



# Taxes at a glance\*

## 2008

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. Besides its attractive business opportunities, the region offers competitive tax regimes and cost-saving planning strategies.

PricewaterhouseCoopers has many years of presence in the CEE, 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 66 specialists, including 11 partners, working together as part of our overall regional practice of 4,200 people, with around 140 partners owning and managing the business.

The CEE ITS Network enables us to better assist you 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 on an annual basis.

# Albania

Capital:	Tirana
Official language:	Albanian
Official currency:	Albanian Lek (ALL)
Population:	3,130,000 (2005)
Area:	28,748 km <sup>2</sup>
GDP growth (%):	5 (2006)
GDP per capita (USD):	2,911 (2006)
Double Tax Treaties:	24
FDI (USD):	260 million (2005)

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



## 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) in order to file and pay the VAT in Albania.
- The education sector, written media and the sale of books (among others) are exempt from VAT.
- Interest payments on leasing transactions are not subject to VAT.
- 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 six months.
- Foreign employees working in Albania for a branch or an affiliate of a foreign company are not required to obtain work permits.
- 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%	Film studios and cinematographic productions (among other types of entity/activity) that are licensed and funded by the National Cinematographic Centre, are exempt from corporate income tax. The rate is projected to be reduced to 10% from 1 January 2008.
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.
Specialties		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	90 days	Only when the VAT credit is above ALL 400,000 for more than three consecutive months.
Specialties		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 Contribution	Employer: 21.7% Employee: 11.2%	Monthly minimum contribution base varies from ALL 14,000 to ALL 64,815. Monthly max. contribution base is ALL 65,700.
Specialties		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 business.

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Exchange rate: ALL 123.58 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

# Armenia

Capital:	Yerevan
Official language:	Armenian
Official currency:	Dram (AMD)
Population:	3,219,200 (2006)
Area:	29,800 km <sup>2</sup>
GDP growth (%):	13.3 (2006)
GDP per capita (USD):	1,634 (2006)
Double Tax Treaties:	28
FDI (USD):	305 million (2006)

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## Highlights – Overview of reforms in Armenia

### The following contribute to Armenia's investment climate:

- The market is still free for some products and services.
- The labor force is well educated, and relatively low cost when compare with neighboring countries.
- Attractive natural resource reserves (molybdenum, copper, etc).

### Local tax system and future tax risks related to tax changes:

- While changes continue to be made in legislation, the frequency of such changes has slowed down and are less dramatic.
- Tax authorities are planning to modify the "Law on Presumptive Tax" and consequently decrease the amount of activities involved in this privileged tax

zone (this tax alters VAT and profit tax for entities). The main activities which are involved in this field are gambling, small retail commerce, restaurants, fuel stations, auto repair stations and etc.

### The main tax advantages for foreign companies are:

- If certain conditions are met, the dividends received from Armenian sources by foreign companies are taxed at a zero rate.
- There is a corporate income tax incentive for foreign investments up to AMD 500 million (approximately EUR 1.1 million) applied for resident companies. This privilege will expire in 2009.
- Foreign investments are protected under the law on foreign investment.
- Property tax is applied only on buildings, structures and motor vehicles.

# 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.
Specialties		Tax incentives are available in free trade zones.

## Value Added Tax Individual Taxation

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

## Other Taxes

Property tax	0.1%-1%	The taxable base is the cadastral (i.e., registered) value. Tax exemption applies if the cadastral value of the taxable object 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 tax		Various fixed service and other taxes (e.g. hairdressing, photo services, auto repair services, parking, computer games).

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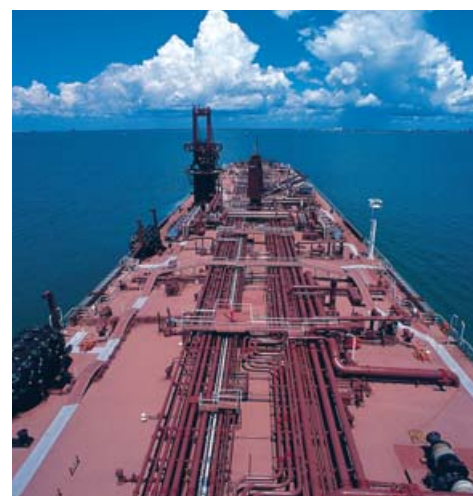
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Exchange rate: AMD 438.09 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

# Azerbaijan

Capital:	Baku
Official language:	Azerbaijan
Official currency:	Azerbaijan Manat (AZN)
Population:	8,440,000 (2006)
Area:	86,100 km <sup>2</sup>
GDP growth (%):	26.8 (2007)
GDP per capita (USD):	2,577.1 (2007)
Double Tax Treaties:	23
FDI (USD):	3,790.7 million (2006)

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## Highlights – Tax regimes in Azerbaijan

Tax regimes	PSA Tax Regime
<ul style="list-style-type: none"> <li>• Currently, Azerbaijan has three different types of tax regime:               <ol style="list-style-type: none"> <li>1 the statutory tax regime;</li> <li>2 the Production Sharing Agreement (PSA) tax regime;</li> <li>3 Host Government Agreement (HGA) tax regime (for the Baku-Tbilisi-Ceyhan and South Caspian Pipelines).</li> </ol> </li> <li>• Each PSA and HGA contains its own tax regime.</li> <li>• Generally, the PSA and HGA regimes apply to               <ul style="list-style-type: none"> <li>– operating companies;</li> <li>– foreign investors functioning as contractor parties;</li> <li>– foreign service companies providing services to the above parties.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Currently, there are 28 ratified PSA's (but about half of them are either inactive or have been terminated).</li> <li>• Each has its own separate taxation regime, e.g.:               <ul style="list-style-type: none"> <li>– 0% rate VAT;</li> <li>– simpler corporate regime.</li> </ul> </li> <li>• PSAs are ratified by the Azerbaijan Parliament and, having the force of law, have their own separate tax regime.</li> <li>• PSAs override statutory legislation if it contradicts or is inconsistent with a PSA's provisions.</li> </ul>

Azerbaijan is the member of the Council of Europe.

# Corporate Taxation

Rate	22%	
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% – Rent of movable and immovable property and royalties.
Specialties		Fair market prices should be applied in transactions between related parties; import and export operations; barter transactions.

## Value Added Tax Individual Taxation

General rate	18%	Personal Income Tax	14% and 35%	35% applies to income over AZN 24,000 per annum.
Reduced rate	N/A	Mandatory Social Security Contribution	Employer: 22% Employee: 3%	
Refund period	5 years			

## Other Taxes

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

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Exchange rate: AZN 1.2525 = EUR 1.00. This is the official rate of the National Bank of Azerbaijan for 14 January 2008.

# Bosnia and Herzegovina

Capital:	Sarajevo
Official language:	Bosnia, Croatian, Serbian
Official currency:	Convertible Mark (KM)
Population:	3,842,762 (estimated in 2006)
Area:	51,129 km <sup>2</sup>
GDP growth (%):	16.6
GDP per capita (USD):	7,692 (2006)
Double Tax Treaties:	11
FDI (USD):	4,641 million EUR (2007)

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\* Bosnia and Herzegovina is observer in WTO

## Highlights – Corporate income tax

### Legislative changes in FBiH

The new Corporate Income Tax Law of Federation of Bosnia and Herzegovina is effective from January 2008. The Personal Income Tax Law is supposed to be effective from January 2009. The new CIT significantly harmonized the Corporate Income Tax System in FBiH with that of the Republic of Srpska. Bosnia and Herzegovina consists of two different entities: Federation of Bosnia and Herzegovina and Republic of Srpska. The Brcko District has special status. To be clear, the new CIT law in FBiH does not mean that there is only one state level law for the entire state of Bosnia and Herzegovina, two very similar laws co-exist in each entity respectively.

### Corporate Income Tax

The major change in Corporate Income Tax is the tax rate which is changed from 30% to 10% (the same tax rate that Republic of Srpska effective from January 1, 2007). The general withholding tax rate also changed, from 15% to 10%. However, dividends are to be taxed at only 5%. A key change is the introduction of the concept of a Permanent Establishment. Furthermore, there are tax incentives,

notably for exporters and large production companies investing significant amounts. Existing tax credits which run into the post January 2008 period will still be respected. The major piece of good news is that unlike the previous CIT law, the new law allows a tax credit for taxes suffered in the RS.

### Personal Income Tax

The new Personal Income Tax Law is now in Parliamentary process. There will be progressive rates, from 10% to 15%. The new law will replace the existing dual system of annual personal income tax at the level of the cantons, and wage tax. It remains to be seen whether the Social Security legislation will be changed. At 64% of net salary, with no maximum cap, is it the SSCs that are the major cost of employment, and which, it is widely thought, has led to a large grey economy.

### CEFTA

Bosnia and Herzegovina signed the CEFTA agreement in 2007, along with Croatia, Macedonia, Moldova, Serbia, Montenegro, Albania and UNMiK on behalf of Kosovo.

# Corporate Taxation

Rate	10%	Rate 10% is in Federation of Bosnia and Herzegovina and in Republika Srpska.
Thin capitalization (debt:equity ratio)	N/A	There are no rules about thin capitalization.
Tax loss carry forward	5 years	In the Federation of Bosnia and Herzegovina and Republika Srpska.
Withholding tax	5%/10%	Interest, royalties, fees for market research, tax advisory services, audit services, insurance and reinsurance premium are subject to a final withholding tax in the Federation of Bosnia and Herzegovina, unless a treaty provides for a lower rate. Dividends are taxed at 5% of withholding tax. In Republika Srpska, withholding tax is payable on: revenues paid to foreign legal persons, interest paid on a debt obligation between PE or subsidiary to its foreign partner, royalties, fees for management, consulting, financial, technical or administrative services.
Specialties		Tax incentives in FBiH are available for tax payers who are established in the year for which the corporate income tax is calculated. It is available as a CIT exemption if over 30% of total income is through exports. Also a tax payer who invests for 5 consecutive years on the territory of FBiH in production for a minimum fee of 20 millions KM is also relieved CIT. A tax payer who employs more than 50% of invalids or people with special needs within the company for a period of time longer than 1 year, is relieved from corporate income tax for the year in which there were more than 50% of invalids or people with special needs employed within the company.

## Value Added Tax

General rate	17%	The standard rate is 17%. The VAT regime is valid throughout the state of BiH.
Reduced rate	N/A	
Refund period	60 days	30 days for export companies.
Specialties		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%/15%	In the Federation of BiH rates differ depending on the canton in which the individual resides (15% for canton Sarajevo). In Republika Srpska the tax rate of 10% is applied to annual income exceeding the amount of twelve minimum salaries and up to the amount of four average annual net salaries in previous year. A tax rate of 15% is applied to annual income above this amount.
Mandatory Social Security Contribution	Employer: 10% in FBiH 42% in RS  Employee: 28% in FBiH	In Federation these rates are applicable on gross salary. In Republika Srpska, employers have to contribute 42% of net salary as social security contributions.
Specialties	0.5 of tax for disasters and 0.5% of for water	Applicable in Federation BiH.

## Other Taxes

Local business tax		
Other	3%	In RS, the sales tax amounts to 3% of the estimated property value. In the Federation, it is the cantonal laws that determine the tax rate according to the value of the immovable property. Once the taxes are paid, the contract is officially court-certified and handed over to the real estate register.

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# Bulgaria

Capital:	Sofia
Official language:	Bulgarian
Official currency:	Bulgarian Lev (BGN)
Population:	7,679,290 (2006)
Area:	110,910 km <sup>2</sup>
GDP growth (%):	6.1 (2006)
GDP per capita (USD):	3,260 (2006)
Double Tax Treaties:	62
FDI (USD):	4,364 million (2006)

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## 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 to 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 are not subject to withholding tax under certain conditions.
- Opportunities for tax efficient mergers and other company reorganisations in accordance with EU tax legislation.
- Special purpose investment companies, collective investment schemes and licensed investment companies are exempt from corporate tax.
- Income gained from transactions on a licensed Bulgarian 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.
- 62 effective Double Tax Treaties.

Investors and international traders can benefit from the business opportunities in Bulgaria, its low direct taxes, specific tax planning opportunities and EU membership, as well as its political stability.

# Corporate Taxation

Rate	10%	Special purposes investment companies, collective investment schemes and licensed investment companies are exempt.
Thin capitalization (debt:equity ratio)	3:1	If debt-to-equity test fails, a specific formula applies.
Tax loss carry forward	5 years	Tax loss carry back available in specific cases.
Withholding tax	5%/10%	5% – Dividends and liquidation quotas; 10% – Interest, royalties, management and technical services fees, rental payments, capital gains.
Specialties		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 Contribution	Employer: 20%+ (0.4%-1.1%) Employee: 13%	Maximum monthly taxable base: BGN 2,000.

## Other Taxes

Real estate annual tax	0.15%– 0.3%	The applicable rate is determined by each municipality. The taxable base can be the market price, the tax value or the gross book value.
Transfer tax (for transfer of real estate and vehicles)	2%–4%	
Other		Taxes on certain expenses (e.g. representative), Special tax regimes (e.g. gambling), 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 (%):	4.8 (2006)
GDP per capita (USD):	9,661 (2006)
Double Tax Treaties:	45
FDI (USD):	26,812 million (2006)

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## Highlights – Incentives and benefits

### Incentives for Research and Development

- As of 15th May 2007, the new Amendments of the Scientific Activities and Higher Education Act (hereinafter: “the Act”) came into force introducing Provisions related to Research and Development Incentives. The amendments regulate the state subsidies and tax incentives in respect of 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 aforementioned incentives and subsidies should be introduced in a new ordinance not later than 6 months after these amendments came into force.

### Employment benefits

- An employer can provide its local employees with what is called an occasional allowance (for Christmas, Easter, etc.) in the form of benefits up to the value of HRK 2,500 (approx. EUR 342) per annum. These benefits are classified as non-taxable earnings.
- As of 1st January 2008 maternity leave compensation for employed pregnant women is increased during the compulsory maternity leave. Maternity leave up until the child reaches 6 months is no longer limited and it amounts to average salary for the six months prior to the month when a woman gains right to compulsory maternity leave. This includes regular salary compensations for sick leave and paid vacation, but excludes bonuses, awards and occasional allowances (for Christmas, Easter, etc.). Compensation for the following six months of maternity leave (up until child reaches 6 months) will vary between minimum HRK 1,663.00 and maximum HRK 2,500.00 (approx. EUR 230.00 to EUR 340.00), depending also on average salary before maternity leave.

# 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).
Specialties		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%	Highest rate applies on taxable income exceeding fourteen times the taxpayer's basic personal allowance (over HRK 22,400 per month).
Mandatory Social Security Contribution	Employer: 17.2% Employee: 20%	Maximum monthly taxable base is six times the average monthly salary, i.e. HRK 41,850 for the year 2008.

## 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 2008.

# Czech Republic

Capital:	Prague
Official language:	Czech
Official currency:	Czech Koruna (CZK)
Population:	10,349,000 (2007)
Area:	78,866 km <sup>2</sup>
GDP growth (%):	6.4 (2006)
GDP per capita (USD):	13,922 (2006)
Double Tax Treaties:	73
FDI (USD):	5,956 million (2006)

- ✓ EU
- ✓ NATO
- ✓ OECD
- ✓ WTO
- ✓ IMF
- ✓ 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
- 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 research & development can be deducted from the income tax base twice (as “normal” tax-deductible costs and then again as a special tax allowance).
- A taxpayer may request **binding rulings** for instance for: transfer pricing (APA), utilisation of carried forward tax losses, 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 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 and received from Switzerland and dividends received from double taxation 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 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 applies, depending on the type of shares).

# Corporate Taxation

Rate	21%	Decrease of the tax rate was approved: 20% (2009), 19% (2010)
Thin capitalization (debt:equity ratio)	2:1	2:1 for related party loans (3:1 for insurance companies and banks); 6:1 for all loans including unrelated parties; interest rate cap (EURIBOR + 4%), interest from subordinated loans and profit participating loans 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
Specialties		The Income Taxes Act incorporates the Parent-Subsidiary, Merger, Interest-Royalty and Savings Directives. 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 Contribution	Employer: 35% Employee: 12.5%	These percentages include social security and health insurance (maximum base is capped at 48 times of average monthly salary).

## Other Taxes

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

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Exchange rate: CZK 26.62 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

# Estonia

Capital:	Tallinn
Official language:	Estonian
Official currency:	Estonian Kroon (EEK)
Population:	1,340,000 (2006)
Area:	45,226 km <sup>2</sup>
GDP growth (%):	11.4 (2006)
GDP per capita (USD):	9,800 (2006)
Double Tax Treaties:	38
FDI (USD):	1,341 million (2006)

- 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, a participation exemption applies to qualifying dividends, allowing the tax exempt distribution of such dividends by Estonian holding companies. There is no withholding tax on dividend payments to individual shareholders. Corporate shareholders should have a holding in the Estonian company of at least 15% in order to benefit from the dividend withholding tax exemption. This exemption does not extend to corporate shareholders located in "tax havens".
- 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 2009.
- 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).
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	5%	Books, periodicals (with a few exceptions), hotel accommodation services, listed pharmaceuticals and the treatment of dangerous waste.
Refund period	30 days	Within six months for foreign businesses.
Specialties		Estonia operates an extended reverse-charge VAT regime.

## Individual Taxation

Personal Income Tax	21%	Flat rate.
Mandatory Social Security Contribution	Employer: 33.3% Employee: 0.6%-2.6%	2.0% contribution to the compulsory cumulative pension scheme 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		Parking charges, sales tax, boat tax, advertisement tax, road/street closure tax, motor vehicle tax, a tax on keeping animals and entertainment tax may be imposed.
Other		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:	4,500,000 (2006)
Area:	69,700 km <sup>2</sup>
GDP growth (%):	8.8 (2006)
GDP per capita (USD):	1,760 (2006)
Double Tax Treaties:	23
FDI (USD):	1,147 billion (2006)

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



## Highlights – Recent changes in Georgia

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

- Low Tax Rates;
- Strategic Geographic Location;
- Competitive Trade Regimes with Low Import Tariffs;
- Labor Freedom and Literacy;
- Simplified Licensing and Permit Procedures;
- Stable Macroeconomic Environment;
- Dynamic Growing Banking Sector.

During 2007 some changes were made in the tax code, the following tax rates became effective from 1 January 2008

- personal income tax is increased to a 25 % flat rate;
- social tax of 20% is eliminated;
- corporate income tax is decreased to 15%.

### Future Development

The government of Georgia signed off on a proposal on the following:

- To cut average income taxes to 15% from 25% over the next five years;
- To abolish profit tax, currently 15%
- To create a tax-free industrial and free-trade zone, modeled on Dubai, on Georgia's Black Sea coast.

# Corporate Taxation

Rate	15%	Taxable base is the difference between the gross income and the 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	Tax loss carry-forward is available, subject to specific rules.
Withholding tax	4%/10%	4% – Risk insurance or reinsurance, leasing, international telecommunication services and international transportation services. 10% – Dividends, interest, and other service fees (consultancy, management, etc.).

## Value Added Tax

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

## Individual Taxation

Personal Income Tax	25%	Flat rate.
Mandatory Social Security Contribution	Employer: N/A Employee: N/A	Cancelled from 1 January 2008.
Specialties		Revisions made to the Social Tax and Individual Income Tax rates, and are implemented as of 1 January 2008.

## Other Taxes

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

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Exchange rate: GEL 2.30 = EUR 1.00. This rate is not fixed and approximated to market on 1 January 2008.

# Hungary

Capital:	Budapest
Official language:	Hungarian
Official currency:	Hungarian Forint (HUF)
Population:	9,900,000 (2008)
Area:	93,030 km <sup>2</sup>
GDP growth (%):	3.0 (2008)
GDP per capita (USD):	14,900 (2008)
Double Tax Treaties:	62
FDI (USD):	6,098 million (2006)

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<input checked="" type="checkbox"/>	NATO
<input checked="" type="checkbox"/>	OECD
<input checked="" type="checkbox"/>	WTO
<input checked="" type="checkbox"/>	IMF
<input checked="" type="checkbox"/>	EBRD



## Highlights – Hungary as an attractive investment location

- A standard EU tax system and OECD compliance.
- No withholding on interest, royalties 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 dividends received.
- Exemption from tax on profits of permanent establishments abroad.
- No minimum substance requirements.
- Advance binding rulings available.
- Deductibility of investment costs.
- Capital duty on registration capped at approx. EUR 150.
- No stamp duty 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 registered office and central place of management.

REPO structures – REPO is a hybrid debt instrument that is treated as equity in Hungary for legal and accounting purposes but as debt in the US or other foreign jurisdictions for tax and accounting purposes – easy to implement, risk-free and participation exemption on dividends.

# 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 interests 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 dividends, interest or royalties paid to companies.
Specialties		Capital gains on the sale of registered shareholdings are exempt and subject to a one-year minimum holding period.  If the company is resident or has its registered office or permanent establishment in an EU Member State or an OECD member country or a country with which Hungary has a DTT, the controlled foreign company provision should not be applied.  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	Non-resident reclaims possible under EC directive or reciprocity.
Specialties		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 7,137,000.
Mandatory Social Security Contribution	Employer: 32% Employee: 17%	Contribution is payable above a minimum base of HUF 138,000 / month.
Special features	Flat tax rate	On capital gains, rental income and dividends.

## Other Taxes

Local business tax	max. 2%	Adjusted 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, Taxes in the pharmaceutical sector, Community tax, Tourism tax, Environmental taxes, WEEE fees, Bank tax, Cultural tax.

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Exchange rate: HUF 249.11 = EUR 1.00. This rate is not fixed and approximated to market on 1 January 2008.

# Kazakhstan

Capital:	Astana
Official language:	Kazakh
Official currency:	Kazakhstan Tenge (KZT)
Population:	15,301,400
Area:	2,717,300 km <sup>2</sup>
GDP growth (%):	10.1 (9 months of 2007)
GDP per capita (USD):	5,074 (2006)
Double Tax Treaties:	39
FDI (USD):	10,437 (2006)

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



## Highlights

- Kazakhstan is currently a rapidly developing country with large reserves of natural resources (e.g. oil & gas, minerals, etc.).
- Kazakhstan offers number of various tax incentives, primarily targeting:
  - Priority sectors of the economy, which include tourism, agriculture, food industry, oil & gas, engineering, transportation and logistics, construction, metallurgy, textile, petrochemicals;
  - Investment into fixed assets (new production);
  - Special Economic Zones: Astana New City, Aktau Sea Port, IT Park, Ontustik;
  - Manufacturing of certified goods with high added value.
- The tax system is relatively complex and is characterized by form over substance – emphasis on documentation.
- A special tax regime governing the exploration and production in the oil & gas industry is applicable (subsurface users contracts).
- There has been a general trend over the past few years of a reduction in the tax burden, particularly in respect of payroll taxes and VAT. A significant exception to this trend is the tax regime for the oil and gas industry.
- Starting from 1 January 2008, the VAT rate was reduced from 14% to 13%.
- Dividends paid to individual residents are taxed at 5%.
- Kazakhstan resident legal entities are exempt from corporate income tax in respect of domestic dividends and dividends received from abroad.
- Capital gains are subject to tax, even on the sale of shares in foreign companies, of which more than 50% of the value is comprised of capital (assets) situated in Kazakhstan.
- Capital gains from the sale of securities listed on a stock exchange in the highest- and next-to-highest category, and government bonds are tax exempt.
- Tax exemption for certain types of income received in the Regional Financial Center of Almaty City (RFCA):
  - Capital gains from the sale of debt securities listed on RFCA special economic floor;
  - Interest from debt securities purchased on RFCA special economic floor;
  - Revenues from the provision of certain financial services by RFCA participants.
- Kazakhstan currently has 39 Double Tax Treaties. Treaties with Malaysia and Singapore were added to this list in 2007 and are in force as of 1 January 2008.
- Simplified (automatic) tax treaty relief is available under certain conditions for certain types of income (passive, offshore services).
- A new Tax Code will be drafted which is aimed at promoting the modernization and diversification of the economy. The entry into force of the new Tax Code is planned to 1 January 2009.

# Corporate Taxation

Rate	30%	
Thin capitalization (debt:equity ratio)	4:1	7:1 for financial institutions.
Tax loss carry forward	3 years	7 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. 20% – Royalty, all other income from Kazakhstan sources, including capital gains.
Specialties		Transfer pricing rules apply. Adjustments may also be made between unrelated parties, where prices deviate by more than 10% from market prices.

## Value Added Tax

General rate	13%	Rate shall be further reduced to 12% in 2009.
Reduced rate	N/A	
Refund period		Problematic.
Specialties	0%	Export of goods, International transport, Exempt turnover.

## Individual Taxation

Personal Income Tax	10%	Flat rate.
Social Tax	13%-5%	Regressive rates for employer.
Mandatory Social Security Contribution	Employer: 3%	Capped.
Pension	Employee: 10%	
Specialties		Most benefits are taxable.

## Other Taxes

Real estate and land tax	0.1%-1%	1% – General Property tax rate. 0.5% – Individual entrepreneurs. 0.1% – Non-profit organisations. Land tax rate is contingent on the land area and the land quality.
Local taxes		Property tax, vehicle tax.
Other		Environmental tax, excise duties and customs.

Exchange rate: KZT 176.85 = EUR 1.00. This rate is not fixed and approximated to market on 4 December 2007.

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# Latvia

Capital:	Riga
Official language:	Latvian
Official currency:	Lats (LVL)
Population:	2,271,000 (2007)
Area:	64,589 km <sup>2</sup>
GDP growth (%):	10.9 (2007)
GDP per capita (EUR):	8,363 (2007)
Double Tax Treaties:	45
FDI (EUR):	7,103 million (2007)

<input checked="" type="checkbox"/>	EU
<input checked="" type="checkbox"/>	NATO
<input type="checkbox"/>	OECD
<input checked="" type="checkbox"/>	WTO
<input checked="" type="checkbox"/>	IMF
<input type="checkbox"/>	EBRD



## Highlights

- Latvian VAT law almost fully conforms with the EU Sixth Directive.
- Tax returns can be filed electronically.
- An option to tax for real estate transactions will be passed into Latvian VAT law by July 2008.
- Dividends can be distributed tax-free to EEA countries.
- For individuals, capital gains on the disposal of shares are not taxable, except for shares of real estate companies.
- Badges of trade have been introduced.
- Income tax rate for self-employed persons has been reduced to 15%.
- Legislation on taxation of stock options will be shortly introduced and this income shall not be subject to social security contributions.

# Corporate Taxation

Rate	15%	
Thin capitalization (debt:equity ratio)	4:1	In addition, thin capitalization rules limit interest deductibility to 1.2 times the average short-term interest rate at banks. Thin capitalisation rules do not apply to interest paid to EU banks or any Latvian residents.
Tax loss carry forward	5 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%/15%	2% on capital gains from sales of real estate and shares in real estate companies (Real estate companies are entities holding at least 50% of their assets in real estate in the year of disposal or in the previous year). 5%/15% on dividends outside EU, interest and royalty payments (to be phased out by 2009 and 2013 on payments to companies in other EU countries.) All other capital gains are free of withholding tax.
Specialties		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 at arm's length.

## Value Added Tax

General rate	18%	
Reduced rate	5%	Medicines and medical supplies, hotel services, newspapers, commercial TV and radio, utilities, etc.
Refund period	1 year	Applicable to companies registered for VAT in another EU country. For non-EU companies on a reciprocity basis.

## Individual Taxation

Personal Income Tax	25%	A flat rate with an annual exemption of LVL 960.
Mandatory Social Security Contribution	Employer: 24.09% Employee: 9%	Up to annual salary cap of LVL 29,600.

## 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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Exchange rate: LVL 0.702804 = EUR 1.00. The LVL has been officially pegged to the EUR at this rate.

# Lithuania

Capital:	Vilnius
Official language:	Lithuanian
Official currency:	Lithuanian Litas (LTL)
Population:	3,384,000 (2007)
Area:	65,200 km <sup>2</sup>
GDP growth (%):	7.7 (2006)
GDP per capita (USD):	8,771 (2006)
Double Tax Treaties:	45
FDI (USD):	2,132 million (2006)

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



## Highlights

### The main opportunities:

- Excellent macroeconomic fundamentals.
- Economic and legislative stability.
- Flow of EU funds.
- Importing infrastructure.
- Competitive labor costs.

### The main tax advantages:

- Low corporate income tax rates (15%).
- No taxation of dividend income on holding of 10% for a minimum of one year.
- No withholding tax on dividends to shareholders with stakes of 10% or more held for a minimum of one year.
- No capital gains tax on the disposal of a 25% stake held for a minimum of two years.
- 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 acquisition of shares in Lithuania.

### Tax issues:

- Interest payable to foreign entities (except for Latvia) is subject to WHT at 10% rate, which will be reduced to 5% as from 1 July 2009 and will be reduced to zero as from 1 July 2011. Income tax is not withheld from interest payable to Lithuanian entities.

### Future developments:

- On 20 December 2007, draft amendments to the Law on CIT were announced by the Lithuanian Parliament. If amendments come into force, the losses incurred by the companies will be carried forward for unlimited period of time, if certain conditions are met. However, losses from the transfer of securities will be carried forward for 5 successive years. Also, the amendments suggest a threefold deduction of the Research and Development (R&D) expenses at the tax period, when they are incurred.

# Corporate Taxation

Rate	15%/13%	The general rate is 15%; for small entities it is 13% under certain conditions. Maritime entities can apply the rate of 15% on the fixed tax base (without any deductions) set up with reference to the functional capacity of the ship.
Thin capitalization (debt:equity ratio)	4:1	4:1 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	3/5 years	Losses from the disposal of securities or financial derivatives can be carried forward for three years and may only be set off against similar income.
Withholding tax	10%/15%	10% – interest, royalties and capital gains; 15% – dividends; 0% – dividends on holding of 10% or more retained for a minimum period of one year.
Specialties		Transfer pricing documentation in prescribed format compulsory for all taxpayers with annual turnover exceeding LTL 10 million. Transfer pricing regulations closely follow OECD guidelines, although Lithuania is not an OECD Member.

## Value Added Tax

General rate	18%	
Reduced rate	9%/5%	5% rate is applicable for pharmaceuticals, books, periodicals, hotel/accommodation services, medical equipment, etc. 9% rate is applicable for the supply of construction and renovation services, heat-insulation of houses and apartments blocks financed by the State or municipal budgets, State-granted soft credits or special funds. The compensatory 6% VAT rate is applicable to farmers who meet the necessary requirements established by the Lithuanian Law on CIT.
Refund period	90 days	

## Individual Taxation

Personal Income Tax	15%/24%	24% (27% was applied until 2007) – generally, on employment related income; 15% – other type of income.
Mandatory Social Security Contribution	Employer: 30.98%-31.7% Employee: 3%	No cap.

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## Other Taxes

Real estate tax	0.3%-1%	Specific rate set by municipality.
Land tax (for owned land)	1.5%	
Land lease tax (for rented land from the State)	1.5%-4%	
Other	Per type	Pollution tax. The real estate related transactions (sale, swap, rent, merger, etc.) shall be confirmed by the notary. The fee would depend on the type of transaction and the real estate and would be in range of 0,2%-0,6%, but shall not exceed LTL 20,000 (EUR 5,792). Changes in ownership rights shall be registered with the Real Estate Register. Title deed registration fee would depend on the type of real estate and its average market value, the fee for one real estate unit shall not exceed LTL 5,000 (EUR 1,448).

Exchange rate LTL 3.4528 = EUR 1.00. The LTL has been officially pegged to EUR at this rate.

# 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:	39
FDI (USD):	351 million (2006)

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



## Highlights

- A unified 10% flat rate of corporate and personal income tax effective from 1st January 2008.
- The tax base can be reduced by up to the amount of reinvested profit used for the purchase of fixed assets in respect of expanded business operations.
- Special reserves set aside for covering potential losses of banks and savings houses are fully tax-deductible.
- Taxpayers operating in a Technological and Industrial Development Zone are exempt from paying profit tax for a period of ten years, commencing from the day they begin performing activities in the zone.
- Personal income tax for workers based in the Zone can be reduced by up to 50% in the first five years.
- Foreign taxes paid by subsidiary companies are fully-creditable against taxable profit. Taxes paid abroad by branches of Macedonian companies are creditable up to the amount that would be payable under the prevailing rate of Macedonian corporate income tax.
- General tax deductions available for all kinds of business expenses.
- VAT is generally in accordance with the principles of the 6th EU VAT Directive.
- Ongoing legal repeal of certain laws in order to simplify the procedures of conducting business activities.
- According to the EU-Macedonia Stabilization and Association Agreement, there will be decreased or nil customs rates applied on products with Macedonian preferential origin for export into the EU.
- Losses can be carried forward for up to three years and offset against taxable profit.
- Only 70% of capital gains are taxable. Non-residents are not subject to capital gains tax.
- A one-stop-shop system makes it possible to establish a company in three days.
- The tax procedure law codifies all tax administrative practice and prescribes a duty of care for tax officials.
- All tax statements and returns can be submitted electronically.

# Corporate Taxation

Rate	10%	
Thin capitalization (debt:equity ratio)	N/A	
Tax loss carry forward	3 years	Subject to approval of the Public Revenue Office and excluding capital losses incurred on the sales of securities.
Withholding tax	10%	Domestic withholding tax of 10% is applicable on offshore payments. A 0% withholding tax rate is applicable on payments for certain types of services.
Specialties		Transfer pricing rules impose severe penalties on both corporations and responsible persons in cases of 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 Contribution	Employer: N/A Employee: 32%	21.2% pension fund; 9.2% health insurance; 1.6% 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 2008.

# Moldova

Capital:	Chisinau
Official language:	Moldovan (Romanian)
Official currency:	Moldovan Leu (MDL)
Population:	3.58 million (2006)
Area:	33,843 km <sup>2</sup>
GDP growth (%):	4.0 (2006)
GDP per capita (USD):	–
Double Tax Treaties:	37
FDI (USD):	356.58 million (2006)

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## 0% Corporate Income Tax rate from 2008!

- Starting with 1 January 2008, the **Corporate Income Tax (CIT) rate is 0%**
- Starting with 11 May 2007 the **fiscal amnesty** was implemented, i.e. certain outstanding liabilities recorded as at 1 January 2007 of taxpayers towards the national public were annulled.
- 15% withholding tax rate applicable upon the dividend payout.
- From 2008, Moldova has a 37 Double Tax Treaty (DTT) network.
- Optional social security contributions for expatriates, as well as relatively reduced tax burden for individuals, namely:

Tax Rate	Taxable annual income
7%	up to MDL 25,200
18%	exceeding MDL 25,200

- Transfers of tangible assets as contribution in kind to the statutory capital are operations falling under a customs duty and VAT exemption regime, provided certain conditions are met.
- **New VAT refund provisions** entered into force from 2008 in relation to certain investments.
- Moldova has a network of Free Trade Agreements (FTA) with CIS countries, is a CEFTA contracting party and is currently granted with GSP+ benefits by the EU.
- The European Commission has recently approved the Proposal introducing Autonomous Trade Preferences (ATP) for Moldova.

# Corporate Taxation

Rate	0%	The liabilities of taxpayers of computing the taxable income for CIT purposes and submitting CIT returns on a yearly basis are to be maintained. Moreover, Moldovan tax authorities (MTA) are entitled to apply a fine of 25% from the reduced taxable income.
Thin capitalization (debt:equity ratio)	N/A	Such rules shall apply to businesses recording expenses with interests to both individuals and legal entities, with certain exceptions. The deductibility of such expenses shall be limited to the refinancing rate set out by the National Bank of Moldova for November of the previous year.
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 the annual taxable income.
Withholding tax	10%/15%	15% – on dividends, as well as on payments to non-residents, if related expenses are non-deductible for CIT purposes; 10% – on other payments. However, DTT provide for more favorable tax regimes.
Specialties		Fair market prices should be applied in transactions between related parties.

## Value Added Tax

General rate	20%	
Reduced rate	8%/5%	– 8% for certain operations with bakery and dairy products, certain pharmaceutical products, sugar from sugar beet – 5% for natural and liquefied gas.
Refund period	45 days	Refund available for business carrying out specific types of activities only!
Specialties		Physical payment of VAT on services subject to reverse charge.

## Individual Taxation

Personal Income Tax	7%-18%	18% on annual income over MDL 25,200.
Mandatory Social Security Contribution	Employer: 24% Employee: 5%	Optional for expatriates!
Specialties	Health Insurance Contributions	Each taxpayer (employer, employee) – 3%. Mandatory for expatriates!

## Other Taxes

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

## Contacts

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Exchange rate: MDL 16.6437 = EUR 1.00. The rate is not fixed and is approximated to the market rate on 1 January 2008.

# Montenegro

Capital:	Podgorica
Official language:	Montenegrin
Official currency:	Euro (EUR)
Population:	630,000
Area:	14,026 km <sup>2</sup>
GDP growth (%):	7.0 (2007)
GDP per capita (USD):	4,000
Double Tax Treaties:	33
FDI (USD):	1.5 billion (2007)

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

- The regional Free Trade Agreement under Central European Free Trade Agreement (CEFTA) was ratified and came into force in April 2007.
- Corporate income tax rate of 9% - one of the lowest in Europe.
- No thin capitalization rules.
- 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.
- Real estate transfer tax rate increased to 3% from January 2008.
- Reduction of social security rates from January 2008.
- The real estate market is growing rapidly in the coastal area and Podgorica.
- Announced further decrease of the individual taxes and social security contributions in the following years.

PricewaterhouseCoopers has been present in Montenegro with an office in Podgorica since 2001. Before gaining its independence in 2006, Montenegro was part of the State Union of Serbia and Montenegro. Therefore, professional work in Montenegro still is performed with the assistance of the Belgrade office of PricewaterhouseCoopers. Our service offerings in Montenegro include assurance, tax and legal, HR and advisory. In both offices, a team of approximately 150 experienced professionals, both locals and expats, are ready to assist you. PricewaterhouseCoopers has its correspondent legal practice of Bojovic & Dasic offering full spectrum of legal services.

# Corporate Taxation

Rate	9%	
Thin capitalization (debt:equity ratio)	N/A	
Tax loss carry forward	5 years	
Withholding tax	5%/15%	5% – Interest, 15% – Dividends, royalties, capital gains and fees for lease of real estate. Management services are not subject to withholding tax.
Specialties		Group taxation is allowed, subject to certain conditions.  Operating losses can be offset against capital gains.

## Value Added Tax

General rate	17%	
Reduced rate	7%	Applicable to public transportation, books, serial publications, computer equipment.  For staple-food (milk, bread, sugar, oil, etc), the reduced rate will apply until 31 July 2008. After that they will be taxed at a rate of 0%.  Most of the medicines will be taxed at the reduced rate until 31 March 2008.  After that they will be taxed at a rate of 0%.
Refund period	60/30 days	

## Individual Taxation

Personal Income Tax	15%	Flat rate.
Mandatory Social Security Contribution	Employer: 15% Employee: 19%	Maximum base for pension contribution is capped on annual basis at approx. EUR 21,000.
Specialties		Further reduction of tax rates to 12% for 2009 and 9% starting from 2010. Reduction of social security contributions rates to 14.5% for 2009 and 13.5% starting from 2010 (employer) and 17.5% for 2009 and 16.5% starting from 2010 (employee).

## Other Taxes

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

## Contact

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# Poland

Capital:	Warsaw
Official language:	Polish
Official currency:	Złoty (PLN)
Population:	38,537,000 (2007)
Area:	312,685 km <sup>2</sup>
GDP growth (%):	6.5 (2007)
GDP per capita (USD):	12,700 (2007)
Double Tax Treaties:	78
FDI (USD):	11,993 million (2006)

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## 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 simpler.
- 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 qualified 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 – stability for taxpayers' business operations.
- It is possible to obtain binding rulings on tax laws.
- State aid is available in the form of tax 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 possibility to run businesses 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.
Specialties		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 15% 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	180 days	Exceptionally 60/25 days.

## Individual Taxation

Personal Income Tax	19%-40%	Individuals conducting business activities can opt for a flat rate of 19% subject to certain conditions.
Mandatory Social Security Contribution	Employer: 17.48%-20.41% Employee: 13.71%	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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Exchange rate: PLN 3.61 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

# Romania

Capital:	Bucharest
Official language:	Romanian
Official currency:	Romanian Leu (RON)
Population:	21,620,000 (2005)
Area:	237,500 km <sup>2</sup>
GDP growth (%):	7.7 (2006)
GDP per capita (USD):	5,631.9 (2006)
Double Tax Treaties:	81
FDI (USD):	9.1 million (2006)

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## Highlights

### Advance Pricing Agreement (APA)

- Companies may request an APA for transactions between related parties. The APA is issued by the National Agency for Tax Administration (NATA) and is opposable and mandatory against tax authorities. The APA is valid for a period up to five years. However, in exceptional cases, the validity period may exceed five years in the case of long-term agreements.
- The first APA was submitted with NATA in December 2007.

### Individual tax ruling

- Taxpayers registered with the tax authorities can file a request for issuance of a tax ruling with the National Agency for Tax Administration. This ruling is binding for the tax authorities.

### VAT

- Simplification measures will no longer apply for construction works and buildings/land supplied under taxation regime between companies, thus requiring the real estate developers and buyers to pre-finance the input VAT.
- The supply of a new building/part of a new building/building land will be subject to VAT,

irrespective whether the input VAT related to the acquisition has been deducted or not.

- The adjustment of the VAT deduction right for capital goods will be made one-off when the destination of these goods changes.
- The advance payments received/paid for intra-community supplies/acquisitions of goods must be registered in VAT reporting documents.

### Excise duties

- Traders purchasing non-harmonised excisable products (e.g. coffee, perfumes, jewellery, furs) are entitled to a refund of the excise duties paid, if the products are exported, supplied to another EU Member State or returned unchanged to the supplier.

### Individual tax

- No major changes in individual tax regulations for 2008.
- Changes in social security regulations: social security cap removed both for employee (as of July 2007) and employer (as of January 2008); several reductions in social charges rates to be enforced as of January, July and December 2008.

# Corporate Taxation

Rate	16%	Income tax rate for micro-companies is 2.5% of revenue earned in 2008, 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, as well as interest related to bonds traded on a regulatory market.
Tax loss carry forward	5 years	
Withholding tax	16%	Applicable on dividends, interest, royalties, commissions and service fees. This rate can be reduced under Double Tax Treaties or by EU Directives Under the Parent-Subsidiary Directive the WHT rate can be reduced to nil. Under the Interest and Royalty Directive, the WHT can be reduced to nil starting from 2011 – currently there is a transitional period (between 1 January 2007 and 31 December 2010) during which a 10% WHT rate is applicable.
Specialties		Transfer pricing rules apply; taxpayers are required to prepare a transfer pricing documentation file covering their related party transactions to be presented upon request during a tax audit. The detailed content of the transfer pricing documentation file is provided in a separate Order issued by NATA.

## Value Added Tax

General rate	19%	All supplies of goods and services, except those subject to the 9% rate.
Reduced rate	9%	Access to castles, museums, fairs, exhibitions, cinemas, supplies of books, newspapers, medicines and accommodation.
Refund period	45 days	In practice, can be longer.
Specialties		Simplification measures for the call-off and consignment stock, goods on trial, work on movable goods.

## Individual Taxation

Personal Income Tax	16%	Flat tax rate, applicable to most types of income; ex. of exceptions from the 16% flat tax rate: capital gains obtained further to securities transactions – 1% under certain conditions; gambling income – 20% or 25%, depending on the level of the gain obtained.
Mandatory Social Security Contribution	Employer: 27.75%-39.35% till November 2008 Employee: currently 16.5%	Rates vary depending on cap and the employer's area of activity. 25.45%-37.05% for December 2008. 15.55% as of July 2008.
Specialties		Tax-free secondment benefits available; monthly tax returns and monthly tax payment for individuals seconded from abroad to Romania.

## Other Taxes

Building tax	0.25%-1.5%	In case the building was not revaluated in the last three years the rate will be in the range of 5%-10%.
Other		Excise duties, environmental fund contributions, advertising tax, health fund contributions, transfer tax in specific cases;

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Exchange rate: RON 3.61 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

# Russia

Not updated for 2008!

Capital:	Moscow
Official language:	Russian
Official currency:	Russian Roubles (RUR)
Population:	142,750,000 (2005)
Area:	17,075,000 km <sup>2</sup>
GDP growth (%):	6.4 (2005)
GDP per capita (USD):	5,355 (2005)
Double Tax Treaties:	67
FDI (USD):	14,600 million (2005)

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## 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 is 24%, which is lower than or comparable to that in most other countries in the region. However, social tax and other taxes and levies, along with the administrative burden (i.e. registration requirements, tax audits, etc), increase the pressure on companies.
- The VAT rate has been lowered from 20% to 18%. Some operations, e.g. insurance, banking operations (with some exceptions), the circulation of 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 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.
- Tax administration is still a major issue for business, although the Russian government recently submitted a draft law that would clarify uncertainties and improve tax administration procedures.
- Russia benefits from a broad Double Tax Treaty network (67 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, properly documented and administered, be responsive to change in all aspects of business operations, and have strong tax and legal assistance.

# Corporate Taxation

Rate	24%	Corporate tax is divided into Federal and regional parts of, respectively, 6.5%, and 17.5% (but no 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.  The interest rate on loans granted in RUR should not exceed 1.1 times the Russian Central Bank refinancing rate (currently 10.5%) and the interest rate on loans granted in USD should not exceed 15%.
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): <ul style="list-style-type: none"> <li>• 15% in relation to dividends and income from participation in Russian enterprises with foreign investments;</li> <li>• 10% in relation to freight income;</li> <li>• 20% in relation to some other income from Russian sources, including royalty, interest, capital gain (special procedure for disposal of immovable property and shares in Russian subsidiaries where the major assets are immovables).</li> </ul>
Specialties		Starting from 1 January 2008 dividends received by Russian company will be exempt from tax in Russia provided that certain conditions are met (365 days holding period, 50% shareholding with investment value over RUR 500m, jurisdiction of foreign subsidiary paying dividends is not indicated in the "black" list of countries approved by the Russian Ministry of Finance).

## Value Added Tax

General rate	18%	
Reduced rate	10%	A 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 months	In practice, could be significantly higher.
Specialties		For cross-border services, there are special rules (similar to the EU Sixth Directive) determining whether they are provided within or outside Russia.

## Individual Taxation

Personal Income Tax	13% / 30%	Russian residents are liable to tax at a flat rate of 13% (except for dividends and other minor exceptions). Non-residents are taxed at 30% on income received from Russian sources.
Mandatory Social Security Contribution	Employer: 2%-26% Employee: 0%	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%.

## 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, as well as 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, Gaming tax, Land tax, Individual property tax.

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Exchange rate: RUR 34.92 = EUR 1.00. This rate is not fixed and approximates to the market rate on 25 May 2007.

# 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 (%):	7.5 (2007)
GDP per capita (USD):	5,963 (2007)
Double Tax Treaties:	35
FDI (USD):	3,569 million (2007)

- 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.
- 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.
- Companies are entitled to deferred taxation of capital gains arising from mergers, acquisitions or spin-offs.
- 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.
- Foreign exchange regulations becoming more flexible.

# Corporate Taxation

Rate	10%	
Thin capitalization (debt:equity ratio)	approx. 4:1	No straightforward 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 as a 31 December of 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.
Specialties		Deductibility of marketing expenses is capped at 3% of gross revenues. Group consolidation is applicable 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 taxpayers considered major exporters.
Specialties		Non-residents are not allowed to deduct input VAT through fiscal representatives.

## Individual Taxation

Personal Income Tax	12%	Monthly standard deduction of RSD 5,560.
Mandatory Social Security Contribution	Employer: 17.9% Employee: 17.9%	Min. social security base is 35% of average monthly salary, while max. base for contributions is capped at five times average salary.
Specialties (PIT)	10%/15%	Additional annual income exceeding prescribed threshold is additionally taxed at progressive rates.

## Other Taxes

Property tax	0.4%	Based on net book value as at 31 December of the previous year.
Transfer tax	2.5%/0.3%	Real estate/shares.
Other	2.5%	Inheritance and gift tax.

Exchange rate: RSD 80.00 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

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# Slovakia

Capital:	Bratislava
Official language:	Slovak
Official currency:	Slovak Koruna (SKK)
Population:	5,396,168 (2007)
Area:	49,035 km <sup>2</sup>
GDP growth (%):	8.3 (2006)
GDP per capita (USD):	17,600 (2006)
Double Tax Treaties:	58
FDI (USD):	4,165 billion (2006)

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



## Highlights

- Flat income tax rate of 19%.
- Flat 19% VAT rate, with a few exemptions 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 planned for 2009.

# 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 be re-introduced (6:1) from 1 January 2009.
Tax loss carry forward	5 years	Tax losses carried forward can be utilized in five consecutive years without restrictions. A legal successor, e.g. following a merger, can continue using the tax losses.
Withholding tax	19%	Applicable on dividends, interests, royalties, capital gains; No withholding tax is levied on dividends paid out of after-tax profits arising in 2004 and later years. Pre-2004 dividends paid to a direct EU shareholder holding more than a 25% share are not subject to withholding tax. Exemptions under the EU Interest and Royalties Directive are 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.
Specialties		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. No specific transfer-pricing documentation requirements.

## Value Added Tax

General rate	19%	
Reduced rate	10%	For specific medical and pharmaceutical products and devices.
Refund period	30 days	A 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.
Specialties	none	VAT law is fully harmonized with the EU 6th Directive.

## Individual Taxation

Personal Income Tax	19%	Levied on taxable income, decreased by statutory personal allowances.
Mandatory Social Security Contribution	Employer: 34.4% (capped) + 0.8% (not capped) Employee: 13.4% (capped)	Max. monthly contributions are SKK 18,454 for an employer and SKK 6,971 for an employee, per month, until December 2007, and will increase to SKK 23,169 and SKK 8,651 respectively from July 2007.
Specialties	Self-traders	Entrepreneurs who are not VAT payers can either deduct expenses actually incurred, or take a flat 40% deduction from their taxable income.

## Other Taxes

Other		Land tax, building tax, tax on apartments: tax rates set by the local municipality decision, within certain limits. Customs and excise duties, motor vehicle tax. Other municipality taxes. No real estate transfer tax.
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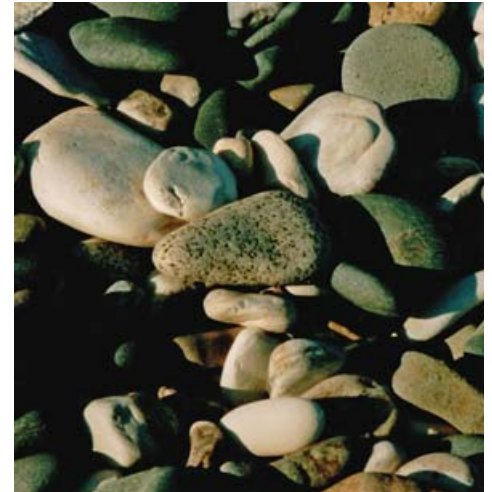
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Exchange rate: EUR 1 = SKK 33.316. This rate is not fixed and approximates to the market rate on 1 January 2008.

# Slovenia

Capital:	Ljubljana
Official language:	Slovenian
Official currency:	Euro (EUR)
Population:	2,010,400 (2006)
Area:	20,273 km <sup>2</sup>
GDP growth (%):	5.2 (2006)
GDP per capita (USD):	20,600 (2006)
Double Tax Treaties:	42
FDI (USD)	496 million (2005)

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## Highlights – Recent tax changes in Slovenia

### Corporate Income Tax (CIT)

- In 2008 the standard CIT rate is 22%. This will reduce to 21% in 2009 and 20% in 2010. A CIT rate of 0% applies for qualifying investment funds, pension funds, insurance undertakings and venture capital companies.
- If the specified conditions are met, a participation exemption can eliminate tax on dividends received from EU countries and specified countries outside EU with a tax rate of more than 12.5%; and 45% of the tax on capital gains from the disposal of shares from an EU country or a specified country outside the EU with a tax rate of more than 12.5%.
- The standard withholding tax rate (WHT) is 15% on payments of interest, dividends and royalties, however, this can be reduced to 0% in accordance with the EU Interest and Royalty and Parent Subsidiary Directives. WHT can apply to payments for services to specified countries with a tax rate lower than 12.5%.

### Value Added Tax (VAT)

- Slovenia has fully incorporated the provisions of the EC VAT Directive into its VAT legislation and has implemented 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);
  - the 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 considered if taxable persons are established in third countries.

### Personal Income Tax (PIT)

- The following progressive PIT rates are used from 1 January 2007: 16%, 27% and 41%.

# Corporate Taxation

Rate	22%	The rate will be reduced to 21% in 2009 and 20% in 2010 at which level it should remain.
Thin capitalization (debt:equity ratio)	6:1	The debt-to-equity ratio of 6:1 should apply between 2008 to 2010 and gradually reduce to 5:1 in 2011 and 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.
Specialties		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 for 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.
Specialties		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%	41% applies for tax basis over EUR 14,375.20.  Additional allowances are introduced for lower-income taxpayers for 2008.
Mandatory Social Security Contribution	Employer: 16.1% Employee: 22.1%	
Specialties	1.1%-4.4%	Payroll taxes on income above EUR 688.53.

## Other Taxes

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

## Contact

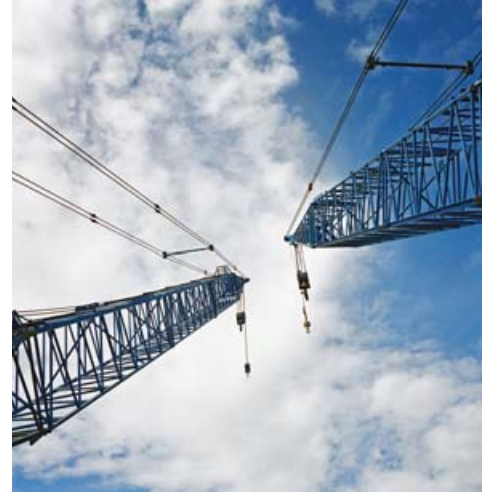
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# Ukraine

Capital:	Kiev
Official language:	Ukrainian
Official currency:	Ukrainian Hryvnia (UAH)
Population:	46,400,000 (2007)
Area:	603,700 km <sup>2</sup>
GDP growth (%):	7.2 (2007)
GDP per capita (USD):	3,028 (2007)
Double Tax Treaties:	62
FDI (USD)	27 billion (2007)

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



## Highlights

### Why join Ukraine?

- Member of WTO since February 2008.
- Extensive international interest in Ukrainian real estate market.

### Advantages

- Low flat rate of tax on individuals (15%).
- No developed transfer pricing regulations.
- No thin capitalization rules in their general understanding.
- 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.

### Disadvantages

- The 2007 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 based on 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 earlier.
- High social security contributions (36.66%-49.60%).
- Only 85% of payments to entities located in tax haven jurisdictions are deductible.
- 0% VAT generally does not apply to export of services.
- Obtaining VAT refunds is very difficult.

### Future development of the tax system

- Tax Code is forecast to be adopted within a year.
- New transfer pricing regulations may come into force during 2008.
- A decrease of CPT is forecast from 25% to 20% within eight years.
- A new double tax treaty with Cyprus is going to come into force.
- Energy-saving incentives will come into force when the Cabinet of Ministers develops the procedure for applying for these.

# 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.
Specialties		85% deductibility of payments to non-residents located in an off shore jurisdiction which includes 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 of registration. Based on the law, the full procedure of getting VAT refund to the VAT-payer's bank account could potentially take up to 70 days. However, in practice, obtaining VAT refunds is very difficult and may take several months or even years.
Specialties		Most services to non-residents are effectively VAT-exempt. Exemption for energy-saving goods from import VAT came into effect from 1 January 2008.

## Individual Taxation

Personal Income Tax	15%/30%	Dividends, royalties, inheritance and gifts may be taxed at rates from 0 to 15%.
Mandatory Social Security Contribution	Employer: 36.66% - 49.6% (the highest rates are applied to high-risk activities)  Employee: approx. 3.5%	Base is capped at approx. USD 1.9 K per employee per month, subject to annual review by the Parliament. It will be gradually increased to USD 2K during the year 2008.

## Other Taxes

Specific Pension Fund charges		Purchase of foreign currency – 0.5%. Purchases of real estate – 1%. Purchases of vehicles – 3%.
State (stamp) duty		Purchases of real estate – 1%.
Other		Land tax, Environmental tax

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Exchange rate on 1 January 2008: UAH 7.42 = EUR 1.00.

# Uzbekistan

Capital:	Tashkent
Official language:	Uzbek
Official currency:	Uzbek Soum (UZS)
Population:	26 million (2005)
Area:	447,400 km <sup>2</sup>
GDP growth (%):	8.0 (2005)
GDP per capita (USD):	2,283 (2005)
Double Tax Treaties:	41
FDI (USD):	70 million (2005)

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



## Highlights

New Tax Code is in force as of 1 January 2008. Some of the new concepts introduced therein are presented below.

The New Tax Code is deemed as the primary document to prevail over all other tax related legislative acts. It now contains provisions that in the past were covered by regulation documents of 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 the Resolution of the Cabinet of Ministers of Uzbekistan. We believe that this tax was not incorporated within the New Tax Code as its application is limited in time and should expire on 31 December 2009.

The New Tax Code addressed certain issues related to taxation of foreign legal entities. According to the

New Tax Code the foreign legal entities are payers of the following taxes:

- Corporate income tax at 10% on accounting income adjusted for tax purposes;
- The new net profits tax at 10% on income after 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;
- Unified social tax at 24% on payroll of national staff.

Among other notable changes there is absence of any provisions related to transfer pricing in the New Tax Code.

The New Tax Code introduced many other changes in relation to Uzbek taxes. Practical application and treatment of the new provisions by the Uzbek authorities are yet to be seen.

# Corporate Taxation

Rate	10%	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	Allowing a reduction of taxable income of the respective year by up to 50%.
Withholding tax	6%/10%/20%	6% – Telecommunication, international, freight; 10% – Dividend, interest, insurance and reinsurance premium; 20% – Royalties, rents, lease income, management fees, freight forwarding, etc.
Specialties	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	30 days	Overpayment is generally offset against future tax liabilities. Refunds can be difficult to get.
Specialties		Input VAT on capital expenditure should be capitalized (i.e. it cannot be claimed for offset).

## Individual Taxation

Personal Income Tax	13%-25%	The minimum annual wage currently is UZS 223,560.
Mandatory Social Security Contribution	Employer: 24% Employee: 2.5%	Not charged on expatriates' salaries.
Specialties		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		There are water use, land and subsurface taxes.

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Exchange rate: UZS 1866.21 = EUR 1.00 as at 1 January 2008

# 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>2</sup>	10%	10%	10%
Bulgaria	10%	3:1	5 years	5%	10%	10%	10%
Croatia	20%	4:1	5 years	–	15%	15%	–
Czech Republic	21%	2:1	5 years	15%	15%	15%	–
Estonia	21/79 <sup>3</sup>	–	–	0%/21% <sup>4</sup>	0%/21% <sup>5</sup>	15%	– <sup>6</sup>
Georgia	15%	–	5 years	10%	10%	10%	–
Hungary	16%+4%	3:1	indefinite <sup>7</sup>	–	–	–	–
Kazakhstan	30%	4:1	3 years	15%	15%	20%	20%
Latvia	15%	4:1	5 years	0%/10%	5/10/15%	5%/15%	2% <sup>8</sup>
Lithuania	15%/3%	4:1	5 years	0%/15%	10%	10%	10%
Macedonia	10%	–	3 years	10%	10%	12%	–
Moldova	0%	– <sup>9</sup>	5 years	15% <sup>10</sup>	10%	10%	10%
Montenegro	9%	–	5 years	15%	5%	15%	15%
Poland	19%	3:1	5 years	19%	20%	20%	–
Romania	16%	3:1	5 years	16%	16%	16%	16%
Russia	24%	3:1	10 years	15%	20%	20%	20%
Serbia	10%	approx. 4:1	10 years	20%	20%	20%	20%
Slovakia	19%	–	5 years	–	19%	19%	19%
Slovenia	22%	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 5% is applicable in Federation Bosnia Herzegovina and 0% is applicable in Republika Srpska
- 3 undistributed profits are tax exempt (21/79 tax applies on the net amount of profit distribution)
- 4 21% applies to non-resident entities holding less than 15% of the share capital/voting power of an Estonian company or located in low-tax jurisdictions
- 5 21% applies to the part of interest that significantly exceeds the arm's length level.
- 6 certain capital gains may be subject to tax on a self-assessment basis
- 7 the permission of the Tax Authority is required
- 8 applies only on sale of real estate and shares in real estate companies
- 9 no debt-to-equity ratio provided; certain restrictions are in place
- 10 if related expenses are non-deductible for CIT purposes

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%	–	90 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	0%/10%/15% <sup>4</sup>	10%–42% <sup>5</sup>	28%	17%	–	60 days
Bulgaria	10% <sup>6</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>6</sup>	35%	12.5	19%	9%	30 days
Estonia	21% <sup>6</sup>	33.3%	0.6%–2.6%	18%	5%	30 days
Georgia	25% <sup>6</sup>	–	–	18%	–	3 months
Hungary	18%/36% <sup>7</sup>	32%	17%	20%	5%	45 days
Kazakhstan	10% <sup>6</sup>	3%	13–5%	13%	–	60 days <sup>8</sup>
Latvia	25% <sup>6</sup>	24.09%	9%	18%	5%	1 year
Lithuania	15%/24%	30.98%–31.7%	3%	18%	9%/5%	90 days
Macedonia	10% <sup>6</sup>	–	32%	18%	5%	30 days
Moldova	7%–18%	24%	5%	20%	8%/5%	45 days
Montenegro	15% <sup>6</sup>	15%	19%	17%	7%	60/30 days
Poland	19%–40%	17.48%–20.41%	13.71%	22%	7%/3%	180 days
Romania	16% <sup>6</sup>	27.75%/39.85% <sup>9</sup>	16.5% <sup>9</sup>	19%	9%	45 days
Russia	13% <sup>6</sup>	(26%-2%)+(0.2%-8.5%)	–	18%	10%	– <sup>8</sup>
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>10</sup>	36.66%–49.6%	3.5%	20%	–	– <sup>11</sup>
Uzbekistan	13%–25%	24%	2.5%	20%	–	30 days

#### NOTES

- 1 in some cases shorter or longer period may apply
- 2 applicable on annual income over AMD 960 000 (EUR 2000) → the rate is AMD 96 000 (EUR 200) + 20%
- 3 regressive rate
- 4 In Federation rates depend on where a person lives. In Republika Srpska: 0% for lowest annual salary, 10% for average salary, and 15% for salary above average.
- 5 10% is applicable in Federation Bosnia Herzegovina and 42% is applicable in Republika Srpska
- 6 flat rate
- 7 plus 4% solidarity tax on income over HUF 6,748,850
- 8 problematic in practice
- 9 from December 2008 social security – employer: 25.45%-37.05%; – employee: 15.5%
- 10 15% for residents, 30% for non-residents
- 11 N/A in the first 12 months of registration

