

CEE Tax Notes

Working cross-border*

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Second Quarter Electronic Update

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Editor's foreword

You may have noticed from the contact list that there has been a change in our regional management. Steven Snaith, currently the Leader of our Russian Tax Practice, has assumed the additional role of regional Tax and Legal Services' leader from Peter Gerendasi. Peter is now the Managing Partner of our Russian firm, based in Moscow.

Beyond the news of this management change within our organization, there are various interesting topics in the current edition of CEE Tax Notes for our readers. Albania, Georgia and Kazakhstan have already reported some of the anticipated 1 January 2008 changes. The Moldovan Government has recently introduced

new tax and legal measures designed to improve the ease of doing business in and competitiveness of Moldova. Estonia has introduced the concept of binding advance rulings, which will bring more security to the tax treatment of major tax transactions.

Please also note that this publication is designed solely for information purposes. The descriptions of rules and regulations are given in brief and general terms only and should not be regarded as a substitute for professional advice.



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Albania

Proposed corporate tax amendments for 2008

The Albanian Government has approved a reduction in the corporate income tax rate to 10%, starting from 1 January 2008, from the existing rate of 20%. The council of ministers has not yet approved the law on this reduction.

The following items have been added to the category of non-deductible expenses for corporate income tax purposes:

- wages, bonuses and any other form of income deriving from employment relationships paid in cash to the employees (including management / senior management);
- cash payments exceeding ALL 300,000 (approx. EUR 2,400) and cash payments for services and goods in excess of 10% of total annual purchases;
- payments made to small businesses for services related to construction activities, such as construction work, assembly and similar;
- advertising and other promotional expenses exceeding 1% of annual turnover and entertainment expenses exceeding 0.3% of annual turnover; and
- sponsorship exceeding 3% of profit before tax, and sponsorship of press and publications exceeding 5% of profit before tax.

Thin capitalisation rules do not apply to leasing companies.

Please note that the above provisions and some of the sections below are based on the new fiscal package that has been approved by the Government but not ratified yet by the Albanian Parliament. Ratification and the date when the provisions will come into effect are expected by end of July.

Indirect taxation

VAT

- From 27 May 2007, the rent of buildings has been VAT-exempt except for the following cases:
 - the term of the rental agreement does not exceed two months; and
 - stays in hotels or holiday resorts.
- According to the new fiscal package, 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 VAT is postponed for up to twelve months.

Excise duties

- According to the new fiscal package, changes to excise tax rates will be introduced. The proposed amendments will affect beer importers and producers whose annual turnover exceeds 200,000 hectolitres, in which case the excise rate will rise from ALL 30 (approx. EUR 0.24) to ALL 40 (approx. EUR 0.32). The excise rates on wine,

sparkling wines, champagne, grape-based spirits, vermouth and other wines prepared from plants or aromatised substances will change from ALL 20 (approx. EUR 0.16) to ALL 50 (approx. EUR 0.4). The excise rate on alcoholic drinks with alcohol volumes of up to 12% will increase to ALL 70 (approx. EUR 0.57) from ALL 50 (approx. EUR 0.4), whereas the excise rate on alcoholic drinks with alcohol volumes exceeding 12% will rise from ALL 150 (approx. EUR 1.21) to ALL 200 (approx. EUR 1.62). The excise rates on oil by-products will not increase significantly (around 10%).

Individual taxation

Personal income tax

- Under a recent decision of the Council of Ministers, issued on 4 May 2007, the minimum salary for personal income tax purposes has changed to ALL 14,000, approximately EUR 113 (at the lowest end) and ALL 150,000, approximately EUR 1,200 (at the highest end). The level of minimum salary applicable will depend on the industry sector as well as the category of employee (i.e. administrator, manager, qualified workers, unqualified workers).
- According to the new fiscal package, the transfer of ownership of real estate, whether land or buildings, is subject to 10% tax on the capital gain on the sale transaction (with some exemptions).
- Personal income tax rates are also subject to changes according to the new fiscal package. ALL 10,000 monthly (approx. EUR 81) personal income is tax-exempt. Personal income between ALL 10,000 (approx. EUR 81) and ALL 30,000 monthly (approx. EUR 243) is subject to 10% personal income tax, whereas total personal income is taxed at 10% if the monthly income exceeds ALL 30,000 (approx. EUR 243).

Social security

- The decision on the minimum salary level has not changed the maximum salary level used as a basis for calculating social and health contributions, which is currently ALL 65,700 monthly (approx. EUR 532).

Other taxes

Building tax

- The new fiscal package also introduces various building tax rates to be applied in Albania, depending on the location of the building (three zones have been defined), the purpose of the building (residential, commercial and buildings in tourist villages) and the time when it was built in the case of residential properties. The yearly tax rates vary from ALL 5 (approx. EUR 0.04) to ALL 200 (approx. EUR 1.62) per square metre.

Azerbaijan

Application of treaty protection in Azerbaijan

As of June 2007, Azerbaijan has effective Double Tax Treaties with 22 countries. Several more are under various stages of negotiations.

Under the Azerbaijan Constitution and the Tax Code, the provisions of Double Tax Treaties Azerbaijan concluded prevail over the provisions of statutory legislation. However, the application of treaty protection is not straightforward in Azerbaijan, since there is no advance exemption procedure in Azerbaijan.

The tax authorities are of the opinion that tax due under the statutory legislation should first be paid and then excess tax can be claimed by the taxpayer in accordance with special rules approved by the Ministry of Taxes.

The current procedure is that a resident of a country which has an effective treaty with Azerbaijan should complete and submit a relevant claim form and other documentation – such as a residency certificate, copies of agreements, and payment orders of taxes – to the Azeri Tax Authorities. The claim must be approved by the competent authority of the country of the tax resident.

As per to the requirements of legislation, such claims should be approved within 45 days of their submission. However, in practice, even after the claim is submitted, the whole refund process is very lengthy and burdensome and includes not only the application procedures, but also an audit/review of the application documents by the tax authorities and correspondence/discussions with the Ministry of Finance for refund.

Additionally, in practice the Azeri tax authorities may initiate an extraordinary tax audit of the tax agent.

This results in the fact that only a very few applications for refunds of taxes paid under the treaty have been approved (there is no official statistics of how many claims have been filed and how many have been approved).

The current system has been criticised by the business community in Azerbaijan as ineffective and not helping Azerbaijan's profile as an investor friendly country. The Tax Authorities have recently taken some positive steps to improve the treaty claim system and have issued (still in draft) new procedures for obtaining advance exemption from taxation for dividends, interest and royalties. Under these procedures, the applicant eligible for treaty protection should file an application to the tax authorities together with the residency certificate, to be granted an

advance exemption from withholding tax on the above types of income. The exemption will be limited to six months; after that period, the taxpayer would have to re-apply.

It is however expected that in the future, the new treaty exemption procedures would be extended to cover other types of income as well.

Corporate taxation

Double Tax Treaties

- By means of the Laws effective from 10 April 2007, the Parliament of the Azerbaijan Republic approved the signed Double Tax Treaties of Azerbaijan with the United Arab Emirates and Switzerland.

Legal and other developments

Labour code

- On 15 May 2007 the President of the Azerbaijan Republic approved the State Program regarding the Employment Strategy of the Azerbaijan Republic for 2007-2010. The program is aimed at improving the administration system on labour migration, regulation of social security and protection of rights of labour migrants, conclusion and termination procedures of labour contracts and labour regimes, etc.

Other

- The President of the Azerbaijan Republic issued a Decree on the measures to improve entrepreneurship in Azerbaijan, dated 30 April 2007. The Decree is aimed at removing bureaucratic obstacles in the business environment.
- On 11 April 2007, the President of the Azerbaijan Republic approved the Rules on the formation of an official registry of movable properties. The official registry reflects the information on establishment, limitation, transfer and termination of rights on movable properties.
- On 10 April 2007 the Azerbaijan Parliament approved the agreements of the Azerbaijan Republic with the United Arab Emirates and Switzerland regarding mutual protection, and attraction of investments.

Bosnia and Herzegovina

Draft Federation Corporate Income Tax Act

The new Federation Corporate Income Tax Act is now available in draft format. It has to pass through parliament, but in general terms it is a much-needed improvement to the current legislation, which has not been revised since 1997.

The two major new changes to the tax law are that:

- The concept of a Permanent Establishment is introduced into the legislation. This brings FBiH (the Federation of Bosnia and Herzegovina) law into line, both with the

other entities in BiH (Republika Srpska and Brcko District), and with EU States.

- The second major change is potentially ground-breaking. The new Corporate Income Tax Law allows a deduction in the FBiH for corporate tax paid in another part of BiH, i.e. the Republika Srpska or the Brcko district.

It is to be hoped that this relief will be reciprocated by the Republika Srpska and the Brcko District. It is unlikely that such a unilateral provision of relief will have an unopposed passage through parliament.



Bulgaria

Changes in Bulgarian immigration legislation

In the recent months there have been significant changes in the Bulgarian immigration legislation. The immigration regime applicable to third-country nationals (from outside the EU) has been made more specific and precise, and certain procedures have been eased. These changes include:

- extension of the term of validity (from 90 days to six months) of the long-term D-visa (multiple entry visa, gives its holder the right to apply for a Bulgarian residence permit);
- change of D-visa status from single-entry to multiple-entry;

- the transit B-visa allows one or several transits through Bulgaria, each transit having to be completed within 36 hours. The B-visa is valid for up to 12 months;
- shorter statutory deadlines for issuing work permits; and
- the minimum financial resources required of foreigners residing in Bulgaria is increased to EUR 50 from BGN 50 (approx. EUR 26).

The changes also concern the immigration regime applicable to foreigners who are members of the families of Bulgarian nationals, as well as third-country nationals granted long-term residence in other EU Member States and members of their families.



Croatia

Research and development incentives

The new amendments to the Scientific Activities and Higher Education Act (the Act) came into force on 15 May 2007, introducing provisions relating to Research and Development Incentives which were removed from the Corporate Income Tax Act on 31 December 2006. The amendments regulate the state subsidies and tax incentives for scientific research, basic research, applied research and development research.

According to the current Act, applicants for scientific project tenders can be scientific organisations, centres of scientific excellence, scientists and groups of scientists. Further clarification and classification of users eligible for the incentives and subsidies should be introduced in a new ordinance not later than six months after these amendments came into force (i.e. by 15 November 2007.)

The amendments set the following total amounts for state subsidies:

- up to 100% of the justified costs of a project for basic research;
- up to 50% of the justified costs of a project for applied research (which can be increased by 20% of justified costs for small entrepreneurs and 10% for medium-sized entrepreneurs); and
- up to 25% of the justified costs of a project for development research (which can be increased by 20% of justified costs for small entrepreneurs and 10% for medium-sized entrepreneurs).

State subsidies can also be granted for technical feasibility studies related to:

- applied research, for 75% of the justified costs of a study for small and medium-sized entrepreneurs and 65% of the justified costs of a study for large entrepreneurs; and
- development research, for 50% of justified costs of a study for small and medium-sized entrepreneurs and 40% of the justified costs of a study for large entrepreneurs.

In accordance with the amendments, corporate income tax payers are eligible for state incentives through an additional decrease of the corporate income tax base for the justified costs of scientific and development research as follows:

- 150% of the justified costs of a project for basic research;
- 125% of the justified costs of a project for applied research; and
- 100% of the justified costs of a project for development research.

A procedure for assessing eligibility to these incentives will be issued by the Science Minister and Finance Minister in an Ordinance not later than six months from the implementation of the Act (i.e. 15 November 2007).

Type of research	Entrepreneur	Percentage of costs covered by state subsidy	Corporate income tax base decrease (based on costs)*
Basic research	–	100%	150%
Applied research	–	50%	125%
	medium	60%	
	small	70%	
Development research		25%	100%
Technical feasibility study for applied research	small / medium	75%	–
	big	65%	–
Technical feasibility study for development research	small / medium	50%	–
	big	40%	–

*Corporate income tax liability decrease is granted up to the percentage of costs covered by state subsidy.

Source: PwC analysis

Czech Republic

Investment incentives

New investment incentives programme for technology and business support centres

On 18 April 2007, the Ministry of Industry and Trade launched a new investment incentives programme for technology and business support centres. The new rules bring a number of important changes to incentives in these areas. Some of the changes are restrictive in nature, while others increase support for investors. Among the new changes are:

- The subsidy for business activity is now calculated as a proportion of personnel costs and no longer includes capital expenditures;
- State support for business activity has been reduced and is now capped at 40% of eligible costs (the rate varies depending on the location of the investment);
- Support for training and retraining costs remains the same at 35% of eligible costs, but there are no longer direct cash subsidies for general and specific training;
- Support for projects to expand existing technology and business support centres has been cut and is now limited to 50% of the public support limit. In practice, this means that state support for expansion projects will be limited to around half that granted for the initial investment;
- The minimum job creation criteria to qualify for incentives have changed: The qualifying number of new jobs created now varies depending on the type of investment, ranging from 20 new jobs for software development centres, up to 100 new jobs for customer support centres;

- The minimum investment level for all types of support centre projects has been reduced to CZK 10 million (approx. EUR 368,000). This is a significant reduction, as previously the investment limit ranged from CZK 15 million (approx. EUR 553,000) to CZK 30 million (approx. EUR 1.1 million), depending on project type; and
- Projections for the future utilisation of granted subsidies are no longer binding.

In another significant change, subsidies granted to offset training costs can now be used to cover a project's other operational costs. This applies retroactively to all recipients of state support granted under earlier technology and business support centre schemes.

Act on investment incentives

An amendment to the Act on Investment Incentives, which will implement new state aid rules adopted by the European Union at the beginning of the year, is awaiting the president's signature. The introduces a number of changes, including:

- The reduction of the period for claiming corporate income tax relief (tax holiday) from ten to five years. This will apply to both greenfield and brownfield investments; and
- The reduction of the minimum investment level in regions with high unemployment to CZK 50 million (approx. EUR 1.8 million). Initially, the proposed amendment stipulated a minimum investment level for all projects of CZK 100 million (approx. EUR 3.6 million), regardless of the location of the investment.



Estonia

Binding advance rulings

The Estonian Parliament has passed amendments to the Tax Procedure Act and the State Fee Act introducing the concept of binding advance rulings. These amendments will take effect from 1 January 2008.

A binding advance ruling will include the tax authorities' opinion on the tax consequences of a transaction or series of transactions to be undertaken by a taxpayer. The ruling will be binding on the tax authorities, provided that the transactions are concluded within the time and under the circumstances described in the ruling request and also provided that the relevant tax legislation has not been changed substantially before the taxpayer enters into the transaction.

Rulings will not be issued on transfer pricing matters and may be denied for hypothetical transactions and transactions with the sole purpose of tax avoidance.

Binding rulings will be issued within 60 days of the submission of the request, or within 90 days if the tax authorities have a valid reason to request an extension of the response deadline.

Summaries of tax rulings that have general significance or deal with frequently asked questions may be published on the tax authorities' website, with due regard for the protection of the tax secrets and personal data of the persons involved.



Georgia

Reform plans in corporate and individual taxation

The Georgian government is considering further liberalization of its tax policy. The latest proposal is to lower the corporate income tax rate by five percentage points to 15 percent starting from 1 January 2008. This change is intended to benefit businesses and encourage investment.

In addition to this possible change, there is another government proposal to combine personal income tax and social tax into one tax. The proposed tax rate would be 25%. The current 20% social tax (employer's cost) would be eliminated; and the personal income tax rate of 12% would increase to 25% (flat rate). This proposed change is intended to encourage employers to increase salaries (although the benefit to employees would be minimal) and to simplify tax administration (one less monthly report).



Hungary

New minimum tax

Earlier this year, the Act on Minimum Tax was abolished by the Constitutional Court. Although the ruling had no retrospective effect, Parliament revoked all regulations on minimum tax that affected corporate tax and personal income tax retrospectively to 1 January 2007.

In its ruling, the Constitutional Court commented that the regulations on minimum tax raised constitutional concerns because the legislators did not make it possible to offer counter-evidence to refute presumptions made under substantive law.

Parliament adopted the Government's new proposal on minimum tax on 14 May 2007, in accordance with the Constitutional Court's ruling.

The amendments affect the Acts on Corporate and Dividend Tax ("CDTA"), Personal Income Tax ("PITA") and the Rules of Taxation ("ART").

Under the changes affecting the CDTA and the PITA, where a taxpayer's pre-tax profits are below the statutory minimum income (profit), either income from activities performed through a foreign-based permanent establishment and allocated to such a permanent establishment, subject to no minimum income (profit) limit, is treated as the taxable base, or the taxpayer – at its discretion – can make a declaration concerning its taxable base in accordance with the new section of the ART. The burden of proof of the veracity of the declaration lies with the taxpayer. If the taxpayer fails to demonstrate that the declaration is true and correct, the Tax Authority estimates the taxable base. The statutory minimum income (profit) is 2% of total revenues reduced by – among other items – the costs of goods sold and the value of intermediated services.

The new rules are proportionally applicable from 1 July 2007. This also applies to taxpayers using a non-calendar financial year, if filing a tax return for the 2007 tax year after 1 January 2008.

Corporate taxation

Transfer pricing

- The Hungarian Finance Ministry and Tax Authority issued a communiqué in April which stated that the Tax Authority may impose a HUF 2 million (approx. EUR 8,000) default penalty for each qualifying contract if a taxpayer fails to comply with the transfer pricing documentation requirements. In the past it was not clear whether the HUF 2 million default penalty was valid for each qualifying contract or for all contracts together where the taxpayer had failed to meet the documentation requirements.

Indirect taxation

Excise duty

- From 1 July 2007, excise duty warehouse operators, registered traders, tax representatives, fiscal representatives and entities that are obliged to file returns electronically for other taxes are allowed to file their excise duty returns electronically. Electronic filing will be compulsory from 1 January 2008 for these entities. Any other entities that are subject to or entitled to reclaim excise duties may also choose to file their excise duty returns electronically.

Energy tax

- From 1 July 2007, entities liable to pay or entitled to reclaim energy tax are allowed to file their energy tax returns electronically. Electronic filing will be compulsory from 1 January 2008.

Individual taxation

Personal income tax

- On 1 July 2007, new immigration laws came into effect regulating the entry of individuals to Hungary from the European Economic Area (EEA) and third countries. The aim of the new legislation is to harmonise Hungary with EEA requirements and also to be prepared for the local implementation of the Schengen Agreement and system, which is due early next year. Due to these two new acts, new decrees have also been issued and other legislation has been amended. Work permit regulations based on the reciprocity agreements still apply to certain EEA nationals, although the new legislation was clearly intended to allow free movement within the EEA for EEA nationals and their families. There is a new, separate act regulating the entry of third country nationals to Hungary, which already contains some of the Schengen requirements, but which will be amended once Hungary has become a full member and receives the formal resolution from the European Parliament. The new act, however, was clearly intended to introduce a more focused regulatory system for monitoring the movements of third country nationals.
- Due to the above, and since free movement within the EEA for EEA nationals and their families was introduced, the Personal Income Tax act has also been amended to correspond with the Immigration Act. The concept of tax residence has been redefined, and therefore the corresponding parts of the Social Security act have also been amended.

- Based on the new Hungarian legislation, from 1 July 2007 an individual is considered a Hungarian tax resident if:
 - he/she is a Hungarian national (except those who have dual nationality and do not have a permanent home or residence in Hungary);
 - he/she is an EEA national with EEA resident permit issued in Hungary and within a calendar year he/she spends at least 183 days in a calendar year in Hungary (including the dates of arrival and departure); and
 - he/she is a third-country national (non Hungarian, non-EEA) permanently settled in Hungary.
- In addition (if the above criteria are not met), any individual is considered a Hungarian tax resident if:
 - his/her only permanent home is in Hungary;
 - he/she does not have a permanent home in Hungary, or not only in Hungary, but his/her centre vital interests (family and economic ties) is in Hungary; and
 - he/she does not have a permanent home in Hungary, or not only in Hungary, and his/her centre of vital interests is not in Hungary, but Hungary is his/her habitual abode (he/she spends at least 183 days in a calendar year in Hungary).



Kazakhstan

Draft 2008 Tax Code amendments

The Tax Committee of the Ministry of Finance has distributed a preliminary package of the 2008 Tax Code amendments for discussion. The most notable amendments include:

- abolition of income tax exemptions for certain types of capital gain;
- limitation of the deductibility for certain types of training expenses to 3% of taxable income;
- repeal of the Special Economic Zones provisions;
- abolition of VAT exemptions for certain types of turnover; and
- repeal of the preferential import VAT “offset” method.

The Ministry of Finance also proposes to shift management, supervision and responsibility for issuing normative tax and customs acts from the Tax and Customs Committees to the Ministry of Finance. The Kazakhstan Taxpayers Association distributed proposed tax amendments, which relate primarily to the government effort to simplify tax administration.

On behalf of the foreign investment community, the Foreign Investment Council has also distributed for discussion a number of proposed amendments to the Tax Code with effect from 2008. Among the amendments suggested by the Foreign Investment Council are:

- tax treatment of capital gains/losses on securities related to hedging;
- tax-free reorganizations;
- clarification of the tax treatment of certain long-term contracts; and
- timing of input VAT, i.e. allowing the reporting of input VAT at a later date, based on invoices.

Corporate taxation

Double Tax Treaties

- Recently, the President signed into law the ratification of Double Tax Treaties with Malaysia and Singapore. The treaties will come into force when the domestic ratification procedures in the other contracting states have been completed. Currently, Kazakhstan has 37 Double Tax Treaties in force.

Indirect taxation

VAT

- The Government has expanded the list of leased assets exempt from import VAT. The list of assets qualifying for import under the preferential import VAT “offset” method has also been expanded. The VAT refund regulations now require a new document from the customs authorities to confirm the refund claimed.

Other taxes

Signature bonus

- The Government has issued new unified rules for determining the minimum rates of signature bonuses under subsurface-use contracts.

Legal and other developments

Labour code

- The Kazakhstan Labour Code came into effect on 1 June 2007 (some articles will come into effect on 1 January 2008). The Code codifies and brings together various separate laws/regulations on labour-related issues (e.g., social partnerships, collective agreements, strikes, labour safety and security). It attempts to adapt the labour legislation to the needs of modern Kazakhstan society and business, and gives more emphasis to employees’ rights (e.g. the minimum annual vacation is increased from 18 to 24 calendar days).

Other

- A new Law “Concerning Accounting and Financial Reporting” was introduced recently.
- The Kazakhstan Ministry of Justice has issued an Instruction on the State registration of legal entities and their affiliates and representatives. This instruction, in particular, sets out the rules and procedures on the assignment of Business Identification Numbers.

Latvia

Changes in withholding taxation

Dividends

Since 12 June 2007, all dividends paid to EU and EEA registered companies have been exempt from withholding tax, regardless of the amount and period of their shareholding or voting rights. However, the Latvian company will be obliged to check whether the beneficiary is a type of company listed in the Appendix to the Parent-Subsidiary Directive.

Real estate disposals

According to the amendments that came into force on 12 June 2007, 2% withholding tax is levied on a non-resident's gains from the disposal of shares or other participation in a Latvian- or foreign-registered company or other entity if, in the period of disposal or in the previous period, real estate in Latvia makes up more than 50% of the asset value of the company being disposed of, either directly or indirectly (through shareholdings in one or more other entities established in Latvia or abroad).

The amendments state that real estate must be valued according to the owner's balance sheet at the beginning of the relevant periods. If the real estate percentage in the total asset value has changed over the previous period as a result of any real estate disposal that has been taxed accordingly, then only the real estate percentage in the current period should be taken into consideration.

Thus, prior to a share purchase, a Latvian company should verify the target's assets in the previous period, as the lawmaker has prudently restricted the potential for withholding tax avoidance in the event of real estate and shares being sold in two different tax periods.

However, it is currently unclear how this new provision of the law will be enforced in cases when a non-resident disposes of shares in a Latvian real estate company to another non-resident.

A non resident's gains on the sale of securities publicly traded in EU or EEA countries will be exempt from withholding tax.

Corporate taxation

Corporate tax

- Amendments regarding representatives' vehicles came in force on 12 June 2007 which disallow the tax deduction of expenses incurred on the use and maintenance of representatives' light passenger vehicles and for lease or hire purchase payments associated with leasing such vehicles. Representatives' vehicles will be ineligible for capital allowances. Companies using representatives' vehicles to provide passenger vehicle lease services are not governed by corporate income tax restrictions on leased representatives' vehicles, provided that their

revenues from this business make up at least 90% of their total turnover.

To restrict employees' use of company cars for private purposes, the proposed changes will affect the taxation of other passenger vehicles as well. For light passenger cars (except for representatives' vehicles, which are ineligible for depreciation) and motor cycles, as well as sea and river vessels and aircraft purchased after 11 June 2007, depreciation will have to be charged separately for each item. In addition, capital allowances for these vehicles (except for those with special equipment) will have to be calculated at the rate of 30% (currently 40%).

Companies leasing light passenger cars, motor cycles, sea or river vessels or aircraft as their core business activity are ineligible for any favourable rules.

Individual taxation

Personal income tax

- Before 1 July 2007, personal income tax was levied on an individual's gain on a sale of real estate that had been held for less than 12 months. After 1 July, tax will be levied on gains arising on all real estate disposals, except for real estate that an individual has held for over 60 months and that has been his declared residence for at least 12 months prior to the disposal. An exemption will not apply to any real estate that an individual declares as his additional address. A disposal includes any transaction that involves one person acquiring another's legal title to real estate (including deeds of gift and exchange). According to the amendments, disposals also include transactions involving the right to acquire real estate.

Special rules will govern real estate contributed to an entity established in Latvia or abroad. Gains on real estate disposals will not be taxed at the time the contribution is made. However, if an individual disposes of shares acquired in exchange for a real estate contribution, and the real estate in Latvia directly or indirectly makes up more than 50% of the share-issuing entity's asset value in the year of disposal or the preceding year, then gains on the share disposal will be subject to tax.

The good intention of taking immediate steps against inflation by reducing speculation in real estate has been defeated by the transitional rules included in the law.

- Gains on the sale of investment certificates issued by investment funds have been added to the list of non-taxable types of income. Individuals will also be allowed a tax deduction for investments in pension funds, life assurance companies, and investment funds duly registered in EU or EEA countries, provided that the total investment (in the form of contributions or premiums) for each category or in total does not exceed 20% of an individual's annual taxable income (previously 10%), and if other criteria are met.

Lithuania

Amendments to Profits Tax Law and Social Insurance Contributions Law

The amendments to the Law on Profits Tax, which came into effect on 19 May 2007, covered the recognition of goodwill, introduction of fixed profits tax to maritime entities, rules governing tax losses to be carried forward of entities participating in a reorganisation, and rules on the use of the production depreciation method for tax purposes.

From 1 July 2007 social insurance contributions will not be calculated on additional (voluntary) health insurance paid by an employer for the benefit of its employees.

Indirect taxation

VAT

- Regarding call-off stock simplification: a Lithuanian VAT payer who owns and uses stock in a place to

which goods of an EU Member State's VAT payer are delivered and stored would be liable to calculate reverse charge VAT on the goods if the following conditions are met:

- The title to the goods is transferred to the Lithuanian VAT payer within 12 months; and
 - The goods are used solely by this VAT payer.
- This provision enables VAT payers of the EU Member States to avoid VAT registration in Lithuania.

Legal and other developments

Labour code

- The monthly gross wage cannot be less than the minimum set by the legislation in force. As of 1 July it is LTL 700 (approx. EUR 203).



Macedonia

Two new Double Tax Treaties have been ratified

Macedonia has concluded and ratified two new Double Tax Treaties, with Great Britain and with Latvia.

Under the Treaty with Great Britain, withholding tax rates range from 0% to 12% on income payable from dividends, interest, royalties and employment. Dividends may be taxed in the other contracting state where the company is resident and if the beneficial owner holds at least 10% of the dividend distributor, the tax rate is 5%. In all other cases the tax rate is 12%. Dividends will not be taxed in the state where the company paying the dividends is resident if the beneficial owner of the dividends directly holds a minimum of 25% of the dividend-paying company.

The 0% tax rate only applies if the dividend-paying company has been continuously operational for 12 consecutive months up to and including the date of the dividend payment. Withholding tax of 10% will be due on the gross amount of a dividend or interest payment if the beneficial owner is resident in the other contracting state.

Under the Double Tax Treaty with Latvia, 5% withholding tax will apply to dividends, interest and royalties, but income from the film industry and related activities will be taxed at 10%.

Indirect taxation

Customs duties

- Protocol 2 of the Free trade agreement between Macedonia and Turkey was ratified at the beginning of June 2007. Among the issues it covers are the concept and definition of originating products, bilateral cumulation (including the degree of processing required for finished products to be deemed as originating in the processing state when they incorporate raw materials origination from the other state), proof of origin, and the procedure for issuing EUR1 certificates, invoice requirements, approved exporter status, etc.

Individual taxation

Social security

- A social insurance agreement between Macedonia and Luxembourg was ratified in mid-April 2007. It covers health, pension and social insurance provision, and unemployment and invalidity allowances, etc. It also includes regulations covering personnel on assignment from Macedonia to Luxembourg and vice-versa, under which they can remain under the social security system of their own country for up to 12 months, with the option of a further 12-month extension.

Legal and other developments

Labour code

- The new law on the employment of foreigners governs the conditions and procedures for the employment of foreigners in Macedonia. Foreigners can be employed in Macedonia under contracts with Macedonia-resident employers. The law also covers services provided by foreigners under temporary employment contracts in Macedonia.

Consumer protection

- A new law on the protection of loan customers was enacted at the end of May and governs all the consumer protection aspects of offering and providing loans, and the conditions for obtaining a lender's permit.

Other

- A new Law on the Financial Police covers both the organisation and operation of the force and extends the scope of its authority and jurisdiction. The law also sets out procedures for inter-agency cooperation between the force and other state bodies.
- The new Law on Banks sets out the procedures for the establishment and operation of both Macedonian banks and the affiliates of foreign banks in Macedonia. Banks must be Macedonia-resident joint stock companies and their shareholders can be domestic or foreign legal entities or natural persons. The law also sets out requirements for bank governance and oversight. The National Bank has the sole right to revoke and sell the shares of shareholders who do not meet the prescribed criteria. Bank licenses can be revoked within six months if the requirements are not met (this period has replaced the previous 12 months). The registered capital needed to establish and operate a bank has been increased to EUR 5 million from the previous EUR 3.5 million (i.e. the equivalent in Macedonian currency). In order to achieve a higher level of financial market liberalisation, the new law provides a procedure for opening banks or affiliates of banks from the EU countries. The chartered capital for opening bank affiliates is the equivalent of EUR 2 million in Macedonian currency.
- The Law on Notaries sets out the procedure for the appointment and dismissal of public notaries, defines the scope and nature of their work and authority, and establishes oversight and disciplinary measures.

- The changes in the Law on Securities that were adopted in March 2007 include a change in the definition of private offering. The purpose of this is to end the exclusive right of present shareholders to buy new shares in a private offering whose aim is to underwrite new shares. This right has now been extended to foreign and domestic legal entities and natural persons who are not present shareholders to underwrite and buy shares through private offerings.
- Changes in the Law on Investment Funds were also adopted In March 2007. The registered capital for establishing an open or closed type of investment fund has been reduced from EUR 2 million to EUR 500,000, and the registered capital needed to establish an

investment management company has been decreased to EUR 100,000, with an additional EUR 50,000 for each new investment fund managed. The new changes provide the right to establish private equity funds by acquiring financial assets through private offerings to investors targeted in advance. The chartered capital needed to establish a private equity fund management company is EUR 50,000, plus EUR 25,000 for each additionally established fund. These changes have been made to increase the liberalization of the financial market and to encourage the movement of capital.



Moldova

Zero corporate income tax, fiscal amnesty and legalisation of capital

Zero corporate income tax rate

On 11 May 2007, the Parliament of Moldova passed a Law providing for important reforms, such as: zero corporate income tax rate, fiscal amnesty and legalisation of capital.

Thus, starting with 1 January 2008, legal entities will apply the 0% corporate income tax rate. Consequently, starting with 2008, the 5% withholding tax will not be applied on service payments performed by resident legal entities for the benefit of resident suppliers. Also, the 15% preliminary corporate income tax rate shall not be applicable on interim dividend payouts.

Dividends distributed by resident companies will be treated as taxable income for all the categories of beneficiaries, previously being deemed as exempt income for the individuals who are beneficiaries thereof.

Fiscal amnesty

The Law also regulates the fiscal amnesty. Thus, starting with 11 May 2007 outstanding liabilities recorded as at 1 January 2007 of legal entities and individuals towards the state budget, social fund and medical insurance fund shall be annulled.

Additionally, no tax inspections may be performed for fiscal periods up to 1 January 2007, except in cases in which voluntary requests are made by the taxpayer (e.g. for refund purposes). However, tax authorities shall still exercise their full enforcement and investigation authority regarding fiscal periods starting with 1 January 2007.

Legalisation of capital

The subjects of the capital legalisation process are individuals (Moldovan citizens) and resident legal entities, which have relations with the Moldovan budgetary system (except for legalisation of monetary funds) and whose capital falls under the provisions of these amendments, and which was voluntarily declared.

Objects of capital legalisation are monetary funds, immovable assets, securities, shares not declared previously and/or declared at a reduced value and on which taxes and duties, social contributions and medical insurance contributions have not been paid, as well as positive differences resulting from capital asset re-evaluation.

Capital legalisation shall be performed on a voluntary basis, paying a 5% tax on the legalized monetary assets,

as for other assets – on the difference between the declared value of legalized capital and the value of the transaction.

The law establishes guarantees granted to the subjects of capital legalisation and, in particular, the inviolability of the legalized capital, confidentiality of the information, interdiction for authorized public authorities to bring to responsibility persons legalizing their capital. The subject of the legalisation is exempted from payment of income tax resulting from capital increase.

The legalisation of monetary funds may be performed starting from 11 May 2007 until 30 December 2008, while that of immovable assets, securities and shares may be performed until 31 December 2008.

Indirect taxation

VAT

- Based on the amendments to the Tax Code that came into force on 23 March 2007, the threshold of supplies to be reached by businesses for the purpose of VAT registration was increased from MDL 200,000 (approx. EUR 12,225) to MDL 300,000 (approx. EUR 18,340). The same threshold has been established for benefiting from imported services.
- The newly introduced amendments also provide for the possibility to voluntarily register for VAT purposes, should the total amount of taxable supplies of goods and/or services exceed the threshold of MDL 100,000 (approx. EUR 6,110). The mandatory condition to be fulfilled in order to voluntarily register for VAT purposes refers to the requirement that purchases are settled through bank accounts opened with financial institutions having a fiscal relationship with the Moldovan budgetary system.

Customs duties

- On 4 May 2007, the Moldovan Parliament passed the Law for the ratification of CEFTA.

Individual taxation

Social security

- The deadline for the submission of the report on calculation and transfer of health insurance contributions was changed from the 10th of the month following the reporting quarter to the end of the month following the reporting period.

Other taxes

Road taxes

- Starting with 1 January 2007, a new heading, “Road Taxes”, has been introduced into the Fiscal Code. Road taxes are levied for the use of roads and/or of zones for the protection of roads outside local areas. The system of road taxes entails the following:
 - road tax applied to vehicles registered in Moldova (including those temporarily registered in Moldova);
 - road tax applied to vehicles not registered in Moldova;
 - road tax applied to vehicles of which the total weight, load on axle or overall dimensions exceed the allowable limits;
 - tax for performing building and assembling work within zones for road protection which are situated outside the local area (e.g. buildings and improvements, parking areas, except for units aimed at providing road services);
 - tax for placing advertising within zones for road protection which are situated outside the local area (e.g. advertisements, panels, stands, installations and structures (situated separately or on building walls and roofs), suspended electromechanical and electronic signage, other technical advertising means); and
 - tax for placing equipment for road service purposes within zones for road protection which are situated outside the local area (e.g. fuel stations, technical service stations, tyre service stations, wholesale units, enterprises for public food service).

Legal and other developments

Labour code

- The minimum basic monthly salary of MDL 900 (approx. EUR 55) was established as of 1 July 2007 for self-financed enterprises.

Law on insurance and reinsurance activities

- A new Law on insurance and reinsurance has been approved. According to this Law, insurance and reinsurance activities can be carried out exclusively by the insurer or reinsured person in the form of an open joint-stock company, including those with foreign investments holding a license issued according to this law. The minimum share capital of the insurer or reinsurer shall amount MDL 15 million (approx. EUR 916,000) to which coefficient 1 is applied – for general insurance activity; coefficient 1.5 – for life insurance activity; and coefficient 2 – for reinsurance activity. Insurers holding licenses on insurance activity on the date the law comes into force should gradually increase their share capital during a five-year period.



Montenegro

Law on tax advisors

Parliament has adopted the Law on Tax Advisors, which will come into effect on 1 January 2008. The aim is to create a proper framework for professional services in the area of taxation, and also to achieve further harmonization with the EU. From the effective date, tax advisory work may only be performed by, or under the supervision, of a licensed tax advisor. In order to qualify for registration as a licensed tax advisor, a natural person must fulfil general conditions (i.e. Montenegrin citizenship, absence of criminal convictions) and special conditions (university degree, five years' relevant professional experience, tax advisory qualification). A legal person owned and controlled by licensed individuals may also be registered as a tax advisor.

Under the new Law, the tax advisory profession encompasses tax and customs consulting, preparing tax returns and other tax documentation, and representation in tax administrative and court proceedings.

The Chamber of Tax Advisors, to be set up the profession's regulatory body, will be responsible for issuing and revoking tax advisory licences.

Indirect taxation

Customs duties

- Parliament has approved a Customs Tariff Code, which is in line with the 2007 version of the Combined Nomenclature of the European Union based on the Harmonized Commodity Description and Coding System (HS). The new Code came into effect on 1 May 2007.

Individual taxation

Social security

- On 27 March 2007, Montenegro ratified a bilateral social security agreement with Serbia. The agreement is reciprocal and regulates the social security rights (i.e. health, pension, disability and unemployment insurance) of individuals domiciled in one of the two states who stay or work in the other state.



Poland

Tax and legal developments

Social security rates: reduced at last

We have reported several times here on governmental plans to reduce the social security rates. However, only recently have the political obstacles been removed and the idea of social security rates' cuts has found its way in to implementation. On 15 May 2007 the lower chamber of the Polish Parliament adopted an amendment, based on a governmental draft, to reduce the rates in two steps. In the first one, effective from 1 July 2007, the employee's share of the social security contributions will be cut by three percentage points. In the second, effectively from 1 July 2007, both the employee's and the employer's shares will drop by two percentage points each. Before 1 July 2007 the employee's share used to be 18.71% of gross salary, while the employer's share used to be in the range of 19.71%-22.41%.

Based on the amendment adopted on 15 May the relevant figures will change as follows:

- from 1 July 2007 the employee's share will be 15.71% of gross salary and the employer's share will continue to be in the range of 19.71%-22.41%; and
- from 1 January 2008 the employee's share will be further reduced to 13.71% of gross salary, and the employer's share will be in the range of 17.71%-20.41%.

The reason for the amendment to the social security legislation was clear: the high social security burden has long been perceived as one of the most significant causes of unemployment. Though it has been steadily falling for the last three years, it is still high at the level of approximately 13.5%. The government expects that the above change will improve the situation.

However, leading economists are rather sceptical. Their main point is that the rate cuts will be financed from economic growth and not from the spending cuts. It is easy to keep the budget stable at the rate of 6-7% GDP growth, they say, but things will change when the economic cycle turns round. Furthermore, they point out that the cuts in the social security contributions are elements of an expensive package including an increase in the old age and disability pensions as well as a new allowance in

personal income tax (please, see below). Notwithstanding the above critical comments, nobody argues against the idea of reducing the fiscal burden on employment. From that perspective, the discussed legislative change is a big achievement that should make life easier: both for the employees and for the employers.

Children's allowance in personal income tax

As mentioned above, the amendment to the social security legislation is an element of a bigger package. The latter includes, among others, a new children's allowance in personal income tax. Based on the idea supported by the ruling coalition, in 2008 individuals would be able to decrease their taxable base by approximately PLN 3,015 (approx. EUR 800) per each child (on top of other deductions). The legal shape of this allowance has not been fixed, yet. However, since it is a governmental priority, it is expected that the relevant amendment to the Personal Income Tax Law will be adopted soon and will be effective as of 1 January 2008.

Tough time for supermarkets?

Polish Parliament passed a controversial legislation aiming at restricting the activities of large stores such as supermarkets and hypermarkets. The law will come into force two months following the publication in the official Journal of Laws. The new measure will be applicable to "large-space shopping centres", which are defined as shopping facilities exceeding 400 square metres. Based on the most important provisions, establishing such facilities will require a permit from local authorities. The decision to grant a permit will depend on numerous criteria, which can be interpreted in a very flexible way. Therefore, it seems that, in practice, any objection conceived by the local authorities could be a reason for rejecting the application for a permit. Furthermore, if the permit is granted, it will be subject to the stamp duty at a rate of PLN 25 (approx. EUR 6.5) per each square metre of the shopping centre's space. However, the overall stamp duty cannot exceed 0.5% of the declared investment value. The above legislation's constitutionality will likely be questioned in a claim to the Constitutional Tribunal.

Romania

Advance pricing agreement and tax ruling

The procedure for issuing an advance pricing agreement has been published.

Taxpayers engaged in transactions with related parties can request the National Agency for Tax Administration (“NATA”) to issue an advanced pricing agreement (“APA”). The procedure for obtaining an APA, including both the issuing and monitoring of the APA, is a four-stage process, as follows:

Stage I – Pre-filing Discussions

Prior to filing a request for an APA or for an existing one to be modified, taxpayers can ask the NATA for a preliminary discussion to assess if an APA is necessary or the modification of an existing APA is required.

Stage II – Filing the request

The request for an APA is filed with the relevant documentation and evidence of payment of the issue fee. The required documentation is based on the Code of Conduct on Transfer Pricing Documentation for Associated Enterprises in the European Union. In the request, the applicant suggests the content of the APA.

Filing the request requires payment of an issue/amendment fee, as follows (please note that although the legislation sets the fees in Euro, payment is in Romanian Lei, converted at the exchange rate given by the Romanian National Bank on the date of payment):

	Large taxpayers or Transactions > EUR 4 million*	Other taxpayers
Issue fee	EUR 20,000	EUR 10,000
Amendment fee	EUR 15,000	EUR 6,000

* The consolidated value of the transactions included in the APA is established on the date of filing the annual report.

Stage III – Issuing the APA

The APA issued is approved by order of the president of the NATA.

If taxpayers do not agree with the content of the APA, they can notify the NATA within 15 days. In this case, the agreement does not have any legal effect.

Stage IV – Annual Report Filing

The recipients of an APA are obliged to submit an annual report on their compliance with the terms and conditions of the agreement. This report must be submitted by the deadline provided by the law on submitting annual financial statements. Not submitting this report leads to cancellation of the APA.

Other general information

The term provided by the Fiscal Procedural Code for issuing an APA is 12 months for unilateral APAs and 18 months for bilateral and multilateral APAs. This term is suspended during periods when the tax authorities are waiting for additional information they have requested.

An APA has legal effects only for the future, from the fiscal year following the one in which the controlled transaction was concluded. In exceptional cases, APAs may also be applied in the fiscal year in which the request was filed, if the agreement expressly provides for this and the request was filed prior to the conclusion of the controlled transaction.

An APA is issued for a period of up to five years. In exceptional cases, an APA may be issued for a longer period in the case of long-term agreements.

Requests for APAs filed earlier but which had not been answered when the new procedure came into effect will be dealt with according to the new procedure.

Tax ruling

The procedure for issuing a tax ruling has been published. Taxpayers registered with the tax authorities can file a request for a tax ruling with the NATA. The process involves the following stages:

- Taxpayers can ask the NATA for a preliminary discussion to evaluate the feasibility of issuing a tax ruling.
- The request for a tax ruling has to be filed with the relevant documentation and evidence that the issue fee has been paid.
- The term for issuing a tax ruling is 45 days and is suspended during periods when the tax authorities are waiting for additional information they have requested.

The issue fee is EUR 1,000. (Please note that although the legislation sets the fee in Euro, payment is in Romanian Lei, converted at the exchange rate given by the Romanian National Bank on the date of payment.)

Corporate taxation

Double Tax Treaties

- The Romanian Parliament recently adopted a law ratifying a number of conventions and agreements on the taxation of income from interest and the exchange of information on such income. This results from the relevant EU Savings Directive.
- Romania has entered into bilateral agreements and conventions to exchange information and regulate the taxation of interest with the following countries: Anguilla, Aruba, the British Virgin Islands, the Cayman Islands, Guernsey, The Isle of Man, the Turks and Caicos Islands, Jersey, Montserrat, and the Dutch Antilles.

Investment incentives

- Specific programmes to support small and medium-sized enterprises (“SMEs”) have been approved, including:
 - Multi-year National Programmes for 2006-2009 to give SMEs access to advisory and training services; develop SME’s export activities;
 - Programmes for developing and modernising trade activities; the development of SMEs with funds from the State Budget within the limit of the amount of profit tax paid related to reinvested profit; supporting handicraft businesses.

Indirect taxation

VAT

- The import VAT deferment mechanism (i.e. showing the import VAT only in the VAT return as both output and input tax) has been restricted since 15 April 2007. As a result, importers are required to pay the VAT at the customs office, unless they obtain a deferment certificate. Deferment certificates can be obtained from the National Customs Authority by importers that meet two conditions:
 - they have been registered for VAT purposes for at least one year before submitting the request;
 - the value of their imports from non-EU countries during the previous calendar year has to be more than RON 150 million (approximately EUR 46 million).
- From 15 April 2007, imports followed by intra-community supplies are VAT-exempt if the importers deposit a guarantee at the customs office. The guarantee is the equivalent of the VAT amount that would have been due if the goods were imported into Romania.

- Non-resident companies established either in or outside the EU are entitled to a refund of the VAT related to the costs charged by Romanian suppliers. Companies established outside the EU can benefit from such a refund procedure if a reciprocity agreement is in place between Romania and the non-EU country where the company is established. The Ministry of the Economy and Finance has published the administrative procedure and the template of reimbursement claim forms.
- For reporting obligations from May onwards, Romanian companies registered for VAT purposes have to submit their VAT returns using a new form. The Romanian tax authorities have included the format and filling in instructions for the bi-annual reporting of local sales/acquisitions that have to be submitted by all companies registered for VAT purposes in Romania.

Customs duties

- Clarifications regarding the right of representation in customs procedures have been issued. Under the new provisions:
 - Romanian companies authorised to act as customs brokers can act as direct or indirect representatives for any person, while Romanian companies that are not customs brokers can only act as indirect representatives and only for one company;
 - indirect representatives can appoint customs brokers to perform customs formalities;
 - indirect representation is only possible for release into free circulation and for exports not subject to conditions/restrictions (e.g. licences);
 - customs declarations can be completed by legal entities established in Romania or in the EU in their own names, or through direct representation, or through indirect representation;
 - companies not established in the EU can complete customs declarations (in their own name or through a direct customs representative) only for transit and temporary importation. Indirect representation is only possible for release into free circulation and exports of goods not subject to restrictions, performed occasionally and under special circumstances approved by the customs authorities.

- New instructions on the method of simplified customs clearance procedures have been published. Under the new provisions:
 - simplified customs clearance procedures cannot be applied for goods subject to EU Common Agricultural Policy measures;
 - the simplified declaration procedure cannot be used for certain customs regimes such as bonded warehouse, inward processing relief, processing under customs control, temporary admission and outward processing relief;
 - if the local clearance procedure is applied, goods are shipped directly to the company's premises without passing through the customs office;
 - to use the simplified customs clearance procedures, companies must provide security against deferred payment of the import VAT and excise duties (as applicable) and secure the payment of the customs duties.
 - more restrictive conditions concerning the granting of authorisation for simplified customs clearance procedures have been introduced (e.g. only a Romanian legal person can apply for authorisation; the local clearance procedure can be applied by companies whose operations with third countries in the previous calendar year involved a total customs value of over EUR 3 million; companies should have an adequate IT infrastructure).
 - subject to certain conditions, a Romanian company authorised to use the simplified customs clearance procedures can act as an indirect customs representative for a single company established in another EU Member State.
- New measures for the export and import of dangerous chemical products have been published. The provisions set maximum penalties for non-compliance with the specific notification procedure, with fines of up to RON 50,000 (approximately EUR 15,300).

Environmental fund and waste management

- The registration requirements for producers of electrical and electronic equipment (EEE) have been reduced. Companies registering after 1 January 2007 no longer have to submit proof of the guarantee for financing waste management operations. This provision also applies to companies that applied for registration before this regulation was issued and are in the process of registration.

Legal and other developments

Consumer protection

- On 3 April 2007 Order no. 205/2007 of the National Authority for Consumer protection came into force. This gives customers the right to be informed correctly, fully and precisely about the exchange rate used by economic operators in foreign exchange transactions. For the obligation to be fulfilled, customers have to complete an acceptance form for the foreign exchange transaction before the transaction takes place. The acceptance form has to be in both Romanian and English and has to be signed by both parties, i.e. by both the customer and the economic operator.
- On 25 May 2007, National Authority for Consumer Protection Order no. 296/29767 came into force. This introduces measures to ensure that only cigarette lighters which are child-resistant are placed on the market and bans the marketing of novelty lighters. The Order harmonizes the Romanian legislation with Council Regulation (CEE) no. 339/93 on checks for conformity with the rules on product safety in the case of products imported from third countries, and Commission Decision 2007/231/CE for the modification of the Decision 2006/502/CE through which the member states are required to take measures to ensure that only lighters which are child-resistant are placed on the market and to prohibit the placing on the market of novelty lighters.

Order no. 296/29767 bans novelty lighters from being placed on the market from 25 May 2007, and completely bans the supply of novelty lighters to consumers from 11 March 2008. It also provides that only child-resistant lighters can be supplied to consumers from 11 March 2008.

Russia

Recent developments in tax legislation

New dividends tax rules from 1 January 2008

Dividends received from “strategic investments” will be exempt from Russian income tax (technically, a 0% tax rate will apply). An investment is considered strategic when:

- the owner (recipient of dividends) owns at least 50% of the capital of the dividend payer, or owns depository receipts entitling it to receive at least 50% of the total amount of paid dividends;
- the share or depository receipts have been owned for at least 365 days on the day the dividends are declared; and
- the value of the investment is at least RUB 500 million (approx. EUR 14 million).

Dividends from companies resident in offshore zones will not be eligible for the tax exemption. The list of offshore zones will be drawn up by the Russian Ministry of Finance.

Dividends received by Russian entities from foreign entities (which are not exempt as are dividends from strategic investments) will be taxed at the same 9% rate as dividends from Russian entities (currently, the rate is 15%).

The standard domestic withholding rate on dividends paid to non-resident individuals will be set at 15%, the same as for non-resident entities (currently, the domestic tax rate for non-resident individuals is 30%).

Indirect taxation

VAT

- From 1 January 2008, the tax rate on profit from pharmaceutical substances used in clinical testing is 10% (currently, the rate is 18%).

Excise duties

- A gradual increase in excise tax rates on most excisable goods has been set for 2008-2010, as part of a transition to a three-year horizon for planning the state budget. Cigarettes and beer will be subject to the highest increase, while rates for motor fuels and oils will remain unchanged.

Customs duties

- Temporary import duty rates of 0% for certain kinds of technological equipment (more than 700 items) will be made permanent from 1 July 2007.

Legal and other developments

Labour code

- Amendments to the Employment Code concerning the minimum wage will come into effect on 1 September 2007 (the minimum wage has been raised from RUB 1,100, approximately EUR 32, to RUB 2,300, approximately EUR 66 per month). Russian regional governments may set their own minimum wage, but it must not be lower than the federal minimum wage and should be established in a regional social agreement (accord).
- The Administrative Code has been amended to slightly increase fines for breaches of labour legislation (also effective from 1 September 2007).

Competition law

- Amendments to the Administrative Code have considerably affected the extent of liability for breaches of anti-monopoly legislation.
- New types of anti-monopoly offences have been introduced:
 - misuse of a dominant position in a commodity market (as defined by the Law on Competition);
 - conclusion of an agreement restricting competition, or carrying out activities that restrict competition (as defined by the Competition Law); and
 - unfair competition (as defined by the Competition Law).
- These offences carry a fine of between 1% and 1.5% of the profit made from the sale of goods (work, services) in the market where the offence was committed. Company officers may be disqualified from participating in business for up to three years.
- Fines for failure to implement the decisions and instructions of anti-monopoly bodies or to submit the required applications or notifications to the anti-monopoly bodies have been increased to RUB 500,000 (approx. EUR 14,000).
- These amendments came into effect on 13 May 2007.
- The Russian Government has finally set the thresholds for the value of financial companies' assets, above which they must seek prior consent from the anti-monopoly bodies for certain deals and activities. Depending on the type of financial organization, the threshold is between RUB 50 million and RUB 200 million (approx. EUR 1.4-5.7 million).

Serbia

The new Serbian government

On 15 May 2007 the Parliament of Serbia elected a new government, almost four months after parliamentary elections. The new government represents a coalition of three major pro-European Serbian parties.

The new Law on Ministries was passed following the election of the government. The Law envisages 22 Ministries. Three are unusual: the Ministry of Diaspora, the Ministry of Religion, and the Ministry for Kosovo and Metohija.

Corporate taxation

Corporate tax

- The Ministry of Finance has issued a ruling clarifying the corporate profit tax treatment of income realized by construction companies from the sale of buildings.

Under the Corporate Income Tax Law, operational costs cannot generally be offset against income from capital gains, while capital losses cannot reduce the tax base attributable to operating profits. As a consequence, operating profits and capital gains are effectively taxed separately. In the case of construction companies, an over-simplified application of this rule would not work satisfactorily.

The ruling allows construction companies to opt to classify land and buildings constructed for sale as inventory right from the beginning, so that their sales proceeds and related costs will qualify as operating income.

Withholding tax

- The Ministry of Finance has recently also issued a ruling clarifying the tax treatment of interest paid to non-residents in cases where there is more than one creditor engaged in a loan agreement.

The Corporate Profit Tax Law stipulates that withholding tax should be applied on interest paid to non-residents at the rate of 20%, unless otherwise provided by an applicable double tax treaty.

The new ruling stipulates that if interest must be paid to more than one creditor under a loan agreement, withholding tax should be withheld according to the tax-residence status of each individual creditor on its part of the payment.

Legal and other developments

Foreign currency regime

- The National Bank of Serbia has issued a new Decision on the conditions and methods of foreign currency market operations. According to the Decision, it is only possible to trade in foreign currencies which are prescribed by National Bank of Serbia.

The Decision also stipulates that commercial banks, the National Bank of Serbia and licensed exchange offices are free to set exchange rates for foreign currencies according to market needs. Exchange rate lists are to be drawn up and published at the beginning of every working day and are valid until a new list is published. In addition, banks have to submit exchange rate lists and other information on the trade in foreign currencies to the National Bank of Serbia daily, by electronic means.

Other

- The National Bank of Serbia has also issued a new Decision on the reporting in operations with foreign countries.

According to the Decision, residents are obliged to submit reports to the National Bank of Serbia on their operations with foreign countries, connected to:

- direct investments by non-residents in Serbia;
- direct foreign investments by Serbian residents;
- investments by non-residents in securities and bonds issued by residents;
- investments by residents in securities and bonds issued by non-residents;
- investment work (construction) carried out by non-residents in Serbia;
- investment projects abroad (construction) carried out by Serbian residents;
- balance on residents' accounts held abroad;
- balance on accounts held for operations with foreign countries; and
- other operations that affect the balance of payments.

The National Bank of Serbia should only use these reports to monitor the balance of payments and foreign investments and cannot publish them, except as a summary of received data.

Slovakia

Amendment of Tax Administration Act

The Slovak Parliament has recently approved an amendment to the Tax Administration Act, which has been published in the Collection of Acts.

The amendment introduces stricter penalties for not complying with the Slovak tax legislation. For example, where a taxpayer that has a zero tax liability fails to file a tax return on time, the tax authorities can now impose a penalty of up to SKK 500,000, approximately EUR 14,700 (previously the penalty was only SKK 2,000, approximately EUR 59).

The amendment also introduces an obligation for individuals renting out property located in Slovakia to register with the tax authorities for personal income tax within 30 days following the month in which they started to rent out the property.

Individuals who are currently renting out property and are not registered with the tax authorities for personal income tax purposes should register by 31 December 2007.

The amendment is effective from 1 September 2007.

Individual taxation

Social security

- The maximum remuneration on which any social security contributions are calculated is SKK 51,822

(approx. EUR 1,524) a month for the period from 1 July 2006 – 30 June 2007. From 1 July 2007, a new assessment base will apply. The maximum remuneration on which the contributions are calculated will be SKK 56,283 (approx. EUR 1,655). The maximum monthly contribution base for health insurance is SKK 51,822 (approx. EUR 1,524) until the end of 2007 (unless there is a change in the current law).

Pensions

- Obligatory pension contributions are included in social security contributions (see above). The employee's contributions (called retirement insurance) are 4% of remuneration, with a maximum contribution of SKK 2,073 (approx. EUR 61) a month. From 1 July 2007, the maximum contribution will be SKK 2,252 a month (approx. EUR 66). The employer's contributions are 14% of the employee's remuneration, up to a maximum contribution of SKK 7,256 a month (approx. EUR 213) until 30 June 2007. From 1 July 2007, the maximum monthly contribution will be SKK 7,880 (approx. EUR 230).
- The Slovak government has recently proposed the removal of the caps on pension contributions, and possibly other social security contributions. This is in the initial stages of discussion, but it is likely that some changes will be made to the way contributions are currently calculated, probably with effect from 1 January 2008.



Slovenia

VAT and corporate income tax developments

Amendments of Regulation on the implementation of VAT Act

The Ministry of Finance has published the anticipated amendments to the Regulation on the implementation of the Value Added Tax Act which will come into force on 27 June 2007.

The most important change relates to taxable entities established in third countries who, according to the previous Regulations, had to appoint a fiscal representative when identifying themselves for VAT purposes in Slovenia, and to fulfil additional administrative invoicing requirements. The new Regulation abolishes the obligation to appoint a fiscal representative, and in cases where the taxable entity appoints one, the burdensome additional invoicing requirements are now being simplified.

The Regulation also designates those apartments which form part of Slovene social policy and are therefore subject to a reduced VAT rate of 8.5%. Further, the provisions on adjustments of capital goods and on the determination of adjustment periods in general were revised.

Finally, it must be pointed out that the Regulation implemented ECJ case C-90/02 (Finanzamt Gummersbach vs. Gerhard Bockemühl) regarding the right to deduct input VAT, and extended its applicability to the supplies of goods.

Tax warehouse simplification

Separately from the publication of the new Regulation, the Ministry of Finance published a notification on the provisions of the Value Added Tax Act on tax warehouse simplification, which came into force on 13 June 2007.

Corporate income tax

On 18 April 2007, the Ministry of Finance published a specific list of the 18 countries with a general tax rate of less than 12.5%. A number of specific provisions of the tax law apply to these, including:

- All payments for services made from Slovenia to the countries on this list will be subject to 15% withholding tax; and
- Capital gains realised from investments in shares in companies, cooperatives or other organisational forms established or with place of effective management in countries from the list will not qualify for the 50% exemption on capital gains that applies to qualified holding companies under the Corporate Income Tax Act.



Ukraine

Temporary parliamentary break in lawmaking

Due to political instability and the current parliamentary crisis in Ukraine, the Ukrainian parliament was not active in introducing new legislative acts and regulations in the second quarter of 2007. Therefore, no major changes to Ukraine's tax legislation were introduced.

Corporate taxation

Corporate tax

- The form of corporate income tax return prescribed for insurance companies has been amended. The changes relate to corporate profits tax rates on payments made under insurance and reinsurance agreements and reflect changes to the Corporate Income Tax Law introduced on 1 January 2007. The new form of return for insurance companies applies from 27 April 2007.

Indirect taxation

VAT and customs duties

- From 26 May 2007, imports of component parts for assembling automobiles in Ukraine are exempt from VAT and customs duties. However, this only applies to three corporations, whose investment programmes were approved by the government in 2002. The tax exemption will be effective until the approved investment programmes have been completed.

Excise duties

- Starting from 18 May 2007, new rules for calculating excise duty on diesel fuel were introduced. Under the new rules, excise duty rates are calculated for different kinds of diesel fuel according to its sulphur content.

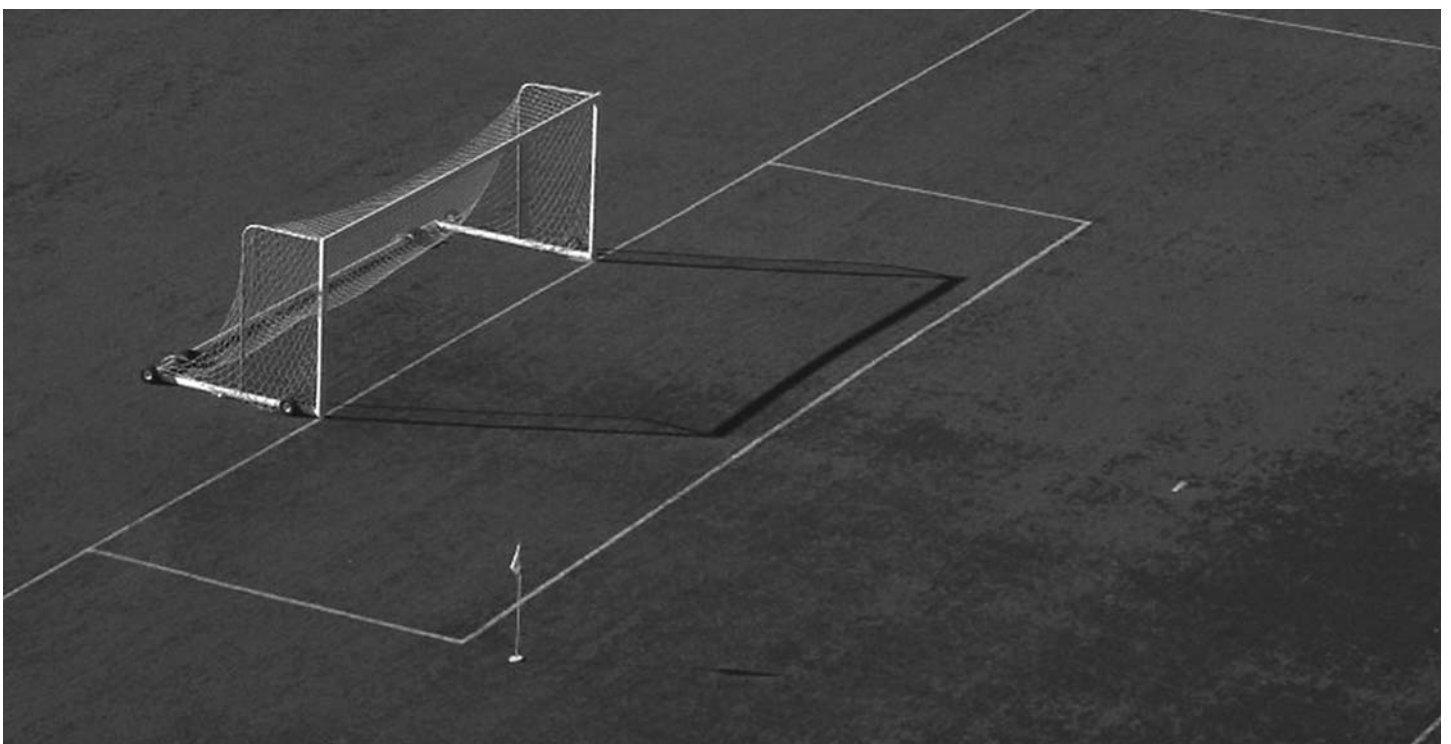
Legal and other developments

Intellectual property

- In the context of Ukraine's accession to the WTO, the Ukrainian parliament has introduced amendments to the Criminal Code, which strengthen control measures in the sphere of intellectual property. From 31 May 2007, confiscated intellectual property objects that were illegally produced or distributed will be destroyed.

Consumer protection

- The National Bank of Ukraine has issued a Resolution "On the approval of rules on banks' disclosure of information on lending terms and the total cost of credit". According to this Resolution, from 5 June 2007 banks are obliged to provide their borrowers with the loan terms and projected total price of borrowing before the conclusion of a loan agreement. In addition, banks are obliged to disclose the interest rate and provide details of all other payments in the loan agreement. The interest rate can only be changed if circumstances which are beyond control of the parties to the loan agreement will affect the bank's lending costs.



Uzbekistan

Technology-stimulated tax incentives

On 14 March 2007, a New Presidential Decree “On additional measures to stimulate modernisation, and the technical and technological re-equipment of production” was issued to stimulate the continuous re-equipment of production to achieve high-quality, competitive and export-oriented output. The Decree provides a number of tax and customs incentives, as follows:

- Enterprises may reduce their corporate income tax base for three years by the costs of the modernisation and technical and technological re-equipment of production (less annual depreciation), and the repayment of loans taken for these purposes.

- No property tax would be charged on new technological equipment put into use during five years from date when the Decree came into effect.
- Micro firms and small enterprises using the simplified taxation regime are eligible to reduce their taxable base for unified tax payment by the value of new technological equipment, but not by more than 25% of the taxable base.

As regards customs incentives, the government has introduced a list of technological equipment eligible for full exemption from customs charges (duties, excise tax, VAT). The list contains over 80 groups of items listed in sections 7, 8, and 9 of the Unified Trade Coding System applied in Uzbekistan. The list specifically mentions that customs incentives apply to spare parts for technological equipment, provided that such spare parts are supplied with the equipment as part of the contract.



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