carry forward	unlimited	Tax losses can be carried forward indefinitely. Tax Authority permission is required in certain circumstances.
Withholding tax	N/A	No withholding tax on dividend, interest or royalty paid to companies.
Special features		Capital gains on the sale of registered shareholdings are exempt and subject to a one-year minimum holding period. CFC rules are not applicable to OECD and treaty countries. CFC rules are only applicable to dividends distributions (i.e. no deemed dividend or look-through approach). Binding rulings and Advance Pricing Agreements (APAs) are available.

## Value Added Tax

General rate	20%	
Reduced rate	5%	Pharmaceuticals, nutritional products and books.
Refund period	30/45 days	Residents: via VAT return
	6 months	Non-resident: EC directive or reciprocity.
Special features		Real estate rental. Domestic reverse-charge for special transactions. Financial institutions. VAT grouping.

## Individual Taxation

Personal Income Tax	18%/36% + 4%	18% up to HUF 1.7 million and 36% over, plus 4% solidarity tax on income over HUF 7,446,000.
Mandatory Social Security Contributions	Employer: 32%	Contribution is payable above a minimum base of HUF 143,000/month.
	Employee: 17%	
Special features	Flat tax rate	On capital gains, rental income and dividends.

## Other Taxes

Local business tax	max. 2%	Adjusted sales turnover from business activities carried out in the municipality.
Other		Excise tax, Energy tax, Customs duties, Stamp duties, Healthcare tax, Registration tax, R&D tax, Pharma taxes, Community tax, Tourism tax, Environmental taxes, WEEE, Bank tax, Cultural tax.

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Exchange rate: HUF 265.82 = EUR 1.00. This rate is not fixed and approximated to the market rate on 1 January 2009.

# Kazakhstan

Capital:	Astana
Official language:	Kazakh
Official currency:	Kazakhstan Tenge (KZT)
Population:	15,778,160
Area:	2,717,300 km <sup>2</sup>
GDP growth (%):	3.1 (2008)
GDP per capita (USD):	8,450 (2008)
Double Tax Treaties:	39
FDI (USD):	51,543 (2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

- Kazakhstan is a developing country with large reserves of natural resources (e.g. oil & gas, minerals, etc.). However, it is also a country with an ever-changing tax system and aggressive tax authorities.
- A new Tax Code came into force on 1 January 2009. Some of the major changes are:
  - The corporate income tax rate was reduced from 30% to 20% in 2009. It will be further reduced to 17.5% in 2010 and to 15% in 2011.
  - The value added tax rate was reduced from 13% to 12% in 2009.
  - Withholding tax rates on income paid to non-residents were modified to a general rate of 15% (e.g. withholding tax on royalty and capital gains income). However, payments to tax haven residents are subject to 20%.
- The "stability tax regime" governing exploration and production in the oil & gas industry (subsurface users' contracts) was effectively abolished (except for contracts that were signed prior to 1 January 2009, which underwent a tax examination, and subsurface contracts approved by the President).
- Kazakhstan offers a number of tax incentives, primarily targeting:
  - Priority sectors of the economy, which include agriculture and small businesses;
  - Special Economic Zones: Astana New City, Aktau Sea Port, IT Park, Ontustik.
- The tax system is relatively complex and is characterized by form over substance – there is an emphasis on documentation.
- Dividends paid to individual residents are taxed at 5%, while the general personal income tax rate is 10%.
- Legal entities resident in Kazakhstan are exempt from withholding tax on domestic dividends. Dividends paid to non-residents are also exempt if the following criteria are met:
  - shareholding period of more than three years;
  - less than 50% of the assets of the Kazakhstan legal entity paying the dividends consist of subsurface user property in Kazakhstan.
- Dividends and interest on securities which are on the official list of the domestic stock exchange (KASE) on the date of accrual are tax-exempt.
- Capital gains on the sale of securities, which on the date of sale are listed on a domestic or foreign stock exchange by means of open trade, are tax-exempt. Capital gains on the sale of shares of companies which are not subsurface users are also tax-exempt.
- Simplified (automatic) tax treaty relief is available in certain cases, e.g. dividends and interest, if certain conditions are met.
- Controlled Foreign Company (CFC) rules apply to both legal entities and individuals that are tax residents in Kazakhstan if they directly or indirectly hold a shareholding of more than 10% in a non-resident legal entity which is located and/or registered in a country with a privileged taxation regime (e.g. tax rate is less than 10%).
- Kazakhstan is currently party to 39 Double Tax Treaties and an additional four Double Tax Treaties (Armenia, Japan, Luxembourg, Slovakia) have been signed but not ratified yet.

# Corporate Taxation

Rate	20%	The rate will reduce to 17.5% in 2010 and to 15% in 2011.
Thin capitalization (debt:equity ratio)	6:1	9:1 for financial institutions. The ratio will be amended to 4:1 (7:1 for financial institutions) as from 1 January 2012.
Tax loss carry back/carry forward	10 years	For subsurface users – ring-fencing, no consolidation.
Withholding tax	5%/15%/20%	Exempt – Domestic inter-company dividends, inbound inter-company dividends. 5% – Dividends paid to resident individuals; 15% – Dividends paid to non-residents, interest, royalty, capital gains; 20% – Income from rendering services (the rate will be reduced to 17.5% in 2010 and to 15% in 2011); 20% – Payments to tax haven residents.
Special features		Transfer pricing rules apply to cross-border and some domestic transactions.

## Value Added Tax

General rate	12%	
Reduced rate	N/A	
Refund period		Problematic.
Special features	0%	Exports of goods, international transport, exempt turnover.

## Individual Taxation

Personal Income Tax	10%	Flat rate.
Social Tax	11%	For employer.
Mandatory Social Security Contributions	Employer: 4% Employee: 10%	Capped.
Special features		Most benefits are taxable.

## Other Taxes

Real estate and land tax	0.1%-1.5%	1.5% – General Property tax rate applicable only to immovable property; 0.5% – Individual entrepreneurs; 0.1% – Non-profit organisations. Land tax rate depends on the land area and the land quality.
Local taxes		Property tax, vehicle tax.
Other		Environmental tax, excise duties and customs.

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# Latvia

Capital:	Riga
Official language:	Latvian
Official currency:	Lats (LVL)
Population:	2.3 million (2009)
Area:	64,589 km <sup>2</sup>
GDP growth (%):	-4.6 (Q3 2008)
GDP per capita (EUR):	5,521 (Q3 2008)
Double Tax Treaties:	47
FDI (EUR):	8,341 m (Q3 2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

Tax law amendments effective from 1 January 2009:

- Value added tax standard rate was raised from 18% to 21%.
- Reduced VAT rate was increased from 5% to 10%, and the list of goods and services qualifying for the reduced VAT rate was significantly shortened.
- Personal income tax was reduced from 25% to 23%.
- The minimum monthly wage was raised from LVL 160 to LVL 180 (EUR 227 to 256).
- The personal allowance was increased from LVL 80 to LVL 90 (EUR 114 to 128).
- The tax loss carry-forward period was extended from five to eight years.

Excise tax for all excise goods was raised with effect from 1 February 2009.

The Corporate Income Tax Act was amended with effect from 1 January 2009.

# Corporate Taxation

Rate	15%	
Thin capitalization (debt:equity ratio)	4:1	The thin capitalization rules limit interest deductibility to 1.2 times the average short-term interest rate at banks. The rules do not apply to interest paid to EU banks or to any Latvian residents.
Tax loss carry forward	8 years	Latvian companies may take over tax losses from foreign companies and vice versa in certain, limited situations (Marks&Spenser's case).
Withholding tax	2%/5%/10%/15%	2% on capital gains from sales of real estate and shares in real estate companies. Real estate companies are entities that directly or indirectly (through a subsidiary) hold at least 50% of their assets in real estate in the year of disposal or in the previous year. Dividends paid to non-EU/EEA residents are subject to 10% tax. 10% WHT applies to interest payments to related parties. WHT on interest paid to related EU companies will be decreased to 5% from 1 July 2009 until 30 June 2013 and will be rescinded completely from 1 July 2013. 15% WHT is payable on royalties for copyrights, and 5% WHT on all other royalty payments. WHT on all royalty payments to related EU companies will be 5% from 1 July 2009 to 30 June 2013 and will be rescinded from 1 July 2013. 10% WHT is payable on management and consulting fees.
Special features		Tax grouping is available under strict conditions and permanent establishments may also participate in tax groups. Transfer pricing documentation is not mandatory, but transactions between related parties must be arm's length.

## Value Added Tax

General rate	21%	
Reduced rate	10%	Medicines and medical supplies, newspapers, utilities (supplies of gas, electricity and heat to individuals), etc.
Refund period	1 year	Applicable to companies registered for VAT in another EU country and to non-EU companies on a reciprocal basis.

## Individual Taxation

Personal Income Tax	23%	A flat rate with an annual exemption of LVL 1,080 (appr. EUR 1,537) (from 1 January 2009).
Mandatory Social Security Contributions	Employer: 24.09%	
	Employee: 9%	

## Other Taxes

Real estate and land tax	1%	On cadastral (registered) value of land and buildings.
Natural resources tax		On the extraction of natural resources, pollution of the environment; dealing with hazardous goods; packaging; electronic and electrical equipment.
Excise duties		On petroleum and petroleum products, alcohol, tobacco products, coffee and non-alcoholic beverages.

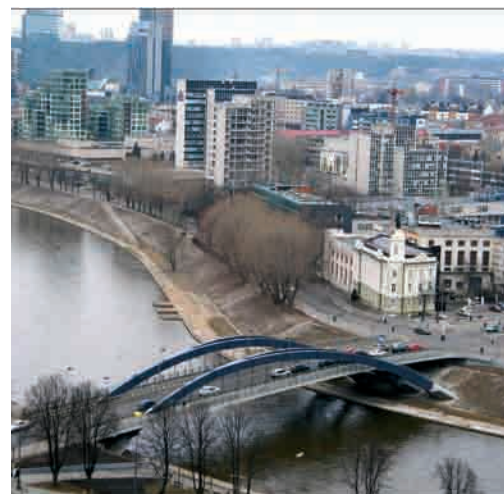
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# Lithuania

Capital:	Vilnius
Official language:	Lithuanian
Official currency:	Lithuanian Litas (LTL)
Population:	3,385 (2007)
Area:	65,200 km <sup>2</sup>
GDP growth (%):	8.9 (2007)
GDP per capita (USD):	11,523 (2007)
Double Tax Treaties:	48
FDI (USD):	LTL 5,085 m (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

### Main advantages:

- Convenient geographical location – Lithuania joins the western and eastern parts of Europe, has well-developed access to the sea at Klaipeda harbour;
- Uncomplicated legislation on starting up business, business-friendly tax environment and relatively low business costs;
- Good infrastructure and high technological and R&D potential;
- High educational level, good labour regulations and quality of labour force, and low crime rates;
- Flow of EU funds.

### Main tax advantages:

- No taxation of dividend income received by a Lithuanian entity from another Lithuanian or foreign entity on holding of 10% for a minimum of one year if certain conditions are met.
- No withholding tax on dividends paid by a Lithuanian entity to a foreign entity on holding of 10% or more held for a minimum of one year, if certain conditions are met.
- No capital gains tax on the sale of a 25% stake held for a minimum of two years if no reorganization is performed.
- Free economic zones (0% corporate income tax for six years in some areas).
- The goodwill arising on acquisition of Lithuanian target can be deductible for CIT purposes if certain conditions are met.
- There is no capital duty on acquisitions of shares in Lithuania.
- Losses may be carried forward for an unlimited period if certain conditions are met. However, losses from the transfer of securities may only be carried forward for five successive years.
- Research and Development (R&D) expenses can be deductible three times for the tax period when they are incurred.
- Entities involved in investment projects will be able to reduce their taxable profits by up to 50% by the acquisition costs of fixed assets that meet certain requirements.

### Tax issues:

- Interest payable to foreign entities (except in Latvia) is subject to WHT at 10%, which will be reduced to 5% from 1 July 2009 and to zero from 1 July 2011 for qualifying entities. Income tax is not withheld from interest payable to Lithuanian entities.
- From 1 January 2009, the “participation exemption” rule applicable on dividends received by Lithuanian or foreign entities was restricted (dividends are not subject to CIT if not less than 10% of voting shares are held for a continuous period of at least 12 months). The “participation exemption” rule does not apply (i.e. dividends will be subject to CIT) to dividends proportionally distributed from profits that were subject to 0% CIT or to non-taxable profits resulting from the following forms of tax relief:
  - tax relief for investment companies’ investment income;
  - tax relief on sale of shares if the entity selling the shares holds more than 25% of voting shares of the entity sold for a continuous period of at least two years (in cases of reorganisation, for a continuous period of three years);
  - tax relief for insurance companies on life insurance premiums and insurance investment income;
  - relief on taxable profits due to participation in an investment project (see above).

These rules do not apply to entities operating in free economic zones.

Additionally, the “participation exemption” rule will not apply to dividends received from foreign entities if, after tax relief has been applied in those countries, such dividends were proportionally distributed from profits that were not subject to CIT or subject to 0% CIT.

In our opinion, the amended taxation of dividends does not correspond to the provisions of the European Council Parent/Subsidiary Directive.

# Corporate Taxation

Rate	20%/13%	The general rate is 20%; for small entities it is 13% under certain conditions. Maritime entities can apply the rate of 20% on the fixed tax base (without any deductions) calculated with reference to the net tonnage of a ship.
Thin capitalization (debt:equity ratio)	4:1	This ratio applies unless the entity can prove that it would have enjoyed higher gearing under the same terms from an unrelated party. 'Equity' excludes revaluation reserves and profit/loss of the period. Bank debt is excluded unless guaranteed by a related party. The 4:1 ratio is calculated on the last day of the tax period.
Tax loss carry forward	Unlimited 5 years	Generally, unlimited. However, losses from the disposal of securities or financial derivatives can be carried forward for five years and may only be set off against similar income.
Withholding tax	10%/20%	10% – Interest, royalties, compensations for violation of copyrights; 20% – Dividends, tantiemes (bonuses from distributed profits), sports activities performed in Lithuania, sale or rent of immovable property; 0% – Dividends on holding of 10% or more retained for a minimum period of one year if certain requirements are met.
Special features		Transfer pricing documentation in a prescribed format compulsory for all taxpayers with an annual turnover exceeding LTL 10 million (EUR 2,896 million). Transfer pricing regulations closely follow the OECD guidelines, although Lithuania is not an OECD Member.

## Value Added Tax

General rate	19%	
Reduced rate	9%/5%	Almost all the reduced VAT rates were abolished on 1 January 2009 but transitional periods were provided for the activities which were subject to the reduced rates.
Refund period	90 days	

## Individual Taxation

Personal Income Tax	15%/20%	15% on all types of income. 20% on income from distributed profits.
Mandatory Social Security Contributions	Employer: 30.98%- 31.7% Employee: 3%	No cap.
Mandatory Health contributions	Employee: 6%	No cap.

## Other Taxes

Real estate tax	0.3%-1%	Specific rate set by municipalities.
Land tax (for owned land)	1.5%	
Land lease tax (for rented land from the State)	0.1%-4%	
Other		<ul style="list-style-type: none"> <li>– Pollution tax.</li> <li>– Real estate transactions (sales, swaps, rent, mergers, etc.) must be confirmed by a notary. The fee depends on the type of transaction and real estate and is between 0.2% and 0.6%, but cannot be more than LTL 20,000 (EUR 5,792). Changes in ownership rights must be registered in the Real Estate Register. The title deed registration fee depends on the type of real estate and its average market value, but the fee for one real estate unit cannot be more than LTL 5,000 (EUR 1,448).</li> </ul>

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# Macedonia

Capital:	Skopje
Official language:	Macedonian
Official currency:	Macedonian Denar (MKD)
Population:	2.1 million (2006)
Area:	25,713 km <sup>2</sup>
GDP growth (%):	4% (2006)
GDP per capita (USD):	2,952 (2006)
Double Tax Treaties:	41
FDI (USD):	351 million (2006)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

- Full corporate income tax exemption on retained profits.
- A corporate income tax rate of 10%, payable at the time of dividend and any other profit distributions.
- A flat personal income tax rate of 10%.
- No capital gains tax on asset or share sales for corporate taxpayers.
- Participation exemption applicable in cases where 25% of a foreign subsidiary is held for one year.
- General tax deductions available for all kinds of business activities, including full tax deduction on foreign exchange losses and interest financing provided by unrelated parties at commercial rates.
- Interest financing provided by related parties is tax-deductible subject to thin cap rules requiring a 3:1 debt-to-equity ratio.
- Taxpayers operating in a Technological and Industrial Development Zone are exempt from profit tax for ten years from the date they start operating in the zone.
- Personal income tax for workers in a Zone can be reduced by up to 50% in the first five years.
- Taxes paid abroad by branches of Macedonian companies can be credited up to the amount that would be payable under the prevailing rate of Macedonian corporate income tax.
- Full corporate income tax exemption on receipt of dividends from domestic subsidiaries.
- VAT is generally in accordance with the principles of the 6th EU VAT Directive.
- Ongoing repeal of certain tax laws in order to simplify the conduct of business.
- According to the EU-Macedonia Stabilization and Association Agreement, zero customs rates apply on products for export into the EU that have Macedonian preferential origin.
- The tax procedure law codifies all tax administrative procedures and prescribes a duty of care for tax officials.
- All tax statements and returns can be submitted electronically.
- Tax rulings are available for up to three or five years, subject to a tax audit by the Macedonian tax authorities.
- Transfer pricing rules are in accordance with OECD arm's length guidelines.
- Up to 41 double tax treaties and increasing rapidly.

# Corporate Taxation

Rate	10%	Corporate income tax exemption available on retained earnings, otherwise applicable at time of payment of dividends and other profit distributions.
Thin capitalization (debt:equity ratio)	3:1	Effective from 1 January 2009.
Tax loss carry forward	N/A	Abolished on 1 January 2009.
Withholding tax	10%	Domestic withholding tax of 10% on offshore payments. A 0% withholding tax rate applies on payments for certain types of services.
Special features		Transfer pricing rules impose severe penalties on both corporations and responsible persons for underestimation or false reporting of the taxable base.

## Value Added Tax

General rate	18%	On most goods.
Reduced rate	5%	Only on a few goods, such as food, water, seeds, agricultural machinery, fertilizers, etc.
Refund period	30 days	

## Individual Taxation

Personal Income Tax	10%	Flat rate.
Mandatory Social Security Contributions	Employer: 28% (if agreed on net pay) Employee: 28% (if agreed on gross pay basis)	19% – Pension fund; 7.5% – Health insurance; 1.4% – Employment contribution.

## Other Taxes

Real estate and land tax	0.1%	The tax base is the property's market value.
Transfer tax	3%	The tax base is the property's market value.

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Exchange rate: MKD 61.40 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2009.

# Moldova

Capital:	Chisinau
Official language:	Moldovan (Romanian)
Official currency:	Moldovan Leu (MDL)
Population:	3.572 million (2007)
Area:	33,843 km <sup>2</sup>
GDP growth (%):	7.2 (2008)
GDP per capita (USD):	N/A
Double Tax Treaties:	40
FDI (USD):	553.58 m (Q3 2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

### 0% Corporate Income Tax rate in 2009

- From 1 January 2008 and continuing in 2009 the **Corporate Income Tax (CIT) rate is 0%**.
- Currently, Moldova has a network of 40 applicable Double Tax Treaties (DTTs).
- The Commentaries to the OECD Model Tax Convention on Income and Capital apply in Moldova as a guide to the interpretation of DTTs.
- Optional social security contributions for expatriates, as well as relatively reduced tax burden for individuals, as follows:
 

Tax rate	Taxable annual income
7%	up to MDL 25,200
18%	over MDL 25,200
- No medical insurance contributions for expatriates working in Moldova under a secondment agreement (i.e. with no local employment contract).
- Contributions in kind to statutory capital are exempt from customs duty and VAT provided certain conditions are met.
- Moldova has an extensive network of Free Trade Agreements (FTA) with CIS countries, is a CEFTA member and currently benefits from EU Autonomous Trade Preferences (ATP).
- According to the Law implementing the fiscal amnesty in Moldova, fiscal periods up to 2007 cannot be subject to tax inspections, except in certain specific circumstances.

# Corporate Taxation

CIT rate	0%	Taxpayers' obligation to compute taxable income for CIT purposes and submit yearly CIT returns are maintained. Moldovan tax authorities (MTA) can impose a fine of 25% for under-reporting taxable income.
Thin capitalization (debt:equity ratio)	N/A	Such rules apply to businesses recording interest expenses paid to both individuals and legal entities, with certain exceptions. The deductibility of such expenses is limited to the refinancing rate set by the National Bank of Moldova for November of the previous year (16% for 2009).
Tax loss carry forward	5 years	Tax losses can be carried forward in equal instalments for the following five years, but only up to the amount of annual taxable income.
Withholding tax	10%/15%	15% on dividends, as well as on other payments to non-residents, if related expenses are non-deductible for CIT purposes; 10% on other payments. DTTs may provide more favourable rates.
Special features		Prices in transactions between related parties must be arm's length.

## Value Added Tax

General rate	20%	
Reduced rate	8%/5%	8% on certain operations with bakery and dairy products, certain pharmaceutical products 5% on natural and liquefied gas.
Refund period	45 days	Refunds only available for business carrying out specific types of activity.
Special features		Payment of VAT on services subject to the reverse charge mechanism.

## Individual Taxation

Personal Income Tax	7%-18%	18% on annual income over MDL 25,200.
Mandatory Social Security Contributions	Employer: 23% Employee: 6%	Optional for expatriates.
Special features	Health Insurance Contributions	Each taxpayer (employer and employee) – 3.5%. No contributions for expatriates working under a secondment agreement (i.e. no local employment contract).

## Other Taxes

Real estate tax	0.1%	On the book value, for legal entities.
Other		Tax on natural resources, road taxes and other local taxes.

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# Montenegro

Capital:	Podgorica
Official language:	Montenegrin
Official currency:	Euro (EUR)
Population:	630,000
Area:	14,026 km <sup>2</sup>
GDP growth (%):	7 (2007)
GDP per capita (USD):	4,000
Double Tax Treaties:	35
FDI (USD):	1.5 billion (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

### Low tax rates and a special capital gains regime

- Montenegro applied for EU membership in December 2008.
- Corporate income tax rate of 9% – still one of the lowest in Europe.
- The most significant changes in the Corporate Profit Tax Law effective from 27 June 2008 are:
  - Only 50% of realized capital gains are included in the taxable base.
  - The withholding tax rate is reduced to 9%, while the withholding rate on interest remains at 5% until 2010.
  - The scope of withholding tax has been extended to include fees paid to non-residents for consulting services, marketing services, audit services and the leasing of movable property.
- A new corporate profit tax return, introduced in January 2009, finally separates capital gains/losses from the operating result, which is the intention of the Corporate Profit Tax Law. This has not been applied in previous years due to the lack of a proper tax return form. The new corporate tax return will also be used for FY08.
- No thin capitalization rules.
- The development of transfer pricing regulations and practice still at initial stage.
- Some Double Tax Treaties have 0% withholding tax on interest.
- No taxation of capital gains realized by individuals.
- The real estate transfer tax rate was increased to 3% from January 2008.
- There has been a further reduction of social security rates and the personal income tax rate from January 2009.
- The construction land use charge has been abolished as of January 2009.

# Corporate Taxation

Rate	9%	
Thin capitalization (debt:equity ratio)	N/A	
Tax loss carry forward	5 years	Operational losses cannot be offset against capital gains (and vice versa).
Withholding tax	5%/9%	5% – Interest until 2010. 9% – Dividends, shares in profit, royalties and other intellectual rights, capital gains, lease fees for movable and immovable property, market research, audit, consulting services.
Special features		Group taxation is allowed, subject to certain conditions. The separation of the taxation of operating profit from the taxation of capital gains is practically enforced by the introduction of the new corporate profit tax return. Only 50% of realized capital gains is included in the taxable base.

## Value Added Tax

General rate	17%	
Reduced rate	7%	Applicable to public transportation, books, serial publications, computer equipment (among other items).
Refund period	60/30 days	Period of 30 days is reserved for taxpayers engaged predominantly in the export trade of goods.

## Individual Taxation

Personal Income Tax	12%	Flat rate.
Mandatory Social Security Contributions	Employer: 14.5% Employee: 17.5%	The maximum base for pension contributions is capped at an annual EUR 23,976.14 in 2008. The maximum base for 2009 has not been published yet.
Special features		Further reduction of the personal income tax rate to 9% starting from 2010. Reduction of social security contribution rates to 13.5% (employer) and 16.5% (employee) starting from 2010. Social security contributions are not imposed on redundancy payments in 2009 and 2010.

## Other Taxes

Transfer tax on real estate	3%	Based on the purchase price.
Real estate tax	0.08%-0.8%	Based on the net book value. Rates depend on location.

## Contacts

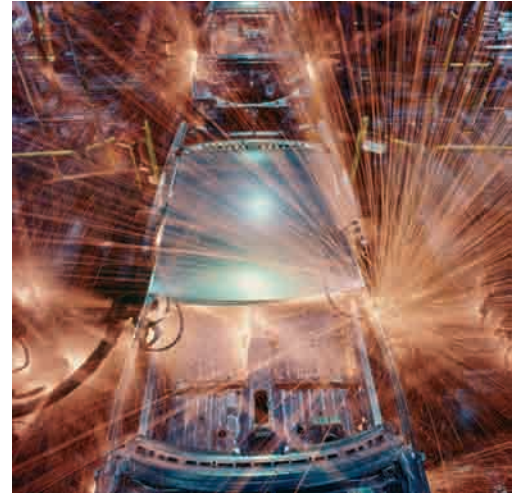
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# Poland

Capital:	Warsaw
Official language:	Polish
Official currency:	Złoty (PLN)
Population:	38,115,600 (2008)
Area:	312,685 km <sup>2</sup>
GDP growth (%):	4.8 (2008)
GDP per capita (USD):	17,800 (2008, in PPP)
Double Tax Treaties:	78
FDI (USD):	11,213 million (2008)

- ☑ EU
- ☑ NATO
- ☑ OECD
- ☑ WTO
- ☑ IMF
- ☑ EBRD



## Highlights – Why consider Poland?

- Poland has the highest population of the CEE Region countries and is an attractive location with a fast developing economy (especially during the last year).
- Young, well-educated and ambitious people and the low costs of conducting business are Poland's strongest assets.
- A high level of computerization and a good knowledge of foreign languages make international business communication easier.
- Poland has a relatively low corporate income tax rate – 19%.
- Dividends received from abroad by companies based in Poland are not taxed in Poland (relates to qualifying companies based in the European Union, EEA and Switzerland).
- Poland has an extensive Double Tax Treaty network (approximately 80 treaties). All are based on the OECD Model Convention.
- It is possible to conclude Advanced Pricing Agreements with the Ministry of Finance – providing stability for taxpayers' business operations.
- It is possible to obtain binding rulings on tax laws.
- State aid is available in the form of exemption from corporate income tax on investments and business activities carried out in Special Economic Zones and/or cash grants.
- There are no Controlled Foreign Company ("CFC") rules.
- The only anti-tax haven rules applicable in Poland concern:
  - withholding tax (20%) imposed on fees for selected services paid to non-residents (e.g. management services);
  - transfer pricing regulations concerning transactions with companies located in tax havens (also applicable to transactions between unrelated entities).

# Corporate Taxation

Rate	19%	Many tax incentives are available, especially various forms of state aid and opportunities for businesses to operate in Special Economic Zones where temporary corporate income tax exemption is possible.
Thin capitalization (debt:equity ratio)	3:1	Thin capitalization restrictions only apply to selected related-party transactions.
Tax loss carry forward	5 years	Only tax loss carry forward is available. The value of the deduction may not exceed 50% of the loss incurred in the year in which it was reported.
Withholding tax	19%/20%	19% – Dividends. 20% – Interest, royalties and selected services fees.
Special features		Withholding tax will gradually be decreased. Advance rulings are available from the tax authorities / Ministry of Finance. Group taxation is available under strict conditions. Participation exemption applies regarding dividends received from EU and certain other countries, generally subject to a 10% minimum shareholding. Transfer pricing rules apply (also to transactions between branches and their head offices).

## Value Added Tax

General rate	22%	
Reduced rate	7%/3%	7% applies to e.g. pharmaceutical products. 3% applies to certain agricultural products.
Refund period	60 days	Exceptionally 25/180 days.

## Individual Taxation

Personal Income Tax	18%, 32%	Individuals conducting business activities can opt for a flat rate of 19% subject to certain conditions.
Mandatory Social Security Contributions	Employer: 17.11%-24.83% Employee: 13.71% (plus health care contribution)	The employer's contribution rate includes an accident insurance element. The employee's contribution is tax deductible for personal income tax purposes.

## Other Taxes

Real estate and land tax		Exemption from real estate tax may be granted by local authorities in developing areas.
Local taxes		No local business taxes are levied.
Other		Property tax, tax on means of transport, inheritance and donations tax, agricultural and forestry tax, dog tax; gaming tax.

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# Romania

Capital:	Bucharest
Official language:	Romanian
Official currency:	Romanian Leu (RON)
Population:	21.5 million (2007)
Area:	237,500 km <sup>2</sup>
GDP growth (%):	6.3 (2007)
GDP per capita (USD):	11,430 (2007)
Double Tax Treaties:	79 (in force)
FDI (USD):	11.2 billion (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

For 2009:

### Corporate Taxation

- Distributed dividends are exempt from taxation if they are invested in a Romanian company to preserve and increase the number of employees and boost activity.
- Companies are granted an additional deduction of 20% of the value of eligible R&D expenses and the option to employ the accelerated depreciation method for devices and equipment used in R&D. This tax advantage is conditional on the company's participation in a state aid scheme for R&D activities.
- Capital gains obtained by foreign investment funds from transactions in the shares of Romanian companies are non-taxable.
- In 2009, capital gains from transactions on the Romanian capital markets are non-taxable.

### VAT

- A reduced VAT rate of 5% applies on the supply of welfare policy housing, including old people's homes, retirement homes, orphanages and rehabilitation centres for children with disabilities. The reduced rate also applies to other buildings and parts of buildings under certain conditions (i.e. maximum usable area of 120 square metres and value not exceeding RON 380,000, exclusive of VAT).

### Customs

- Importers holding a single customs authorisation for simplified customs procedures issued in another Member State have to pay the VAT and/or excise duty due on imports of goods into Romania based on an import declaration for VAT and excise duties. This document is used to deduct the VAT incurred on imports of goods to Romania.

### Excise Duties

- Traders in excise goods can obtain a refund of the excise duties paid for excise goods returned to production tax warehouses for recycling, reconditioning or destruction, and for excise goods returned to foreign suppliers provided certain conditions are met.

### Individual Tax

- Interest income earned from deposits in Romanian banks or from other savings instruments is tax-free from January 2009. Capital gains from transfer of listed shares are tax-free for 2009.
- Employers' salary-related social security contributions are 25.7%-36.9% of gross payroll costs, depending on the employer's activity. An increase of an additional 3.3% of gross payroll is expected this year, when the 2009 budget law has been passed.

# Corporate Taxation

Rate	16%	Micro-companies can opt for profit tax exemption and pay a 3% tax instead on revenue earned in 2009, subject to certain conditions.
Thin capitalization (debt:equity ratio)	3:1	Not applicable to loans contracted from credit institutions, non-banking financial institutions and other entities that grant loans according to the law, or to interest related to bonds traded on a regulated market.
Tax loss carry forward	7 years	The seven-year carry-forward period only applies starting with this year's tax losses (for tax losses from previous years, the carry-forward period remains five years).
Withholding tax	16%	The standard rate for dividends paid between Romanian resident companies is 10%. The 16% standard WHT applies for dividends, interest, royalties, commissions and service fees paid to non-residents. This rate can be reduced under Double Tax Treaties or by EU Directives. Under the Parent-Subsidiary Directive, WHT rate can be reduced to nil. Under the Interest and Royalty Directive, WHT can be reduced to nil from 2011. We are currently in a transitional period (1 January 2007 to 31 December 2010) during which a 10% WHT rate applies.
Special features		Transfer pricing rules apply; taxpayers are required to prepare a transfer pricing documentation covering their related party transactions, to be presented during a tax inspection if requested. The deadline for presenting the transfer pricing documentation is three calendar months, with the possibility of a single extension equal to the period initially established.

## Value Added Tax

General rate	19%	All supplies of goods and services, except those subject to the 9% or 5% reduced rates.
Reduced rate	9%	Access to castles, museums, fairs, exhibitions, cinemas, supplies of books, newspapers, medicines and accommodation.
	5%	Housing supplied as part of the welfare policy.
Refund period	45 days	In practice, the refund period can be much longer.
Special features		Simplification measures for call-off and consignment stock, goods on trial and work on movable goods. VAT warehouse regime.

## Individual Taxation

Personal Income Tax	16%	Flat tax rate, applicable to most types of income; exceptions to the flat rate include income from real estate transactions (depending on the ownership period and the value of the real estate); capital gains on listed securities owned for more than 365 days – 1% (exception – capital gains made by individuals on transfers of listed securities in 2009 are not taxable in Romania); gambling income – 20% or 25%, depending on the level of the gain.
Mandatory Social Security Contributions	Employer: 25.7%- 36.9%	Employers' rates vary depending on area of activity.
	Employee: 15.5%	
Special features		Tax-free secondment benefits available.

## Other Taxes

Building tax	0.25%- 1.5%	If the building was not revalued in the last three years the rate will be in the range of 5%-10%.
Other		Excise duties – refund of the duties paid on excise goods if they are returned for recycling, reconditioning or destruction; environmental fund contributions, advertising tax, health fund contributions and transfer tax in specific cases.

## Contact

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# Russia

Capital:	Moscow
Official language:	Russian
Official currency:	Russian Roubles (RUR)
Population:	141,900,000 (2007)
Area:	17,075,000 km <sup>2</sup>
GDP growth (%):	8.1 (2006)
GDP per capita (USD):	8,836 (2007)
Double Tax Treaties:	71
FDI (USD):	39,900 million (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

- The government has made significant progress in fiscal reform over the past several years, resulting in the overall systematization and simplification of the laws and tax administration. Tax rates have been lowered, various fiscal incentives have been abolished or significantly reduced in scope, and the collection of tax has increased significantly. Reforms are still pending in such areas as hydrocarbon taxation and transfer pricing until clearer and more comprehensive tax regulations have been drafted.
- The Russian corporate profit flat tax rate has been reduced from 24% in 2002-2008 to 20% starting from January 1, 2009, which is significantly lower than that in most other countries in the region. However, social tax and other taxes and levies, along with the administrative burden (registration requirements, tax audits, etc), increase the pressure on companies.
- The general VAT rate is 18%. Some operations, e.g. insurance, banking operations (with some exceptions), trade in securities etc., are exempt from VAT. Exemptions from import VAT are available for technological equipment, related components and spare parts contributed to a company's charter capital. A 10% rate applies to a limited range of basic food items, children's goods, medicines, etc.
- Exports of goods and the provision of certain export-related services are subject to zero-rate VAT. However, securing a reimbursement of input VAT on exported goods is still a major problem for taxpayers in Russia.
- Russian individual residents are liable to tax on their total worldwide annual income at a flat rate of 13% (except for dividends and other minor exceptions), which is one of the lowest rates in Europe.
- Russia benefits from an extensive Double Tax Treaty network (71 treaties are currently in force) which provide many structuring opportunities. Tax treaties are generally based on the OECD Model Convention.
- Although Russia remains primarily a "form over substance" legal and tax environment, recent court decisions in tax disputes have emphasised the importance of behaviour "in good faith". The best recipe for success in such an environment is to keep transactions simple and properly documented and administered, to be responsive to change in all aspects of business operations, and to have excellent tax and legal assistance.

# Corporate Taxation

Rate	20%	Corporate tax is divided into Federal and regional components of 2.5%, and 17.5% respectively (regional legislative bodies can introduce lower corporate tax rates, but not less than 13.5%).
Thin capitalization (debt:equity ratio)	3:1	Russian thin capitalisation rules apply to loans granted by foreign parent companies or Russian sister companies, or guaranteed by an affiliated company. From 1 September 2008 until 31 December 2009 interest expenses are deductible within the following limits: – The average interest rate on similar loans obtained within one quarter from Russian lenders, multiplied by 1.2. – If there are no similar loans (in majority of cases in practice) the following limits apply: 22% for loans in foreign currency or the refinancing rate of the Central Bank of Russia (set at 13% per annum from 1 December 2008) multiplied by 1.5 for loans in RUB.
Tax loss carry forward	10 years	Tax loss carry-back is not available.
Withholding tax	10%-20%	Where a foreign legal entity does not create a PE in Russia and is not protected by a Double Tax Treaty, withholding tax rates are as follows (withheld at source): – 10% on freight income; – 15% on dividends and income from participation in Russian enterprises with foreign investments; – 20% on some other income from Russian sources, including royalties, interest, capital gains (special procedure for disposal of immovable property and shares in Russian subsidiaries where the major assets are immovables).
Special features		Starting from 1 January 2008, dividends received by Russian companies are exempt from tax in Russia provided that certain conditions are met (365 days holding period, 50% shareholding with an investment value over RUR 500m, the foreign subsidiary paying the dividends is not in a country blacklisted by the Russian Ministry of Finance).

## Value Added Tax

General rate	18%	
Reduced rate	10%	The 10% rate applies to a limited range of basic food items, children goods, medicines and some mass media products. Exports of goods and the provision of certain export-related services are subject to zero-rate VAT.
Refund period	3 month	In practice, could be significantly longer.
Special features		There are special rules (similar to the EU Sixth Directive) for cross-border services, to determine whether they are provided within or outside Russia.

## Individual Taxation

Personal Income Tax	13%	The general rate on the personal income of Russian residents is 13% (except for dividends and some other minor exceptions, such as income in the form of prizes, which are taxed at 9% and 35% respectively). Non-residents are taxed at 30% on income received from Russian sources.
Mandatory Social Security Contributions	Employer: or self-employed entrepreneur: 2%-26%	Unified Social Tax is generally levied on total income payable to employees and contractors at regressive rates from 26% for low-income employees to 2%.
	Employee: 0%	

## Other Taxes

Property tax	Up to 2.2%	Levied on the net book value of fixed assets. Regional legislative bodies can introduce lower property tax rates, and also grant property tax exemptions.
Other		Excise tax, customs duties, stamp duties, mineral resources extraction tax, payments for the use of natural resources, water tax, transport tax, gambling tax, land tax.

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Exchange rate: RUR 46.36 = EUR 1.00. This rate is not fixed and approximates to the market rate on 11 February 2009.

# Serbia

Capital:	Belgrade
Official language:	Serbian
Official currency:	Serbian Dinar (RSD)
Population:	7,430,000 (2005)
Area:	77,474 km <sup>2</sup>
GDP growth (%):	6.1 (2008 estimate)
GDP per capita (USD):	5,963 (2007)
Double Tax Treaties:	35
FDI (USD):	2,945 million (2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights – Low tax rates and various planning opportunities

- Nominal corporate income tax rate of 10% – one of the lowest in the CEE-CIS region – can be additionally decreased by tax incentives.
- Various incentives for investment in fixed assets and employment of new staff.
- Tax losses/credits are available even after mergers, acquisitions and spin-offs.
- Companies are entitled to deferred taxation of capital gains arising from mergers, acquisitions or spin-offs.
- Tax-efficient mixture of debt/equity financing subject to thin-cap thresholds.
- Currently, debt push-down can be achieved by merging Serbian acquisition vehicle with the target company.
- Still some Double Tax Treaties with 0% withholding tax on interest and royalties.
- Undeveloped transfer pricing regulations and practice.
- Cross-border loans must be registered with the National Bank of Serbia.
- Limited foreign exchange regulations.

# Corporate Taxation

Rate	10%	
Thin capitalization (debt:equity ratio)	Approx. 4:1	No simple debt-to-equity ratio exists. The interest deductibility threshold is equal to four times the average net equity during the year and 110% of the interest rate applied by the central bank on the loans to commercial banks of the country in whose currency the loan is denominated on 31 December of the previous year.
Tax loss carry forward	10 years	Applicable to operational and capital losses.
Withholding tax	20%	Management services are not subject to withholding tax.
Special features		Deductibility of marketing expenses is capped at 3% of gross revenues. Group consolidation is allowed under certain circumstances.

## Value Added Tax

General rate	18%	
Reduced rate	8%	Basic food products and some services.
Refund period	45/15 days	15 days applies to major exporters.
Special features		Non-residents are not allowed to deduct input VAT through fiscal representatives.

## Individual Taxation

Personal Income Tax	12% to 20%	Salaries taxed at 12%, other income at 20% (with deduction of various costs).
Mandatory Social Security Contributions	Employer: 17.9%	The minimum social security base is 35% of average monthly salary, while the maximum contribution base is capped at five times average salary.
	Employee: 17.9%	
Special features (PIT)	10%/15%	Additional annual income exceeding the prescribed threshold is additionally taxed at progressive rates.

## Other Taxes

Property tax	0.4%	Based on net book value on 31 December of the previous year.
Property sales tax	2.5%	Transfers of immovable property.
Other	2.5%	Inheritance and gift tax.

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Exchange rate: RSD 90.00 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2009.

# Slovakia

Capital:	Bratislava
Official language:	Slovak
Official currency:	Euro (EUR)
Population:	5,396,168 (2007)
Area:	49,035 km <sup>2</sup>
GDP growth (%):	10.4 (2007)
GDP per capita (USD):	17,110 (2007)
Double Tax Treaties:	59
FDI (USD):	1,107 million (2007)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

- Flat income tax rate of 19%.
- Flat 19% VAT rate, with a few exceptions where a 10% rate applies.
- No withholding tax on interest and royalties to other EU countries.
- No withholding tax on some payments from Slovakia to other EU countries.
- No taxation of dividends.
- No thin-capitalization restrictions.
- Social security contributions capped for employers and employees.
- Calculation of income tax base directly from IFRS profit for entities reporting under IFRS for Slovak statutory purposes.
- Extensive Double Tax Treaty network.
- Investment incentives available in the form of tax credits.
- Tax losses can be carried forward over five consecutive tax periods without restrictions.
- Adoption of the Euro from 2009.
- Transfer pricing documentation requirements from 2009 for some entities.

# Corporate Taxation

Rate	19%	Flat rate.
Thin capitalization (debt:equity ratio)	N/A	Thin-capitalization rules were abolished in Slovakia on 1 January 2004, but will probably be re-introduced (6:1) from 2010.
Tax loss carry forward	5 years	Tax losses carried forward can be used over five consecutive years without restrictions. A legal successor, e.g. following a merger, can continue using the tax losses.
Withholding tax	19%	Applies to dividends, interest, royalties, capital gains. No withholding tax is levied on dividends paid out of post-tax profits arising in 2004 and later years. Pre-2004 dividends paid to a direct EU shareholder with a share of more than 25% are not subject to withholding tax. Exemptions under the EU Interest and Royalties Directive have been incorporated into the Slovak Income Tax Act. Some payments from Slovak sources, such as income from the sale of real estate in Slovakia, are not subject to withholding tax or tax securement if paid to EU residents.
Special features		No local business taxes are levied. No stamp duties or similar taxes on the transfer of shares. No group taxation. The tax year may differ from the calendar year. Specific transfer-pricing documentation requirements from 2009.

## Value Added Tax

General rate	19%	
Reduced rate	10%	For specific medical and pharmaceutical products and devices and printed materials.
Refund period	One month	VAT refund should be carried forward and offset against the next month's tax liability. If the refund cannot be deducted in the next VAT return, the tax office will refund it within 30 days.
Special features		The VAT law has been harmonized with the EU Sixth Directive.

## Individual Taxation

Personal Income Tax	19%	Levied on taxable income, decreased by statutory personal allowances.
Mandatory Social Security Contributions	Employer: 34.4% (capped) + 0.8% (not capped) Employee: 13.4% (capped)	The maximum monthly contributions are EUR 825.41 for employer and EUR 308.04 for employees.
Special features	Self-traders	Entrepreneurs who are not VAT payers can either deduct expenses actually incurred, or opt for a flat 40% or 60 % deduction from their taxable income.

## Other Taxes

Other		Land tax, building tax, apartment tax: tax rates set by local municipalities, within certain limits. Customs and excise duties, motor vehicle tax. Other municipal taxes. No real estate transfer tax.
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# Slovenia

Capital:	Ljubljana
Official language:	Slovenian
Official currency:	Euro (EUR)
Population:	2,040,755 (2008)
Area:	20,273 km <sup>2</sup>
GDP growth (%):	6.8 (2007)
GDP per capita (USD):	23,403 (2007)
Double Tax Treaties:	43
FDI (USD):	5,217 million (2006)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights – Recent tax changes in Slovenia

### Corporate Income Tax (CIT)

- The Corporate Income Tax Act (CITA-2) was amended, principally to harmonise its provisions with the EU Treaty and EEA Agreements. Tax relief is now available on donations made in cash and, in certain cases, in kind, for specific purposes, not only to residents of Slovenia and EU Member States but also to Member States of the EEA.
- A tax allowance of up to EUR 30,000 has been introduced for investments made after 1 January 2009 in equipment and intangible assets.
- An arm's length rate may be used to calculate interest on loans between related parties, provided the taxpayer can prove that the rate is indeed at arm's length. Previously only the interest rate published by the authorities could be used for related party loans.
- Withholding tax has been abolished for most interest payments made by banks, although some anti-avoidance rules apply.
- As previously announced, the corporate tax rate has been reduced to 21% for 2009.

### Value added tax

The EC VAT Directive has been fully incorporated into the Slovene VAT legislation, with the following simplifications:

- call-off stock simplification (i.e. transfer of goods to Slovenia from another Member State in order to establish a stock of goods with the customer);
- option to tax the letting of immovable property;
- tax warehouse simplification (i.e. exemption for deliveries of certain goods in tax warehouses);
- triangulation simplification;
- the transfer of a going concern is not subject to VAT if prescribed conditions are fulfilled;
- for services where the reverse-charge mechanism applies (i.e. the customer or supplier is established outside Slovenia), the use-and-enjoyment rules should be taken into account if taxable persons are established in third countries.

### Personal Income Tax (PIT)

- The progressive PIT rates in use from 1 January 2007 are 16%, 27% and 41%.
- Payroll tax was abolished with effect from 1 January 2008.

# Corporate Taxation

Rate	21%	The rate will be reduced to 20% in 2010.
Thin capitalization (debt:equity ratio)	6:1	The debt-to-equity ratio of 6:1 applies from 2008 to 2010 and will be reduced to 5:1 in 2011 and to 4:1 in 2012.
Tax loss carry forward	unlimited	If there is a change of ownership, restrictions may apply.
Withholding tax	15%	This rate applies to a number of payments, including dividends, interest, royalties and payments for services to certain countries.
Special features		Binding rulings are available from the General Tax Office.

## Value Added Tax

General rate	20%	
Reduced rate	8.5%	Applicable to the supply of construction, renovation and maintenance work on residential housing not provided as a part of a social policy, and excluding building materials.
Refund period	30 or 60 days	Depending on the status of the taxable person.
Special features		A special regime applies with respect to the international transport of passengers, the preparation of meals and for certain construction, renovation or maintenance work.

## Individual Taxation

Personal Income Tax	16%-41%	The top rate of 41% is charged on taxable income over EUR 14,820.83. Additional allowances are available for lower-income taxpayers.
Mandatory Social Security Contributions	Employer: 16.1%	
	Employee: 22.1%	
Special features		Employee incentive schemes were introduced which may benefit from advantageous tax treatment if they meet certain criteria.

## Other Taxes

Real estate tax	2%	Certain transfers are exempt.
Other	6.5%	Tax on insurance premiums.

## Contacts

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# Ukraine

Capital:	Kyiv
Official language:	Ukrainian
Official currency:	Ukrainian Hryvnia (UAH)
Population:	46,160,000 (2008)
Area:	603,700 km <sup>2</sup>
GDP growth (%):	2.1 (2008)
GDP per capita (USD):	3,092 (2008)
Double Tax Treaties:	64
FDI (USD):	10.6 billion (Q3 2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

### Why join Ukraine?

- Member of WTO since May 2008.

### Advantages

- Low flat rate of tax on individuals (15%).
- No developed transfer pricing regulations.
- No thin capitalization rules as usually defined.
- Very generous depreciation rates.
- Many double tax treaties (including those with zero withholding tax on interest or royalties).
- No real estate tax (apart from the land tax).
- No direct legislative debt-push-down restrictions.
- No stamp duty on share capital.
- Exemption from import duty on energy-saving equipment.

### Disadvantages

- The 2009 World Bank Doing Business study identified Ukraine as one of the most difficult countries in which to pay taxes.
- Ukraine has a volatile tax system, and legislative amendments are frequent.
- Ukraine has onerous compliance procedures.

- Taxable income and expenses, as well as VAT liabilities and credit, are determined in accordance with the first event rule, i.e. are recognized on either the date on which payment is received/made or the date on which goods (services) are supplied, whichever is the earlier.
- High social security contributions (36.76%-49.70%).
- Only 85% of payments to entities located in tax haven jurisdictions are deductible.
- 0% VAT generally does not apply to exported services.
- Obtaining VAT refunds is very difficult.

### Future development of the tax system

- A new Tax Code and transfer pricing regulations may come into force.
- The tax authorities and courts will be paying greater attention to the economic reasons for transactions undertaken by taxpayers.
- The new Ukraine-Cyprus treaty may come into force, or the existing double tax treaty with Cyprus may be cancelled without ratification of the new one.

# Corporate Taxation

Rate	25%	For insurance companies, net insurance premiums are taxed at 3%. Qualifying small legal entities may opt to use the simplified taxation.
Thin capitalization (debt:equity ratio)	N/A	No thin capitalization rules according to generally-accepted principles. However, there is a deduction limit on interest paid to non-resident related parties.
Withholding tax	15%	Dividends, interest, royalties, capital gains. These rates may be reduced under tax treaties applied by Ukraine.
Special features		85% deductibility of payments to non-residents located in offshore jurisdictions, which include countries commonly referred to as tax havens. Ukraine has transfer pricing rules but they are not actively applied in practice.

## Value Added Tax

General rate	20%	0% VAT applies to the export of goods and related services.
Reduced rate	N/A	
Refund period		N/A in the first 12 months following registration. According to the law, the full procedure for getting a VAT refund paid into the VAT payer's bank account could potentially take up to 3 months. However, in practice, obtaining VAT refunds is very difficult and may take several months or even years.
Special features		Certain services to non-residents are outside the scope of VAT. Exemption from import VAT for energy-saving goods

## Individual Taxation

Personal Income Tax	15%/30%	Dividends, royalties, inheritance and gifts may be taxed at rates from 0 to 15%.
Mandatory Social Security Contributions	Employer: 36.76%-49.7% (the highest rates are applied to high-risk activities) Employee: approx. 3.6%	The contribution base is capped at approx. USD 1.3K per employee per month, subject to annual review by Parliament.

## Other Taxes

Specific Pension Fund charges		Purchase of foreign currency – 0.2%. Purchase of real estate – 1%. Purchase of vehicles – 3%.
State (stamp) duty		Purchase of real estate – 1%.
Other		Land tax, environmental tax.

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Exchange rate on 1 January 2009: UAH 7.70 = USD 1.00.

# Uzbekistan

Capital:	Tashkent
Official language:	Uzbek
Official currency:	Uzbek Soum (UZS)
Population:	27 million (2009)
Area:	447,400 km <sup>2</sup>
GDP growth (%):	8.6 (2008)
GDP per capita (USD):	2,656 (2008)
Double Tax Treaties:	41
FDI (USD):	957 m (Q3 2008)

- EU
- NATO
- OECD
- WTO
- IMF
- EBRD



## Highlights

A New Tax Code has been in force since 1 January 2008. Some of the new concepts it introduces are presented below.

The New Tax Code takes precedence over all other tax related legislative acts. It now contains provisions that in the past were covered by regulations issued by the Ministry of Finance, the State Tax Committee and other state agencies. However, there is still one tax which is not covered by the New Tax Code – the 1% Contribution to the School Development Fund from revenue is regulated by a Resolution of the Cabinet of Ministers of Uzbekistan. We believe that this tax was not incorporated into the New Tax Code because it is only a temporary measure and should expire on 31 December 2009.

The New Tax Code addressed certain issues related to the taxation of foreign legal entities and makes them liable for the following taxes:

- Corporate income tax at 10% on income adjusted for tax purposes.
- The new net profits tax at 10% on income after the payment of corporate income tax.
- Property tax at 3.5% on non-current and intangible assets located in Uzbekistan.
- Land tax at various rates on land used or owned.
- Water-use tax at different rates for surface and underground water.
- Unified social tax at 24% on payroll of national and expatriate staff.

Among other notable changes, there are no provisions on transfer pricing in the New Tax Code.

The New Tax Code introduced many other changes relating to Uzbek taxes. Their practical application and treatment by the Uzbek authorities have yet to be seen.

# Corporate Taxation

Rate	10%	A rate reduction is available to exporters if export sales exceed certain threshold.
Thin capitalization (debt:equity ratio)	N/A	
Tax loss carry forward	5 years	Allows a reduction of taxable income of the respective year by up to 50%.
Withholding tax	6%/10%/20%	6% – Telecommunication, international freight. 10% – Dividends, interest, insurance and reinsurance premiums. 20% – Royalties, rent, lease income, management fees, freight forwarding, etc.
Special features	15%	Applicable to commercial banks.

## Value Added Tax

General rate	20%	0% is applied to export of goods for foreign currency.
Reduced rate	N/A	
Refund period	20 days	Overpayments are generally offset against future tax liabilities. Refunds can be difficult to get.
Special features		Input VAT on capital expenditure should be capitalized (i.e. it cannot be claimed for offsetting).

## Individual Taxation

Personal Income Tax	12%-22%	The minimum annual wage currently is UZS 336,480.
Mandatory Social Security Contributions	Employer: 24% Employee: 3.5%	Due on total remuneration payable to staff.
Special features		Filing deadline for annual Personal Income Tax return is 1 April; final payment is due by 1 June.

## Other Taxes

Property tax	3.5%	Net book value of non-current assets.
Mandatory contributions to designated funds	Combined rate of 3.5%	Contributions are equal to taxes and charged on gross turnover, less VAT and excise tax where applicable.
Taxes on resources		Water-use, land and subsurface taxes.

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# Summary

The following table summarizes some important information concerning corporate taxation. Please note that withholding tax (WHT) refers to payments which a resident tax payer pays to a non-resident legal entity. Below you will see commonly applied parameters, however in specific cases there may be exceptions and further data may be available in the country profile.

	Corporate income tax	Thin capitalization	Loss carry forward	WHT on dividends <sup>1</sup>	WHT on interest <sup>1</sup>	WHT on royalties <sup>1</sup>	WHT on capital gains <sup>1</sup>
Albania	10%	4:1	3 years	10%	10%	10%	10%
Armenia	20%	–	5 years	10%	10%	10%	10%
Azerbaijan	22%	–	5 years	10%	10%	14%	10%
Bosnia and Herzegovina	10%	–	5 years	5% <sup>10</sup>	10%	10%	10%
Bulgaria	10%	3:1	5 years	5%	10%	10%	10%
Croatia	20%	4:1	5 years	–	15%	15%	–
Czech Republic	20%	2:1	5 years	15%	15%	15%	–
Estonia	21/79 <sup>2</sup>	–	–	–	0%/21% <sup>3</sup>	10%	– <sup>4</sup>
Georgia	15%	–	5 years	5%	7.5%	10%	–
Hungary	16%+4%	3:1	indefinite <sup>5</sup>	–	–	–	–
Kazakhstan	20%	6:1/9:1	10 years	15%	15%	15%	15%
Latvia	15%	4:1	8 years <sup>6</sup>	0%/10%	5/10/15%	5%/15%	2% <sup>7</sup>
Lithuania	20%/13%	4:1	indefinite <sup>8</sup>	20%	10%	10%	20%
Macedonia	10%	3:1	N/A	10%	10%	10%	–
Moldova	0%	– <sup>9</sup>	5 years	15%	10%	10%	10%
Montenegro	9%	–	5 years	9%	5%	9%	9%
Poland	19%	3:1	5 years	19%	20%	20%	–
Romania	16%	3:1	7 years	16%	16%	16%	16%
Russia	20%	3:1	10 years	15%	20%	20%	20%
Serbia	10%/20%	4:1	10 years	20%	20%	20%	20%
Slovakia	19%	–	5 years	–	19%	19%	19%
Slovenia	21%	6:1	indefinite	15%	15%	15%	–
Ukraine	25%	–	indefinite	15%	15%	15%	15%
Uzbekistan	10%	–	5 years	10%	10%	20%	20%

- NOTES
- 1 Unless reduced by tax treaty, EU Directive or domestic exemption, if applicable.
  - 2 Undistributed profits are tax exempt (21/79 tax applies on the net amount of profit distribution).
  - 3 21% applies to the amount of interest that significantly exceeds the arm's length level.
  - 4 Certain capital gains may be subject to tax by self-assessment.
  - 5 Tax Authority's permission is required.
  - 6 Transition rules apply in years 2008 and 2009.
  - 7 Applies only on sales of real estate and shares in real estate companies; applies to proceeds, not to capital gains.
  - 8 Except from losses on sales of securities or financial derivatives, which can be carried forward for five years and may only be offset against similar income.
  - 9 No debt-to-equity ratio available; certain restrictions are in place.

The following table summarizes some important information concerning individual taxation and value added tax. Below you will see commonly applied parameters, however in specific cases there may be exceptions and further data may be available in the country profile. Please note that the reduced VAT rate does not include the 0% rate and the VAT-exempt without credit category.

	Personal income tax	Social security employer	Social security employee	VAT general	VAT reduced	Refund period <sup>1</sup>
Albania	10%	21.7%	11.2%	20%	–	30 days
Armenia	20% <sup>2</sup>	15%–5% <sup>3</sup>	3%	20%	–	30 days
Azerbaijan	14%/35%	22%	3%	18%	–	5 years
Bosnia and Herzegovina	8%/10%	10.5%/30.6%	31%	17%	–	60 days
Bulgaria	10% <sup>4</sup>	20.04%–21.1%	13%	20%	7%	4.5 months
Croatia	15%–45%	17.2%	20%	22%	10%	30 days
Czech Republic	15% <sup>4</sup>	34%	11%	19%	9%	30 days
Estonia	21% <sup>4</sup>	33.3%	0.6%–2.6%	18%	9%	30 days
Georgia	20% <sup>4</sup>	–	–	18%	–	3 months
Hungary	18%/36% <sup>5</sup>	32%	17%	20%	5%	45 days <sup>6</sup>
Kazakhstan	10% <sup>4</sup>	4%	11%	12%	–	180 days
Latvia	23% <sup>4</sup>	24.09%	9%	21%	10%	1 year
Lithuania	15%	30.98%–31.7% <sup>7</sup>	3%	19%	9%/5%	90 days
Macedonia	10% <sup>4</sup>	28%	32%	18%	5%	30 days
Moldova	7%–18%	23%	6%	20%	8%/5%	45 days
Montenegro	12% <sup>4</sup>	14.5%	17.5%	17%	7%	60/30 days
Poland	18%–32%	17.48%–20.41%	13.71%	22%	7%/3%	60 days
Romania	16% <sup>4</sup>	25.7%/36.9%	15.5%	19%	5%/9%	45 days
Russia	13% <sup>4</sup>	2%–26%	–	18%	10%	–
Serbia	12%	17.9%	17.9%	18%	8%	45/15 days
Slovakia	19%	34.4%+0.8%	13.4%	19%	10%	30 days
Slovenia	16%–41%	16.1%	22.1%	20%	8.5%	60 days
Ukraine	15%/30% <sup>8</sup>	36.76%–49.7%	3.6%	20%	–	90 days
Uzbekistan	12%–22%	24%	3.5%	20%	–	20 days

#### NOTES

1 In some cases shorter or longer periods may apply.

2 Applies on annual income over AMD 960,000 (EUR 2200) → A 10% rate applies to the first AMD 960,000 of annual income.

3 Regressive rate.

4 Flat rate.

5 Plus 4% solidarity tax on income over HUF 7,446,000.

6 In some cases a shorter period may apply for residents, for of non-residents, the refund period is six months.

7 Mandatory health contributions 6%.

8 15% for residents, 30% for non-residents.

