CEE Tax Notes

Working cross-border*

Issue No. 8/1
Annual edition 2008

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PRICEWATERHOUSECOOPERS

Foreword

Steven Snaith

The aim of CEE Tax Notes is to provide our readers with a summary of the tax, legal and regulatory systems in CEE.

With GDP growth over 6%, the CEE region is still one of the highest growth regions of the world. Most of the local currencies have risen against the euro or the American dollar in the last few years. The political environment is generally stable, despite some volatility in certain countries. The financial and manufacturing sectors are still attracting foreign investors. In fact, the CEE region attracted over USD 100 billion foreign direct investment in both 2006 and 2007. In addition to the settlement of multinational companies, the number of domestic enterprises continues to grow. Finally, ten of the region's countries are now official members of the European Union, and the number of transactions within the Union and with countries outside the Union has increased significantly.

Driven by continued globalisation there has been a growth in the amount of business commuting, short/long-term secondments and international projects. Some of the personal income tax consequences of re-location are discussed in the lead article by William Schofield, CEE Human Resource Services Network Leader.

Another trend has been the increasing introduction of flat-rate personal income tax regimes. Each year, two or three countries in the region replace their progressive personal income taxation with a flat-rate taxation regime. So far, the feedback appears positive, and none of the countries have restored their old regimes.

As the region's economy has expanded, not only has the number of PricewaterhouseCoopers offices increased, but staff numbers in the existing offices and the range of services has also expanded. Our internal policies ensure that clients receive the same standard of professional services throughout the region, regardless of which office they contact for advice.

All our regional offices have contributed to this publication. The period of year-end closing and tax changes is usually extremely busy, and I would therefore especially like to express my thanks to the contributors.

Steven Snaith
CEE Tax and Legal Services Leader

PricewaterhouseCoopers Tax Contacts for CEE:

CEE Tax and Legal Services Leader

Russia (Moscow)

Steven Snaith

Tel: + 7 495 232 5524

Fax: + 7 495 967 6001

Email: steven.snaith@ru.pwc.com

CEE Tax and Legal Services Markets Partner

Russia (Moscow)

Bill Henry

Tel: + 7 495 967 6023

Fax: + 7 495 967 6001

Email: bill.henry@ru.pwc.com

CEE Tax Notes Editor

Hungary (Budapest)

Tibor Torok

Tel: + 36 1 461 9371

Fax: + 36 1 461 9559

Email: tibor.torok@hu.pwc.com

Albania (Tirana)

C/O Rene Bijvoet (Serbia)

Loreta Peci

Tel: + 355 4 242 254

Fax: + 355 4 241 639

Email: loreta.peci@al.pwc.com

Azerbaijan (Baku)

C/O Courtney Fowler (Kazakhstan)

Movlan Pashayev

Tel: + 994 12 497 7405

Fax: + 994 12 497 7411

Email: movlan.pashayev@az.pwc.com

Bosnia and Herzegovina (Sarajevo)

C/O Ron Barden (Ukraine)

Mark Davidson

Tel: + 387 33 295 234

Fax: + 387 33 295 235

Email: mark.davidson@ba.pwc.com

Bulgaria (Sofia)

Irina Tsvetkova

Tel: + 359 2 9355 126

Fax: + 359 2 9803 228

Email: irina.tsvetkova@bg.pwc.com

Central Asia Cluster

Kazakhstan (Almaty)

Courtney Fowler

Tel: + 7 727 298 0615

Fax: + 7 727 298 0252

Email: courtney.fowler@kz.pwc.com

Croatia (Zagreb)

Iain McGuire

Tel: + 385 1 6328 880

Fax: + 385 1 6111 556

Email: iain.mcguire@hr.pwc.com

Czech Republic (Prague)

Stephen Booth

Tel: + 420 2 5115 2888

Fax: + 420 2 5115 7888

Email: stephen.booth@cz.pwc.com

Estonia (Tallinn)

C/O Mike Ahern (Poland)

Villi Tõntson

Tel: + 372 614 1970

Fax: + 372 614 1980

Email: villi.tontson@ee.pwc.com

Georgia (Tbilisi)

C/O Courtney Fowler (Kazakhstan)

Matthew Tallarovic

Tel: + 995 32 508 050

Fax: + 995 32 508 060

Email: matthew.tallarovic@ge.pwc.com

Hungary (Budapest)

Russell Lambert

Tel: + 36 1 461 9223

Fax: + 36 1 461 9115

Email: russell.w.lambert@hu.pwc.com

PricewaterhouseCoopers Tax Contacts for CEE:

Kazakhstan (Almaty)

Courtney Fowler
Tel: + 7 727 298 0615
Fax: + 7 727 298 0252
Email: courtney.fowler@kz.pwc.com

Latvia (Riga)

C/O Mike Ahern (Poland)
Zlata Elksnina
Tel: + 371 709 4514
Fax: + 371 783 0055
Email: zlata.elksnina@lv.pwc.com

Lithuania (Vilnius)

C/O Mike Ahern (Poland)
Kristina Bartuseviciene
Tel: + 370 5 239 2365
Fax: + 370 5 239 2301
Email: kristina.bartuseviciene@lt.pwc.com

Macedonia (Skopje)

C/O Irina Tsvetkova (Bulgaria)
Bob Savic
Tel: + 389 71 232 710
Fax: + 389 2 311 6525
Email: bob.savic@mk.pwc.com

Moldova (Chisinau)

C/O Mihaela Mitroi (Romania)
Andrian Candu
Tel: + 373 22 238 122
Fax: + 373 22 238 120
Email: andrian.candu@ro.pwc.com

Poland (Warsaw)

Iwona Smith
Tel: + 48 22 523 4853
Fax: + 48 22 508 4853
Email: iwona.smith@pl.pwc.com

Romania (Bucharest)

Peter de Ruiter
Tel: + 40 21 202 8670
Fax: + 40 21 202 8600
Email: Peter.deRuiter@ro.pwc.com

Russia (Moscow)

Steven Snaith
Tel: + 7 495 232 5524
Fax: + 7 495 967 6001
Email: steven.snaith@ru.pwc.com

Serbia and Montenegro (Belgrade)

Rene Bijvoet
Tel: + 381 11 3302 100
Fax: + 381 11 3302 101
Email: rene.bijvoet@yu.pwc.com

Slovakia (Bratislava)

Todd Bradshaw
Tel: + 421 2 5935 0600
Fax: + 421 2 5935 0222
Email: todd.bradshaw@sk.pwc.com

Slovenia (Ljubljana)

Janos Kelemen
Tel: + 386 1 5836 058
Fax: + 386 1 5836 098
Email: janos.kelemen@si.pwc.com

Ukraine (Kiev)

Ron Barden
Tel: + 380 44 490 6777
Fax: + 380 44 484 0966
Email: ron.j.barden@ua.pwc.com

Uzbekistan (Tashkent)

C/O Courtney Fowler (Kazakhstan)
Abdulkhamid Muminov
Tel: + 998 71 1206 101
Fax: + 998 71 1206 645
Email: abdulkhamid.muminov@uz.pwc.com

German Desk

Christian Ziegler
Moscow, Russia
Tel: + 7 495 232 5461
Fax: + 7 495 967 6001
Email: christian.ziegler@ru.pwc.com

Japanese Business Practice

Belgium (Brussels)
Steve Moriyama
Tel: + 32 2 710 7432
Fax: + 32 2 710 4299
Email: steve.moriyama@be.pwc.com

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Getting it right

By William Schofield, Human Resource Services Leader for CEE, Moscow

PricewaterhouseCoopers' Human Resource Services (HRS) network is the largest network in the tax practice. In our region there are over 200 full time employees covering a number of services, including such diverse issues as personal tax compliance and consulting, pension consulting, development of remuneration structures and the benchmarking of salaries and HR effectiveness. The network works closely with clients' HR and tax teams and through this is seeing a significant increase in business activity in our region as well as the flexing of the region's business strength beyond its borders.

With globalisation and increasing performance pressures on businesses, there continues to be an ever-increasing need to be close to suppliers and customers, to build a global corporate culture and brand and to provide employees with development and leadership opportunities. These goals often require an organisation to move beyond its domestic spheres and grow on a global basis, which, despite the continuing improvements in communication tools, almost inevitably leads to employees working to some extent outside their "home country". Our region is no different, with our HRS teams continuing to see growing numbers both of "foreign" employees in our territories and of our regional employees exploring business opportunities in western Europe and further afield.

Moving employees around the world has never been straightforward and that is no different today. Be it for a short business trip or a longer term assignment, there are myriad issues to consider, beyond the immediate business imperatives. Forward planning, and getting it right, is essential – failure to comply with local requirements can bring adverse publicity to a business, potentially very damaging to a brand.

Getting it right

As mentioned, having an employee working "away from home" will throw up many issues, not least the question of which jurisdiction, or jurisdictions, has the right to tax the individual's employment income. Accordingly, a good understanding of the personal tax implications is imperative, to ensure that there are no surprises when it comes to determining the personal tax liability of an employee travelling on business. Whilst corporate taxation issues may receive greater "headline" emphasis due to the – generally – higher numbers involved, planning for personal taxation is equally important. If the personal tax treatment adversely impacts the employee, it is distinctly possible that the individual will either seek additional compensation or refuse to travel, both with obvious negative business consequences.

The taxation status of an employee will generally determine where and how much tax the individual will be required to pay. Clearly, much will depend on the nature of the foreign travel; in my view there are five types of business traveller:

- The "business" visitor: very short term and occasional, generally for the benefit of the home entity, for training or as a result of regional responsibilities;
- The commuter: the employee who lives in one country but works in a second country;
- The project worker: the employee working away from home on a specific project, be it short- or long-term;
- The short-term assignee: there is no definition of short-term, but a timeframe of around 12 months is not an unreasonable starting point;
- The long-term assignee: assignments of 12 months or more.

For the purposes of this article, I propose discussing just the first three categories as these present a number of interesting, and sometimes surprising, outcomes and are highly prevalent in our region when compared to other parts of the world.

The business visitor

It is a not uncommon practice for business travellers, and their employers, to agree to a "business trip" without considering the personal tax implications that could arise. Whilst in many instances this "laissez-faire" approach may not create any issues, it is one that could potentially lead to incorrect outcomes and is not, therefore, to be recommended. Generally, when an individual travels to a different (host) location on a "business trip", the view is that the corresponding employment income will not be taxable in the host location, remaining taxable solely in the home country. This assumed exemption from tax in the host location is generally premised on the application of the terms a Double Tax Treaty. However, for such exemption to apply, several conditions need to be satisfied, the first being that the individual is and continues to be a tax resident in their home location.

The other conditions that need to be satisfied are usually found in the "dependent personal services" article of a Double Tax Treaty. While treaties differ, there are generally three tests to be found in this article and each one of them needs to be met before exemption from tax in the host location can be considered. The three tests are as follows:

- The individual is present in the host location for not more than 183 days (in the relevant 12 month period);
- Their remuneration is paid by, or on behalf of, an employer not resident in the host location; and
- Their remuneration is not borne by a permanent establishment which the employer has in the host country.

For most employees in this category of business traveller, the above conditions would be met and their employment income would be exempt from tax in the host location.

However, in our region a couple of very important issues need to be considered further. While there is a reasonable network of treaties in force, it is by no means comprehensive. The table at the back of this publication summarises the treaties in force, and you will note that, even within our region, there are some gaps – for example, there is no effective treaty between Russia and Estonia. Also, by way of example, only twelve treaties exist between countries of our region and the US and just two with New Zealand. Accordingly, should a business visitor travel between two countries where a treaty is not in force, exemption from income tax cannot be obtained through the treaty network. Domestic legislation in the host country may provide for relief instead, but this would need to be carefully considered.

The second point of interest concerning business visitors relates to those who travel extensively, for example an executive with regional responsibility. Not only might there be travel to non-treaty countries, but the first requirement for obtaining treaty relief, that of remaining tax resident in one of the treaty countries, may be compromised. Each country will have its own domestic rules relating to tax residence, so these comments can only be general. However, a number of countries within our region have a test of residence based purely on number of days of physical presence in the country. If an individual does not meet the required number of days they will be considered a non-resident, taxable only on locally derived income and unable to claim treaty protection in countries to which they travel. Take, for example, a senior executive based in a country that requires 183 days of physical presence for him/her to be considered a resident. If this individual travels extensively throughout the region and beyond and does not attain 183 days in the home country, there will be an exposure to tax in every country visited for work purposes.

Clearly, being exposed to tax in a "foreign" jurisdiction will mean that a number of additional issues need to be considered, for example tax filings, payroll withholding requirements and social security.

The business commuter

Perhaps this category of "business traveller" still remains relatively rare, although in Central and Eastern Europe, where border towns are relatively close, there is the possibility that the number of business commuters will increase as employment opportunities develop and the free movement of labour, certainly within the European Union, takes hold. From a tax perspective, the employee will need to consider both the tax laws of the country in which they live and the country in which they work. It is distinctly possible, especially if the individual is a daily commuter, to be considered tax resident in both countries under the relevant domestic legislation. Should this be the case, leaving aside any specific local legislation that may be relevant, consideration would need to be given to the "tie-breaker" test, found in most Double Tax Treaties, to determine which country would have the primary taxation rights.

Generally, there are three progressive tests in a tie-breaker provision. However, while each step is considered independently, consideration of the "next" step is only required if the former test is not determinative. Again, although there is little uniformity in the overall tie-breaker provisions, a significant number of treaties use the following three progressive tests:

– the permanent home test;
– the centre of vital interests (i.e. personal and economic ties) test; and
– the habitual abode test.

Broadly, therefore, if an individual's treaty residence position cannot be determined under the permanent home test, consideration must be given to the centre of vital interests test, and ultimately the habitual abode test. For a "commuter", it is likely that they will have one permanent home, in the country where they live rather than where they work. This would result in the home country having primary taxation rights over the individual's income and the country of work being restricted to taxing income from sources within that country.

On the assumption that the individual would be employed by an entity in the country of work, it would not be possible to exempt the employment income from tax in that country, regardless of time spent there. This would result in the individual paying tax on their employment income in their country of work, and being required, assuming domestic legislation in the home country allows for it, to claim a tax credit (or other relief) for those taxes. In principle this appears relatively straightforward; however, there can be some onerous steps required to claim foreign tax credits, including obtaining various certificates of tax paid and convincing the relative tax jurisdiction of the merits of the case.

Regardless of the ease, or otherwise, of obtaining tax credits, an employee would also need to take into consideration the impact of differing tax rates and rules between countries. Taking a couple of simple examples to highlight the issues:

– An individual is employed and works in a country with a flat rate tax of 15% which is withheld at source from the relevant employment income. Unfortunately, he lives in the neighbouring country where the tax rates are

progressive, and where there is a top rate of 40%. In this instance, the maximum credit that could be obtained in the home country would be the 15% tax withheld at source. Additional tax would, therefore, be payable in the home country.

– Continuing the above example, the individual is provided with an interest-free loan by his employer, as this is a tax-free benefit in the country of employment. However, in the employee's home country this would be considered a taxable benefit and would have to be reported as such. The individual would therefore need to be aware of how to calculate the taxable value of this benefit in his home country, so that it could be appropriately reported and the tax ultimately paid.

The project worker

The final category of business traveller to discuss is the project worker. While there are no time limitations associated with this category of traveller, for the purposes of this article I will assume that the individual will be in the host country for less than six months.

Before considering the tax implications for this category of traveller, it is important to consider what type of work the individual will undertake in the host location. This category of traveller will most likely remain employed by their home employer but be seconded to the host entity to fulfil a particular, well defined task for that entity. In other words, the individual is likely to work for the benefit of the host entity and become integrated into their local business processes. This would be in contrast to the "business visitor", who would most likely remain under the control of the home entity and merely be in the host location for a short period and for the continued benefit of the home entity.

As you will recall from the first category of business traveller, a Double Tax Treaty, assuming there is one in force, can be applied to exempt employment income from tax in a host location if certain conditions are met. This is the "dependent personal services" article and, in addition to the basic requirement of remaining a tax resident in the home country, the three tests described above need to be satisfied.

From the first instance, it would appear that the project worker, as described above, would satisfy these tests, given the time in the host location is less than six months and their employment continues with their home employer. We will assume, as is often the case, that their home employer does not have a permanent establishment in the host location.

However, in recent years the question of the identity of "the employer" for Double Tax Treaty purposes has been under review. Guidance issued by the OECD in the early 1990s, with their commentary on the Model Treaty, concluded that when considering the provision concerning exemption for short-stay employees, the "economic employer", and not the formal employer, should be considered for the purposes of applying the provision.

Effectively, under the "economic employer" theory, where an employee works in the business of the host company and it is that company that obtains the benefits and bears any risks in relation to the work undertaken by the employee, that company is treated as the employer. This conclusion is further reinforced if the home employer cross-charges the relevant employment costs to the host entity – and given the transfer pricing regulations in force in many countries, this is a typical procedure. When considering the terms of the treaty and using the economic employer interpretation, exemption from tax in the host location could not be obtained because at least point two above could not be satisfied.

While this interpretation of the word "employer" is not particularly prevalent in our region at the moment, it is becoming more "fashionable" elsewhere. Consequently, when employees from our region are sent to work for a relatively short period of time elsewhere, for example to the UK or the Netherlands, even if remaining employed and paid by their home employer, it is possible that a foreign tax liability will arise due to that country's interpretation of the word "employer" in the Double Tax Treaty. It is also, perhaps, just a matter of time before countries in our region start to apply this interpretation to the word because it is likely to create an additional source of tax revenue.

Conclusion

In a short article like this it is clearly not possible to cover all areas that require consideration relating to employees working outside their "home" jurisdiction, and as this is a tax publication the article is centred around tax issues. However, that having been said, it is imperative that before an employee travels abroad, a business ensures, for example, that such matters as visa, work permit and other labour law requirements are satisfied, as well as considering the need to adjust an employee's remuneration in light of whether there are cost of living issues to consider, whether participation in short and long term incentive plans will be affected and what, if any, the consequences for an employee's pension and social security entitlements will be. PricewaterhouseCoopers' Human Resource Services network in the CEE region is experienced in dealing with these and many other assignment-related questions. Our teams throughout the region work closely with businesses to ensure not just that the personal tax issues discussed above are understood, but that the broader HR-related matters are given due attention.

Albania

Highlights

- The Government has reduced corporate income tax from 20% to 10%.
- The rent of buildings and land (with some exceptions) is VAT-exempt.
- The Government has approved a new, flat tax rate of 10% on personal income, as opposed to the former progressive tax rates.

The exchange rate between the Albanian lek ("ALL") and the euro ("EUR") used in this report is ALL 121.75 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The standard rate is now 10%.
- The following entities are exempt from tax on profit: foundations or non-bank financial institutions established to support the government's development policies through credit activities, and film studios for cinematographic productions that are licensed and funded by the National Cinematographic Centre.
- Inventory is valued at the end of each tax period using the methods stipulated in the Accounting Law, which should be applied systematically.
- Entertainment and other promotional costs are deductible up to 0.3% of annual turnover.
- Non-deductible expenses include the costs of benefits in kind, dividends, fines and other tax-related sanctions, wages, bonuses and any other form of income deriving from an employment relationship and paid to the employee (including administrators) in cash, payments made in cash of amounts exceeding ALL 300,000 (approx. EUR 2,460) in each transaction and payments for services and goods made in cash in excess of 10% of the total annual purchases, entertainment and other promotional expenses exceeding 0.3% of the annual turnover, sponsorships exceeding 3% of profit before tax, and sponsorships of press and other publications exceeding 5% of profit before tax, expenses for gifts, and any expense which the taxpayer does not support with a fiscal invoice.
- The interest paid on outstanding loans and prepayments which exceed four times the amount of the net assets should be added to the corporate tax base.
- Bad debts are only deductible if all of the following conditions are met:
  - An amount corresponding to the bad debt has been included earlier in taxable income.
  - The bad debt is removed from the taxpayer's accounting books.
  - All possible legal action to recover the debt has been taken.
- The straight-line method of depreciation is used for buildings and machinery and other fixed structures installed in the building. They are depreciated at an annual rate of 5%. The depreciation of intangible assets is calculated separately for each asset at the rate of 15% using the straight-line method. For other assets, depreciation is calculated on the basis of a declining pooling system. The maximum depreciation rates are 25% for computers, software products and information systems, and 20% for all other assets. Land, fine art, antiques and jewellery are non-depreciable assets.
- The special reserves of banks and insurance companies are deductible.
- Capital gains/losses deriving from the sale of a company's fixed assets are taxed at the same rate as the company's ordinary business income.
- The corporate income tax base should be increased by the amount of interest paid in excess of the average twelve-month credit interest rate applied in the banking system, as determined by the Bank of Albania. The thin-capitalisation rules limit the deduction of interest paid on loans to the interest paid on the part of the loan that does not exceed four times the company's share capital (i.e. a debt/equity ratio of 4:1). The rules apply to loans granted not only by shareholders or by a related party, but also by third parties such as banks, suppliers, etc. The rules do not apply to banks or to leasing and insurance companies.
- Losses may be carried forward for three 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 company is transferred during the tax year.
- The tax year is the calendar year. The final tax return for tax on profit is due by 31 March of the year following the tax year-end. Advance tax payments are due by the 15th of each month. The payments for each month for the months of January to April are based on the amount of corporate income tax declared in the previous year (e.g. tax year 2006 for 2008) and are equal to one-twelfth of the profit tax declared in that tax return. The payments for the remaining months are equal to one-eighth of the profit tax paid in the preceding tax year (e.g. tax year 2007 for 2008), less payments made for the months of January to April.

If the taxpayer's monthly advance payments do not exceed ALL 10,000 (approx. EUR 82) in the current year or did not in the preceding tax year, the advance payments can be made quarterly.

- There is no group taxation.
- There is no Controlled Foreign Company (CFC) legislation.
- Companies have to decide on the use of their prior fiscal year's after-tax profit within six months in the subsequent year and report the decision to the tax authorities no later than 31 July. The decision should state the amount allocated to the statutory reserves, the amount to be used for investment and for increasing the share capital, as well as the amount destined for dividend distribution. If this deadline is not met, a monthly penalty of ALL 25,000 (approx. EUR 205) is imposed. In addition, the company has to pay the tax authorities the tax on dividends no later than 30 July of the year the financial results are approved, even if the dividends have not yet been distributed.

Withholding tax

- The gross amount of interest, royalties, dividends and shares of partnerships' profits paid to non-resident companies are subject to 10% withholding tax, unless a Double Tax Treaty provides a lower rate.
- Withholding tax of 10% is levied on the gross amount of payments for technical, management, installation, assembly or supervisory work, as well as payments to management and board members.
- If a non-resident company does not create a permanent establishment in Albania, and a Double Tax Treaty exists between Albania and the foreign company's home country, the payment of withholding tax can be avoided.

Double Tax Treaties

- Albania is party to 24 Double Tax Treaties.

Transfer pricing

- Transfer pricing adjustments may be made if the conditions set in a transaction between related parties differ from those that would have been set if the parties were independent. In particular, the following are regarded as related parties: (1) a legal entity and any person that owns, directly or indirectly, at least 50% of the shares or voting rights in that entity; and (2) two or more legal entities if a third person owns, directly or indirectly, at least 50% of the shares or voting rights in each entity.

Indirect taxation

VAT

- The standard rate is 20%.
- Exported services and goods and the supply of goods and services related to the international transport of goods or passengers and the supply of goods and services related to trading activity at sea are zero-rated (with credit).
- The sale of buildings is not subject to VAT, although the construction process itself is subject to VAT. Taxable persons are all individuals and legal entities registered, or required to be registered, for VAT purposes. Any person providing taxable supplies and whose annual turnover is ALL 8 million (approx. EUR 65,700) or more, is required to register, although voluntary registration is also possible. Wholesalers whose turnover is below the ALL 8 million (approx. EUR 65,700) threshold are not obliged to register for VAT purposes.
- Taxable transactions include the import of goods into Albania by a taxable person. The following transactions are also taxable:
  - transactions carried out for no consideration or for a consideration less than the market value;
  - barter transactions;
  - the private use of taxable goods by a taxable person (self-supply).
- The following services are VAT-exempt (without credit) in Albania:
  - the sale and leasing of land (subject to certain exceptions);
  - the rent of buildings, except in cases where the rental agreement does not exceed two months and accommodation in hotel and holiday resorts;
  - financial services;
  - educational services provided by private or public educational institutions;
  - postal services;
  - gambling, casino and totalisator services;
  - written media and books;
  - advertising in electronic media (TV).
- 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.

- The standard VAT period is one calendar month.
- When commodities are transferred under a lease contract or a sale contract, the VAT is applied to the whole value of the commodities and is calculated on each installment, irrespective of when the ownership is transferred.
- Interest payments on leasing transactions are no longer subject to VAT.
- The provision of services related to the processing of semi-finished goods intended for export, duly authorised pursuant to Customs Code provisions, is VAT-exempt.
- The taxpayer has the right to claim a VAT credit if:
  - it has carried forward a tax credit balance for more than three consecutive months, and
  - the tax credit balance exceeds ALL 400,000 (approx. EUR 3,285).

Customs duties

- Albanian registered entities that import machinery and equipment for use in their business activity, independently of the type of the activity, are subject to custom duties at the zero rate.
- Custom duties on imports of vehicles are 0%.

Excise duties

- Albania levies excise tax on the following products: fruit juice, water and refreshments; beer, wine and other alcoholic drinks; petroleum; cosmetic articles and perfumes. The excise tax on petroleum, cosmetic articles and perfumes is defined as a percentage of the sales turnover (e.g. 60% for cosmetic articles and perfumes), whereas the excise tax for other products is based on quantity (e.g. ALL 130 /approx. EUR 1.07/ per litre for alcoholic drinks with an alcohol content over 12% by volume).
- The excise tax on unroasted coffee, coffee husks and skins, and coffee substitutes containing coffee, increased from ALL 40 (approx. EUR 0.33) per kilogram to ALL 50 (approx. EUR 0.4) per kilogram.

  The excise tax on spirits also increased, depending on the alcohol strength. The excise duty for alcoholic beverages with an alcohol strength of less than 12% is ALL 50 (approx. EUR 0.4); with an alcohol strength over 12% it is ALL 150 (approx. EUR 1.2); and for Raki (grape spirit) it is ALL 100 (approx. EUR 0.8).
- The excise tax on cigarettes is ALL 40 (approx. EUR 0.33) per packet.
- The excise taxes paid on fuel used by entities engaged in the construction of energy resources with installed capacities of not less than 5MW for both its own needs and for sale are reimbursable.
- The excise tax paid on fuel used in greenhouses as well as in the production of industrial and agricultural products is reimbursable.

Individual taxation

Personal income tax

- Personal income tax on wages is calculated as follows: If monthly income is ALL 30,000 (approx. EUR 246) or less, the first ALL 10,000 (approx. EUR 82) is now tax-exempt and the remaining income in the range between ALL 10,000 and ALL 30,000 is subject to 10% personal income tax. If the monthly income exceeds ALL 30,000, total personal income is taxed at 10%.
- The employer withholds the personal income tax and remits it to the tax authority's account by 20th of the subsequent month.
- Individuals whose income is generated in the Republic of Albania and whose income has not been subject to taxes withheld at source must pay their personal income tax by 20th of the month following the month of payment. In addition, such individuals should make a self-declaration of the income earned to the tax authorities by 30 January of the subsequent year.
- Individuals are deemed to be resident in Albania if they have a permanent home in Albania or stay in Albania for more than 183 days in a calendar year, either consecutively or intermittently.
- Partnerships are separate taxable persons, which means that an individual participating in more than one partnership should report separately for each of the partnerships he/she belongs to.
- Resident taxpayers are subject to income tax on their worldwide income. The tax is calculated separately for each income category. No personal allowances or deductions are allowed from the personal income tax

base. The following categories are subject to income tax:

- salary and other remuneration from employment;
- dividends and shares of partnerships' profits;
- interest, except interest received on treasury bonds and other securities issued by the government before 21 January 1999;
- license fees and other royalties;
- rental income; and
- proceeds from the transfer of immovable property.

- Benefits in kind earned through the employment relationship are exempt from personal income tax.

- Capital gains deriving from the sale of shares are taxable at 10%. The tax base is the difference between the sales price and the purchase price of the shares.

- The transfer of ownership of real estate, either land or buildings, is subject to 10% tax on the capital gain on the sale transaction (with some exemptions).

- Non-resident expatriates are subject to personal income tax on income generated in Albania. Foreign individuals who come to Albania under a local employment contract are required to pay income tax in the same manner as local employees. Alternatively, foreign individuals working in Albania under a foreign contract (e.g. secondment contract) are required to pay 10% personal income tax on all income generated in the Republic of Albania no later than the 20th of the month following the month of payment.

Social security

- Social security contributions are payable on employment income.

- Employees pay social security contributions at the rate of 11.2%. The employee's contributions are made up of a 9.5% social insurance contribution and a 1.7% health insurance contribution. Employers are liable to pay social security contributions for their employees at the rate of 21.7%. The employer's contribution is made up of a 20% social insurance contribution and a 1.7% health insurance contribution. The monthly minimum and maximum contribution bases are ALL 14,000 (approx. EUR 115) and ALL 65,700 (approx. EUR 540), respectively.

- Social security contributions are withheld and paid by the employer.

- VAT-registered businesses have to pay social security contributions on their employees by the 20th of the following month. Small businesses have to pay the contributions quarterly, i.e. by 20th of the first month following each quarter. In addition to paying social security contributions on employees, individuals registered as small businesses must also declare and pay social security contributions for family members.

- For social security contribution purposes, a company's shareholders who also have administrative roles in the company are treated as employees. The company is required to calculate and pay social security and health contributions for such individuals at the same rates as for all other employees.

- The law states that all employers must present the tax authority with a written declaration of newly hired staff one day before they start work.

- Foreign individuals who come to Albania under a local employment contract are required to pay social security and health contributions in the same manner as local employees. However, foreign employees working for a foreign employer in Albania have the right to chose between the Albanian Social Security and Health Insurance scheme or another one, whichever is the more favourable.

Other taxes

Property tax

- Property tax is levied annually on all resident and non-resident owners of agricultural land or buildings in Albania. Agricultural land is classified into ten groups and taxed at rates varying from ALL 700 (approx. EUR 5.75) to ALL 5,600 (approx. EUR 46) per hectare. Buildings are classified according to their use and taxed at rates ranging from ALL 5 (approx. EUR 0.04) to ALL 200 (approx. EUR 1.6) per square metre. A 50% tax credit is available for tax due on buildings located in rural areas. The local municipality may vary the tax rates set by the law by 30%. In addition, it decides on the tax payment schedule and on reductions for prompt tax payment.

- Buildings owned or in use within the territory of approved tourist villages are subject to a tax of ALL 200 (approx. EUR 1.6) per square metre per annum.

- Newly-constructed buildings are taxed on the value of the investment they represent at rates ranging from 2% to 4% in Tirana and Durres and from 1% to 3% in other municipalities. The local municipality sets the actual rate.

Armenia

Highlights

- Recent amendments placed a number of restrictions on the simplified tax regime during 2007.
- Under certain conditions, dividends received by non-residents from Armenian sources are taxed at zero rate.
- The corporate income tax incentive for foreign investments up to AMD 500 million (approx. EUR 1.1 million) no longer applies, starting from 2008.

The exchange rate between the Armenian dram (AMD) and the euro ("EUR") used in this report is AMD 443.38 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate income tax rate is 20%. Taxable profit is defined as gross income minus deductible expenses.
- Simplified tax is the tax on business activity that substitutes for VAT and corporate income tax. Taxpayers are entities whose total turnover in any type of business activity has not exceeded AMD 50 million (approx. EUR 113,000) during the previous year. The tax is applied on gross sales turnover, and different tax rates apply, depending on the type of activity. Companies that carry out State-licensed activities and for which the cost of obtaining the licence is more than AMD 1 million (approx. EUR 2,300) are not eligible for the simplified tax regime.
- The corporate income tax year is the calendar year.
- In general, the following expenses are not deductible:
  - expenses not related to the generation of income (such as tax fines and penalties);
  - expenses exceeding the statutorily permitted rates (e.g. allowances for special nutrition and uniforms, expenses for advertising outside Armenia, per diem expenses);
  - expenses that are not supported by relevant documentation.
- The straight-line method of depreciation applies to fixed assets for tax purposes. Asset depreciation is allowed, based on the useful life of the assets. The minimum asset depreciation periods are:

Type of asset	Age terms (years)
Buildings	20
Hotels, spas, guest-houses	10
Production lines, machinery	3
Computers and calculating devices	1
Other fixed assets	5

- The taxpayer is entitled to fully deduct the costs of purchased, produced or leased fixed assets in the year when the fixed assets are put into operation (a form of capital allowance).
- Deductions are permitted for banks and companies.
- Losses can be carried forward for five years.
- Thin-capitalisation rules are not applicable in Armenia.
- Capital gains on sales of fixed assets and securities are included in the taxpayer's gross income and are subject to corporate income tax at the standard rate of 20%.
- A corporate tax return has to be submitted before 25 April of the year following the reporting period. Non-resident companies (branches and representative offices) have to submit annual income tax returns to the Tax Inspectorate before 15 April of the year following the reporting period. Within the following 10 days, the taxpayer receives notification of the final amount of calculated profit tax, which has to be paid within one month of receiving the notification.
- Advance corporate tax payments are made monthly, if the amount of corporate income tax paid by residents exceeded AMD 500,000 (approx. EUR 1,100) in the previous year. These payments are based on 1/16 of the actual profit tax paid during the previous year. Payments are made before 25th of the current month. Newly registered taxpayers do not have to make advance corporate income tax payments until 25 April of the following year.
- Non-resident companies (branches of foreign entities) must make advance payments twice a year if the amount of income tax paid during the previous year was greater than AMD 2 million (approx. EUR 4,500). These payments are based on 1/4 of the actual profit tax paid for the previous year. Payments are made before 1 July and 31 December of the reporting year.
- The tax treatment of foreign companies (branches and representative offices) is the same as for local companies.
- Group taxation is not recognised under Armenian tax legislation.

Withholding tax

- Foreign legal entities which earn income from Armenian sources, other than through a permanent establishment, are subject to withholding tax at the following rates, depending on the type of income:

Dividends	10%
Interest	10%
Royalties	10%
Insurance and re-insurance premiums, and indemnity payments for loss of or damage to freight	5%
Income from services rendered in Armenia	10%
Other Armenian-sourced income	10%

- Dividends received by foreign entities from Armenian sources are subject to a 0% rate of tax if the following conditions are all met at the same time:
  - if the dividends received by the non-resident are not subject to tax in his country of permanent residence;
  - if the participation (share) of the non-resident in the share capital of the resident company paying the dividends comprises no less than 25% of the share capital for a period of not less than two calendar years;
  - the participation (share) from which the dividends are paid has belonged to the non-resident for not less than two calendar years;
  - the non-resident to whom the dividends were paid is their actual owner;
  - the organisation distributing dividends holds a certificate issued by the tax authority stating that the non-resident gaining the income meets all the requirements specified above; and
  - the non-resident should not be registered in an offshore zone listed by the Government.

Double Tax Treaties

- Armenia has Double Tax Treaties with 27 countries, which are in force as of 1 January 2008.

Investment incentives

- When the total amount of investment in the equity capital of a resident with foreign investments (except banks), invested by foreign investors after 1 January 1998 constitutes at least AMD 500 million (approx. EUR 1.1 million), the amount of the profit tax for the resident in question will be reduced:

Year of the investment	Corporate tax relief
1998	100% in 1999-2000 and 50% in 2001-2008
1999	100% in 2000-2001 and 50% in 2002-2009
2000	100% in 2001-2002 and 50% in 2003-2008
2001	100% in 2002-2003 and 50% in 2004-2007
2002	100% in 2003-2004 and 50% in 2005-2006
2003-2007 inclusive	100% for the two years following the investment

- This corporate tax incentive is not available from 1 January 2008. Incentives already granted will remain valid for 2008 and 2009, as in the table above.

Indirect taxation

VAT

- The standard rate of VAT is 20%, which applies to the sale of all goods and services that are not subject to zero-rate VAT or are otherwise exempt from VAT.

- The following transactions are subject to zero-rate VAT:
  - exports;
  - commodities for the official and personal use of diplomatic representatives and consular institutions;
  - transit transportation of foreign freight through the territory of Armenia;
  - maintenance, repair and re-equipment of the means of transport for international transportation;
  - the processing and assembly of products from raw materials, semi manufactured goods, and materials provided by foreign residents and exported out of Armenia;
  - services provided outside Armenia; and
  - retail sales of goods to international flight passengers in airports, in places especially designated for that purpose beyond customs and passport control areas, etc.

- The main categories of goods and services that are exempt from VAT are as follows:
  - products and services imported to Armenia for humanitarian and charitable purposes;
  - insurance, reinsurance and banking operations;
  - sales of newspapers and magazines;
  - scientific research work;
  - education material such as music books, sketchbooks, children's and school literature;
  - chemicals and fertilizers used in agricultural production;
  - sales of bread;
  - sales of fuel oil;
  - radio and TV broadcasting, not paid for by the users;
  - sales of precious and semiprecious stones on a Government-approved list; and
  - tuition for secondary, professional, and high schools, etc.

- A VAT-payer is any entity or individual carrying out entrepreneurial activity.

- VAT credit is allowed if the following requirements have been met:
  - tax invoices were submitted to the tax authorities during the reporting period;
  - the amounts of VAT indicated in tax invoices issued by suppliers are for goods and services received in the reporting period for industrial and other commercial use in Armenia; and
  - the payments are made by bank transfer.
- Generally, the reporting period for VAT purposes is the calendar quarter. However, for those whose preceding year's revenue from taxable transactions exceeded AMD 60 million (approx. EUR 135,300), the reporting period is the calendar month. VAT has to be paid to the state budget by the 20th of the month following the end of the reporting period.

Customs duties

- All exports from Armenia are exempt from customs charges.
- The import tariff rates are 0% or 10%. The 10% tariff is levied mainly on consumer and luxury goods.
- Tariffs are in ad valorem terms and are levied on CIF values.
- Armenia uses the Harmonized Code System for tariff classification.
- No import customs duties are payable in the following circumstances:
  - imported capital goods (included in a Government-defined list) forming a part of an investment in a business;
  - transit goods transported through the territory of Armenia;
  - the means of transport (e.g. trucks) used for regular interstate freight transport;
  - currency and stocks;
  - goods temporarily imported into Armenia and temporarily exported from Armenia for processing or reprocessing.
- All payments must be made in Armenian drams (AMD).

Excise duties

- Excise tax is levied on specific goods which are produced in Armenia or imported. Excise tax is generally calculated on the quantity of the goods by volume, weight, etc.
- Excise tax is charged on the following main types of goods: alcoholic drinks, manufactured tobacco substances, crude oil and oil products, petroleum gases and other gaseous hydrocarbons.
- Exports of excisable goods are exempt from excise tax.

Environmental protection and nature utilization fees

- The Environmental Protection fee is paid by individuals and entities for polluting emissions, including automobile exhaust emissions, sewage, etc.
- The Nature Utilization fee is paid on the extraction, use and consumption, etc, of natural resources.

Individual taxation

Personal income tax

- Table of progressive taxation of individual annual income for 2008:

Income brackets (in AMD)	Income tax
up to 960,000	10%
above 960,000	96,000 + 20% on the amount above 960,000

- An employer is generally liable for withholding income tax on salary payments and remitting it to the state budget.
- Individuals become tax-residents if:
  - they have been in Armenia for a total of 183 days or more, starting or ending in a tax year (from 1 January to 31 December inclusive); or
  - their centre of vital interests is in Armenia.
- Non-resident individuals are only taxed on their Armenian-sourced income.
- From 1 January 2008 the personal allowance deductible from taxable income is AMD 25,000 per month (approx. EUR 56). This does not apply to income received by foreign citizens and persons without citizenship.

Social security

- An employer is required to pay social security contributions on employees' salaries.

- Table of progressive social security contributions on employees' monthly salary:

Income brackets (in AMD)	Social security contribution
up to 20,000	7,000
20,001 to 100,000	7,000+15% on the amount above 20,000
above 100,000	19,000+5% on the amount above 100,000

- Employees are also required to contribute 3% from their gross salary. The employer is responsible for withholding and paying these contributions.
- There is no cap on the employees' annual social security contribution base.
- Foreign citizens are exempt from social security payments.

Pensions

- There are no obligatory contributions to employee pension funds.

Other taxes

Real estate and land tax

- Property tax is payable to local state authorities (municipalities), according to the surface area of the property. For public and industrial buildings owned by legal entities it is 0.3 % of the cadastral (i.e. officially registered) value.
- Land tax is payable at the rate of up to 1% of its cadastral value.

Presumptive tax

- Presumptive tax is an obligatory and non-refundable payment substituting for VAT, corporate and personal income tax. The following main types of business are considered subject to the presumptive tax:
  - retail sales of consumer goods and services;
  - retail sales of petrol and diesel fuel;
  - business activity related to gambling businesses (casinos).
- Presumptive tax is calculated on a number of different bases, depending on the type of activity. The tax base includes factors such as the size of trading space occupied, number of gambling tables or machines, etc.

Legal and other developments

Foreign currency regime

- The main restriction under Armenian currency regulations is that monetary quotations and settlements have to be made in the national currency, the Armenian dram (AMD). In long-term obligations, indexation of payments may be specified in terms agreed by the parties.

Labour code

- Employment relationships are regulated by the Labour Code in force from 25 July 2005.
- Labour relationships without an employment contract are prohibited. The Labour Code prescribes the minimum content of employment contracts.
- The standard working week is 40 hours. Overtime is only permitted in specific situations described by the Labour Code. Enhanced hourly rates must be paid for each hour of overtime worked.
- Paid annual leave is not less than 28 calendar days.
- Foreigners have to obtain special work permits.
- The procedure for terminating an employment contract before the contractual termination date is prescribed by the Labour Code.
- The courts are competent for all labour litigation. The Civil Proceedings Code is applied during litigation.

Competition law

- The Protection of Economic Competition Law was issued on 6 November 2000. The law establishes the rules and measures for the protection of fair competition and restriction of monopolies. It defines economic activity that is subject to the regulation and competence of the State Competition Commission, the authority responsible for overseeing such measures.

Intellectual property

- The legal aspects of intellectual property are mainly regulated by the Civil Code, the Law on Patents, the Law on Trade Names, the Law on

the Legal Protection of Integral Microcircuit Topologies, the Law on Intellectual Property, etc. Armenia is a signatory of the major intellectual property and patent protection agreements.

- An invention is protected under the Patent Act if it meets the criteria for novelty, inventiveness and usefulness. A patent is valid for 20 years from the time the application for patent registration is submitted. If a patent has previously been registered in another country, the term of its validity is the same as for the primary, previously registered patent but cannot exceed 10 years. Copyright protection covers works from the time of their creation, throughout the author's lifetime, and for 70 years after his/her death.

Environmental law

- The regulation of environmental protection is provided by several laws. Environmental protection and resource utilisation payment rates are prescribed by law.

Consumer protection

- Consumer protection is regulated by the Consumer Protection Law of 26 June 2001. The areas subject to regulation by this law include the safety of consumer products, the liability to provide consumers with full information about products, and liability for defective products, etc. The price-rates for some public service utilities are subject to state regulation.

Company law

- Types of legal entity and their transformation are governed by Civil Code. Following types of enterprise can be created: General Partnerships, Limited Partnerships, Limited Liability Companies, Joint Stock Companies and Cooperatives.
- Company reorganisation is not subject to VAT.
- A special procedure has been introduced for company liquidation and bankruptcy.
- When the number of shareholders in a Limited Liability Company exceeds 50, the company must be reorganised into Joint Stock Company within one year.

Azerbaijan

Highlights

- The tax loss carry-forward period has been extended from three to five years.
- The Tax Code has introduced VAT deposit accounts.
- The range of the first personal income tax bracket has been doubled.

The exchange rate between the Azerbaijanian manat ("AZN") and the euro ("EUR") used in this report is AZN 1.24 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- In 2008 the tax rate on an enterprise's profit will remain unchanged at 22%. Profit tax is calculated on the basis of an enterprise's taxable profit. Taxable profit is generally determined on the basis of gross realisation (receipts) less deductible expenses (defined as any expenses related to the generation of profits, with certain disallowed or limited expenses).
- Simplified tax is available for businesses whose turnover does not exceed AZN 22,500 (approx. EUR 18,100) over three months. The simplified tax is in lieu of profits tax, VAT, personal income tax and property tax. The simplified tax is charged at 4% on gross revenue (without any tax deductions) for taxpayers operating in Baku and 2% on gross revenue (without any tax deductions) for taxpayers operating in other regions of Azerbaijan. Taxpayers providing automobile passenger and freight transportation services within Azerbaijan (i.e. excluding international transportation) are also subject to simplified tax (at special rates depending on the number of passenger seats or load capacity). Taxpayers in the residential building construction business are subject to a simplified tax which is levied at rates multiplying by the ratio ranging from 0.5 to 5, depending on the location of building, on a fixed tax base of AZN 225 (approx. EUR 181) per square metre. This regime does not apply to manufacturers of excisable products, or insurance and investment companies, among others.
- Profit tax liabilities should be calculated and paid quarterly in advance.
- The Tax Code provides the right to the refund of overpaid taxes. However, in practice, due to a lack of funds in the state budget, overpaid taxes can only be offset against the taxpayer's other tax liabilities.
- From 1 January 2008, the loss carry-forward is five years (previously it was three years), without any restrictions.
- All legal entities (including foreign legal entities) engaged in business activity in Azerbaijan must pay profit tax.
- In addition to profit tax paid by the permanent establishments of non-resident entities, all amounts remitted to head offices are taxable at the rate of 10%.
- For tax purposes, leasing may be under financial or operating leases. The Tax Code specifies that if assets are leased under a financial lease, the lessee is considered the beneficial owner of the property. According to the Tax Code, in order for a lease to be considered a financial lease, one of the following criteria must be met:
  - Ownership of the leased assets is to be transferred to the lessee at the end of the lease period, or the lessee is entitled to purchase the assets at a pre-set price when the lease period ends.
  - The lease period is longer than 75% of the useful life of the leased assets.
  - The residual value of the leased assets when the lease ends is less than 20% of their market value at the beginning of the lease.
  - The value of the rental payments to be paid is greater than or equal to 90% of the market value of the assets at the beginning of the lease.
  - The leased property has been produced for the lessee by special order and may not be used any person other than the lessee when the lease period ends.
- There is a general provision in the tax legislation limiting the deductibility of interest on loans taken out overseas and loans between related parties to 125% of average interbank credit rates published by the National Bank (currently, between 15% and 20% depending on the currency and maturity of the loan).
- Only insurance companies and banks may deduct payments to reserve funds, within limits established by the Ministry of Finance and the National Bank.

Withholding tax

- Foreign legal entities without a permanent establishment in Azerbaijan are subject to withholding tax on income derived from sources in Azerbaijan at the following rates:

Dividends	10%
Interest	10%
Rent of movable and immovable property	14%
Royalties	14%
Freight income	6%
Telecommunications services	6%
Financial leasing and insurance payments	4%
Other income	10%

Double Tax Treaties

- Azerbaijan has signed Double Tax Treaties with 27 countries (23 treaties are in force as of 1 January 2008). A treaty with Switzerland became effective on 1 January 2008.

- Treaties signed by the former Soviet Union are not recognised, with the exception of a treaty with Japan.

Transfer pricing

- Under the Azerbaijan Republic's Tax Code, the following transactions (among others) should be based on fair market prices:

  – import and export operations;
  – barter transactions;
  – transactions between related parties.

- The following persons are considered to be related parties:

  – a person directly or indirectly participating in the equity of another person, with a minimum participation share or voting right of 20%;
  – a person reporting to another person due to his service ranking, or who is under the direct or indirect control of another person;
  – persons both under the direct or indirect control of the same third person;
  – persons who both have direct or indirect control over the same third person; and
  – family members.

Indirect taxation

VAT

- In general VAT is charged at the rate of 18% on the value of imported goods and on supplies of goods and services in Azerbaijan. The reverse-charge VAT system applies to supplies made in Azerbaijan by non-registered entities.

- The following goods and services are exempt from VAT:

  – the value of state property purchased through privatisation;
  – rental fees from the renting of state property, payable to the state budget;
  – financial services and insurance;
  – the supply or import of national or foreign currency and securities;
  – the import of certain specific types of goods (e.g. aircraft, vessels, wheat);
  – contributions to the charter fund of businesses (excluding imports);
  – state duties and charges;
  – editing, printing and publishing activities related to mass media, children's literature and textbooks;
  – the import of goods and the provision of work and services related to the fulfilment of the National Bank's functions;
  – the transfer of fixed assets, movable property and other assets in any form to the State Oil Fund, under production sharing agreements, agreements on export pipelines and other agreements of a similar nature;
  – the provision to the National Bank of gold and other valuables.

- The following goods and services are subject to the 0% VAT rate:

  – goods and services for official use by the representatives of international organizations and diplomatic missions and consulates of foreign countries, and for the personal and other use of the diplomatic and administrative-technical staff of such representatives and their family members who live with them;
  – import of goods and the provision of goods, works and services to the recipient of grants from financial aid (grants) donated by foreign countries;
  – the export of goods and services (where the place of supply is outside Azerbaijan);
  – international and transit freight and passenger transportation (except international postal services), the performance of work and the provision of services directly related to international and transit freight and passenger flights;
  – oil and gas operations in certain oil fields under Production Sharing Agreements and Host Government Agreements (subject to parliamentary ratification).

- VAT registration is mandatory if the taxable supplies of a business exceed AZN 22,500 (approx. EUR 18,100) over a three-month period. Taxpayers are obliged to file their VAT returns monthly.

- The Tax Code has introduced the system of "VAT deposit accounts" to be used for crediting input VAT against output VAT. In general, under the new system, customers will be required to pay the input VAT amount on a supplier invoice into a special VAT account which can only be used for paying output VAT to the budget.

Customs duties

- Customs duty rates levied on the value of imported commodities range from 0% to 15%, depending on the type of goods.

- Customs processing fees at the rates of 0.15% or 0.3% of the value of imported commodities are payable on all imports/exports, depending on the specific conditions of importation/exportation.

Excise duties

- All types of alcoholic beverages, tobacco products, petroleum products and vehicles are subject to excise tax. The rates of excise tax vary depending on the type of excisable product.

- Excise tax applies on the manufacturing and imports of the following goods:

  – The domestic production of spirits, beer and all types of alcoholic drinks is subject to excise duty from AZN 0.08 (approx. EUR 0.06) to AZN 0.8 (approx. EUR 0.65) per litre, while the import of these products is subject to excise duty between USD 0.05 and USD 3.
  – The domestic production of tobacco products is subject to excise duty at 12.5%, while the excise duty on imports is USD 1.8 per 1,000 units.
  – The excise duty rates for the domestic production of oil products range from 3.82% to 106.58% of the wholesale price, while the excise rates on imports range from USD 1 to USD 250 per tonne.
  – The excise duty rates on imports of cars and recreational marine vessels depend on the engine capacity at progressive rates from AZN 0.15 (approx. EUR 0.12) up to AZN 4 (approx. EUR 3.2) per cubic centimetre.
  – The excise duty rate on automobiles, yachts and other ships for leisure and sports purposes which are produced in Azerbaijan is AZN 0 per cubic centimetre of engine capacity.

Individual taxation

Personal income tax

- Progressive taxation of individual annual income for 2008:

Income brackets (in AZN)	Income tax
up to 24,000	14%
above 24,000	3,360 + 35% on the amount above 24,000

- The employer is responsible for withholding and remitting personal income taxes to the tax authorities on behalf of each employee on the day on which the employee receives his take-home salary.

- A person becomes resident for tax purposes in Azerbaijan if he/she is present in Azerbaijan for more than 182 days in a calendar year. Foreign employees who are tax residents of Azerbaijan are taxed on their world-wide income.

- Non-resident foreign employees are taxed only on their Azerbaijan-sourced income, such as salary, bonuses, gifts, etc.

Social security

- The employer is required to pay an amount equal to 22% of the employee's gross salary to the Social Insurance Fund; employees are required to pay 3% of their gross salary to the Fund.

- Employee contributions should be withheld from the gross salary and transferred to the state budget by the employer.

- Foreign employees are obliged to pay social insurance contributions at the same rates as local staff. This does not apply to companies that are parties to Oil and Gas Production Sharing Agreements and Host Government Agreements or their subcontractors (see the "Oil and Gas consortia tax regimes" section below).

- There is no cap on the social security contribution base.

Pensions

- Obligatory contributions for employee pensions are included in the above Social Insurance Contributions (i.e. 22% by the employer and 3% by the employees).

Other taxes

Real estate, land, road and mining taxes

- Property tax at the rate of 1% is payable on the annual average residual value of an enterprise's fixed assets (except cars).

- Land tax rates per square metre depend on the use (agricultural, industrial, construction, transportation, etc.) and location of the land. The current minimum rate is AZN 0.001 (approx. EUR 0.0008) per square metre and the maximum rate is AZN 0.06 (approx. EUR 0.05) per square metre.

- Annual road tax on taxpayer's cars is calculated per cubic centimetre of engine capacity at the rate of AZN 0.011 (approx. EUR 0.009) for cars and AZN 0.022 (approx. EUR 0.018) for lorries and buses.

- Mining tax is payable on the extraction of natural resources on the basis of the wholesale price of the minerals or per cubic metre, depending on the type of natural resources extracted.

Oil and gas consortia tax regimes

- There are 28 legally ratified Oil and Gas Production Sharing Agreements (PSAs) and two Host Government Agreements (HGAs) for oil and gas export pipelines. Each PSA has its own separate taxation regime, which applies to each contracting party, operating company and sub-contractor.
- Under a PSA in Azerbaijan, foreign sub-contractors are subject to a simplified tax regime in the form of tax withholding in lieu of corporate income taxes (i.e. profit tax and branch tax). The withholding tax rates range from 5% to 8% depending on the PSA, and on the gross payments received for goods, work and services supplied in Azerbaijan; however, some later PSAs state that foreign subcontractors' income should be taxed in accordance with statutory tax legislation (i.e. applicable profit tax rate on gross realisation /receipts/ less deductible expenses) from the start of the PSA's development and production period.
- Under HGAs, which are host government agreements between the Government of Azerbaijan and investors for pipeline construction and the transportation of hydrocarbons, no corporate income tax is payable by foreign subcontractors.
- No customs duties or taxes, other than documentation fees at 0.15%, are payable under the PSAs and HGAs. These rates are subject to confirmation by the customs authorities. VAT is 0%, also subject to confirmation by the tax authorities.
- Local PSA company employees are taxable in accordance with the general tax legislation but can still enjoy VAT and customs exemptions under PSAs.

Legal and other developments

Foreign currency regime

- Azerbaijan's currency control legislation distinguishes between "residents" and "non-residents". Residents are subject to more stringent requirements than non-residents.
- An Azerbaijan legal entity is considered a "resident" for purposes of the currency law and regulations and thus is subject to control. Invoices should only be issued in Manats, and an offshore bank account can only be held if the National Bank of Azerbaijan grants approval. Manats may, however, be used to purchase foreign currency, which can be held in an onshore foreign currency bank account, but only for payments that have to be made in foreign currency. For an Azerbaijan legal entity to be able to invoice in a foreign currency and to receive hard currency cash and bank transfer payments, a foreign currency licence is needed.
- Non-residents can invoice in foreign currency and payments may be received into an offshore foreign currency bank account.
- The National Bank of Azerbaijan is responsible for ensuring that no settlements are made in Azerbaijan in foreign currency (only in Azeri Manats).

Labour code

- The labour relations of all employers and employees in Azerbaijan are regulated by the Labour Code, effective since 1 July 1999 (Labour Code).
- In general, the Labour Code requires the employer and employee to conclude an employment contract which must comply with the Labour Code. The employer may place an employee under a probationary period which may not exceed three months.
- All salaries must be paid in Manats.
- Wages may not be lower than the minimum monthly wage, which is currently AZN 60 (approx. EUR 48).
- The regular working week is 40 hours. For each hour of overtime work, an employee must be compensated at double his/her normal hourly rate.
- Currently, there are 13 official holidays, due to which people are entitled to 17 official non-working days.
- The minimum paid annual leave is 21 calendar days for "non-specialist staff" and 30 calendar days for "specialist staff".
- Foreign employees who are employed by enterprises (branches or representative offices) operating in Azerbaijan are subject to Azerbaijani labour law, except for those who work in enterprises, branches or representative offices under employment contracts concluded with a foreign person or legal entity in a foreign state.
- To work in Azerbaijan, a foreign national must register at his/her place of residence and obtain a work permit. Work permits are issued by the Ministry of Labour and Social Protection of the Population. The requirement to obtain a work permit does not apply to the heads of representative offices and branches of foreign legal entities, or to their deputies.

Competition law

- The civil, administrative and criminal legislation of Azerbaijan provides protection against unfair competition.

- In accordance with current laws on competition and monopolies, unfair competition consists of activities such as:
  - spreading false or incorrect information about the goods or services of a competitor;
  - false advertising;
  - unauthorised use of trademarks, names of companies, labelling of goods and copying goods;
  - unauthorised receipt, use or disclosure of confidential information, such as trade secrets;
  - unauthorised receipt, use or disclosure of confidential research and development, production or commercial information and trade secrets without the owner's agreement;
  - price-fixing and other actions intended to limit competition;
  - mergers of companies for the purpose of limiting competition;
  - curtailment of consumers' rights by the sole distributors of a product because of market position.

Intellectual property

- Intellectual property rights in Azerbaijan include all rights to industrial property and copyright and related rights.
- The major laws regulating intellectual property are the Law on Copyrights and Related Rights, the Law on Trademarks and Geographical Names, the Law on Patents and the Law on the Topology of Integrated Circuits. In Azerbaijan there is no agency that regulates protection of all rights relating to intellectual property.
- A patent is granted for an invention if it is novel, inventive and useful. The maximum duration of patent protection for an invention is 20 years.
- The Law on Copyrights and Related Rights deals with the protection of works of science, literature and the arts, as well as stage productions and recordings of radio broadcasting or cable broadcasts and computer programmes and databases.
- Copyright protection is normally granted to the author without any registration requirements. A copyright provides protection for the lifetime of the author and normally for a period of 50 years following his or her death.

Environmental law

- In general, the Azerbaijan Republic's environmental legislation comprises the Law on Environmental Protection, the Land, Water and Airspace Codes, and other legislation of the Azerbaijan Republic.
- Azerbaijan is also a party to various bilateral and multilateral international agreements on environmental protection, including the European convention on "The Protection of European Wildlife and Environmental Protection", the UN convention on "The Use and Protection of Cross-Border Water Flows and International Lakes" and the international convention on "The Protection of Plants".
- There is a requirement to obtain special licenses for activities related to the extraction and use of natural resources, air and water transport services, etc. Azerbaijan legislation also sets certain limits on the use of natural resources (e.g. the use of water, fishing, and hunting).
- Violations of environmental legislation could lead to administrative as well as criminal justice penalties.

Consumer protection

- A seller or supplier of goods is liable for any defects in goods covered by a warranty only within the warranty period specified by contract. If merchandise is sold to a purchaser without a warranty, the seller of such merchandise is liable for any defects in its merchandise for a "reasonable time" after such defects are discovered by the purchaser.
- Sellers and manufacturers are obliged to ensure that products are of the proper quality and must inform the consumer of any possible defects. A consumer may claim compensation from the seller and/or manufacturer if there is a defect, or if the consumer has received incorrect or incomplete information concerning the product, or if the product has caused damage to health, life or property. Courts may consider granting compensation for moral damage when satisfying consumer claims.
- Proper quality is regulated by legislative norms and technical standards for products. Certain goods are subject to mandatory certification by state agencies in accordance with the procedure established by law. The advertising and distribution of goods without such certification is prohibited.

Accounting law

- Since the adoption of a new Law on Accounting (which came into force on 2 September 2004), the Ministry of Finance has been working with international institutions, such as the EU Technical Assistance Programme and the IMF, on the development of new National Accounting Standards based on the International Financial Reporting Standards, to replace the Chart of Accounts prepared on the basis

Bosnia and Herzegovina

Highlights

- Corporate income tax rate has been reduced to 10%, as in the Republika Srpska.
- The concept of a Permanent Establishment will be introduced for the first time in FBiH.
- The five years' tax incentives are no longer available for foreign investor.

The exchange rate between Convertible marks ("BAM") and the euro ("EUR") used in this report is BAM 1.95583 = EUR 1.00. The BAM has been officially pegged to the Euro at this rate.

Corporate taxation

Corporate tax

- The state of Bosnia and Herzegovina consists of two entities: the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (further only the RS).
- The corporate income tax rate is 10% in FBiH, and in the Republika Srpska.
- In FBiH, as in the Republika Srpska, allowable expenses are generally those incurred in the course of generating income. With particular regard to FBiH, expenditures for humanitarian, cultural, educational, scientific and sports purposes are deductible up to 0.5% of total revenue. Business entertainment costs (hospitality, gifts, vacation costs, sports, recreation and other forms of entertainment) are deductible up to 0.5% of total revenue.
- Financial penalties for tax evasion and other tax violations are not recognized as deductible in the Federation.
- In the Federation, interest paid to a related party is only deductible up to the market interest rate that applies in comparable circumstances. Any interest in excess of this is treated as a dividend payment.
- There are no thin-capitalisation rules in FBiH, which means that, subject to the minimum share capital being invested, the remainder of an entity's capital may be funded through debt.
- Depreciation for tax purposes is permitted up to the extent prescribed by the Federation, according to the criteria for the classification of assets. These rates vary from 1.3% for certain types of building, up to 50% for special furniture for TV and radio studios.
- Amounts placed in the special reserves of banks and insurance companies in the Federation are deductible up to 15% of the profits stated in the tax return.
- Capital gains/losses from the sale of a company's fixed assets are taxed as part of the company's ordinary business income.
- Profits transferred from abroad are not taxed if they have already been subject to foreign corporate income tax.
- Losses may be carried forward for five years in the Federation and in the Republika Srpska.
- The tax return is due 30 days after the deadline for submitting the annual accounts, which is 28 February. Advance payments of tax are due monthly and are payable by the 8th day of the following month.
- A foreign legal person carrying out an economic activity through a permanent establishment ("PE") in the Republika Srpska has to pay corporate tax on the tax base that is attributable to the PE. The new FBiH Corporate Income Tax law will also contain the concept of a PE.
- If a Republika Srpska legal person obtains revenue from a foreign state and the revenue is taxed both in the Republika Srpska and in the foreign state, the tax paid to the foreign state, whether paid directly or withheld and remitted by another person, has to be credited to the Republika Srpska profit tax, unless the Republika Srpska legal person elects to treat the foreign tax as deductible expenditure when determining the fiscal year tax base.
- There is limited group taxation for companies if there is direct or indirect control between them equal to or exceeding 90% in the Federation, and 80% in the Republika Srpska.
- Capital gains and losses occurring during the fiscal year can be offset, and net gains or losses are added or subtracted from the tax base.
- There is no Controlled Foreign Company (CFC) legislation.

Withholding tax

- Interest, royalties, and remuneration for market research, tax consulting and auditing services, are subject to a withholding tax of 10% in the Federation, unless a treaty provides for a lower rate.
- Dividends are subject to withholding tax of 5%.
- If a non-resident company does not have a PE in the Federation, and a Double Tax Treaty exists between the

Federation and the country of the foreign company, the payment of withholding tax can be avoided.

- In the Republika Srpska, withholding tax of 10% is payable on:

  – revenues paid to foreign legal persons;
  – dividend distributions;
  – interest paid on a PE's or subsidiary's debt to its foreign parent;
  – royalties; and
  – fees for management, consulting, financial, technical or administrative services.

Double Tax Treaties

- There is some uncertainty concerning the validity of Double Tax Treaties concluded between the former Yugoslavia and other countries. It is always advisable to seek approval in advance from the relevant Bosnia and Herzegovina state tax authorities. However, treaties do exist with 24 countries.

Transfer pricing

- Transactions between related parties are covered by transfer pricing legislation. The arm's length principle is recognised, and any deviation is taxed. A related party is one whose ownership or control is greater than 50%, whether direct or indirect.

Deferred tax

- For accounting purposes, the State of Bosnia and Hercegovina (encompassing the Federation, Republika Srpska and Brcko District) is now fully IFRS-compliant. Deferred tax therefore needs to be disclosed, unlike in previous years.

Investment incentives

- The Federation has the following tax investment incentives. However, the new Corporate Income Tax law, introduced for the 2008 accounting period, will no longer contain the incentives listed below. Incentives that have already been granted will be respected.

  – A newly established corporation may reduce its corporate income tax for the first year of business by 100%, for the second year by 70% and for the third year by 30%.
  – Free zones and users of free zones may reduce their corporate income tax charge by 100% for five years.
  – Taxpayers that reinvest their taxable profits in their own production activities may decrease their tax liabilities by that amount.
  – A company established with a minimum of 20% foreign capital may reduce its tax charge by the percentage of the foreign-capital invested, up to 100%, for a period of five years.

- The new FBiH Corporate Income Tax law prescribes different tax incentives:

  – Taxpayers whose exports exceed 30% of total gross income in a given tax year, and that qualify for a VAT refund on that basis, will be exempt from corporate income tax for that year.
  – A taxpayer investing not less than BAM 20 million (approx. EUR 10.2 million) in production activities over five consecutive years in the FBiH will be exempt from corporate income tax during the five years, beginning with the first year of investment.

Indirect taxation

VAT

- The standard rate is 17%. The VAT regime applies equally throughout the state of Bosnia and Herzegovina.

- There is no reduced VAT rate in the state of Bosnia and Herzegovina.

- Exported services and goods and the supply of goods and services related to the international transport of goods or passengers are zero rated.

- Taxable persons are all individuals and legal entities registered, or required to be registered, for VAT. Any person making taxable supplies and whose annual turnover is BAM 50,000 (approx. EUR 25,600) is required to register.

- Taxable transactions include the supply of goods and services in Bosnia by taxable persons, as well as the importation of goods to Bosnia by any person. The following transactions are also taxable:

  – transactions for no consideration or for a consideration less than the market value;
  – the private use of taxable goods by a taxable person (self-supply).

- The following services are exempt from VAT:

  – the leasing and sub-letting of residential houses, apartments and other residential premises for a period of more than 60 days;
  – the supply of immovable property, except for the first transfer of the ownership rights or the rights to dispose of newly-constructed immovable property;
  – financial services;
  – insurance and reinsurance services;
  – educational services provided by private or public educational institutions;
  – postal services.

- The VAT period is one calendar month.

- Any tax credit which has not been used after six months has to be refunded. Registered exporters must be refunded within 30 days.

Excise duties

- The State of Bosnia and Herzegovina levies excise tax on the following products: petroleum products; tobacco products; non-alcoholic drinks; alcohol and alcoholic drinks; beer and wine; coffee (unroasted, roasted and ground coffee and coffee extracts). The duties on petroleum products and drinks are set at a specific amount per litre, while the coffee excise is a specific amount per kilo. Excise duty on tobacco products is 49% of the tax base. There is a single excise regime throughout the State of Bosnia and Herzegovina.

Individual taxation

Personal income tax

- It is important to differentiate between personal income tax and salary tax. Salary tax is charged at source and is deducted from remuneration by the employer. In the Federation, salary tax is approximately 3% of gross salary. Personal income tax is additional to this and, in the Federation, differs according to the canton in which the individual resides. Personal income tax only applies to income that exceeds a tax-free allowance. In the canton of Sarajevo, this allowance is double for non-Bosnians working in the Federation. The tax-free allowance for residents is the average annual salary (according to official statistical data) multiplied by three. The tax rate for Sarajevo canton is 15%. In 2007, the tax free allowance for residents was about BAM 29,660, approximately EUR 15,200 (since the average annual salary for 2007 has not been published yet, this calculation was made on the basis of the average salary for November 2007). No relief is given for salary tax paid, as these are two distinct and separate taxes.

- In the Republika Srpska, annual income equivalent to up to twelve minimum salaries is not taxed. Tax at 10% is payable on 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.

- An individual is deemed to be a Republika Srpska resident if he stays in the Republika Srpska for more than 183 days in a calendar year, either consecutively or intermittently. While the obligations of a resident or domiciliary of the Federation are clear, there is no definition of what constitutes a resident for tax purposes. The prudent approach is to consult the appropriate Double Tax Treaty or apply the generally accepted definition, i.e. the 183-day rule.

- The members of a business partnership are separate taxable persons.

- Resident taxpayers are subject to income tax on their worldwide income. The following categories are subject to income tax:

  – salaries and other remuneration connected with current employment;
  – dividends and shares of a partnership's profits;
  – interest;
  – license fees and other royalties;
  – rental income;
  – proceeds from the transfer of immovable property.

- Non-resident expatriates are subject to personal income tax on income generated in the Federation and the Republika Srpska.

Social security

- Social security contributions are imposed on employment income.

- In the Federation, employees' social security contributions from salary are approximately 28% of gross salary. These contributions are made up of a 15% pension and disability insurance contribution, an 11% health insurance contribution and a 2% unemployment insurance contribution. There is no cap on the employees' annual social security contribution base. Employers' social security contributions are 10% of salary. These contributions consist of 6% pension and disability contribution, a 3.5% health insurance contribution and a 0.5% unemployment insurance contribution. In the Republika Srpska, employers have to contribute 42% of net salary as social security contributions. There are no employees' contributions in the Republika Srpska.

- The social security contributions are withheld by the employer.

Other taxes

Property tax

- A sales contract has to be submitted for evaluation to the Tax Office in the place where the property is located. In Republika Srpska, the sales tax amounts to 3% of the estimated property value. In the Federation, the cantonal laws determine the tax rate according to the value of the immovable property. Once the taxes have been paid, the contract is officially court-certified and handed over to the real estate registry.

Bulgaria

Highlights

- The excise duty rates on unleaded petrol fuel, gasoil, kerosene, coke and coal, electricity for household use and tobacco products have increased.
- As of 1 January 2008, a flat personal income tax rate of 10% has replaced the progressive tax table.
- A new Commercial Register has been introduced.

The exchange rate between the Bulgarian lev ("BGN") and the euro ("EUR") used in this report is BGN 1.95583 = EUR 1.00. The BGN is officially pegged to the euro at this rate.

Corporate taxation

Corporate tax

- The corporate income tax rate is 10%.
- The tax base is the accounting profit or loss of a company before taxation adjusted by certain amounts that are not deductible for tax purposes in the reported period.
- Specific tax regimes apply to gambling, as well as to persons engaged in commercial marine shipping.
- Special purpose investment companies, collective investment schemes and licensed investment companies are exempt from corporate income tax.
- Income gained from transactions on a licensed Bulgarian stock exchange is exempt from corporate and withholding tax.
- Certain expenses incurred by companies are subject to one-off taxation. Entertainment expenses, and some expenses related to the use of vehicles and certain social benefits provided in kind, are subject to a 10% one-off tax. Social benefits provided in cash are treated as part of an employee's remuneration and are subject to personal income tax. The tax is due by the 15th of the month following the month of accrual. Generally, expenses and the tax on them are deductible for corporate tax purposes.
- Specific provisions apply to tax-deductible depreciation expenses. Tax depreciation plans should be prepared separately from accounting depreciation plans. Corporate tax depreciation rates range from 4% to 50%, depending on the type of asset. The tax depreciation method is the straight-line method.
- The value of fixed intangible assets created as a result of research and development may be deducted from the financial results, under certain conditions.
- Corporate tax returns for the current year should be submitted by 31 March of the following year (the tax year is the calendar year). Advance corporate tax payments are due monthly or quarterly depending on the financial results for previous years. The base for calculations is generally determined by the taxable profit from previous years, adjusted by a specific coefficient. Newly-established companies and enterprises with annual net income up to BGN 200,000 (approx. EUR 102,300) do not need to make advance payments.
- Overpaid corporate income tax can be offset against advance corporate income tax instalments, and annual corporate income tax payable in the following year, or against one-off taxes due.
- Losses can be carried forward over the following five consecutive years. Foreign-sourced tax losses may only be deducted from same-source income for tax purposes. This restriction does not apply to EU-sourced tax losses, which may be deducted from income from any other source, including Bulgarian.
- Group taxation is not allowed in Bulgaria.
- Thin capitalisation rules apply if the average debt/equity ratio for the respective year exceeds 3:1. The rules do not apply to bank loans or financial leases unless the transaction is between related parties or the loan/finance lease is, secured by or provided upon request of a related party. Penalty interest for late payments, late or non-performance of warranty obligations and interest not deductible for tax purposes on other grounds under the Bulgarian Corporate Income Tax Act, are also not subject to the thin-capitalisation rules.

Withholding tax

- Withholding tax at 10% applies to certain income payable to non-residents (e.g. interest, royalties, technical services and management fees, rental payments and capital gains from securities and real estate). Dividends and liquidation quotas payable to resident individuals, resident non-profit entities and non-residents are subject to 5% withholding tax.
- Dividends (and liquidation quotas) distributed by a Bulgarian resident company to a tax resident in an EU Member State are not subject to Bulgarian withholding tax under certain conditions (including a holding of more than 15% of the shares in the Bulgarian company for at least two years).

Double Tax Treaties

- Bulgaria has effective Double Tax Treaties with 62 countries.

Transfer pricing

- The regulations governing the application of transfer pricing methods follow the OECD Transfer Pricing Guidelines.
- Five transfer pricing methods are recognised: the comparable uncontrolled price method, the resale price method, the cost-plus method, the profit-split method and the transactional net margin method. The last two can only be used if the first three cannot be relied on to produce an arm's length price in the given circumstances.
- Taxpayers should determine their taxable profits and income by applying the arm's length principle to prices at which they exchange goods, services and intangibles with related parties.

Deferred tax

- Deferred taxation applies to temporary tax differences resulting from the difference between the accounting and the tax bases of assets/liabilities.

Investment incentives

- Special corporate income tax incentives apply to investments in regions with high unemployment. Companies operating exclusively in regions with high unemployment may be fully exempt from corporate income tax for at least five years. The application of the incentives is conditional on restrictions related to state aid admissibility and other limitations.

Indirect taxation

VAT

- The standard VAT rate is 20%.
- A special VAT rate of 7% applies to accommodation supplied by a hotelier as part of an organised trip.
- A rate of 0% applies to intra-Community supplies, exports, the international transport of passengers or goods (i.e. transport to or from countries outside of the EU) and related ancillary services, specific supplies under international treaties, and other items.
- Exempt supplies are specifically listed in the VAT legislation and include (but are not limited to) certain land transactions, the letting of residential property to individuals, financial services, insurance, gambling, educational and health services.
- VAT recovery is allowed. Input VAT is recoverable within:
  - 30 days for persons that, within the last 12 months, have made supplies that were subject to the zero rate or related to the intra-Community transport of goods (or ancillary services) or to work on movable goods whose place of supply is in another Member State, exceeding 30% of the total value of all the taxable supplies they have made in the same period, as well as by large investors that meet certain conditions;
  - 3 months and 45 days in all other cases.
- A special VAT regime applies to imports of non-excisable goods for large investment projects. Under certain conditions, VAT-registered importers may self-charge VAT on imported goods without effectively paying or securing it.
- The threshold of the incentives available for large investment projects for which individual approval from the European Commission is necessary has increased from BGN 200,000 (approx. EUR 102,300) to EUR 200,000.
- The mandatory VAT registration threshold is BGN 50,000 (approx. EUR 25,600) of taxable supplies in the last 12 months. There are no rules on group VAT registration.
- It is possible to register voluntarily irrespective of the threshold. However, a voluntarily VAT-registered person may not deregister earlier than 24 months starting from the year following the year of VAT registration.
- The registration threshold for distance selling is BGN 70,000 (approx. EUR 35,800) for distance sales made in the current calendar year or in the preceding calendar year.
- The threshold for registration based on intra-Community acquisitions, not including the acquisition of new means of transport and excisable goods, is BGN 20,000 (approx. EUR 10,200) in a calendar year.
- Foreign entities without a branch can only register for VAT in Bulgaria through a fiscal representative.
- In certain cases (e.g. if one of the shareholders of the respective entity has outstanding VAT liabilities towards the budget) upon VAT registration a security must be established.
- VAT registered persons must submit a tax return for each month by the 14th day of the following month

- Under certain conditions, persons that are not registered for VAT and established in Bulgaria can reclaim the VAT incurred in the country.

- As of 1 January 2008, administrative penalties have increased.

Intrastat

- Persons liable to complete and submit Intrastat returns under the Intrastat legislation are all those that transport Community goods from EU Member States to Bulgaria and/or vice-versa ("operators"). The administrative requirements related to the periodic filing of Intrastat returns are only obligatory for operators that are VAT-registered in Bulgaria and exceed certain reporting thresholds ("Intrastat operators").

- The physical movement of goods as a result of dispatches and arrivals should be reported for Intrastat purposes (i.e. movements and supplies of goods between Bulgaria and EU Member States). The types of data that should be reported and the thresholds for each year are set by the National Statistics Institute (NSI) and are promulgated by 31 October of the previous year.

- The filing deadline is the 10th of the month following the month in which the arrivals or dispatches occur. The only exception is when the threshold is exceeded during the current year. In this case the deadline is 20th of the month following the first period for which an Intrastat return is due.

- Intrastat returns should be filed electronically, with an electronic signature, to the National Revenue Agency. They may be filed through an authorised representative. However, in this case the Intrastat operator remains liable for the information declared.

- The thresholds for 2008 are BGN 150,000 (approx. EUR 77,000) for arrivals and BGN 300,000 (approx. EUR 153,000) for dispatches.

Customs duties

- The applicable rates are percentages of the customs value (the transaction value increased by certain costs).

- Reduced rates apply on imports of goods from countries to which the EU gives preferential tariff treatment.

- Goods can be imported into Bulgaria under customs regimes with economic impact (bonded warehouses, inward processing relief, processing under customs control, temporary admission, outward processing relief).

- There are procedures for post-clearance control by the customs administration.

Excise duties

- Excise duties are charged as a percentage of the sales price / customs value or as a flat amount in BGN per unit unless a suspension regime applies. Excise duties become payable when excisable goods are released for consumption (e.g. importation, exit from a tax warehouse, expiry of a 60-day period from the receipt of tax banderols).

- For 2008, excisable products include certain types of cars, energy products, beer, wine and spirits, tobacco products and electricity.

- The excise duty rates on unleaded petrol fuel, gasoil, kerosene, coke and coal, electricity for household use and tobacco products have increased as from 1 January 2008.

- The Excise Duties and Tax Warehouse Act introduces the tax warehousing regime and regulates the production, storage and movement of excisable products.

Individual taxation

Personal income tax

- As of 1 January 2008 a flat tax rate of 10% replaces the progressive tax table.

- The taxation of individuals in Bulgaria is based on their tax-residence status. Bulgarian tax residents are subject to taxation on their worldwide income. Non-residents are only taxed on their Bulgarian-sourced income.

- An individual is considered a Bulgarian tax resident irrespective of his citizenship if:

  – he has a permanent address in Bulgaria (the Bulgarian address specified in the ID cards of Bulgarian citizens or of foreigners who have Bulgarian permanent residence permits); or
  – he resides in the country for more than 183 days in any 12-month period. In this case he will become a Bulgarian tax resident for the whole calendar year in which the 183rd day is exceeded. For tax purposes, the day of arrival and the day of departure from the country count as one day each; or
  – he has been sent abroad by the Bulgarian State, by state authorities and/or organizations, by Bulgarian companies; or
  – his centre of vital interests is in Bulgaria (determined with regard to the individual's personal and economic ties to the country).

  However, if the individual has a permanent address in Bulgaria but his centre of vital interests is outside Bulgaria, he will not be considered a Bulgarian tax resident.

- If a Double Tax Treaty applies, its provisions on residence supersede local law.

- Personal income tax returns for the current year should be submitted and the outstanding tax (the balance between the annual tax due and the advance tax paid during the year) should be paid by 30 April of the following year. If the return is submitted and the tax is paid by 10 February of the following year, a 5% reduction of the outstanding (balance) tax is granted. A 5% reduction is also available provided the individual submits his tax return electronically by 30 April of the following year and has not taken advantage of the earlier tax filing deadline.

- Individuals who only have employment income from Bulgarian employers do not need to file annual tax returns. The tax is withheld and remitted monthly by the employer and any under- or overpaid personal income tax during the year is reconciled and withheld/reimbursed through the employer's payroll by 31 January of the following year.

- Some income is exempt from personal income tax, e.g.:

  – income from certain operations on the local capital market;
  – interest gained on deposits in local banks;
  – winnings from gambling;
  – dividends distributed in the form of additional shares;
  – income from the sale or exchange of one residential real estate property regardless of the acquisition date, and up to two real estate properties provided that more than five years have passed between the acquisition date and the sale date.

Social security

- Mandatory social security contributions are payable on the basis of the gross remuneration less certain statutory expenses in specific cases. There are minimum and maximum monthly insurance bases on which the contributions are calculated. For 2008 the minimum monthly base is between BGN 220 (approx. EUR 112) and BGN 1,064 (approx. EUR 544), depending on the economic activity of the employer and the profession and grade of the employee. The maximum monthly base for 2008 is BGN 2,000 (approx. EUR 1,023).

- The aggregate social security rate for 2008 is between 33.4% and 34.1%. The portion payable by the employer is between 20.4% and 21.1% and the employee's portion is 13%.

- Health insurance contributions of 6% (included in the above total rate), are not payable by expatriates who are temporarily resident in Bulgaria. For those on a local payroll, the employer's social security contribution is between 16.8% and 17.5% and the expatriate's is 10.6%.

- As Bulgaria is a member of the European Union, the provisions of EEC Regulation 1408/71 on social security apply to Bulgaria. The Regulation provides that the individual should only be insured in one Member State. In principle, this is the state where the individual physically works. In the case of a temporary assignment abroad (for up to five years), the individual may continue to contribute to his home country's social security system and be exempt from the host country's social security contributions, provided he obtains an E101 form from his home country's social security authority. In view of the above, social security agreements concluded with EU countries have not been in use since 1 January 2007, and the EU regulations on social security are applicable instead.

- Bulgaria has reciprocal social security agreements with a number of countries. Under the treaty rules, expatriate employees from non-EU countries may be exempt from social security contributions in Bulgaria, or contributions made in Bulgaria may be recognised in the home country of the expatriate employee.

- Social security agreements are currently in force with the following non-EU countries: Albania, Macedonia, Serbia, Switzerland and Ukraine. Bulgaria is also negotiating treaties with Canada, Moldova, Russia, South Korea and the USA.

Pensions

- Mandatory pension contributions are included in the mandatory social security rates mentioned above. They are calculated on gross income but within the applicable minimum and maximum insurance base.

- The pension contribution rate is 22%. For individuals born after 31 December 1959, 5% out of the 22% is paid to a licensed private pension fund chosen by the employee.

Legal and other developments

Foreign currency regime

- The foreign exchange rules have been almost fully liberalised. The BGN/EUR exchange rate is fixed by law at 1.95583. Certain transactions with non-residents (including transfers of funds) must be reported to the National Bank. Special requirements apply to transfers of funds abroad. If the amount is over BGN 25,000 (approx. EUR 12,800), the reason for the foreign transfer must be declared and relevant evidence provided.

Labour code

- The employment legislation (i.e. the Labour Code together with several acts regulating working conditions, recruitment agencies, collective labour disputes, etc.) has been harmonised with the directives of the International Labour Organisation and European Union. The legal regime of the additional remuneration element for length of service has been amended. This payment entitlement is no longer calculated on the basis of the total length of service of the employee, but is now based on the employee's relevant professional experience.

Competition law

- The competition legislation regulates protection against restrictive agreements, decisions and concerted practices; abuse of dominant and monopoly positions; concentrations of business activity; unfair competition and any other activities affecting competition. European jurisprudence is followed in the acts and resolutions of the Bulgarian Commission for the Protection of Competition ("CPC"). The CPC has recently drafted a new Protection of Competition Act for adoption by Parliament. The draft Act closely approximates the modernised "acquis communautaire" concerning competition and, when adopted by Parliament, will enable the CPC to participate actively in the decentralised application of competition rules within the European Union.

Intellectual property

- Intellectual property rules provide protection for inventions which can be patented, designs, copyright and similar rights. The intellectual property law is in accordance with EU legislation. The Bulgarian Patent Administration functions in accordance with EU intellectual property protection practice. The government makes focused efforts to enforce the intellectual property laws.

Environmental law

- An increasing number of laws and secondary legislation, developed on the basis of EU law, ensure environmental protection and impose certain limitations on the production activities of enterprises and regulate the use of relevant licenses, patents and equipment.

Consumer protection

- The legislation on consumer protection follows the principles and subject-areas of the EU legislation on consumer protection. The new Consumer Protection Act, which came into force on 10 June 2006, incorporates the latest EU principles with regards to consumer rights, rules and regulations on advertising, manufacturers'/retailers' liabilities, etc. A Distance Marketing of Financial Services Act came into force on 1 January 2007, introducing the regulation of customer protection, particularly in relation to the distance marketing of financial services.

Concessions

- A new Act on Concessions, compliant with EU legislation, was passed and came into force in 2006. Limited rights of use can be granted for property and objects which are of public interest and which are state- or municipality-owned and are usable in business activities, or to which the Bulgarian State has exclusive title. Such concessions may also be granted for municipal property. Concessions can be granted for a period of no more than 35 years.

Business transformations

- On 1 January 2008 the Commercial Register Act came into force, introducing the new Commercial Register – a single register for corporate registrations and filings in Bulgaria. The new Commercial Register is kept by the Bulgarian Registry Agency and replaces the former commercial register, which was kept by the district courts. These developments are expected to reduce the time needed for incorporations, transformations and other statutory filings and notifications.

Croatia

Highlights

- New Double Tax Treaty has been signed with Israel and applied as of 1 January 2008.
- The provisions on Research and Development Incentives have been introduced.
- Maternity leave benefit changed on 1 January 2008.

The exchange rate between the Croatian kuna ("HRK") and the euro ("EUR") used in this report is HRK 7.33 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The Croatian corporate tax rate is 20%.
- The deadline for the submission of corporate income tax returns is four months after the period for which the profit tax is assessed. The tax liability is paid in the form of monthly tax advances which are determined on the basis of the previous year's tax liability. If corporate tax pre-payments exceed the determined tax liability, taxpayers are entitled either to a refund or to offset the pre-payment against other tax liabilities.
- Tax losses may be carried forward and used within five years following the year in which they were incurred. They may not be transferred to any third entity except in the case of a merger, de-merger or acquisition.
- Local business taxes include: forest contributions at 0.07% of annual income; a tax on business names of up to HRK 2,000 (approx. EUR 270), as decided by each municipality; contributions to the Croatian Chamber of Commerce of between HRK 55 (approx. EUR 7.5) and HRK 5,500 (approx. EUR 750), depending on the company's size, plus 0.01% of total income.
- Foreign legal entities conducting business activities are obliged to register their legal presence in Croatia and are taxable according to the same principles as Croatian companies.
- Consolidated group accounts are not permitted under Croatian legislation. Corporate tax paid abroad is recognised for reducing the domestic tax liability up to the amount that would have been paid in Croatia under similar circumstances.
- Both operating and financial leasing are allowed.
- Interest on loans from a shareholder or a member of a company that holds at least 25% of the shares or voting rights of the taxpayer will not be recognised for tax purposes if the amount of the loan exceeds four times the shareholder's share in the capital or its voting rights. Interest on loans obtained from financial institutions is exempt from this provision. A third-party loan will be treated as having been granted by shareholders if it is guaranteed by the shareholder. Any interest paid above market rates (i.e. the interest rates on loans between unrelated parties) will not be recognised for tax purposes. Croatian taxpayers are allowed to provide loans to domestic companies and long-term loans to foreign companies.
- The only reserves allowed as tax-deductible expenditures under the Croatian corporate tax regulations are those for pensions and severance payments, the costs of renewing natural resources, reserves for costs in guarantee periods, and costs arising from court cases.
- The securities market is currently underdeveloped. Securities are mainly issued by government institutions and to some extent by commercial entities. No taxes are imposed on securities' trading, but only authorised entities are allowed to conduct securities' trading for commercial purposes.

Withholding tax

- When paying fees for the use of intellectual property, market research services, tax and business consultation, auditing and similar services, and interest to foreign legal persons, Croatian taxpayers are obliged to withhold and pay 15% tax. Interest paid to financial institutions, holders of government or corporate bonds and on commercial loans is not subject to withholding tax.

Double Tax Treaties

- Croatia currently has Double Tax Treaties with 46 countries. These treaties define a permanent establishment and the taxation of profits attributable to a permanent establishment, including dividends, interest and royalties. They also provide reduced withholding tax rates and provisions on the avoidance of the double taxation of personal incomes.
- A Double Tax Treaty has recently been signed with Israel and applies from 1 January 2008.

Transfer pricing

- According to the Corporate Income Tax Act, transfer prices between a Croatian taxpayer and a related company abroad must be based on the OECD Transfer Pricing Guidelines. Where prices or conditions between related parties differ from the prices or conditions between two unrelated parties, the difference will be used to adjust the tax base.
- In order to determine the market value of a transaction between related parties, the following methods can be used: Comparable Uncontrolled Price, Resale Price, Cost-Plus, Profit-Split and Transactional Net Margin Methods.
- Business transactions between related parties will only be recognised if a Croatian taxpayer is able to provide the tax authority with all the required data on its related parties, business transactions, price-setting methods used and reasons for the use of a certain method.

Investment incentives

- As of 15 May 2007, the new Amendments to the Scientific Activities and Higher Education Act came into force, introducing provisions related to research and development incentives which were formerly part of the Corporate Income Tax Act until 31 December 2006. The amendments regulate the state subsidies and tax incentives for scientific research, basic research, applied research and development research.
- Applicants for scientific project tenders can be registered scientific organisations, centres of scientific excellence, individual scientists and groups of scientists.
- Depending on the type of research (i.e. scientific, basic, applied research or technical feasibility) and size of entrepreneur (i.e. small, medium or large entrepreneur, according to the Accounting Act), the percentage of the costs covered by state subsidy can vary between 25% and 100%. Additionally, the corporate income tax base can be decreased (depending on the same criteria) by up to 150% of the amount of the costs covered by the state subsidy, where the corporate income tax liability decrease is granted up to the amount of the percentage of the costs covered by state subsidy.

Indirect taxation

VAT

- The standard VAT rate is 22%.
- Services related to organized stays (accommodation or accommodation with breakfast, full or half board, in all kinds of commercial hospitality facilities) and other related services (agency fees, tours, bus and ferry transfers) are subject to VAT at 10%.
- As of 1 August 2007, the new amendments to the Value Added Tax Act came into force, introducing exemptions related to VAT on newspapers. VAT is due at the 10% rate on daily and periodic newspapers and magazines, with the exception of those that, in their entirety or mainly, contain advertisements or serve for advertising purposes. Before these amendments came into force, the VAT on newspapers was 22%.
- VAT is payable on deliveries of goods of all kinds (products, commodities, newly-constructed buildings, equipment, etc.) and all services performed in Croatia.
- A 0% rate applies to deliveries of various listed products or services. Such supplies are exempt with credit, and include:
  - the rental of residential property;
  - goods and services rendered by banks, savings institutions, savings and loan institutions and insurance institutions;
  - medical services, including services provided by doctors, dentists, nurses, physiotherapists, etc.;
  - supplies of goods by the central bank;
  - companies' securities and shares, etc.
- Generally, VAT costs incurred in the course of conducting ordinary business activities may be recovered. Input VAT cannot be recovered in respect of purchases made in the process of providing VAT-exempt supplies, supplies made abroad which would be exempt in Croatia, or supplies made free of charge which would be exempt if purchased.
- Any legal entity or individual with independent activities whose annual turnover exceeds the compulsory registration threshold of HRK 85,000 (approx. EUR 11,600) is required to register.
- VAT-payers with an annual turnover exceeding HRK 300,000 inclusive of VAT (approx. EUR 40,900) are required to file a monthly VAT return. If annual turnover is below this amount, returns can be filed either monthly or quarterly, but an annual VAT return must also be filed. VAT returns are due by the end of the month following the VAT period. The annual VAT return must be submitted by the end of April of the following year.
- Besides the usual method of delivery and submission of VAT returns, all taxpayers may choose to submit monthly and annual VAT returns via the Internet.

Customs duties

- Imports are subject to customs duties. Croatia has signed the Stabilisation and Association Agreement with the EU and an interim agreement came into force on 1 January 2002. This regulates the free movement of goods between Croatia and the EU.
- Croatia introduced the Combined Nomenclature into its customs system in January 2002, and the regulation on the Customs Tariff has been harmonised with the Combined Nomenclature. The classification has been fully adopted up to the level of eight digits, as Croatia has introduced the EU Combined Nomenclature and Customs Tariff regulations, including their annual amendments. Croatia's Customs Tariff also includes two additional notes which define the meaning of the expressions "new vehicles" and "used vehicles".
- The customs value of software represents the actual price paid for the software and carrier medium together. Additionally, expenses such as transport, insurance, licence fees and commission should also be included in the customs value.
- The "Ordinance for the implementation of customs measures for goods about which there is reasonable doubt that they violate certain intellectual property rights" introduced a provision which also applies to goods which are being transported through Croatia (the old Ordinance regulated goods which are imported, exported or released on the free market). The measures for the protection of intellectual property rights can be granted for one year, which can be extended for another year, provided that all possible costs which can be attributed to the right-holder are paid.

Excise duties

- Excise duties at varying rates apply to certain products, including vehicles and other means of transport, petroleum products, alcoholic and non-alcoholic beverages, tobacco products, coffee products and by-products, luxury products, and insurance premiums for third-party liability and comprehensive motor vehicle cover.
- The "Act on oil derivatives" introduced a new method for calculating the excise duty on oil derivatives. The Act abolished the previous excise duty rates on oil derivatives and introduced a new "floating" excise duty. In this regard, the Croatian Government is entitled to issue Ordinances to determine excise duty rates based on the retail price of each specific oil derivative on the domestic market.

Individual taxation

Personal income tax

- Table of progressive taxation of individual annual income for 2008:

Income brackets (in HRK)	Income tax
up to 38,400	15%
38,401-96,000	5,760 + 25% on the amount above 38,400
96,001-268,800	20,160 + 35% on the amount above 96,000
above 268,800	80,640 + 45% on the amount above 268,800

- An additional surtax of up to 18% is charged in certain municipalities.
- Advance tax payments on employment income are calculated, withheld and paid by the payer of the salary at the time of income payment.
- Taxpayers whose income is paid directly from abroad are obliged to calculate the amount of tax on their employment income themselves and to pay the tax within eight days of the date they received the income.
- A tax resident is an individual whose permanent residence or habitual abode is in the Republic of Croatia, or an individual employed in the state service of the Republic of Croatia.
- 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 341) per annum. These benefits are classified as non-taxable earnings.
- As of 1 January 2008, maternity leave benefit for employed pregnant women will be increased for the first six months of maternity leave as follows. Maternity leave benefit for the first six months of maternity leave is no longer limited and it amounts to average salary for the six months prior to the month when a woman gains the right to maternity benefit. This includes sick leave pay and paid vacation, but excludes bonuses, awards and occasional allowances (for Christmas, Easter, etc.). Compensation for the second six months of maternity leave will range between HRK 1,663 and HRK 2,500 (approx. EUR 230 to EUR 341), also depending on average salary before maternity leave.

Social security

- Employers are required to pay social security contributions, which cover health insurance, insurance against work-related accidents and unemployment insurance. These contributions amount to 17.2% of gross salary and should be paid when the salary is disbursed.

- Foreign nationals on a foreign payroll are obliged to pay basic health contributions for themselves and members of their families who are staying in Croatia, unless an existing social security convention stipulates otherwise. These contributions amount to 15% of the statutory lowest monthly base (a given percentage of the statutory average monthly salary) and should be paid by 15th of the month for the previous month. For the year 2008, this amounts to HRK 367 (approx. EUR 50) per month.

- Croatia has signed social security conventions with over 20 countries.

Pensions

- The reform of the Croatian pay-as-you-go pension system started on 1 January 2002 and introduced three pillars into the pension insurance system:
  – pillar 1: compulsory pension insurance based on the pay-as-you-earn system;
  – pillar 2: compulsory pension insurance for old age based on capitalized savings; and
  – pillar 3: voluntary pension insurance based on individual capitalized savings.

- Employees must contribute 20% of their salary to pension funds (15% for pillar 1 to the State pension fund and 5% for pillar 2 to a private fund), with an annual salary cap of HRK 502,200 (approx. EUR 68,510) in 2008. The annual salary cap only applies to the calculation of pillar 1 contributions. The obligation to calculate and pay pension contributions lies with the employer.

Other taxes

Real estate and land tax

- A tax of 5%, assessed on market value, is levied on the transfer of the legal title to real estate. Where the title to newly-built buildings (i.e. buildings built after 31 December 1997) is being transferred, and the VAT was reclaimed in all previous sales, and the seller is a VAT-registered company, the title transfer will be subject to VAT at 22%. Where the sale of the building is not subject to VAT, real estate transfer tax at the rate of 5% has to be paid.

Environmental taxes

- There are several laws that regulate the use of economic instruments in Croatia's environmental policy. This legislation mostly covers compensation payable for the use of natural resources and environmental pollution in the areas of water management, forestry, mining, utilities, maritime transport and ports, fishing, administrative duties and the tax and customs system in general.

Legal and other developments

Foreign currency regime

- The Foreign Exchange Law, enacted in June 2003, governs transactions between residents and non-residents in foreign currency and Croatian Kuna, transactions between residents in foreign currency, and unilateral transfers of assets from and into Croatia that cannot be classified as transactions between residents and non-residents.

Labour code

- The Labour Code (amended in 1995) covers all aspects of the employment relationship, including employees' and employers' rights, and the roles and functions of trade unions, employers' associations and various employment-related official and quasi-official bodies and agencies.

- The Law on Foreign Nationals has been in effect since 1 January 2004. The Law deals with the entry, movement, residence and work of foreigners in Croatia. The Law differentiates between three types of foreign residents in Croatia: residence up to 90 days, temporary residence and permanent residence.
  A foreigner can work in Croatia on the basis of a work permit or a business permit. Certain categories of foreigners do not require a work/business permit in order to be able to work in Croatia.

Competition law

- The Law on Market Competition Protection, in effect since 1 October 2003, sets out rules and a framework of measures to protect market competition. It defines the powers, responsibilities and organisation of the body responsible for the protection of market competition, as well as the procedures for implementing the Law.

Intellectual property

- The legal framework for intellectual property was revised in 2003 in order to comply with the EU regulations. As a result, new laws came into effect on 1 January 2004, which include:

  – the Patent Law;
  – the Trademark Law;
  – the Law on Industrial Design;

  - the Law on Indications of Geographical Origin and Indications of the Origin of Products and Services;
  - the Law on the Protection of the Topographies of Semiconductor Products.

- The amended Copyright and Related rights Act has been in effect since the end of October 2003.

Environmental law

- The Environmental Protection Law (which was amended in 1994) has the following objectives: preserving the environment; decreasing risk to people's lives and health; and ensuring and improving the quality of life in support of the well-being of present and future generations.

Concessions

- The Law on Concessions came into force on 5 January 1993. The Law defines the term 'concession', determines which body is authorised to grant concessions, and regulates the conclusion of concession contracts.

Law on obligations

- The Law on Obligations was enacted in February 2005 and came into force on 1 January 2006, except for the provisions that relate to interest rates, which came into force on 1 January 2008. The Law will not apply to relationships of obligation which arose before the new Law came into force. The Law on Obligations is one of the basic laws in the Republic of Croatia. The structure of the Law has been amended. Certain contractual matters and other legal concepts are now regulated in more detail or differently and certain new principles and practices have been introduced. The major innovations refer to immaterial damage and monetary obligations including interest. The Law lists certain specific new types of contract, such as Deeds of Donation, Lending Contracts and Lease Agreements.

Leasing law

- Until the Leasing Law came into force on 18 December 2006, leasing companies were treated in the same way as any other activity open to domestic as well as to foreign entrepreneurs (through their branch offices in Croatia). However, so far only domestic companies have been engaged in the leasing business and according to the Croatian Chamber of the Economy, the Croatian leasing market is divided between 17 companies (i.e. no branch offices of foreign companies have registered in Croatia to provide leasing services). Until the enforcement of the Leasing Law, no legislative restrictions existed and Croatian companies as well as the branch offices of foreign companies could register leasing activities and enter the market to provide leasing services.

- Foreign companies can only provide leasing activities in Croatia through their branches or subsidiaries. All leasing companies are now under the supervision of the Agency for the Supervision of Financial Services and are only allowed to provide financial and operational leasing services (providing loans is specifically prohibited). Exceptionally, leasing companies can provide services ancillary to leasing, such as intermediation, the leasing and sale of leased assets, etc. The minimum founding capital of a leasing company is HRK 1 million (approx. EUR 136,000), which must all be cash.

- The Law also defines leasing agreements, lists the circumstances in which leasing companies and their managing directors would not be in compliance with the Law, and prescribes fines. A new register of leased assets will be set up and maintained, with public access. Leasing companies will have to develop and implement risk management policies, like other financial entities (banks, insurance companies, etc.). Leasing companies' financial statements will have to be audited.

- The Bank Law was the first law which regulated leasing activity. Croatian banks must seek approval from the National Bank (as for any service they provide) before they are allowed to provide leasing services. Since the new Leasing Law did not amend the old Banking Law, the provisions of the latter, which allow banks to provide leasing services, are still in force.

Czech Republic

Highlights

- The corporate income tax rate was further reduced for 2008, from 24% to 21%.
- From 2008, a flat 15% tax rate for personal income taxation was introduced, together with an annual salary cap of CZK 1,034,880 (approx. EUR 38,920) for social security and health insurance contributions.
- New energy taxes were introduced at the beginning of 2008.

The exchange rate between the Czech koruna ("CZK") and the euro ("EUR") used in this report is CZK 26.59 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate tax rate for 2008 is 21% (20% for taxable periods starting in 2009 and 19% for taxable periods starting in 2010 and onwards).
- The Income Tax Act incorporates four EU Directives:
  - the Parent-Subsidiary Directive (see "Withholding tax" below);
  - the Merger Directive;
  - the Interest-Royalties Directive (see "Withholding tax" below);
  - the Savings Directive.
- The following types of binding opinion are available to taxpayers (most of them with effect from 1 January 2008):
  - Advance Pricing Arrangements (APA);
  - methods of recognizing expenses (costs) that relate to non-taxable income;
  - recognition of tax-deductible expenditures (costs) related to real estate property that is used both for private and business purposes;
  - decisions on whether expenditure qualifies as repair or technical improvement of an asset;
  - recognition of costs incurred on R&D projects (deduction of these costs is allowed under Czech tax law); and
  - on the tax deductibility of carried-forward losses in the case of a substantial change in the ownership structure of the business.
- The period over which tax losses can be carried forward has been reduced from seven to five years, beginning with losses incurred in the tax period commencing in 2004. The deduction of tax losses carried forward is further restricted if there is a change in the direct shareholding of the company of more than 25% or when a shareholder gains decisive control. In these cases, losses can only be deducted if at least 80% of the profits generated in the year in which the loss is to be deducted is generated by the same business activity that the company carried out in the year in which the loss was incurred.
- The tax-deductibility of financial costs (i.e. interest on loans from both related and unrelated parties and other related costs such as arrangement fees, commitment fees, etc.) is limited by thin-capitalisation rules. Generally, the permitted debt/equity ratio is 6:1. A debt/equity ratio of 2:1 applies for related-party loans and 3:1 for related-party insurance companies and banks. Financial costs from subordinated debts and from profit-participating loans are tax non-deductible. Tax non-deductible costs will also comprise financial costs (interest plus administrative costs) that exceed an interest rate cap that is calculated from the average twelve-month reference rate (PRIBOR/LIBOR/EURIBOR, etc.) increased by four percentage points. These rules do not apply to the financial costs of loans from unrelated parties which do not exceed CZK 1 million (approx. EUR 37,600) in total.
- For certain receivables with a value of less than CZK 30,000 (approx. EUR 1,130) that are overdue by more than 12 months, a 100% tax-deductible provision may be created.
- Certain bad debts amounting to less than CZK 200,000 (approx. EUR 7,520) may be provisioned according to the following rules:
  - For certain debts payable after 31 December 1994, tax-deductible provisions of up to 20% of the unsettled balance sheet value of bad debts may be created, if the payables are overdue by more than six months.
  - For bad debts overdue by more than 12 months, higher percentage provisions may be created (33% up to 100%, based on the time for which it has been overdue), provided it can be shown that court action has been taken to recover the debt in question.
- For certain bad debts exceeding CZK 200,000 (approx. EUR 7,520), tax deductible provisions may be created only if it can be shown that court action has been taken to recover the debt in question. The provision can be created when the payable becomes overdue by more than six months. The provision percentage ranges between 20%, when the receivable becomes overdue by more than six months, and 100%, when the receivable becomes overdue by more than 36 months.

- When bankruptcy proceedings are initiated, a one-off creation of a provision for up to 100% of the debt is allowed.

- A special tax regime applies to reserves and provisions created by banks and insurance companies, and to companies engaged in the consumer loan business. This special tax regime enables tax relief to be claimed for bad debts under certain conditions.

- Certain tax rules also apply to receivables intended for trading and to taxpayers whose main activity is the purchase, sale, holding and recovery of receivables.

- The Czech Income Taxes Act implemented the principles of the EU Merger Directive with the aim of ensuring the tax neutrality of companies' restructuring transactions.

- The Income Taxes Act defines the relevant types of transaction in detail, for tax purposes, i.e. (i) mergers and de-mergers, (ii) the in-kind contribution of a business / part of a business to the registered capital of another company (with the contributor acquiring a share in the company), and (iii) the exchange of shares and (iv) spin-off.

- In principle, the Income Taxes Act ensures the tax-neutrality of these transactions under certain conditions. The most important principles are:

  – The legal successor (for mergers/de-mergers) or a company acquiring the business (for the in-kind contribution of a business / part of a business) is entitled to take over the reserves and tax-deductible provisions of the dissolving company / business-contributing company.
  – Under certain conditions, a legal successor / company acquiring the business is entitled to take over tax losses incurred by the dissolving company / business contributing company in 2004 and later. The law provides guidelines on how to determine the appropriate part of the tax losses to be taken over.

  The law also stipulates the conditions under which the legal successor is entitled to use its own tax losses incurred before the merger/de-merger process.

Withholding tax

- Under the Interest-Royalties Directive, interest payments between directly related enterprises which are tax residents in EU Member States are exempt from withholding tax. Royalties and lease payments paid between directly related enterprises will become exempt from withholding tax from 2011. Both types of exemption have to be approved by the relevant financial authority. Equal treatment applies for Swiss tax residents and to their Czech parent companies or subsidiaries. For the purpose of exemption, direct relationship is understood as a direct shareholding of at least 25%, kept for a minimum of 24 months.

- Under rules similar to those in the Parent-Subsidiary Directive, if the qualifying criteria of a 10% shareholding and a 12-month holding period are fulfilled, dividends paid by a qualifying Czech subsidiary to a qualifying parent company that is tax-resident in a Member State are exempt from withholding tax. A dividend received by a qualifying Czech parent company from a qualifying EU subsidiary is also exempt from tax. Equal treatment applies for dividends payable and received by Swiss tax residents and dividends received from Double Tax Treaty countries outside the EU if (i) the subsidiary was subject to corporate income tax at the nominal rate of at least 12% in the year when the distribution was approved and in the previous year and (ii) the subsidiary has a legal form similar to a Czech limited liability company or joint stock company.

- In general, a company's direct expenses related to its holdings in a subsidiary are not tax-deductible. This includes interest on loans used for the acquisition of a subsidiary. The indirect costs of a shareholding in a qualifying company are deemed to be 5% of received dividends.

- Local withholding tax rates are 15% (12.5% from 1 January 2009) on profit distributions, interest and royalty payments, and 5% on financial lease payments.

Double Tax Treaties

- The Czech Republic has concluded 72 Double Tax Treaties.

- The Czech Republic automatically reduces withholding tax to the levels set in Double Tax Treaties.

Transfer pricing

- The OECD Transfer Pricing Guidelines are accepted when determining whether or not prices between related parties are in line with the arm's length principle. This does not apply in case of loan interest, which may be lower than the arm's length rate under certain conditions.

- A Ministry of Finance Decree recommends taxpayers to prepare, and the tax administration to require, transfer pricing documentation (although such documentation is not strictly required by law). Transfer pricing documentation should be prepared in the format recommended by the EU Joint Transfer Pricing Forum.

Deferred tax

- Accounting for deferred tax is compulsory for companies that are (i) part of a consolidated group, or regulated financial institutions and (ii) required to prepare their Financial Statements in full in accordance with the Act on Accounting and which are legally subject to audit.
- Deferred tax is caused by temporary balance sheet differences (i.e. differences between the carrying amount and the tax base of assets and liabilities).
- A deferred tax asset can only be recognised if it is probable that sufficient taxable profit will be available against which the temporary difference can be used.
- In the first year of accounting for deferred tax, the part of the deferred tax that relates to prior periods is recorded in equity and the part that relates to the current year is recognised as an expense.
- The applicable tax rates and tax laws are those enacted and valid in the year when the difference will be used.
- Deferred tax assets/liabilities are shown in the balance sheet under long-term receivables/payables.

Investment incentives

- Manufacturing incentives are only available to Czech entities (including subsidiaries of foreign companies), and include corporate income tax relief for up to five years, financial support for job creation, financial support for training/retraining, site-related support, and the possibility of the government sponsoring industrial zones by providing them with a certain level of infrastructure.
- Programmes for the support of business support service centres and for the development of technology centres are focused primarily on investments in human capital, as well as on the training or retraining of skilled staff. Certain investments in tangible fixed assets are still required. Both programmes offer identical incentives, but have different qualification requirements. Business support services are generally defined as services that support critical value chains and contribute to the upgrading of key infrastructures (e.g. customer contact centres, shared service centres, expert solution centres, software development centres and high-tech repair centres). The aim of the programme for technology centres is to support their development and to motivate companies to invest in innovative products, technologies and processes.

Indirect taxation

VAT

- The standard VAT rate is 19%.
- The leasing of real estate, including unfinished buildings, is VAT-exempt. However, where both supplier and recipient are VAT-registered, the supplier can opt to treat the lease of real estate as subject to the standard 19% VAT rate. This specifically affects tenants such as financial institutions whose ability to recover VAT is fully or partly restricted.
- The reduced VAT rate of 9% now applies to almost all food and beverages classified within the first 24 chapters of the common customs tariff (with the exception of alcohol products). Some social services continue to be taxed at the reduced rate including (but not limited to) healthcare and social care services that are not VAT-exempt, entertainment and cultural services and services at gyms, fitness centres and the like.
- The range of exempt (without credit) goods and services includes financial and insurance services, a range of social and healthcare goods and services, transfers of real estate property under certain conditions, and a range of religious, civil and charitable supplies.
- VAT recovery for a business entity (other than for supplies categorised as VAT-exempt without credit) is essentially unlimited, provided the correct administrative procedure is followed. There are a few exceptions where VAT is irrecoverable under any circumstances, e.g. the acquisition of passenger cars and business entertainment costs. For foreign EU businesses that incur Czech VAT in the course of their business activities in the Czech Republic, the right to VAT recovery is essentially the same as for local businesses, although different administrative procedures apply. For non-EU businesses, VAT is refunded under reciprocity agreements that are currently in place with Macedonia, Norway and Switzerland. The following are examples of supplies where VAT is not refundable to non-EU businesses: travel costs, business entertainment costs, telephone charges, taxi services, and fuels (with exception of petroleum). Applications for refunds can be made by both EU and non-EU businesses no later than six months following the calendar year when the cost was incurred.
- The VAT registration threshold for Czech entities making taxable supplies is CZK 1 million (approx. EUR 37,600). However, if a Czech entity acquires goods from other EU Member States exceeding CZK 326,000 (approx. EUR 12,260) in value, or any reverse-charge services, VAT registration is mandatory. Persons registered for VAT in another EU Member State making supplies to non-taxable persons in the Czech Republic (distance sales) are liable to Czech VAT registration where the level of turnover exceeds CZK 1,140,000 (approx. EUR 42,870).

- VAT returns are due monthly when the level of supplies exceeds CZK 10 million (approx. EUR 376,000) in value. In other cases, VAT returns are due quarterly. A taxpayer whose turnover exceeds CZK 2 million (approx. EUR 75,200) but is less than CZK 10 million (approx. EUR 376,000) may voluntarily file monthly returns. In either case, the due date is 25th of the following month. Any VAT liability is payable within the same time-limit. EC Sales Lists are due quarterly for all taxpayers and are filed with the appropriate VAT return. Intrastat returns are due monthly by the 10th working day (electronic filing) or in other cases the 12th working day following the end of the month. The Arrivals Intrastat threshold is CZK 2 million (approx. EUR 75,200) and the Dispatch Intrastat threshold is CZK 4 million (approx. EUR 150,400).

Customs duties

- EU duty may be imposed on all foreign goods imported into the Czech Republic for release into free circulation in the EU.
- The relief from duty afforded through the Community Customs Code must be applied directly in the Czech Republic.
- The trade treaties of the EU apply to the Czech Republic, including the suspension process and quotas.
- Substantial changes in the EU common tariff apply from 1 January 2007.

Excise duties

- Mineral oils, spirits, beer, wine, and tobacco products are subject to excise duty. The main features of excise duty legislation are:
  - a suspension regime for producers and traders;
  - the status of registered trader for the intra-community acquisition of goods;
  - special measures for the transit of goods between tax warehouses and between tax warehouses and registered traders within the EU;
  - a licensing procedure for operating a tax warehouse, making acquisitions of goods as a registered trader and for excise duty exemption.

Energy taxes

- The tax reform that came into effect on 1 January 2008 introduces new types of indirect tax, implementing the relevant EU regulations in the area of environmental taxes. These taxes will be levied on supplies of electricity, natural and other gases, and solid fuels ("energy taxes"). The payers of energy taxes will be either suppliers of energy in the Czech Republic selling the energy to end users or operators of distribution or transmission systems. Taxpayers will also be, e.g., entities that use tax-exempt energy for other than exempted purposes or that have used untaxed energy. The amount of tax on electricity is calculated by multiplying the tax base, i.e. the amount of electricity in MWh, by the tax rate, which will be CZK 28.3/MWh (approx. EUR 1.06). The tax base for gas is the amount of gas in MWh of gross heating value. The tax rate will vary from CZK 0/MWh to CZK 264.80/MWh (approx. EUR 9.96), according to the nomenclature code for the gas and the date the tax liability arose. The tax base for solid fuels is based on the GJ equivalent of the gross heating value of a standard sample. The tax rate is CZK 8.5/GJ (approx. EUR 0.32) equivalent of the gross heating value of a standard sample.

Individual taxation

Personal income tax

- There is a flat personal income tax rate of 15% in 2008 and 12.5% starting from 2009.
- Starting in 2008, payroll tax is paid on gross salary plus a related portion of the employer's social security and health insurance contributions.
- The employer must withhold income tax advances on employment income and pay them monthly to the Financial Authority.
- If payroll withholding is not required and an individual is subject to personal income tax, the individual is personally responsible for reporting and paying the tax due.
- The tax return must be filed by 31 March following the tax year in which the income arises. If the tax return is prepared and submitted by a registered tax advisor, the deadline is postponed until 30 June.
- Tax residents are defined as:
  - those with a permanent residence in the Czech Republic, i.e. possessing a permanent home in the Czech Republic; or
  - those present in the Czech Republic for 183 days or more in a calendar year.
- A tax resident is taxed on world-wide income.

- A tax non-resident is subject to Czech taxation on Czech-sourced income only. In principle, no tax is payable by a tax non-resident if the period related to the performance of dependent activity in the Czech Republic does not exceed 183 days in any period of twelve consecutive months and if he/she has a foreign employer that does not have a permanent establishment in the Czech Republic. The relevant Double Tax Treaty may modify the rule for taxation or full exemption of income from taxation in the Czech Republic.

Social security

- Czech health insurance and social security contributions amount to 12.5% of gross salary payable by the employee and 35% payable by the employer. There is a capped base for social security and health insurance payments of employees of 48 times the average monthly salary starting from 2008 (i.e. the cap is CZK 1,034,880 for 2008, approx. EUR 38,920).

- Employers must withhold health insurance and social security contributions. Contributions must be remitted to the social security office and health insurance office on the salary payday.

- Social security is payable for all employees of Czech companies, irrespective of the national law governing the employment relationship. Additionally, Czech social security is due for employees seconded from countries with which the Czech Republic has an agreement on social security contributions, or who have been seconded from other EU countries. Czech accession to the EU affected the social security position of assignees to or from the EU.

- Individuals may be exempt if covered by a foreign social security system based on a bilateral social security agreement or EU Regulations on social security. The Czech Republic has concluded bilateral social security agreements with many countries, including, for example, Canada, Chile, Croatia, Israel, Montenegro, Serbia, Turkey and Ukraine.

Pensions

- State pension insurance contributions are 6.5% for employees and 21.5% for employers. These contributions are part of the social security payments mentioned above.

- If an individual is not obliged to participate in the Czech pension scheme according to either Czech legislation or an international agreement, he/she can generally make voluntary contributions to the Czech pension scheme.

- For employees exempt from the payment of social security (please see above), both the employee and the employer are exempt from the payment of pension insurance contributions.

Other taxes

Real estate transfer tax

- The real estate transfer tax rate is 3%. The tax base is either the sales price or the officially assessed value, whichever is higher.

- Exemptions include in-kind contributions to share capital, provided the share is held at least for five years, and company reorganisations such as mergers and de-mergers.

- Tax payment is due on the date on which the tax return is filed. Tax returns have to be filed within three months of a real estate transfer.

Legal and other developments

Labour code

- Apart from the Labour Code (a new Labour Code came into effect on 1 January 2007), the main sources of Czech labour law are the Czech Constitution, international treaties, applicable EU law, minimum wage and work safety regulations, collective bargaining agreements concluded within sectors and/or companies or employers' associations, internal company regulations and customary practices, and individual employment contracts.

- Employees may be represented by trade unions, workers' councils, or European workers' councils.

- Non-EU citizens who intend to work and live in the Czech Republic must obtain a work permit and a long-term visa for the purpose of employment. The work permit is not valid without the long-term visa, and vice versa.

- The Employment Act is based on the requirement to harmonise Czech law with EU legislation and improve the employment situation in the Czech labour market. It regulates (among other things) the conditions for claiming unemployment benefits and sets out active employment policy tools (e.g. support for retraining, investment incentive programmes, and contributions to employees' transportation). The Employment Act also focuses on job intermediation by labour agencies and the position of EU citizens in the Czech labour market.

- Amendments to the Labour Code came into effect on 1 January 2008. They are predominately of a technical nature, i.e. they change and/or correct the clauses of the Labour Code whose meaning was ambiguous or unintended. Of the amendments that represent an actual change in legal regulation,

the most important has been the new provision on the possibility of forming an agreement with management employees that the remuneration for contingent overtime work up to 150 hours per calendar year will be included in the employee's remuneration (in such cases, the management employee will not be entitled to any extra salary, bonus or time off for overtime work). Also, the possibility of employing juvenile employees (people between the ages of 15 and 18) for up to eight hours per day and 40 hours per week in total in all labour-law relationships has been included in the Labour Code (formerly it was up to six hours per day and 30 hours per week in all labour-law relationships).

Competition law

- The competitive aspect of the business conduct of undertakings is regulated by the Act on the Protection of Competition in the Czech Republic. The Act complies with EU competition law and regulates, in particular, prohibited agreements (cartels), abuse of dominant position, and concentrations of undertakings. The Act sets penalties for breaches of the competition rules.

- EU competition law applies to undertakings in the Czech Republic whose behaviour may affect trade between Member States. The Office for the Protection of Competition and the Czech courts are responsible for the application of both Czech and EU competition law. In specific cases, the Commission is able to conduct inspections in the Czech Republic.

- The provision of state aid in the Czech Republic is monitored by the Commission, which has sole authority in state aid matters. All forms of state aid exceeding the "de minimis" threshold are subject to the Commission's approval.

- The Act on the protection of economic competition (Competition Act) was amended with effect from May 2007. This amendment extends the scope of the Competition Act to include the area of electronic communications. This area was formerly exempted from the Competition Act by means of the Act on Electronic Communications, which was at variance with Community competition law.

Intellectual property

- Czech legislation in the area of intellectual property (the Copyright Act, the Patent Act, the Trademark Act, etc.) has, for the most part, been harmonised with EU law and with a number of international treaties to which the Czech Republic is a party.

- The Act on the Enforcement of Industrial Property Rights, which was adopted in 2006, unifies the local competence of Czech courts in industrial property disputes. With effect from 1 January 2008, the Municipal Court in Prague is competent to decide all industrial property disputes in the Czech Republic. This step should help to unify case law in the area of industrial property.

Environmental law

- The Act on Environmental Liability, whose adoption by the Czech Parliament is pending, will implement the EC Environmental Liability Directive 2004/35/CE and introduce into Czech law the concept of liability for damage to species and natural habitats, water and land. This will be additional to the existing general liability for damage to property. The Czech Republic has been behind with the implementation of the Directive since 1 May 2007.

- The Act on Waste is being (belatedly) amended to implement some aspects of the new EC Regulation 1013/2006 on the Shipment of Waste. The Act is expected to be further amended in 2008 to implement, among other things, some aspects of the Community Directive 2006/66/CE on batteries and accumulators.

- The Act on the integrated register of environmental pollution and the integrated system for the fulfilment of the reporting obligation on environmental matters is being adopted by the Czech Parliament. The Act will implement some aspects of EC Regulation 166/2006 on the establishment of a European Pollutant Release and Transfer Register.

Consumer protection

- Consumer protection is primarily regulated by the Consumer Protection Act. Czech consumer protection law focuses on the following areas: consumer credit, sales of goods and associated guarantees, unfair terms in consumer contracts, liability for defective products, distance contracts, and time-share regulations.

- On 2 July 2007, Act No. 160/2007 Coll. came into effect, amending some acts in the area of consumer protection. The aim of this act is mainly to transpose into Czech law the Regulation of the European Parliament and the Council No. 2006/2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws (the Regulation on consumer protection cooperation) under which the national controlling bodies have to cooperate to a considerably greater extent when acting against breaches of consumers' rights. It especially concerns cooperation in cases where a breach of consumers' rights in one Member State by an entity from another Member State is discovered.

Estonia

Highlights

- Estonia has introduced the concept of binding advance rulings.
- The tax rate on profit distributions has been reduced to 21% and will be further reduced to 18% by 2011. Individuals in Estonia are subject to 21% flat-rate income tax. The income tax rate will fall gradually by one percentage point per year from 21% in 2008 to 18% in 2011.
- Under certain conditions importers registered for VAT purposes in Estonia will be able to account for VAT on imported goods, including capital goods, in their VAT returns.

The exchange rate between the Estonian kroon ("EEK") and the euro ("EUR") used in this report is EEK 15.6466 = EUR 1.00. The EEK has been officially pegged to the euro at this rate.

Corporate taxation

Corporate tax

- All undistributed corporate profits are tax-exempt. This exemption covers both active (e.g. trading) and passive (e.g. dividends, interest, royalties) types of income, as well as capital gains from sales of all types of assets, including shares, securities and immovable property. This tax regime is available to Estonian companies and permanent establishments of foreign companies that are registered in Estonia.
- The moment of taxation of corporate profits is postponed until the profits are distributed as dividends or deemed profit distributions, such as transfer pricing adjustments, expenses and payments that do not have a business purpose, fringe benefits, gifts, donations and business entertainment expenses.
- Distributed profits are generally subject to 21% corporate income tax (21/79 on the net amount of profit distribution). For example, a company that has profits of 100 available for distribution can distribute dividends of 79 on which it has to pay corporate income tax of 21. The income tax rates will be reduced from 21/79 in 2008 to 20/80 in 2009, to 19/81 in 2010 and to 18/78 in 2009.
- From the Estonian perspective, this tax is regarded as a corporate income tax and not a withholding tax, so the tax rate is not affected by Double Tax Treaties. However, under domestic law or Double Tax Treaties certain domestic and foreign taxes can be credited against corporate income tax. Certain distributions are exempt from such tax ("participation exemption").
- The period of taxation is the calendar month. The combined corporate and payroll tax return (form "TSD") must be submitted and the tax must be remitted to the local tax authorities by the 10th of the month following a taxable distribution. No advance tax payments are required. Tax returns can be filed electronically over the Internet.
- The existing dividend taxation system is not fully in line with the EU Parent-Subsidiary Directive (90/435/EEC). Estonia has a transitional period until 31 December 2008 to amend its present dividend taxation system, which may therefore change by 1 January 2009. The government has announced that only minor changes will be made to the law in order to make it compatible with the Directive. The general principles of the corporate tax system (i.e. exemption of retained income) are likely to remain intact.
- Distributable profits are determined from financial statements drawn up in accordance with Estonian GAAP or IAS/IFRS and there is no adjustment of accounting profits for tax purposes (e.g. tax depreciation, tax loss carry-forward or carry-back).
- Mergers, divisions and re-organisations of companies are generally tax-neutral.
- There is no form of consolidation or group taxation for corporate income tax purposes.
- Dividends distributed by Estonian companies are exempt from corporate income tax ("participation exemption") if these are paid out of:
  - dividends received from Estonian, EU, EEA (European Economic Area) or Swiss tax resident companies in which the Estonian company has at least a 15% shareholding; or
  - profits derived through a permanent establishment ("PE") in the EU, EEA or Switzerland; or
  - dividends received from all other foreign companies in which the Estonian company has at least a 15% shareholding, provided that either the underlying profits have been subject to foreign tax or foreign income tax was withheld from dividends received; or
  - profits derived through a foreign PE in any other country, provided that such profits have been subject to tax in the country of the PE.
- Estonia has no thin-capitalisation or CFC rules for corporate taxpayers.
- There are specific anti-tax-haven rules under which certain transactions with tax-haven companies are treated as deemed profit distributions.
- There is a general anti-avoidance rule, which allows the tax authorities to ignore the legal form of a transaction and reclassify it for tax purposes according to its "real" economic substance if there are grounds for believing

that the transaction was undertaken for the purpose of avoiding tax.

- Estonia has introduced the concept of binding advance rulings. A binding advance ruling will include the tax authorities' opinion on the tax consequences of a transaction or series of transactions to be undertaken by a taxpayer. The ruling will be binding on the tax authorities, provided that the transactions are concluded within the time and under the circumstances described in the ruling request and also provided that the relevant tax legislation has not been changed substantially before the taxpayer enters into the transaction. Rulings will not be issued on transfer pricing matters and may be denied for hypothetical transactions and transactions with the sole purpose of tax avoidance.

Withholding tax

- Dividends paid to non-resident legal entities which have a shareholding of less than 15% in the distributing company are subject to 21% withholding tax under domestic law, but reduced rates may be available under Double Tax Treaties. Dividends paid to tax-haven entities are always subject to 21% withholding tax. There is no withholding tax on dividend distributions to corporate shareholders with a shareholding of at least 15% in the distributing company or to individual shareholders.

- There is no withholding tax on interest payments to non-residents, on the condition that the interest charged does not significantly exceed the arm's length rate when the debt is incurred and the interest payments are made. Estonian withholding tax at 21% will thus apply only to the part of the interest that significantly exceeds the arm's length amount.

- Royalties paid to non-residents (including payments for the use of industrial, commercial or scientific equipment) are generally subject to 15% withholding tax under domestic law, but reduced rates may be available under Double Tax Treaties. Certain royalty payments to associated EU and Swiss companies that meet certain conditions are exempt from withholding tax.

- Rental payments to non-residents for the use of immovable property located in Estonia and movable property subject to registration in Estonia (excluding payments for the use of industrial, commercial or scientific equipment) are subject to 21% withholding tax under domestic law, but Double Tax Treaties may exempt payments for the use of movable property from withholding tax.

- Royalties and rental payments to resident individuals are subject to 21% withholding tax.

- Payments to non-resident companies for services provided in Estonia, including management and consultancy fees, are subject to 15% withholding tax under domestic law, but exemption may be available under Double Tax Treaties. Service-fee payments to tax-haven entities are always subject to 21% withholding tax.

- Salaries, directors' fees and service fees paid to individuals are subject to 21% withholding tax under domestic law, but Double Tax Treaties may exempt service-fee payments to non-resident individuals from withholding tax.

- Payments for activities that non-resident artists or sportsmen carry out in Estonia are subject to 15% withholding tax.

- Certain pensions, insurance benefits, scholarships, prizes, lottery winnings, alimony, etc. paid to non-residents and resident individuals are subject to 21% withholding tax under domestic law.

- Withholding agents must withhold income tax from the above payments. Withholding agents include resident legal entities, resident individuals registered as sole proprietorships or acting as employers, and non-residents that have a permanent establishment or act as employers in Estonia. The tax must be reported and paid by 10th of the month following the payment. Income tax is not withheld from payments to resident companies, registered sole proprietorships or the registered permanent establishments of foreign companies.

- For non-residents who do not have a permanent establishment in Estonia, the tax withheld from the above payments at domestic or treaty rates constitutes final tax as regards their Estonian-source income and non-residents are generally not obliged to submit a tax return to the Estonian tax authorities for income so taxed.

- For certain types of Estonian source income, non-residents are liable under Estonian domestic law to self-assess Estonian tax and submit a tax return to the Estonian tax authorities. Such types of income include:

  – certain capital gains;
  – profits derived from business conducted in Estonia without a registered permanent establishment; and
  – other items of income from which tax should have been withheld but was not.

Double Tax Treaties

- Estonia has effective tax treaties with Armenia, Austria, Belarus, Belgium, Canada, the People's Republic of China, Croatia, the Czech Republic, Denmark, Finland, France, Georgia, Germany, Hungary, Iceland, the Republic of Ireland, Italy, Kazakhstan, Latvia, Lithuania,

Luxembourg, Malta, Moldova, the Netherlands, Norway, Poland, Portugal, Romania, Singapore, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, the United Kingdom, and the United States of America. Treaties have also been concluded with Azerbaijan, Greece and Russia, but are not yet in force.

Transfer pricing

- Transactions between related parties (both resident and non-resident) and between a head office and its permanent establishment(s) should be conducted on arm's length terms. Transfer pricing adjustments are treated as deemed profit distributions, which should be declared monthly and which are subject to 21/79 corporate income tax in 2008. The five transfer pricing methods that are accepted in Estonia are listed in the OECD Guidelines: the comparable uncontrolled price, resale price, cost-plus, profit-split and transactional net margin methods. Estonia has also introduced special transfer pricing documentation requirements for certain taxpayers, in line with the EU Transfer Pricing Documentation Code of Conduct.

Indirect taxation

VAT

- The following transactions are subject to Estonian VAT:
  - taxable supplies of goods and services;
  - taxable imports of goods; and
  - taxable intra-Community acquisitions of goods.
- The standard VAT rate is 18%. A reduced rate of 5% applies to (among other items) books, periodicals (with a few exceptions), hotel accommodation services, listed pharmaceuticals and the treatment of dangerous waste. Estonia takes the view that "the fewer exceptions the better".
- The VAT rate on the export of goods and certain services is 0% (i.e. exemption with credit). Some supplies are exempt (i.e. exempt without credit), such as healthcare services, insurance services, certain financial services and transactions with securities.
- Starting from 1 January 2008, under certain conditions importers registered for VAT purposes in Estonia will be able to account for VAT on imported goods, including capital goods, in their VAT returns.
- Transactions in real estate are generally exempt from VAT but there exist certain significant exceptions (e.g. transactions in new and significantly renovated buildings). Taxpayers can elect to add VAT to real estate transactions if certain conditions are met.
- VAT registration is required if the taxable supplies of Estonian businesses or permanent establishments of foreign businesses in Estonia exceed EEK 250,000 (approx. EUR 16,000) in a calendar year. Voluntary registration is also possible, even if the threshold is not reached. Certain transactions of foreign businesses require Estonian VAT registration without any threshold (e.g. intra-Community supplies of goods). Generally, a VAT representative is only required for the registration of non-EU businesses.
- Estonia operates an extended reverse-charge VAT regime in order to avoid, to the maximum extent, the registration of foreign businesses for VAT purposes in Estonia. As a result, if the customer of a non-established foreign supplier is an Estonian VAT-registered person, the liability to account for Estonian VAT shifts to the customer (unless the foreign business is VAT-registered in Estonia).
- The VAT accounting period is generally the calendar month, and the VAT should be declared and paid by 20th of the following month.
- Foreign businesses which are not registered for VAT purposes in Estonia are entitled to request a refund of input VAT paid in Estonia, except for the VAT paid on the acquisition of immovable property. The foreign applicant must be registered as a taxable person in its home country and cannot have a permanent establishment engaged in economic activities in Estonia. VAT will only be refunded to foreign businesses if an Estonian taxable person registered for VAT would be entitled to deduct such input VAT in similar circumstances. For non-EU business, VAT refunds are granted on the basis of reciprocity (e.g. Iceland, Norway and Switzerland qualify).
- VAT refund applications can be submitted by EU businesses for a period of not less than a quarter and the minimum VAT amount to be refunded must be at least EEK 3,000 (approx. EUR 190). In cases of annual submissions of refund applications, the minimum VAT amount must be at least EEK 400 (approx. EUR 26) and for non-EU business, the minimum VAT amount must be at least EEK 5,000 (approx. EUR 320). Generally, the refund is granted within six months of the date of submitting the official refund application, original VAT invoices and the VAT registration certificate (issued by the VAT Authorities of the home country).

Customs duties

- After becoming a member of the European Union, Estonia also became a member of the

Customs Union. The Community Customs Code and related implementation regulations now apply, with the following main effects:

- trade between Estonia and other EU countries is customs-free;
- imports from non-EU countries are subject to EU customs tariffs; and
- numerous Free Trade Agreements concluded between EU and non-EU countries now also apply to Estonia.

Excise duties

- Excise duties are levied on tobacco, alcohol, some packaging materials, electricity and motor fuel.

Individual taxation

Personal income tax

- Estonia has a 21% flat rate personal income tax. The income tax rate will fall gradually by one percentage point per year from 21% in 2008 to 18% in 2011. Certain qualifying pensions are subject to 10% income tax. There is no special tax regime for expatriates.

- Individuals who are residents of Estonia are liable to tax on their world-wide income, irrespective of its origin. Individuals are considered residents of Estonia if they have a permanent residence in Estonia or if their stay during any twelve-month period exceeds 182 days. Estonian public servants sent abroad on assignment also remain Estonian tax residents.

- The taxation period is the calendar year. Resident individuals must file an individual tax return by 31 March following the year in which the income arises. Tax returns can be filed electronically from 15 February each year. Married resident taxpayers may choose to file their tax returns either jointly or separately.

- For resident individuals, the more important items of tax-exempt income include domestic dividends, qualifying foreign dividends, qualifying foreign employment income, interest received from EEA banks (including Estonian banks) and certain qualifying capital gains.

- Most items of personal income are taxed on a gross basis, mainly through withholding at source, but certain items of income, such as business income and capital gains, are taxed on a net basis, on certain conditions.

- In general, individual taxpayers are taxed on a cash basis. Exceptionally, the Estonian CFC (anti-deferral) rules attribute the undistributed profits of foreign tax haven companies to resident taxpayers if such companies are controlled by Estonian residents.

- Resident taxpayers are entitled to make various deductions from their gross income. The more important deductible items include the basic personal allowance of EEK 27,000 (approx. EUR 1,726), certain bank and leasing interest paid in relation to acquiring a personal residence, certain educational expenses, certain gifts and donations, and certain payments to personal pension schemes. There are various limitations on the deductions.

- Under the recent amendments, the personal allowance will be increased from EEK 27,000 (approx. EUR 1,726) in 2008, to EEK 30,000 (approx. EUR 1,917) in 2009, to EEK 33,000 (approx. EUR 2,109) in 2010 and to EEK 36,000 (approx. EUR 2,301) in 2011.

- Estonian resident taxpayers who have received foreign-source taxable income are generally allowed to credit foreign income tax against their Estonian income tax liability. The tax credit is limited to 21% of foreign taxable income and is calculated separately for each foreign country.

- As an exception from the general rule, foreign employment income is exempt from Estonian income tax for a resident employee (inclusive withholding requirement), provided that:

  - the employee has spent at least 183 days in 12 consecutive calendar months in a foreign country for the purpose of employment; and
  - the foreign employment income is treated as taxable income in the foreign country, for which there must be documentary proof, and the employee can produce a certificate stating the amount of income tax paid on the employment income (even if such amount is nil).

  Such foreign employment income must be declared in the income tax return that the resident individual submits to the Estonian Tax and Customs Authorities.

- Non-residents are only taxed on their Estonian-source income. For non-residents, tax withheld at source at domestic or treaty rates generally constitutes final tax as regards their Estonian-source income and non-residents are generally not obliged to submit a tax return in Estonia for income so taxed. However, for certain types of Estonian-source income, non-residents are liable under Estonian domestic law to self-assess Estonian tax and submit a tax return to the Estonian tax authorities. Such types of income include:

  - certain capital gains;
  - profits derived from business conducted in Estonia without a registered permanent establishment; and
  - other items of income from which tax should have been withheld but was not.

- Non-resident individuals of another EU Member State who have derived at least 75% of their taxable income from Estonia are also allowed to file tax returns as resident individuals in order to benefit from deductions available to Estonian residents.

Social security

- Employers (including resident and non-resident companies and individuals acting as employers in Estonia) must pay social tax on certain payments to individuals at the rate of 33% (of which 20% is used for financing state pension insurance and 13% for financing national health insurance). Social tax paid by employers is not capped and applies mainly to salaries, directors' fees and service fees, and fringe benefits granted to individuals. The taxation period is the calendar month, and the tax must be reported and paid to the local tax authorities by 10th of the month following the taxable payment or expense.

- The net business income derived by individuals registered as sole proprietorships is also subject to 33% social tax, which is capped. The taxation period is the calendar year. Sole proprietorships are required to make quarterly advance payments of social tax in fixed amounts, which are credited against the final annual social tax liability.

- In addition to social tax, employers are also required to withhold and pay unemployment insurance contributions. In 2008, the employer's contribution is 0.3% and the employee's contribution is 0.6% (collected by the employer through payroll withholding). The contributions mainly apply to salaries and service fees paid to individuals.

- There is no cap on the employees' annual social security contribution base.

Compulsory cumulative pension scheme

- Resident employees born after 31 December 1982 are obliged to join the compulsory cumulative pension scheme and make 2% contributions to the scheme (mostly collected by employers through payroll withholding). The contributions mainly apply to salaries, directors' fees and service fees, but also to sole proprietorships' net business income. For resident employees born before 1983, joining the pension scheme is voluntary, but after joining, it becomes compulsory and the employees may not subsequently leave the scheme. In addition to the 2% contribution made by the employee, 4% of the 33% social security contribution payable by the employer will be transferred to the employee's pension account.

Other taxes

Real estate and land tax

- Land is subject to annual land tax that is calculated on the assessed value of land at rates between 0.1% and 2.5%, depending on the municipality. The tax is paid by the owners of land, or sometimes by the users of land, in three instalments, by 15 April, 15 July and 15 October. There is no property tax, i.e. tax on the value of buildings.

- Property transfers are generally subject to state and notary fees.

Heavy goods vehicle tax

- Heavy goods vehicle tax is paid for the following classes of vehicle that are registered in the Estonian National Motor Vehicle Register and are intended for the carriage of goods: (1) lorries with a maximum authorised weight or gross laden weight of not less than 12 tons; (2) 'road-trains' made up of trucks and trailers with a maximum authorised weight or gross laden weight of not less than 12 tons. The tax is paid by the owners or users of the vehicles.

Gambling tax

- Gambling tax is imposed on amounts received from operating games of skill, totalisators, betting and lotteries. Tax is also charged on gambling tables and machines used for games of chance located in licensed premises. The tax is paid by authorised operators.

Local taxes

- Local taxes can be imposed by rural municipalities or city councils in their administrative area in accordance with the Local Taxes Act. However, the fiscal significance of local taxes is almost non-existent. Local taxes include sales tax, boat tax, advertisement tax, road and street closure tax, motor vehicle tax, a tax on keeping animals, entertainment tax and parking charges.

Environmental tax

- Estonia does not impose any environmental taxes. However, there are certain pollution charges, charges for the use of natural resources, and environmental insurances (insurance against pollution risk).

Georgia

Highlights

- The corporate income tax rate has been reduced by five percent to 15%.
- The personal income tax rate has been increased from a flat rate of 12% to 25%.
- The 20% social tax (employer's cost) has been eliminated.

The exchange rate between the Georgian lari ("GEL") and the euro ("EUR") used in this report is GEL 2.33 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate income tax rate has been decreased by 5% as of 1 January 2008, and is now 15%. Taxable profit is defined as gross income minus deductible expenses.
- The Tax Departments under the Ministry of Finance are responsible for administrative matters.
- The corporate tax return should be submitted before 1 April of the year following the reporting period. Corporate income tax is paid quarterly in advance in equal instalments. The deadlines are: 15 May, 15 July, 15 September and 15 December. The advance instalments are estimated from the previous year's tax. A taxpayer with no corporate tax payable for the previous year is not required to make advance payments. Tax paid in excess should be refunded within three months of submitting an application to the tax authorities. Excess corporate tax payments can be offset against other tax liabilities.
- The corporate income tax year is the calendar year.
- Losses can be carried forward for five years.
- There are no specific local business taxes.
- The tax treatment of foreign legal entities is the same as for local companies.
- Group taxation is not recognised in Georgian tax legislation.
- Both operating and financial leases are addressed in the tax legislation. The Tax Code provides that if assets are transferred under a financial lease, the lessee is treated as the owner of the assets for taxation purposes (i.e. the assets are on the lessee's balance sheet). The leasing should meet certain criteria to qualify as a financial lease under the Tax Code.
- No specific thin-capitalisation rules currently apply. Interest paid on loans at annual interest rates of up to 24% is deductible.
- Insurance companies are entitled to deduct amounts transferred to insurance reserve funds within norms applicable under Georgian legislation. Banks and credit unions are allowed to deduct amounts placed in special reserves for doubtful debts, under rules established by the National Bank of Georgia.
- Capital gains received from the sale of fixed assets and securities are included in the taxpayer's gross income and are subject to corporate income tax at the standard rate of 20%.

Withholding tax

- Foreign legal entities which earn income from Georgian sources, other than through a permanent establishment, are subject to withholding tax at the following rates, depending on the type of income:

Dividends	10%
Interest	10%
Royalties	10%
Insurance, re-insurance, leasing, international transportation/communication, oil and gas subcontractor income	4%
Income from services rendered in Georgia	10%
Other Georgian source income	10%

Double Tax Treaties

- Georgia has concluded Double Tax Treaties with 26 countries, 23 of which are in force as of 1 January 2008. The three Double Tax Treaties that have been signed but have not yet come into force are with Denmark, Finland and Russia.

Transfer pricing

- The Tax Code allows the tax authorities to challenge an agreed price: (1) in the case of barter transactions; and, (2) where the parties to a transaction are related and the relationship causes a deviation from the market price. The burden of proof that the prices do not comply with the arm's length principle rests with the tax authorities.

- Related parties are defined as resident or non-resident individuals and/or legal entities, whose relationship may have an impact on the economic results of their activity.

- In general, the comparable uncontrolled price method may be used. If this method cannot be used, the cost-plus method, the resale price method or the comparable profit method may be used. However, no definitions of these methods are provided by the law. Other methods are not allowed. The choice of method is determined by the tax authorities, and the taxpayer can challenge the decision in the courts.

Indirect taxation

VAT

- The standard rate of VAT is 18%, which applies to the sale of all goods and services that are not subject to zero-rate VAT or otherwise exempt from VAT. VAT is levied on supplies of goods and services at all stages of supply.

- Temporary imports are now subject to VAT. Under the temporary import regime, importers are required to pay 3% per month of the VAT amount that would otherwise have been payable on import of the same items under a "free circulation regime".

- The following transactions are subject to zero-rate VAT:

  – exports;
  – supplies of goods or services to diplomatic representative offices;
  – international air transportation and shipment services, as well as services directly or indirectly related to them;
  – supplies of gold to the National Bank of Georgia;
  – travel agency services rendered to foreign tourists;
  – repair services in relation to fixed assets rendered to foreign enterprises, foreign organisations or foreign governments.

- The main categories of goods and services that are exempt from VAT are:

  – financial services;
  – the supply and import of securities;
  – imports of materials and semi-finished goods intended for producing export goods;
  – educational services;
  – the import and supply of automobiles, unless the taxpayer's main activity is selling or leasing automobiles;
  – the supply of assets in the state privatization process;
  – imports of machinery, means of transportation, spare parts and materials needed for the oil and gas industry according to the law of Georgia "On Oil and Gas", as well as supplies of goods and services needed by investors and operating companies to implement oil and gas operations;
  – supplies of magazines, newspapers and books.

- A taxpayer is an entity or individual that is registered or required to register as a taxpayer. Any entity or individual whose annual taxable turnover exceeds GEL 100,000 (approx. EUR 43,000) in any continuous period of up to 12 months is obliged to register as a taxpayer.

- No VAT credit is allowed on:

  – automobiles, unless the taxpayer's main activity is the sale or lease of cars;
  – expenses related to charity, social and entertainment events,
  – invoices which do not identify the seller of goods or services;
  – expenses for goods or services used for the purpose of producing VAT-exempt goods or rendering VAT-exempt services;
  – tax invoices not submitted to the tax authorities within 45 days after the month when the invoice was issued.

- The standard VAT reporting period is a month. VAT returns should be submitted before the 15th of the month following the reporting period.

- VAT paid in excess can be credited against other taxes or refunded within three months of applying to the tax authorities.

Customs duties

- Customs duty rates range from 0% to 12%.

- All goods, except poultry, alcohol, agricultural products and mineral water are subject the 0% customs duty rate.

- VAT at the rate of 18% is due on imported goods unless they are specifically exempt from VAT or subject to the zero-rate VAT.

- A customs duty charge of EUR 60 is imposed for each customs declaration in a customs clearance.

Excise tax

- Excise tax is levied on specific goods which are produced in Georgia or imported. Excise tax is generally calculated with reference to the quantity of the goods (e.g. volume, weight), or in the case of automobiles on the basis of engine capacity.

- Excise tax is charged on the following goods: alcoholic drinks; natural gas condensate, except for pipeline supplies; oil distillates; goods produced from crude oil; tobacco products; automobiles; ferrous and non-ferrous metal scrap; and others.
- Exports of excisable goods are zero-rated for tax, except for exports of ferrous and non-ferrous metal scrap.

Individual taxation

Personal income tax

- Personal income is subject to a flat-rate tax of 25%.
- An employer is generally liable for withholding income tax on salary payments and remitting it to the state budget.
- A person becomes tax-resident in Georgia if he/she spends more than 182 days in Georgia in any continuous 12-month period and will become liable for personal income tax for the tax year in which that period ends.
- Non-resident individuals are only taxed on their Georgian source income.

Social tax

- The social tax has been eliminated from 1 January 2008.

Pensions

- There are no obligatory contributions for employee pensions under Georgian tax legislation.

Other taxes

Real estate and land tax

- Property tax is payable at rates of up to 1% on the annual average residual value of fixed assets (except for land) that are included in the balance sheet of Georgian entities or foreign entities with taxable property in Georgia.
- Land tax rates per square metre depend on the use of the land plot and its location. The base tax rate is GEL 0.24 (approx. EUR 0.1) per square metre. The actual rate should not be less than 50% or more than 150% of the base tax rate.

Legal and other developments

Foreign currency regime

- The main restriction under Georgian currency regulations is that settlements in Georgia have to be made in the national currency – Georgian lari (GEL).

Labour code

- Employment relations in Georgia are regulated by the Labour Code.
- An employer is obliged to grant all the benefits provided for employees under the Labour Code. Such benefits cannot be amended by an agreement between the parties to the employee's disadvantage.
- The standard working week is 41 hours. Restrictions on overtime and overtime remuneration rates should be agreed separately in the employment contract. No limitations or special rules for overtime remuneration are provided by the Georgian Labour Code.
- Paid annual leave is 24 working days.
- Foreigners do not need to obtain special work permits.
- Only foreigners staying in Georgia for more than three months have to register with the appropriate departments of the Ministry of Justice in the area of their residence.

Competition law

- The Free Trade and Competition Act was issued on 3 June 2005. The law establishes rules and measures for the protection of fair competition. It defines economic activity that is subject to the regulation and competence of the State Agency for Free Trade and Competition, which is responsible for the protection of competition.

Intellectual property

- Legal relations in respect of intellectual property are mainly regulated by the Copyright and Related Rights Act, the Trademark Act and the Patent Act.
- The Copyright and Related Rights Act regulates relations concerning the creation and use of works of science, literature and art. The Act also deals with the protection of rights in connection with performance, databases, audio recordings and audiovisual works. Copyright protection is provided from the creation of a work during an author's lifetime and for 70 years after his/her death.

- An invention is protected under the Patent Act if it meets the criteria for novelty, inventiveness and usefulness. A patent is valid for 20 years from the time of submission of the application for the patent registration. If the patent has previously been registered in another country, the term of patent validity is the same as for the primary, previously registered patent but cannot exceed 10 years.

Environmental law

- The regulation of environmental protection is provided by several laws, including the State Supervision of Environment Protection Act, the Atmosphere Protection Act, the Forest Code of Georgia, the Environmental Protection Act, the Wildlife Act, the Water Act and the Soil Protection Act.

Consumer protection

- Consumer protection is regulated by the Consumer Protection Act of 20 March 1996 and the Civil Code of Georgia. The areas subject to regulation by these laws include unfair terms in consumer contracts, the safety of consumer products, liability to provide consumers with full information about products, and liability for defective products, etc.

Business transformations

- Business transformations are generally governed by the Entrepreneurs Act, which establishes the following types of enterprises: General Partnerships, Limited Partnerships, Limited Liability Companies, Joint Stock Companies and Cooperatives.

- Business transformations are not subject to Georgian taxes, provided that the authorities accept that the reason for a business transformation is not tax avoidance.

- The following types of business transformation are recognized by the Georgian Tax Code:

  – the merger of two or more legal entities;
  – the acquisition or takeover of 50% or more of the shares with voting rights and 50% or more of the total cost of the shares in a resident legal entity in exchange for shares with similar rights held by a party involved in the acquisition or takeover;
  – the acquisition of 50% or more of the assets of a resident legal entity by another resident legal entity in exchange for non-preference voting shares;
  – the division of a resident legal entity into two or more resident legal entities.

Hungary

Highlights

- In 2007, the Hungarian Parliament adopted a new VAT Act which came into effect on 1 January 2008 and introduced a completely new approach to value added taxation.
- The social security and healthcare contribution rates have changed but the overall contribution burden remains the same.
- The procedure for establishing a Hungarian legal entity has been simplified and the capital requirements have been relaxed.

The exchange rate between the Hungarian Forint ("HUF") and the euro ("EUR") used in this report is HUF 252.80 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate tax rate is 16%.
- The definition of Hungarian resident taxpayers includes foreign companies whose actual place of management is in Hungary.
- Local business tax can be deducted twice from the corporate tax base, both as a deductible item itself and as an expenditure.
- Unrealized foreign exchange gains realized on financial assets and long-term liabilities at the year-end valuation and recorded as income can be deducted from the company's corporate tax base.
- The debt/equity ratio is 3:1 for thin-capitalisation purposes. The thin-capitalisation rules cover all liabilities that entail the payment of interest (including interest received from cash-pooling activities). This does not apply to loans from financial institutions.
- Taxpayers are, in general, entitled to carry forward their tax losses indefinitely. The Tax Authority's permission is needed to carry forward the tax-year's losses if a company's pre-tax profit is negative and its income is less than 50% of its costs and expenses or the company's tax base was also negative in the previous two years.
- If a taxpayer's pre-tax profit or tax base – whichever is the higher – is below the statutory minimum income (profit), either the statutory minimum income is treated as the taxable basis, or the taxpayer can make a declaration under a new Section of the Act on the Rules of Taxation concerning its taxable base. The statutory minimum income (profit) is 2 % of total revenues reduced by – among other items – the costs of goods sold and the value of intermediated services. Revenues of foreign permanent establishments should be excluded when calculating the statutory minimum income. The new rules are also proportionally applicable from 1 July 2007 to taxpayers that use a non-calendar financial year.
- From 1 January 2007, capital gains from the sale of registered shareholdings are tax-exempt, provided that the taxpayer has held the shareholding for at least two years prior to its disposal. The two-year holding period has been reduced to one year from 1 January 2008. Capital losses and impairments on registered shares are not deductible for corporate income tax purposes. A registered shareholding is a shareholding of not less than 30% in a Hungarian or foreign entity, provided that the taxpayer reports the acquisition of the shareholding to the Tax Authority within 30 days.
- From 1 January 2007, if a parent company restores the proportion of the equity and registered capital determined by the law at its subsidiary by increasing the share capital, and later records impairment for these shares, impairment expenses accounted at the parent company will not be deductible for corporate income tax purposes.
- From 1 January 2008, a company whose registered office, permanent establishment or residence is in an OECD member state or in a state that concluded treaty with Hungary on the avoidance of double taxation, cannot be regarded as a controlled foreign company under the Hungarian corporate income tax rules.
- If a company receives in-kind dividend from a related party at a value that is different from the market value, it has to modify its pre-tax profit by the difference. This rule applies to dividends received after 31 December 2007.
- Since 1 January 2007, Hungarian enterprises with at least 75% of both the aggregate of their total revenues and costs and the aggregate of their total financial assets and liabilities in a particular foreign currency in the preceding and in the current financial year may opt to keep their books in that convertible currency.

Special tax

- Since 1 September 2006, a new type of profit tax, called "special tax", has been levied at a rate of 4% on entities that are subject to corporate tax. Special tax is levied on the pre-tax profit reported in the financial statements, as

adjusted by specific tax base modifying items, but no tax incentives or previous tax years' losses can be deducted from the amount of the tax payable.

- On 1 January 2008, new special tax base increasing and decreasing items were introduced in connection with accounting currency changes, tax shortfalls or surpluses determined by tax audits, capital gains or losses on sales of registered shareholdings and their reversal, as well as in connection with recognised, but not realised capital gains. The new rules apply for the 2007 tax year as well.

- From 1 January 2008, the special tax base must be adjusted if the prices applied in related party transactions are not in the arm's length range. This rule also applies for the 2007 tax year.

Withholding tax

- Since 1 January 2004, interest and royalty payments have not been subject to withholding tax. Withholding tax on dividend distributions to companies was fully abolished in January 2006.

Double Tax Treaties

- Hungary is party to 64 Double Tax Treaties, most of which are based on the OECD Model.

Transfer pricing

- If related parties use prices other than arm's length prices in their transactions, the corporate tax base and the special tax base of the Hungarian taxpayer must be adjusted accordingly.

- Parties are defined as related if:

  – they are connected by direct or indirect majority shareholdings;
  – they are able to appoint or dismiss the majority of the key management or the supervisory board;
  – they have a common direct or indirect majority shareholder.

- Transfer pricing regulations apply to transactions between the general enterprise and its permanent establishment(s) as well as to domestic inter-company transactions.

- Transfer pricing rules apply to in-kind contributions to or reductions of the registered capital if the owner contributing to or reducing the capital has majority control in the company.

- The transfer pricing documentation obligation applies to all valid related party agreements. Agreements need to be documented according to the general rule, i.e. by the filing date of the corresponding tax return. The documentation (in Hungarian) does not need to be submitted with the tax return, but should be readily available at the request of the Tax Authority. If a taxpayer fails to comply with the transfer pricing documentation requirements, the Tax Authority may levy a HUF 2 million (approx. EUR 7,900) default penalty for each qualifying contract.

- The Advance Pricing Arrangements' (APA) regulation came into effect on 1 January 2007. APA requests need to be submitted to the Hungarian Tax Authority, which considers them jointly with foreign tax authorities (in the case of bilateral or multilateral APAs). The fee for this procedure is based on the value of the transaction, but ranges from a minimum of HUF 5 million (approx. EUR 19,800) for a unilateral APA, HUF 10 million (approx. EUR 39,600) for a bilateral APA and HUF 15 million (approx. EUR 59,400) for a multilateral APA, up to a general maximum of HUF 50 million (approx. EUR 197,800).

Investment incentives

- Enterprises could qualify for the old 100% tax incentives until the end of 2002 and the incentive itself can be claimed for 10 years but only until 2011. The minimum qualifying investment values had to be HUF 3 billion (approx. EUR 11.9 million) or HUF 10 billion (approx. EUR 39.6 million), depending on the location of the project. Following Hungary's EU accession, the incentive amounts had to be converted to net present value.

- A new tax incentive regime called development tax incentives was introduced in 2003 with the intention of supporting large-scale investment and replacing former investment incentives with EU-compatible tax incentives. EU-compatibility means that these incentives are project-specific and, except in a few cases, are set as a certain percentage of the project value.

- The value limit for incentives for independent environmental protection projects, broadband Internet service projects, R&D projects, food hygiene or film and video production is HUF 100 million (approx. EUR 395,600). Projects creating new jobs may also qualify for a tax incentive.

- Development tax incentives require that new investments represent the total project value. Before 2007, new investment had to constitute at least 30% of the total eligible costs and modernisation could not constitute more than 20%.

- The maximum extent to which a tax incentive can be utilised is determined by the applicable maximum state aid intensity, as specified by the regional aid map for the region in which the project is implemented (between 25% and 50%). The development tax incentive may be applied for no more than 80% of the corporate tax in a given year of the tax incentive period.

Bank tax

- Financial institutions are required to pay special tax from 1 September 2006. Credit institutions also have to pay a special contribution based on the interest income they earn from their state-guaranteed loan stock from 2007. The tax rate is 5%.

Indirect taxation

VAT

- Hungary has introduced a new VAT Act from 2008. The general VAT rate is 20%.
- Hungary has one reduced VAT rate of 5%. The 5% reduced rate relates almost exclusively to certain pharmaceuticals, nutritional products and books.
- As a general rule, excess input VAT may either be reclaimed or carried forward. From 2008, the conditions for reclaiming VAT have been simplified, and the HUF 4 million (approx. EUR 15,800) taxable revenue threshold is no longer required. Only the VAT in financially settled invoices is reclaimable.
- VAT refunds for foreign companies from certain countries are based on the 8th and 13th EU VAT Directives. Input VAT cannot be refunded to foreign businesses for purchases of certain goods and services that are explicitly listed in the VAT Act.
- Each company and person engaged in taxable business has to file a registration form with the Tax Authority. However, if the annual amount of sales of goods and provision of services that are within the scope of Hungarian VAT does not exceed HUF 5 million (approx. EUR 19,800), the company or person can choose VAT exemption, but choosing exemption also means waiving the right to recover input VAT.
- VAT returns are filed monthly, quarterly or annually depending on the amount of VAT. In addition, taxable persons engaged in intra-Community supplies and purchases have to file EC sales lists and/or EC acquisition lists quarterly.
- The assignment of receivables in factoring transactions remains classified as a transaction outside the scope of VAT. This provision ensures that the assignor of receivables has full VAT-deduction rights.
- In line with Community rules, the new VAT Act allows all companies that have established a business presence in Hungary and qualify as associated enterprises to form VAT groups. Previously, VAT grouping was only possible for financial institutions.
- The lease and sale of all types of real property and the sale of built-up and vacant land is VAT-exempt under the new VAT Act. The seller/lessor can opt to treat the transaction in accordance with the general rules rather than as an exempt transaction. In an exception to the general rule, however, the sale of building plots and new real properties is subject to tax.
- The new VAT Act extends the application of the reverse charge mechanism to a variety of activities in addition to the sale of waste materials, including: construction and assembly, and services related to real property (repair, maintenance and cleaning).
- The new VAT Act also re-regulates invoicing obligations; the amendments affect the invoicing of advance payments and transactions outside the scope of VAT, contain simplifications with respect to issuing correction notes or cancellation notes, and allow invoices to be issued in a foreign language. Additionally, if invoices are issued in a foreign currency, the amount of recharged VAT will also have to be indicated in HUF in the invoice.

Customs duties

- Hungarian customs legislation and policies have been fully harmonised with EU legislation.
- According to the new local customs rules, if a company has a customs shortfall, the customs authority can charge it a customs penalty of 50% of the shortfall from 1 January 2008. For any other failures in connection with customs clearances (without a customs shortfall), natural persons can be fined up to HUF 100,000 (approx. EUR 400), and companies up to HUF 1 million (approx. EUR 4.000).
- Most companies can submit their export and import customs declarations to the Hungarian customs authority in electronic format (without using a printed Single Administration Document), 24 hours a day, and seven days a week. Hungary is one of the first EU countries to implement e-Customs services (from 1 July 2009 this will be obligatory in all EU Member States).

Excise duties

- Goods subject to excise duty are petroleum products, alcohol and alcoholic beverages, beers, wines, sparkling wines, intermediate alcoholic products and tobacco products.

- Any product with an alcohol content of 1.2% or more by volume qualifies as an alcohol product.

- Duty rates from 1 January 2008:

  – Petroleum products: HUF 85,000-111,800 (approx. EUR 340-440) per thousand litres, or HUF 3,900-102,000 (approx. EUR 15-400) per thousand kilograms, or HUF 24.50 (approx. EUR 0.1) per cubic metre, depending on the type of product;
  – Alcohol products: HUF 236,000 (approx. EUR 930) per hectolitre of pure alcohol;
  – Beer: HUF 540 (approx. EUR 2.1) per hectolitre per Balling (Plato) grade;
  – Wines: HUF 0 for grape wines, HUF 8,000 (approx. EUR 32) per hectolitre for other wines;
  – Sparkling wines: HUF 12,200 (approx. EUR 48) per hectolitre;
  – Intermediate alcoholic products: HUF 18,800 (approx. EUR 74) per hectolitre;
  – Tobacco products: HUF 7,600 (approx. EUR 30) per thousand cigarettes plus 28% of the retail sale price, but a minimum of HUF 13,965 (approx. EUR 55) per thousand cigarettes; 28.5% of the retail price for cigars and cigarillos; 52% of the retail price, but a minimum of HUF 4,610 (approx. EUR 18) per kilogram for fine-cut tobacco; and 32.5% of the retail price, but a minimum of HUF 4,610 (approx. EUR 18) per kilogram for other tobacco. The tax base per cigarette also depends on the length of the cigarette: it is double if the length of the cigarette is 9-18 cm, is triple if the length is 18-27 cm, and so on.

Environmental protection product fee

- The list of products subject to the product fee contains the following products: other crude oil products, tyres, refrigerants, packaging, batteries, commercial printing paper, and electrical and electronic products. From 1 January 2008, cooling equipment will be listed under electrical and electronic equipment instead of being classified as a separate group.

- The product fee is calculated on the basis of the quantity of the product multiplied by the fee rate (except for cooling equipment and commercial packaging, which are calculated per item). For example, it is HUF 6 (approx. EUR 0.02) to HUF 44 (approx. EUR 0.17)/kg for packaging, and HUF 83 (approx. EUR 0.33) to HUF 1,000 (approx. EUR 4)/kg for electrical and electronic products.

- From 1 January 2008, the customs authority will control the payment and reporting of the product fee and will carry out product fee inspections instead of the tax authority. The customs authority will register the taxpayers by VPID customs and GLN environmental identification numbers; thus taxpayers will need to obtain both.

- Higher penalties will be levied from 1 January 2008, e.g. the product fee penalty will be 100% of the product fee shortfall for non-payment and underpayment. The customs authority will be entitled to seize and confiscate goods for which the product fee has not been paid.

- The product fee payment liability can be reduced, e.g. by meeting the mandatory recycling rate.

Environmental load charge

- Emitting entities liable to pay include those who operate point-source emitters subject to registration, pursue activities subject to a water right permit, or who do not use available public drainage systems and dispose of their sewage under a water right permit or a permit from the local water management authorities.

- Qualifying materials include sulphur dioxide, nitrogen oxides, mercury, phosphorous, cyanides and others.

- The load charge is calculated on the basis of the quantity of emitted substances multiplied by the fee rate. Basically, the amount of the fee payable depends on the hazard level of the emitted substance, e.g. HUF 50 (approx. EUR 0.2)/kg for sulphur dioxide and HUF 220,000 (approx. EUR 870)/kg for mercury.

Energy tax

- Energy tax is HUF 252 (approx. EUR 1) per megawatt hour for electricity and HUF 75.6 (approx. EUR 0.3) per gigajoule for natural gas. The tax is self-assessed – except in the case of imports – and the customs authority is responsible for the related customs administration procedures.

Individual taxation

Personal income tax

Income brackets (in HUF)	Income tax
Up to 1,700,000	18%
Above 1,700,000	306,000 + 36% on the amount above 1,700,000

- Since 1 January 2007, individuals whose annual income is higher than the annual income cap for pension contributions have been liable to pay 4% additional Solidarity Tax

on the part of their income which exceeds the cap. From 1 January 2008, the annual income cap for pension contributions has increased from HUF 6,748,850 (approx. EUR 26,700), to HUF 7,137,000 (approx. EUR 28,200).

- Annual salary up to HUF 3.4 million (approx. EUR 13,450) is eligible for certain tax credits.

- The family tax break is only available to families with three or more children but only up to an annual income of HUF 6 million (approx. EUR 23,730). The income limit increases by HUF 500,000 (approx. EUR 1,980) per child up to HUF 8 million (approx. EUR 31,650) per year (seven children).

- Tax breaks for payments to voluntary mutual insurance funds and pension saving funds will be credited to the individual's fund accounts. (But only if the individual's tax liabilities have already been paid.)

- Tax-free benefits in kind provided by employers are limited to HUF 400,000 (approx. EUR 1,580) per employee per year. Any excess over this amount is taxed as a benefit in kind. The tax on taxable fringe benefits must be reported and paid by the employer by 20 May of the year following the tax year.

- The private use of company telephones may be determined item-by-item. If this is not possible, 20% of the telephone bill should be treated as taxable income from 1 January 2008.

- Dividend income is taxed at 25% or 35% but since 1 January 2007, dividends distributed by companies listed on qualified European or OECD stock exchanges have been taxed at 10%.

- On 1 January 2008, a standard tax credit system was introduced, where the tax credit is 18%, with a ceiling of HUF 11,340 (approx. EUR 45) per month of entitlement, and the credit rate is 9% in the HUF 1,250,000 (approx. EUR 4,940) to HUF 2,762,000 (approx. EUR 10,930) range with no additional credit available.

- The activities of a company's executive officer qualify as dependent activity as of 1 January 2008.

- Advance payments provided for foreign assignments or secondments only need to be taken into account as income from an interest-free loan 30 days after the date of return from the secondment or assignment.

- The rules on selling real property have been changed. Sales of residential property which take place five years after the date of acquisition are tax-exempt, but tax relief can no longer be claimed on acquisitions of residential property.

- Individuals who let real property may now decide mid-year whether their rental income will be taxed separately at 25%, or included in their total income tax base which will be taxed progressively according to the income tax brackets above, under the provisions on independent income.

- The rules on the taxation of interim dividends apply to foreign-source interim dividends.

- In the case of interest income or capital gains taxable abroad, tax paid abroad can be credited against tax payable in Hungary, but at least 5% must be paid in the absence of an applicable international agreement.

- Based on the new Hungarian legislation, from 1 July 2007 an individual is considered a Hungarian tax resident if:

  – he/she is a Hungarian national (except those who have dual nationality and do not have a permanent home or residence in Hungary); or
  – he/she is an European Economic Area (EEA) national with an EEA residence permit issued in Hungary and he/she spends at least 183 days in a calendar year in Hungary (including the dates of arrival and departure); and
  – he/she is a third-country national (non Hungarian, non-EEA) permanently settled in Hungary.

- In addition (if the above criteria are not met), any individual is considered a Hungarian tax resident if:

  – his/her only permanent home is in Hungary; or
  – he/she does not have a permanent home in Hungary, or not only in Hungary, but his/her centre of vital interests (family and economic ties) is in Hungary; and
  – he/she does not have a permanent home in Hungary, or not only in Hungary, and his/her centre of vital interests is not in Hungary, but Hungary is his/her habitual abode (he/she spends at least 183 days in a calendar year in Hungary).

Social security

- Social security contributions are payable by both the employee and the employer. In 2008, the contribution rates are as follows:

- Employer:

  – 24% pension contribution;
  – 5% healthcare contribution;
  – 3% unemployment fund contribution; and
  – 1.5% training fund contribution.

- Employee:
  - 9.5% pension contribution (subject to an annual cap of HUF 7,137,000, approx. EUR 28,200);
  - 6% healthcare;
  - 1.5% unemployment.

- A minimum social security contribution liability applies to employers and employees. The contributions are payable on not less than twice the minimum wage (HUF 138,000, approx. EUR 550, from 1 January 2008).

- Foreigners are subject to Hungarian social security contributions if they are employed by Hungarian companies. Where there is no Hungarian employment, citizens of the European Economic Area (EEA) countries working in Hungary will also generally be subject to Hungarian social security unless they are covered for social security in another EEA country.

- Social security payments on benefits in kind should be calculated on the value of the benefit plus 54% personal income tax. A fixed healthcare contribution of HUF 1,950 (approx. EUR 8) per month is also payable.

- Individuals are subject to 14% healthcare tax on certain types of separately taxed income, including income from entrepreneurship, income from the rental of securities, dividends taxed at 25% or 35%, capital gains, and rental income above HUF 1,000,000 (approx. EUR 3,960). The 14% healthcare tax is payable by the employee if the healthcare contributions paid by the employer plus the total amount of the 14% healthcare tax paid already do not reach a total of HUF 450,000 (approx. EUR 1,780) in a year.

- Individuals are subject to 11% healthcare tax on stock-option income if the written agreement was concluded before 31 August 2005 and the stock-option income has been realized before 31 August 2008. Otherwise, social security contributions may be due on stock-option income.

- All pensioners who have employment income became subject to the employee's pension contribution as of April 2007 (then 8.5%). This contribution entitles them to an increased pension of after 365 insurance days. The rate of the rise is 0.4% of the monthly average base of the contribution. Additionally, as previously, all employed pensioners have to pay 4% healthcare contributions which entitle them to receive healthcare benefits.

- The 9% healthcare service contribution payable by uninsured persons in 2007 has been replaced by a monthly fixed healthcare service contribution of HUF 4,350 (approx. EUR 17) as of January 2008.

- For individuals on foreign secondment or assignment whose host employer pays their salary, the employer must discharge the individuals' social security liabilities.

- The amended provisions of the Social Security Act apply to income gained from 1 January 2008, with the provision that the rules in effect on 31 December 2007 must be applied to income gained up to 15 January 2008 that is included in the social security contribution base for December 2007.

Other taxes

Local business tax

- Local municipalities are entitled to levy local business tax of up to 2% of adjusted sales turnover. Royalties received, and the costs of materials, goods sold and mediated services are deductible for the purposes of the local business tax, but other service fees, depreciation and personnel-related expenditures are not deductible. Interest received is exempt from local business tax.

- The part of the local business tax base that is directly attributable to a foreign branch's business activity (up to a maximum of 90%) is exempt from local business tax in Hungary if taxed by the municipality of the foreign country.

Real estate and land tax

- The transfer of real property is subject to 10% real estate transfer duty, levied on the acquirer. The duty rate for residential property is 2% on the value up to HUF 4 million (approx. EUR 15,800) and 6% on the portion of the value above HUF 4 million (approx. EUR 15,800).

- Local municipalities may levy real estate tax locally, capped at HUF 900/m^2 (approx. EUR 3.6) for buildings and at 200 HUF/m^2 (approx. EUR 0.8) for land. There are tax allowances for certain types of land.

R&D tax

- The Research and Development innovation contribution is calculated on the same tax base as the local business tax, reduced by the cost of R&D performed in-house as well as R&D ordered from private or public foundations, non-governmental organisations or public organisations. The rate is 0.3%.

Taxes in the pharmaceutical sector

- Taxes have to be paid by holders of marketing authorizations for medicines (i.e. manufacturers), medicine wholesalers and chemists.
- From 1 January 2008, if the marketing authorisation holder is not engaged in distribution in Hungary, the payment liabilities are fulfilled by the domestic distributor under an agreement concluded between the Hungarian distributor and the foreign marketing authorisation holder.
- Holders of marketing authorisations (manufacturers) have to pay 12% tax on the part of the social security subsidy that is proportional to the manufacturer's price. Social security subsidy is granted of the basis of sales records. Entities applying for reimbursement for baby food (or the distributors of such products, if different) are also subject to the above tax from 1 January 2008.
- The wholesaler has to pay 2.5% tax on its profit margin on state-subsidised medicines.
- Pharmacies have to pay a "solidarity fee" on the profit margin on state-subsidised medicines.
- If Health Fund expenditure exceeds the planned budget, the manufacturers and the Health Fund are jointly liable for the overrun, based on a set allocation keys and depending on the volume of the overrun. Entities applying for reimbursement for baby food (or the distributors of such products, if different) are also subject to this liability from 1 January 2008.

Legal and other developments

Foreign currency regime

- Hungarian individuals and companies can keep bank accounts abroad and make or accept payments in foreign currency.

Labour code

- The Hungarian Labour Code contains detailed regulations regarding both individual and collective employment agreements. For individual employment agreements, the Labour Code regulates all the employee's and the employer's significant rights and obligations, e.g. working time, annual vacation, and termination of employment. The collective agreement section of the Labour Code includes regulations for the operation and rights of labour unions and workers' councils, and regulates the process of concluding collective bargaining agreements.
- The Labour Code provides strong protection for employees, and the majority of the regulations are compulsory.
- With a few exceptions, the Labour Code covers all Hungarian and foreign employees who work in Hungary in the employment of a Hungarian or foreign company. Although Hungary has joined the EU, a work permit is still required for foreign employees from some EU countries.
- Unless the parties to an employment or foreign assignment contract agree otherwise, the Hungarian Labour Code applies in all cases when work is performed in Hungary.
- The employer is not allowed to terminate the employment relationship if the employee is receiving childcare benefit from the state until her/his child is three years of age, regardless of whether the employee is on maternity/paternity leave or not. If employment is terminated with immediate effect, the employer has to provide the statutorily required statements within three working days.
- According to the regulations of the Labour Code which came into effect on 1 April 2007, paid vacation can only be carried over to the year after the year in which it is due if it is justified by an extraordinarily important business interest or a reason that affects the business's sphere of activities directly and gravely. Any untaken vacation can be carried over up to 31 March of the following year, or, if a collective agreement so stipulates, up to 30 June of the following year.
- If the employer does not comply with the employment-related statutory provisions, it can be fined up to HUF 20 million (approx. EUR 79,000). Fines for employing foreigners without the necessary permits were also significantly increased at the beginning of 2006. All fines can be enforced in the same manner as a tax debt. The statutory duration of an official inspection of employment conditions is now 60 days.

Company law

- The minimum registered capital requirement has been reduced to HUF 500,000 (approx. EUR 1,980) from HUF 3 million (approx. EUR 11,870) for limited liability companies (in Hungarian: Kft), and to HUF 5 million (approx. EUR 19,800) from HUF 20 million (approx. EUR 79,000) for private companies limited by shares (in Hungarian: Rt). A HUF 100,000 (approx. EUR 400) cash contribution is sufficient to establish a single-member limited liability company (Kft).

- Limited liability companies and private companies limited by shares can be established by simply completing a standard founding document included in the Act on Public Company Information, Corporate Court Procedures and Voluntary Liquidation ("CPA").

- The Companies Act now allows companies with a single member or shareholder to be the single member or shareholder of another company, which used to be prohibited under the old Companies Act.

- It is now possible for members and shareholders to exercise their rights through electronic telecommunication devices at the meetings of the company's main decision-making body. Formerly, this could only be done in person or by an authorised representative. The annual financial statements no longer have to be approved by a meeting of the company's main decision making body, and written approval is now sufficient.

- The regulations on the liability of the executive officers have been made more stringent, but in some cases it is possible for the main decision-making body to limit the liability of the management by issuing a discharge letter approving the annual activities of the management. As of 1 January 2008, the liability of managing directors and the members of the supervisory board is extended to the preparation and publication of the financial statements of the company pursuant to the accounting rules.

- Since 1 September 2007, executive officers have been permitted to work under employment contracts again. Companies and executives are free to choose the legal status of their executives: they can work under either a contractor's agreement (corporate law relationship) or an employment contract. In a company with a single shareholder, the shareholder may act as an executive officer under an employment contract if the company's deed of foundation allows this arrangement.

- Registered companies are required to amend their deed of foundation or articles of association to comply with the provisions of the Companies Act before 1 July 2008. Companies that were already in operation when the former Companies Act was in effect must report their compliance with the new 2006 Companies Act to the relevant Court of Registration, but no other amendments to their deed of foundation or articles of association are required in this respect.

- Deadlines in Court of Registration procedures (initial registration, changes in corporate information) change to businesses' advantage in 2008. The former 30-day deadline for initial registration and the 45-day deadline for processing changes have been replaced by a uniform 15-day deadline from 1 January 2008. For companies established with a standard founding document and registered in a simplified electronic procedure, the initial registration and change processing deadlines will be reduced from two business days to one business hour from 1 July 2008. Additionally, all requests for initial registration and change processing will have to be filed electronically after 1 July 2008.

- The submission and publication of companies' financial statements for the 2008 business year (including business years commencing during the course of 2008) will only be possible in electronic format.

Competition and consumer law

- The Hungarian Competition Act includes primary provisions on antitrust and unfair B2B competition issues, and anti-fraud related consumer protection (i.e. unfair manipulation of consumer choices) in Hungary.

- The public enforcement of antitrust and anti-fraud cases is under the Hungarian Competition Authority's jurisdiction, but the legal framework also allows private enforcement. Complaints against unfair B2B practices (e.g. disparagement, imitation, and boycott) have to be filed in the courts.

- The antitrust regulations – i.e. provisions related to market-restrictive agreements, abuse of dominant position, and the legal framework for ensuring that mergers meet all the legislative requirements – have recently been extended by the definition of buyer power. Although the prohibition against the abuse of buyer power is included in the Commercial Act, the Hungarian Competition Authority has been vested with investigatory powers in this field.

- The Commercial Act came into force on 1 July 2006. This Act includes general conditions for the conduct of commercial activities, including the opening hours of shops and regulations on commercial agents. In addition to these, the Act also introduces the prohibition of the abuse of significant market power. For such enterprises, more stringent standards of conduct apply.

- Basic consumers' rights – most notably the right to have safe and healthy products, the right to protection of their economic interests, the right to correct information and the right to legal remedies – are protected by the Hungarian Consumer Protection Act. A new decree has enhanced the general consumer protection enforcement environment by centralizing the powers of the various consumer protection authorities in a newly-created National Consumer Protection Authority.

Intellectual property

- In 2007, certain amendments were introduced into the Hungarian patent law, trademark law and design protection rules, as a requirement stemming from the EU harmonization process and compliance with directly applicable EU Law. Under a procedural amendment, applications can now be submitted to the Hungarian Patent Office electronically.

- The provisions of Regulation (EC) No. 816/2006 of the European Parliament and of the Council on the compulsory licensing of patents relating to the manufacture of pharmaceutical products for export to countries with public health problems have been incorporated into the Hungarian law on patents.

- As regards trademarks, the new law adopted in 2007 describes the tasks and competences of the Hungarian Patent Office in connection with the implementation of Council Regulation (EC) No. 510/2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs.

Environmental law

- Hungary is almost 100% compliant with the current EU environmental laws, and has not taken advantage of the transitional derogations related to waste management, sewage treatment and air quality protection.

Concessions

- Under the Act on concessions, it is possible for companies to operate property efficiently that is exclusively owned by the state, local governments or associations of local governments, and to perform activities that fall within the exclusive competence of the state or local governments, through the assignment of the associated rights in a commission contract. The state or local governments can conclude concession contracts through a tender process. The winner of the tender is required to establish a resident economic association (concession company) within 90 days of the signing of the contract for the pursuit of activities subject to the concession.
  A concession contract may be concluded for a definite period, the longest term of which is 35 years. Effective from 2 August 2006, special provisions have to be applied in the sale and purchase procedure of public companies conducting concession activity.

Business transformations

- The Act on Business Associations governs the transformation (merger, de-merger, change of company form) of business entities. Transformation in accordance with the Business Association Act is exempt from corporate tax (unless the assets are revalued) and official duty. The Act contains detailed procedural regulations, including general rules, and also special provisions on specific corporate forms and specific forms of transformation.

- In accordance with the relevant European Union Directive, Hungarian law also allows cross-border mergers of limited liability companies (the relevant Hungarian company forms are Kft and Rt) registered in the Member States of the European Union. The new law came into force in December 2007 in the form of a separate act and states that the rules of the Act on Business Associations apply to the Hungarian companies participating in such a merger with the variances provided for by this new act on cross-border mergers.

Public procurement

- The Hungarian Act on Public Procurement, which regulates public procurement procedures in Hungary, was amended generally with effect from 15 January 2006; some provisions, however, apply from 1 January 2007. The amendments introduced the dynamic purchasing system, which is an electronic procedure for regular public procurements. Further, as a consequence of the amendments, social considerations can also be taken into account during public procurement procedures and it is possible to set aside public procurements for employers whose personnel include certain classes of protected employees.

- There is one considerable modification to the Act on Public Procurement, which deals with so-called “debt-chains”. In accordance with these modifications, the contracting entities are now required to indicate in the tender notices if they intend to authorise deferred or instalment payment. In addition, several technical regulations have taken effect concerning the fulfilment of the contracts concluded as a result of public procurement procedures (e.g. payment deadlines for contracting entities).

Other

- The conditions for launching liquidation proceedings against debtors in default have been considerably eased. After the payment notice, the debtor in default can no longer challenge the invoice.

Kazakhstan

Highlights

- As of 1 January 2008, the VAT rate has been reduced from 14% to 13%.
- On 1 January 2008, a new unified set of social tax rates based on a regressive scale from 13%-5% was introduced for all categories of expatriate and local employees.
- Kazakhstan has introduced a controversial amendment to the Subsurface Use Law which entitles the Government to revise the terms (including tax) of subsurface use contracts for strategically important mineral resources.

The exchange rate between the Kazakh tenge ("KZT") and the euro ("EUR") used in this report is KZT 176.50 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- Corporate income tax is calculated at the rate of 30% of aggregate annual income, including all income from any entrepreneurial activities.
- Allowable deductions generally include expenses associated with the earning of aggregate annual income. Certain expenses, such as business travel, interest costs, and repair expenses, are deductible within established limits.
- The cost of fixed assets is deducted through depreciation. According to the Kazakhstan Tax Code, depreciation is calculated using the declining balance method. Depreciation rates vary from 10%-40% per year, depending on the established asset classifications.
- Corporate tax is payable in equal monthly instalments, by the 20th of each month. The instalments are estimated on the basis of projected income for the current reporting year, which must be declared at the beginning of the reporting year. Final settlement is due within ten working days of the deadline for submitting annual declarations, which is 31 March.
- Excess tax payments are automatically applied to fines and penalties assessed in connection with the tax. The remaining excess may be offset against other taxes and non-tax liabilities to the budget (including any relevant fines and penalties), or against future tax payments. In the absence of any liabilities, the taxpayer may apply for a refund of overpayments.
- Losses from entrepreneurial activities and from the sale of buildings and construction projects which have been used in entrepreneurial activities may be used to offset aggregate annual income for three years following the year in which the loss arises. Losses from activities carried out under subsurface-use contracts may be carried forward for a period of up to seven years.
- Local taxes include property tax at a general rate of 1% of net book value, transportation tax (which generally varies with engine capacity), and land tax (which varies with the location and type of use).
- Corporate income tax applies to the taxable income of Kazakhstan legal entities and branches of foreign legal entities.
- Branches of foreign legal entities are taxed on their Kazakhstan-sourced income. The net after-tax profit of branches of foreign legal entities is subject to 15% net profit tax, potentially reducible by 5%-10% under most Double Tax Treaties.
- Kazakhstan does not have consolidation provisions for tax purposes. The government retains the right to tax branches and representative offices of foreign legal entities as separate taxpayers. Income received by each partner in consortia and entities operating under common partnership agreements are assessed for taxation separately with respect to the individual participant's share and taxed only at the participant level. Thus, consortia and common partnership entities are not taxpayers in their own right, and the participant entities are individually responsible for reporting their own income and expenses for tax purposes. General and limited liability partnerships are taxed as corporations.
- Income from capital gains (except for shares and bonds in limited cases), services and goods received free of charge, exchange rate gains, rental income and other income is taxable.
- The tax treatment of leasing depends on whether the lease qualifies as a financial or operating lease. A lease is defined as a financial lease in the tax legislation if it lasts for more than three years and satisfies one of the following conditions:
  - The lease agreement calls for the transfer of ownership of the property to the lessee or grants the lessee the right to purchase the property at a fixed price.
  - The lease period exceeds 75% of the useful life of the property.
  - The current (discounted) value of lease payments for the lease period exceeds 90% of the value of the property being transferred.

  A financial lease is treated as a sale-purchase arrangement whereby the property is transferred to the balance sheet of the lessee, or sub-lessee in international transactions. Corporate income tax

deductions by the lessee are taken in the form of depreciation, and the lessee is liable for property tax on the asset. VAT is due on the principal value of the lease and is charged at the time of lease payments rather than in full when the asset is transferred.

Under an operating lease, the asset will remain on the lessor's balance sheet. The lessee will be allowed a deduction for the lease payments. VAT will be assessed on the lease payments. Liability for the property tax will generally remain with the lessor. However, it may be transferred to the lessee if the lease agreement so stipulates.

- Thin capitalisation rules limit interest deductions based on a 7:1 debt-to-equity ratio for financial institutions and 4:1 for all other entities. Certain interest from a head office is not deductible by its Kazakhstan permanent establishment.

- There is no tax on accumulated earnings and no requirement to distribute earnings and profit. Banks are allowed certain reserve deductions, but other commercial entities are not entitled to deduct bad debt allowances immediately (they must deduct bad debts three years after accruing them).

Withholding tax

- Kazakhstan tax residents are exempt from corporate income tax on inbound and in-country dividends.

- Non-residents that do not have a permanent establishment in Kazakhstan are subject to Kazakhstan withholding tax on Kazakhstan-sourced income. This is broadly defined to include any income from activity in Kazakhstan. Non-residents' income from management, financial, consultancy, legal and auditing services, and software product maintenance and support services as well as any services rendered to Kazakhstan taxpayers by entities resident in a "state with preferential taxation" are recognised as Kazakhstan-sourced, regardless of the place where the services are provided. Subject to certain conditions, income from personnel secondment services is not treated as income from activities in Kazakhstan.

- Non-residents' income from interest and dividends is subject to 15% withholding tax, potentially reducible to between 5% and 10% under most tax treaties. Other Kazakhstan-sourced income (including income from capital gains, royalties, service income, and management fees, among others) is taxed at 20%, unless a relevant Double Tax Treaty provides otherwise. Exceptions are:
  - premiums paid under insurance agreements, taxed at 10%;
  - premiums paid under re-insurance agreements and international transportation services, taxed at 5%, potentially subject to reduction or exemption under an effective Double Tax Treaty.

Double Tax Treaties

- Kazakhstan currently has Double Tax Treaties with 39 countries. Treaties with Malaysia and Singapore were added to this list in 2007 and entered into force on 1 January 2008.

- The Kazakhstan tax legislation includes an Instruction on the Application of Double Tax Treaties, which sets out the authorities' interpretation on a range of Double Tax Treaty issues and also contains administrative procedures for the application of Double Tax Treaties.

Transfer pricing

- Both the customs and tax authorities have the right to monitor and adjust prices applied in international transactions when the prices are judged to deviate from market prices. If the authorities adjust prices, the re-assessed liability may incur taxes, duties, penalty interest and fines. The customs and tax authorities have the power to audit and adjust prices with respect to the following types of transactions:
  - transactions between related parties (defined quite broadly, including direct or indirect shareholdings of 10% or more);
  - barter transactions;
  - transactions concluded with entities (or individuals) which are either registered or have bank accounts in countries with preferential tax regimes (Kazakhstan has adopted a new list of 45 states with preferential tax regimes);
  - transactions with entities operating with special tax incentives;
  - transactions with an entity which has reported losses in its tax returns for the two years preceding the year of the transaction;
  - international transactions in which the price differs from the market price by more than 10%.

- Additionally, the Kazakhstan government has issued a list of commodities and transactions which are subject to transfer pricing audits. This list includes, among other items, crude oil and petroleum products.

Investment incentives

- Investment incentives include an exemption from corporate income tax or the right to additional tax deductions for the creation and expansion of production, and exemption from property tax and land tax. The exemption from corporate income tax or the right to additional tax deductions can be granted for up to 10 years. The exemption from property tax can be granted

for up to five years. Investment incentives also include exemptions from import customs duties.

- Under the Investment Law, incentives are granted under an investment contract between the Government and companies and focus on priority sectors of the economy, as determined by the Government. Investment incentives appear to be available only to companies registered as Kazakhstan legal entities.
- Qualifying high value-adding taxpayers are taxed at reduced corporate income tax rates. Qualifying manufacturers of certified goods may enjoy a 100% reduction in corporate income tax.
- Domestic sales of certain goods manufactured in a customs-free warehouse regime are exempt from import VAT.

Indirect taxation

VAT

- From 1 January 2008, the VAT rate is 13%; it is to be further reduced to 12% from 2009.
- The export of goods is taxed at 0%, for which input VAT may be recovered.
- Taxpayers with zero-rated VAT turnover planning to claim a refund of excess input VAT should be aware of the additional legislation on the VAT refund rules (Joint Order No. 2545 from the General Prosecutor's Office, the Ministry of Finance, the Customs Control Agency, and the Fiscal Police Agency). This Joint Order establishes rules for the coordination of multi-party investigations by the named authorities, in order to prevent the unlawful refund of VAT associated with turnover subject to zero-rated VAT.
- Supplies subject to VAT include any sale of goods, work and services, and taxable imports, unless the supply is specifically exempted or if the place of supply is deemed to be outside Kazakhstan according to the provisions of the Tax Code. Under the "place of supply" rules, certain services are deemed to be supplied at the location of the business activity of the purchaser of the services. These services include consultancy, audit, engineering, legal, accounting, advocacy, advertising and information-processing services. Where the supply of such services is rendered by a non-resident that is not registered for VAT purposes in Kazakhstan, the Kazakhstan purchaser is required to self-assess and pay VAT to the state budget ("reverse-charge mechanism").
- A partial list of some of the more noteworthy exemptions includes: financial services, the sale and leasing of residential property, geological exploration work, contributions to registered capital, and work/services connected with the realisation of infrastructure projects.
- Input VAT may not be offset in relation to supplies which are either exempt or which are deemed to be supplied outside Kazakhstan.
- Taxpayers are required to register as Kazakhstan VAT-payers within 15 days of reaching the value threshold for taxable supplies (KZT 16,380,000, approx. EUR 92,800) in any period not exceeding 12 months.
- The taxable period for VAT is a calendar month or calendar quarter, depending on the size of the VAT liability for the preceding quarter.
- A State Tax Committee order sets out the rules concerning VAT refunds on zero-rated turnover. The order lists zero-rated turnover as eligible for VAT refund and identifies the set of documents required to confirm the zero-rated turnover and the amount of VAT available for refund.

Customs duties

- The importation of goods is generally subject to import VAT at 13% assessed on the customs value of the imported goods, which includes import customs duties (ranging from 0% to 30%) and excise tax where applicable.
- The importation of fixed assets to Kazakhstan is exempt from import VAT if the following two conditions are met: 1) the fixed assets are imported by the lessor for transfer to a lessee under a financial lease arrangement and 2) the fixed assets are included in the special government-approved list of qualifying fixed assets. Currently, the list includes 58 items, including but not limited to certain heavy machinery, agricultural equipment, heavy goods vehicles, earth moving machines, printing equipment, aircraft, water craft, and certain banking machines.
- Under a "temporary import regime", import VAT and customs duties are payable in monthly instalments at 3% of the amount that would have been paid had the products been imported under the "free circulation" customs regime (i.e. normal import). Additionally, importers may enjoy a temporary exemption from the payment of import VAT and customs duties on goods imported under a financial lease arrangement. Such exemption is available for the period of the financial lease. Customs duties and import VAT become payable when the lease expires, unless the imported products are re-exported.

Excise duties

- Excise duties apply to the sale and importation of crude oil (including natural gas condensates), petrol/gasoline (excluding aviation fuel), diesel fuel, spirits and other alcoholic beverages, tobacco, and cars, as well as to excisable

businesses such as those providing gambling and lottery services.

- The Kazakhstan Tax Code provides for "ad valorem" (value-related) and fixed excise rates. The taxable base for "ad valorem" rates is the selling price (excluding excise and VAT), whereas fixed rates apply to the natural per-unit value. In the case of imports, "ad valorem" rates apply to the customs value.
- Excise duty rates vary and are subject to frequent changes.

Individual taxation

Personal income tax

- A single 10% flat-rate individual income tax is in force.
- Taxable income includes all direct and indirect income received through employment or related activities during a calendar year, and includes both taxed and untaxed income at the source of payment. This also includes prizes, profit sharing, bonuses, taxes paid on behalf of an employee, employer-provided housing/utilities and any indirect benefits received, unless specifically exempted by statutes.
- Kazakhstan residents, including foreign citizens who are resident for tax purposes, are taxed on their worldwide income. Foreign citizens and Kazakhstan citizens who are not resident for tax purposes are taxed on their Kazakhstan-sourced income.
- An individual becomes a Kazakhstan tax resident if either (i) he/she spends 183 days or more in Kazakhstan in any 12-month period or (ii) the sum of the following formula is at least 183: total number of days present in Kazakhstan in the current year, plus one-third of the number of days present in the previous year plus one-sixth of the number of days present in the year before that.
- Kazakhstan provides very few exemptions from taxable income, the most notable being pension contributions (both obligatory and voluntary).
- Kazakhstan's Double Tax Treaties provide different rules for determining an individual's residence. Currently, foreign individuals can utilise Double Tax Treaty provisions automatically if they possess an officially authorised certificate of residence.
- The procedure for calculating, paying and reporting individual income tax for expatriate employees requires an employer (tax agent) to be responsible for calculating and reporting payroll taxes, using either (1) the "advance payment" method or (2) the "withholding" method.

  The "advance payment" method is subject to all three of the following requirements being met:

  – The employer is a non-resident legal entity that conducts its activities in Kazakhstan through a permanent establishment, branch, or representative office and is considered a tax agent according to the Tax Code.
  – The employment contract is concluded between the non-resident individual and the tax agent, as indicated above.
  – The payment of income to the non-resident individual is made outside Kazakhstan.

  Alternatively, and if the "advance payment" method is not available, an employer should make payments of individual income tax for its expatriate employees using the "withholding" method. Tax reporting requirements and deadlines for tax payment and reporting are different under these two methods. The selected method of calculating, paying and reporting individual income tax cannot be changed during the tax period.

Social security

- Social tax is payable by the employer. Generally, the social tax base includes the gross remuneration of local and foreign personnel.
- Currently, social tax is computed on a regressive scale, with lower rates for incremental increases in income. The maximum social tax rate is 13%, which decreases to 5% above a certain threshold amount of an employee's taxable income. For detailed calculation tables, please see below.
- From 1 January 2008, a unified scale of rates was introduced for all categories of expatriate and local employees. For expatriates of a previously defined special category – administrative and management, technical and engineering personnel – the new effective social tax rate will remain virtually unchanged. All other categories of employees, including local, will reflect a decrease in the effective social tax rate based on the new brackets. The brackets and rates for social tax from 2008 are as follows:

Income brackets (in KZT)	Social tax
up to 210,240	13%
210,241-560,640	27,331 + 11% on the amount above 210,240
560,641-2,803,200	65,875 + 9% on the amount above 560,640
2,803,201-8,409,600	267,706 + 7% on the amount above 2,803,200
above 8,409,600	660,154 + 5% on the amount above 8,409,600

- Local employers are required to make obligatory payments to a state social insurance fund on behalf of

their employees. The taxable base is an employer's remuneration expenses in relation to its employees. From 1 January 2008, the rate is 3% of the taxable base capped at 10 times minimum monthly salary (the MMS is currently KZT 10,515, approx. EUR 60). The social insurance payments are due monthly, not later than the 15th of the month following the reporting month. The associated tax reports are due quarterly, not later than the 20th of the month following the reporting quarter.

Pensions

- Kazakhstan citizens and foreign citizens with permanent resident status are required to pay pension contributions, unless otherwise stated in international agreements.
- Obligatory pension contributions are withheld at a rate of 10% of the employee's monthly gross remuneration capped at KZT 788,625 (approx. EUR 4,470), resulting in a maximum monthly pension contribution of KZT 78,863 (approx. EUR 447) per taxable individual.

Other taxes

Real estate and land tax

- Property tax is calculated at a general rate of 1% of the average annual net book value of depreciable assets including intangible assets, but excluding vehicles and land. Certain taxpayers are taxed at reduced tax rates (e.g. individual entrepreneurs are taxed at 0.5%, non-profit organisations are taxed at 0.1%). Property tax is paid in four instalments during the reporting year, with final payment of the total tax to be made by 10 April.
- The rate of land tax is contingent on the use of the land and the land quality rating set by the Government. The Tax Code sets the same land tax rates for both individuals and legal entities. Legal entities are required to calculate the land tax payment and pay it quarterly, and make a final payment of the total land tax due by 10 April of the year following the reporting year.

Environmental tax

- Kazakhstan has an environmental pollution levy which depends on industry type and the region of activity. All environmental levies are set at the local level.

Legal and other developments

Foreign currency regime

- Since 1 January 2007, currency control has been significantly liberalized (e.g. licensing has been abolished).
- Currency transactions between Kazakhstan residents are subject to currency control regulations. Settlements between Kazakhstan residents have to be carried out in the Kazakhstan national currency, the tenge.
- Settlements between residents and non-residents can be made in foreign currency.
- Loan and export-import transactions between residents and non-residents for a period of more than 180 days and in excess of USD 300,000 (or USD 10,000 in certain limited cases), are subject to obligatory registration with the National Bank of Kazakhstan.

Labour code

- Labour relations in the Republic of Kazakhstan are governed by a Labour Code, which codifies and unifies the different laws regulating labour issues. The Code came into force on 2 June 2007 with some minor exceptions whereby certain provisions come into force starting from 1 January 2008. The Code stipulates that an individual employment contract must be entered into between an employer and employee for either a limited or an unlimited period.
- The duration of a normal working week is 40 hours. An employee must be provided with at least 24 days' paid annual leave.
- The Labour Law applies to citizens of the Republic of Kazakhstan, as well as to foreign citizens and stateless persons working in the Republic of Kazakhstan.
- A work permit is required for the employment of foreign citizens. There are certain exceptions, including:
  - chief executive officers (CEOs) of foreign legal entities, their branches or representative offices;
  - persons on a business trip whose duration does not exceed, in aggregate, 60 calendar days in one calendar year;
  - CEOs of organisations which entered into an investment contract with the Government (a) with a value of USD 50 million or more, or (b) where the interest is in priority sectors of the economy;
  - CEOs of banking, insurance (and reinsurance) organisations;
  - CEOs of executive bodies of Republic of Kazakhstan joint stock companies in which the State owns at least 50% of the shares;
  - employees of diplomatic representative offices and international organisations, and of consular departments accredited in the Republic of Kazakhstan;
  - persons whose purpose is to provide charity and humanitarian assistance;
  - persons permanently resident in Kazakhstan;
  - artists and athletes;
  - employees representing foreign mass media accredited in Kazakhstan.

- A work permit to engage foreign labour can be issued for the following categories of employees:
  - to engage managerial personnel of an organisation;
  - to engage specialists with and secondary-level and higher professional education, supported with documents in the prescribed manner;
  - to engage qualified employees;
  - for attracting employees in seasonal farming activity under cooperation agreements in the sphere of labour migration and social protection of working migrants.
- To obtain a work permit, an employer must first search the local labour market to determine if there is a potential employee with the required specialisation available.
- The Kazakhstan Government has established a quota for employing foreign labour in Kazakhstan at 1.6% of the Republic's economically active population (approx. 128,500 work permits available), including:
  - labour of the first and second category (management, specialists with higher and professional education): 0.6% (approx. 48,200);
  - labour of the third category (skilled labour): 0.93% (approx. 74,700); and
  - labour of the fourth category (seasonal agricultural workers): 0.07% (approx. 5,600).

Competition law

- The main law covering unfair competition, monopolies and other anti-trust issues is the Act of 7 July 2006 "On Competition and the Limitation of Monopolistic Activity".
- The Law deals with issues related to supporting entrepreneurship through the prevention, restriction, suppression, and regulation of monopolistic activities.

Intellectual property

- A number of laws and regulations are in effect concerning patents, trademarks and copyrights, although the overall concept of intellectual property is relatively new. Therefore, the enforcement of intellectual property rights may still be problematic. Nevertheless, note must be taken of the speed with which Kazakhstan's lawmakers and State Patent Agency (Kazpatent) have successfully drafted and adopted numerous laws in this area. Moreover, Kazakhstan is a signatory of the major international conventions.

Environmental law

- Since 23 January 2007, Kazakhstan has had an Ecology Code in force which governs a range of environmental issues and supersedes various legislative acts including the Law on Ecology Expertise, the Law on the Protection of the Environment and the Law on the Protection of the Atmosphere.
- A decree that came into effect on 5 July 2007 confirms the list of pollutants and other waste that are subject to emission limits and payments, including:
  - atmospheric pollutants (e.g. emissions of sulphur dioxide and other sulphur compounds, volatile organic compounds, paraffin hydrocarbon, hydrogen sulphide);
  - water pollutants (e.g. emissions of hydrocarbons and compounds);
  - other waste (e.g. industrial and radioactive waste).

Consumer protection

- The protection of consumers is governed by the Act "On the Protection of Consumer Rights", of 5 June 1991. This law regulates the relationship between a consumer and a seller or a provider of work and services, and establishes rights and obligations. By law, the consumer has the following primary rights: to purchase commodities freely, to use work and services, and to enjoy the high quality and safety of goods and services. The law allows the establishment of associations for the protection of consumer rights.

Business transformations

- The main act governing business transformations is the Civil Code of 27 December 1994, which provides for the following types of commercial organisations: Limited Liability Partnership (LLP); Joint-Stock Company (JSC); General Partnership; Limited Partnership; Additional Liability Partnership; Production Co-operative and State Enterprise.
- There are specific laws governing joint stock companies and limited liability partnerships which would also apply to the transformation to or from such types of entities.
- The Civil Code provides for the following types of business reorganisation: merger, acquisition, division, appropriation (a regular spin-off of a part of a business enterprise from the entire business), and transformation.

Latvia

Highlights

- New rules have been introduced on the taxation of real estate gains.
- All costs related to expensive company cars are non-deductible.
- The non-taxable share of employer's contributions to private pension funds and life insurance premiums paid on behalf of employees has been increased from 10% to 20% of employment income.

The exchange rate between the Latvian lats ("LVL") and the euro ("EUR") used in this report is LVL 0.702804 = EUR 1.00. The LVL has been officially pegged to the euro at this rate.

Corporate taxation

Corporate tax

- The corporate tax rate is 15%.
- Foreign-owned permanent establishments can, in certain circumstances, be registered with the tax authorities through a simplified process. A foreign-owned permanent establishment need not go through the legal process of registering a branch and, on termination of business in Latvia, liquidating it.
- The taxation of a foreign-owned permanent establishment is calculated according to OECD principles.
- The corporate tax return should be filed with the annual accounts, no later than four months after the end of the financial year. Monthly corporate tax advance payments are due by the 15th of each month and are based on the taxable income declared for the previous tax year. Any arrears of tax must be paid within 15 days of filing the tax return.
- Any excess tax payment should be reclaimed from the State or may be offset against an obligation to pay another type of tax.
- Tax losses can only be carried forward for five years.
- There are no local business taxes.
- If a parent company has at least 90% ownership of its subsidiaries, tax losses may be transferred between members of the group, subject to strict conditions being met: the companies must be members of the same group for the whole year and must have the same year-ends. The 90% parent company may be resident in Latvia, in another European Economic Area (EEA) country or in a country with which Latvia has a Double Tax Treaty. Permanent establishments have been granted the right to participate in tax groups, which means that they are recognized as fully-fledged companies for tax purposes. Losses may be transferred between a company and a permanent establishment, as well as between two permanent establishments.
- Latvian companies may take over tax losses from foreign companies and vice versa. Latvia has implemented these provisions as a result of the recent judgement by the European Court of Justice in the Marks & Spencer case.
- Thin capitalization rules limit interest deductibility to 1.2 times the average short-term interest rate at credit institutions and limit the debt-to-equity ratio to 4:1.
- Any reduction in year-on-year provisions is tax deductible. Any movement in a reserve created because of a revaluation of assets is not taken into consideration for tax purposes, except to the extent that the revaluation was caused by a foreign exchange movement.
- In contrast to the relatively favourable regime available for dividend streams through a Latvian company, Latvia is scheduled to complete the implementation of the EU Interest-Royalties Directive by 1 July 2013. Until that date, rates will be reduced gradually.
- Gains and losses on the sale of publicly-traded securities are neither taxable nor tax-deductible. Profits on the sale of any other securities are subject to corporate income tax. Losses on the sale of other securities can be carried forward for up to five years and offset against future profits on the sale of other such securities. Slightly different rules apply if the seller of the securities does not trade in securities regularly (no more than once per year) and if the holder of the securities has held them for at least 12 months. In this case, the seller is entitled to offset any loss against its taxable profit from commercial activities over a five-year period.
- A capital gain on the sale of fixed assets is calculated as the difference between the sale proceeds and the book cost, with any additional amount of tax depreciation claimed over and above cumulative depreciation added to this figure.

Withholding tax

- Dividend payments to non-resident companies are subject to 10% withholding tax, except for EU and EEA

resident companies where no withholding tax applies. In certain circumstances, the rate is reduced to 5% under some Double Tax Treaties.

- Depending on the type of royalty, withholding tax is charged at either 5% or 15%. In certain circumstances, this rate is reduced to a maximum of 10% under some Double Tax Treaties.
- Interest is only subject to 10% withholding tax if paid to a non-resident related party.
- By 1 July 2013, withholding tax on interest and royalties to EU-registered related parties or permanent establishments in other Member States will have been phased out. Until 1 July 2013, the withholding tax rates for interest and royalties will be gradually reduced.
- Proceeds from the sale of real estate are subject to 2% withholding tax if a non-resident has earned this capital gain directly from abroad. Real estate includes income from disposed shares or other participation in a Latvian or foreign company or another entity if the real estate made up more than 50% of the asset value of the company being disposed of in the period of disposal or in the previous period, whether directly or indirectly (through shareholdings in one or more other entities established in Latvia or abroad).
- Withholding tax on management and consulting charges is 10% of the remuneration. Relief is available under Double Tax Treaties, subject to certain administrative requirements.
- Rental payments for property in Latvia are subject to 5% withholding tax.
- With effect from 1 January 2007, qualifying dividends may be paid tax-free to shareholders established in EEA countries (previously, only to corporate shareholders established in EU countries), i.e. to three more countries – Iceland, Liechtenstein and Norway. EU and EEA permanent establishments are allowed to receive dividends in the same way as companies. This eliminates discrimination based on a taxpayer's legal form and gives permanent establishments considerable tax rights in addition to their tax obligations.

Double Tax Treaties

- Latvia currently has 45 effective Double Tax Treaties.
- In the absence of a Double Tax Treaty, Latvia offers some unilateral relief from the taxation of dividend income. In many cases, foreign dividend income received is not subject to tax at all. However, if it is, a credit may be sought, equal to the foreign tax withheld on the dividend payment, against Latvian tax on the same income. The credit is limited to the Latvian rate of tax on the same income.

Transfer pricing

- Amendments to the corporate income tax application rules clarify the definition of 'related party'. This clarification narrows the range of Latvian companies governed by the transfer pricing rules.
- Currently transfer pricing documentation is not mandatory in Latvia. However, there are plans to make it so from 2008.
- Each tax audit plan now includes the examination of transfer pricing issues if there is any doubt that some transactions were carried out at arm's length.
- All related-party transactions must be disclosed in the corporate tax return.

Investment incentives

- Tax incentives associated with investments in Special Economic Zones in Latvia continue to be available.

Indirect taxation

VAT

- The standard VAT rate in Latvia is 18%. A reduced rate of 5% applies to certain supplies.
- Goods are defined as anything exchanged by the owner for payment, unless otherwise stated by law.
- The sale of an asset under a hire-purchase agreement is a supply of goods.
- The following goods and services (among others) are VAT-exempt: certain financial transactions; postal services; certain cultural services, including libraries; certain listed medical services; dental services; betting, raffles and other forms of gambling; insurance and reinsurance services; payments by individuals for rent and the maintenance and management of residential properties, except for hotels, sales of land and other 'used' property as defined in the VAT Act.
- VAT refunds are available on almost all purchases of goods and services made in Latvia for business purposes by a foreign company registered for VAT in its home country. The exception is for VAT related to the purchase of or certain work on real estate. A VAT refund will not be granted if the VAT on purchases is less than LVL 135 (approx. EUR 192) in any three-month period

during a year. If the foreign company would not have been granted a VAT refund for the purchase at home, no VAT refund will be granted in Latvia.

- A person is required to register for VAT if the total value of taxable supplies exceeds LVL 10,000 (approx. EUR 14,200) in a twelve-month period. For domestic non-taxable individuals or companies that are involved in business activities and who make an intra-community acquisition, the threshold is LVL 7,000 (approx. EUR 10,000).

- If a taxable person of another Member State makes distance supplies of goods in the EU and the goods are received in Latvia, and the total amount of such supplies of goods, without taxes, in the current calendar year reaches or exceeds LVL 24,000 (approx. EUR 34,150), then the taxable person in the other Member State must register in the State Revenue Service Register of Value-Added-Tax Taxable Persons within 30 days of that amount being reached or exceeded.

- If a person of another Member State supplies goods to a non-taxable person and the goods are assembled or installed inland, then the taxable person in the other Member State must register in the State Revenue Service Register of Value Added Tax Taxable Persons before the transaction is carried out, irrespective of the value of the goods supplied.

- If a taxable person of another Member State provides any person with services related to immovable property (including expert and architectural services, and services for the preparation, co-ordination and supervision of construction work), or cultural, artistic, educational, scientific, or sports services, the taxable person in the other Member State must register in the State Revenue Service Register of Value Added Tax Taxable Persons before providing the services, irrespective of their value.

- Tax returns are to be filed monthly by the 15th of the month after the tax period. The annual return should be filed by 1 May after the year-end in question.

Customs duties

- Duties on imports are the same as in all EU countries.

Excise duties

- The following products are subject to excise duty in Latvia: petroleum and petroleum products; alcohol, including beer; tobacco products; coffee and non-alcoholic beverages.

- From 1 January 2008, the rate of excise duty is LVL 228 (approx. EUR 324) per 1,000 litres of unleaded petrol and LVL 193 (approx. EUR 275) per 1,000 litres of gas oil (diesel).

- For beer released for free circulation, excise duty is charged on the basis of its alcohol content: LVL 1.30 (approx. EUR 1.85) per hl/degree of alcohol of finished product, with a minimum threshold of no less than LVL 2 (approx. EUR 2.85) per 100 litres. Excise duty on other alcoholic beverages, such as vodka, is LVL 630 (approx. EUR 896) per hectolitre of pure alcohol.

- A combined rate of excise duty applies on cigarettes. The duty is based on a fixed rate per cigarette and an ad valorem part expressed as a percentage of the maximum retail price. In 2008, it is LVL 17.8 (approx. EUR 25.33) per 1,000 cigarettes plus 32.2% of the maximum retail price. In 2009 the rates will be increased to LVL 22.5 (approx. EUR 32) per 1,000 cigarettes plus 34.5% of the maximum retail price. Excise duty on smoking tobacco is LVL 14 (approx. EUR 20) per kg, and for fine-cut, LVL 23 (approx. EUR 33).

- The excise duty on imported coffee is LVL 50 (approx. EUR 71) per 100 kilograms, and for non-alcoholic beverages LVL 2 (approx. EUR 2.85) per 100 litres.

- Excise duty is paid by importers or producers of excise goods. Excise duty on imported goods is paid before clearance. When goods are released for free circulation from an excise warehouse, the taxation period is one month. Returns are submitted and the duty paid 15 days after the end of the taxation period. The manufacture of excise goods with deferred payment of excise duty is only allowed in an excise warehouse.

- There are a number of specific exemptions for each product category which are not subject to excise duty.

Natural resource tax

- The objective of the natural resource tax (NRT) is to protect the environment and support environmentally-friendly technologies. All the revenue derived from the NRT is used to support environmental projects.

- The NRT is applied in the following instances:

  – when extracting natural resources;
  – when polluting the environment;
  – when dealing with hazardous goods;
  – when handling packaging.

- NRT on packaged goods and environmentally harmful goods is payable by the person who first brings these goods into Latvia for production or sale. This requirement extends

to foreign persons who carry out such activities. Non-resident taxpayers can, by written agreement, transfer their NRT payment obligation to their Latvian customers, except in some specific cases, such as if the non-resident is registered for VAT in Latvia.

- The taxpayer does not have to pay NRT, or may show a payment as an advance payment, if packaged goods or environmentally harmful goods are sold to another person who has taken the goods out of Latvia and there is documentary evidence to prove it.

- Companies that pay NRT on packaging (generally companies importing packaged goods) are subject to special recycling rules to be eligible for any relief from this tax. The intention of the regulations is to give companies a real opportunity to invest in environmental protection.

- Companies that import or produce environmentally harmful goods for the Latvian market are subject to special recycling rules to be eligible for any relief from this tax.

Individual taxation

Personal income tax

- Personal income tax is levied at a flat rate of 25% with a small exemption of LVL 600 (approx. EUR 850) per annum. There are also some exemptions for dependent relatives.

- Individuals who are employed by a local Latvian company will receive their income net of tax, as payroll withholding and remittance is the responsibility of the employer. Income tax should be paid immediately, but is reported by the 15th of the following month. A company in another Member State, which employs an EU citizen in Latvia who does not qualify for exemption from Latvian National Social Insurance (NSI), is required to register as the individual's employer and withhold taxes in the same way as a local Latvian company is for local employees. However, if the individual or non-resident company is non-EU, the individual is responsible for filing his or her own personal tax return annually and for paying tax monthly.

- A person who is in Latvia for 183 days or more in a 12-month period or who lives in Latvia permanently qualifies as resident for tax purposes.

- There are no special regulations or exemptions for expatriates.

- Employer's contributions to private pension funds and long-term insurance taken out on behalf of employees, are not subject to payroll taxes and may be deductible for corporate income tax purposes provided certain statutory criteria have been met.

Social security

- The employee's contribution is 9% and the employer's contribution is 24.09% up to a salary cap of LVL 29,600 (approx. EUR 42,120). Lower rates apply for employees of pensionable age and the disabled.

- Social security taxes withheld and remitted by the employer are generally paid at the same time as personal income tax payments. The 9% employee's contribution is tax-deductible. For non-EU expatriates paid by a foreign employer, the tax should be paid quarterly by the 15th of the following month.

- Some social security exemptions are available through a reciprocal agreement with Ukraine. EC Regulation No 1408/71, on the social security regulation related to employment in the EU, is binding on Latvia.

- EU citizens who move to Latvia for a limited period are not be liable for NSI in Latvia if they have a valid E101 certificate issued by the authorities in their home country.

Pensions

- Part of total social security contributions (12% or 20% of the total annual social security contribution base, according to the employee's age) is allocated to pension capital, which forms the basis for the first pillar of the old age pension system, i.e. the compulsory state scheme.

Other taxes

Real estate and land tax

- Real estate tax is levied at a rate of 1%. It applies to the registered (cadastral) value of land and buildings. Local municipalities calculate the tax due and notify each taxpayer by sending a calculation and payment schedule.

- Buildings are generally exempt if owned by individuals and not used for business purposes. Houses and apartments used for residential purposes are also exempt. Newly constructed or reconstructed buildings used for business purposes are exempt for one year from the date of completion. There are a number of additional exceptions in the law.

Legal and other developments

Foreign currency regime

- The Latvian lats (LVL) is pegged to the euro at the following rate: LVL 0.702804 = EUR 1.
- There are no restrictions on the use of foreign currencies in Latvia.
- Financial statements must be recorded in LVL and any transactions conducted in currencies other than LVL should be converted for accounting purposes at the Bank of Latvia rate applicable on the date in question.
- There is no restriction on foreign loans, and cash can be held in any currency for as long as is needed.

Labour code

- The Labour Code, which complies with EU labour law, incorporates provisions for dealing with dispute resolution, the calculation of average salary for the purposes of calculating various benefits, health and safety at work, appropriate recruitment practices and mandatory rights implicit in employment contracts by virtue of being compulsory under the Labour Code.
- All citizens of the EU, countries of the European Economic Area and Swiss Confederation working in Latvia are required to register with the Citizenship and Migration Office to obtain a residence permit.
- All non-EU citizens working in Latvia must have valid work and residence permits.

Competition law

- The Competition Act takes account of "collective" dominance when considering whether a market participant influences over 40% of the market. The Act also lays down rules for mergers, sets out the competences of the Competition Council, specifies various penalties for non-compliance and gives courts jurisdiction over competition issues.

Intellectual property

- In recent years, the intellectual property laws have been amended to ensure compliance with the EU "acquis" concerning all major aspects of intellectual property, including patents, designs, trademarks, licenses, copyright and unfair competition rules. The main intellectual property laws in Latvia protect designs, copyright and related rights, patents, the topographies of semiconductor products, trademarks, and indications of geographical origin. A stricter regime of liability for intellectual property right infringements has been included in the Administrative Penalties Code (administrative liability), Criminal Law (criminal liability) and the specific laws cited above.

Environmental law

- In November 2006, the Saeima (the Latvian parliament) adopted the Environmental Protection Act, a new umbrella law that includes overall regulations for the protection and improvement of the quality of the environment, the protection of human health in the environment, the conservation of biological diversity, the use of natural resources and energy, and other such areas. The law also contains guidelines for the inclusion of environmental protection requirements in other legislation and concepts, plans and programmes related to other sectors.
- Harmonization with EU law is evident in such subject-areas of environmental law as air protection, water protection, natural resource use, packaging, waste management, genetically modified organisms, chemical substances and products, and the use and protection of the subsoil.

Consumer protection

- Numerous Cabinet Regulations and laws adopted by parliament support and implement legal standards on the protection of consumer rights, the safety of goods and services, the assessment of compliance, liability for defective goods, deficient services and other consumer-related issues. The Cabinet Regulations of 1 August 2006 describe the procedure for submitting consumer claims for inadequate goods or services and for the assessment of deficiencies. Although the consumer rights protection legislation in Latvia is generally compliant with the EU regulatory framework, some developments are still to be implemented.

Concessions

- The Concessions Act sets out the basic principles of granting concessions and entering into concession agreements. It should be noted, however, that granting and obtaining concessions has not become popular in Latvia.

Business transformations

- The Commercial Code contains detailed rules concerning the reorganization of companies, including a description of the types of transformation that qualify as a reorganization and a step-by-step guide to the rules and requirements that need to be followed in order to effect such a transformation.

Lithuania

Highlights

- The social tax (4% in 2006 and 3% in 2007) has been abolished with effect from 1 January 2008.
- A Lithuanian VAT payer must withhold and pay the VAT to the state budget instead of the supplier, if certain conditions are met.
- The personal income tax rate has been reduced from 27% to 24%.

The exchange rate between the Lithuanian litas ("LTL") and the euro ("EUR") used in this report is LTL 3.4528 = EUR 1.00. The LTL has been officially pegged to the euro at this rate.

Corporate taxation

Corporate tax

- The standard corporate profits tax rate is 15%.
- The taxable profits of small entities (i.e. entities whose average number of listed employees does not exceed 10 and whose income in the tax period does not exceed EUR 144,810) are subject to tax at the rate of 13%, with certain exceptions.
- The tax base for Lithuanian entities comprises all income sourced inside and outside Lithuania and all or part of the positive income of controlled foreign entity/entities. The tax base for foreign entities comprises income received from activities carried out through permanent establishments in Lithuania and other income sourced in Lithuania (interest, dividends, royalties, etc.).
- For the purpose of calculating the taxable profits of a Lithuanian entity, the following are deducted from its income:
  - non-taxable income;
  - allowable deductions;
  - limited allowable deductions.
- The tax period for the purpose of profits tax is the tax year. Profits tax is calculated on the basis of the position on the last day of the tax period. The annual profits tax return must be submitted with the financial statements (if the latter are required under the procedure established by law) after the close of the tax period by the first day of the 10th month of the following tax period. Profits tax has to be paid in accordance with the annual profits tax return no later than the deadline for submission of the return.
- Tax losses can be carried forward for five years. Losses incurred on the disposal of securities or financial derivatives can be carried forward for three years. These losses may only be offset against income generated from disposals of securities and/or financial derivatives.
- Capital gains derived from the transfer of shares in a company incorporated in the European Economic Area (EEA) or in a country with which Lithuania has a Double Tax Treaty are treated as non-taxable income if certain conditions are met.
- Tax grouping is not allowed in Lithuania and each company is taxed separately. Losses cannot be transferred from one company to another in a company group.
- The Lithuanian thin-capitalisation rules apply to loans from related parties. The debt-to-equity ratio is 4:1. Bank loans are not included in the calculation of this ratio. If the debt/equity ratio of a Lithuanian entity exceeds 4:1, the interest expense on the amount of debt that exceeds the ratio, and related foreign exchange losses, are non-deductible for corporate profit tax purposes. These provisions do not apply if a Lithuanian entity can prove that the same loan under the same conditions would have been granted by an unrelated entity.

Withholding tax

- Income sourced in Lithuania and received by a foreign entity other than through its permanent establishments in Lithuania (e.g. interest, royalties) is subject to 10% withholding tax.
- Dividends paid out are subject to withholding tax at the rate of 15%. Dividends received by a foreign or Lithuanian entity from a Lithuanian entity in which the recipient has held over 10% of the voting shares (ownership interest) continuously for at least 12 consecutive months including the moment of distribution are not subject to withholding tax. However, this relief does not apply if the foreign entity (recipient) is registered or otherwise organised in an offshore territory included in a list published by the Ministry of Finance.
- Double Tax Treaties also provide withholding tax relief to foreign entities.

Double Tax Treaties

- Lithuania has now signed 44 Double Tax Treaties with foreign countries.

Transfer pricing

- All transactions between related parties must be carried out at arm's length. The tax authorities have the right to adjust transaction prices if they do not conform to market prices.

- All entities with an annual turnover of over LTL 10 million (approx. EUR 2.9 million) as well as banks, insurance companies and credit institutions are required to draw up transfer pricing documentation which must be submitted to the tax authorities within 30 days of a request to do so.

Indirect taxation

VAT

- The standard VAT rate is 18%, and there are reduced rates of 9% and 5%. The compensatory rate for farmers is 6%.

- In general, supplies of goods and services made by a taxable person carrying out economic activities for a consideration in Lithuania and imports of goods are subject to VAT.

- Lithuanian entities/individuals must register as VAT-payers if their turnover exceeds LTL 100,000 (approx. EUR 29,000) in any period of 12 consecutive months. This limit, however, does not apply to the VAT registration of foreign entities/individuals, and they should apply for registration at the commencement of their activities in Lithuania.

- The taxable period is a calendar month. VAT returns must be filed before the 25th of the following month. In cases when taxable persons have to make VAT corrections because they had VAT-able and non-VAT-able turnover or because it was necessary to make corrections to VAT deductions in respect of fixed assets, they are required to file an annual VAT return with the tax authorities by 1 October of the following year.

- Any VAT due has to be paid no later than the deadline for submitting the VAT return for the tax period. Persons whose average monthly VAT liability for the last three months is LTL 100,000 (approx. EUR 29,000) or more are required to make advance VAT payments.

- From 1 January 2008, a Lithuanian VAT-payer must withhold and pay the VAT to the state budget instead of the supplier, if insolvency procedures or restructuring procedures subject to juridical oversight have been started against the supplier of goods or services, or if the supply consisted of ferrous or non-ferrous waste or timber.

Customs duties

- EU customs law applies in full from 1 May 2004 and is to a large extent set out in Council Regulation No. 2913/92 and Commission Regulation No. 2454/93.

Excise duties

- Excise duties are imposed on the following goods produced in or imported into Lithuania:

  – ethyl alcohol, and alcoholic drinks including beer and wine;
  – cigarettes, cigars, cigarillos and smoking tobacco;
  – fuel, including petrol, kerosene, gasoline, fuel oil and their substitutes and additives;
  – electric power (as of 2010);
  – coal, coke and lignite (as of 2007).

- The tax rate depends on the type and quantity of the goods.

Individual taxation

Personal income tax

- With certain exceptions, all income received by a Lithuanian resident is subject to personal income tax. The tax rates are 15% and 24%, depending on the type of income.

- The 15% rate applies to income from distributed profit, income derived from renting property, income generated by athletes and artists, royalties and the portion of a life insurance payout made before the policy matures.

- The 24% income tax rate applies to payroll, bonuses, benefits in kind, etc.

- Non-taxable income includes death benefits from the employer, compensation in cases of natural disaster, interest on deposits held in banks of member states of the EEA, income from the sale of movable property registered in an EEA member state or immovable property located within an EEA member state if the property was acquired more than three years before its sale, interest received on loans granted if the repayment of the loans starts not earlier than 366 days after the date when the loan was granted, insurance indemnity payments other than life assurance benefits to compensate for expenses, damage or loss, income received as charity, etc.

- An individual's income (including tax-exempt income) is divided into Class A income, which includes any income from which a legal entity withholds, reports and pays the recipient individual's personal income tax, and Class B income, which includes income on which the recipient individual calculates, reports and pays personal income tax.
  - When paying out Class A income, tax withholders must calculate, withhold and pay to the state budget the income tax due on that income, except when such payments are attributed to tax-exempt income. In general, withheld income tax must be paid to the state budget on or before the 15th day of the respective month if the last portion of income was paid out on or before the 15th day of that month, or on or before the last day of the respective month if the last portion of income was paid after 15th and on or before the last day of that month. Monthly returns of income tax withheld from Class A income must be filed on or before the 15th day of the next month.
  - Income tax due on Class B income is declared, calculated and paid by a resident of Lithuania on or before 1 May of the calendar year following that tax period.
- In general, individuals are deemed to be residents of Lithuania if (among other conditions) their permanent place of residence during the tax period is in Lithuania, or if the location of their personal, social or economic interests during the tax period is deemed to be in Lithuania rather than in another country.

Social security

- All persons working under employment contracts in Lithuania must be covered by a social security scheme. Social insurance contributions are also obligatory for self-employed persons.
- The current social security contribution rates are 30.98%-31.7% for employers and 3% for employees. Social security contributions paid by employees to both local and foreign social security systems are not deductible against personal income for taxation purposes. At present no cap is set for social security contributions.
- State social security benefits include sickness/temporary disability and maternity/paternity allowances as well as old age, disability and widows'/orphans' pensions, unemployment benefits, funeral allowances, etc.
- The maternity/paternity allowance is 100% of the reimbursed salary of the allowance recipient for children under one year old and 85% for children under two years old.
- In most cases, social insurance contributions must be paid by 15th of the following month.

Pensions

- Pension contributions are included in the social security contributions described above.

Other taxes

Real estate and land tax

- Real estate tax is levied on the value of immovable property owned by entities as well as on the value of immovable property owned by individuals and used for commercial purposes. Real estate tax rates range from 0.3% to 1% and the actual tax rate is established by municipalities.
- Entities that own land are subject to land tax at the rate of 1.5% of the value of the land given in the Register of Legal Entities (with adjustments applied).
- State-owned land that is leased is subject to tax at a rate established by municipalities. The tax rate range is set by the Government, with a minimum rate of 1.5%, and a maximum of 4% of the value of the land.

Pollution tax

- Pollution tax is imposed on pollutants discharged into the environment, the production of a few specified products (e.g. tires, batteries) and all kinds of filled packaging.
- The tax rates vary depending on the type and toxicity level of the pollutant in question.

Legal and other developments

Foreign currency regime

- Any currency may be used for non-cash settlements but only the Lithuanian litas or euros can be used for cash settlements in Lithuania.
- Foreign loans received or granted by a Lithuanian entity must be registered with the authorities after the receipt or disbursement of the funds.
- Transactions carried out in a foreign currency must be accounted in the Lithuanian litas for both accounting

and tax purposes. The exchange rates published by the Bank of Lithuania must be used. The Lithuanian litas is pegged to the euro at the rate of EUR 1 = LTL 3.4528.

Labour code

- The Labour Code governs employment conditions in Lithuania. The main requirements under Lithuanian employment legislation are as follows:
  - Working time is limited to 40 hours per week. In certain cases the employer may ask the employee to work up to 120 hours of overtime in one year.
  - Employees may terminate the employment relationship at any time. The minimum notice period is two weeks. Employers may terminate the employment relationship only in cases that are expressly covered by the Labour Code. The statutory termination notice period varies depending on the specific circumstances.
  - The amount of the monthly gross wage cannot be less than the minimum set by the legislation in force. Currently it is LTL 800 (approx. EUR 232).
  - An employee's minimum annual holiday entitlement is 28 calendar days.
- In general, foreign citizens must obtain a work permit and a temporary residence permit to live and work in Lithuania. EU citizens and their family members are not required to have work permits. Foreign citizens must also declare their residential address in Lithuania if they have obtained a residence permit.
- An entry visa is required for any entry to Lithuania where the visa-free regime does not apply, unless a residence permit has been obtained.

Competition law

- The Competition Law prohibits the abuse of a dominant market position or the use of agreements that restrict competition.
- Mergers and acquisitions must, in certain circumstances, be approved by the Lithuanian Competition Council.

Intellectual property

- Lithuanian legislation concerning intellectual property matters is in line with that of the EU.

Law on payments

- The Law on Payments defines relations between credit institutions and their clients when making payments, as well as the procedure for payment.
- The Law regulates credit and debit transfers, special features of international credit transfers, as well as the electronic payment procedure.

Macedonia

Highlights

- The corporate and personal income tax rates have been reduced to 10%.
- New Public Procurement Law came into effect on 1 January 2008.

The exchange rate between the Macedonian denar ("MKD") and the euro ("EUR") used in this report is MKD 61.11 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate tax rate is 10%.
- The corporate tax base, which is the profit, may be increased by certain expenses, including unpaid salaries, executive and supervisory board payroll and expenses, depreciation above the authorised amount, write-offs and provisions related to receivables and financial investments, and long-term reserves.
- The tax period for corporate income tax is one calendar year. Payment is made by monthly advances, by 15th of the following month. The difference between the advance tax paid and the total liability is due by 30th March of the next year.
- The Public Revenue Office is obliged to refund overpaid tax at the taxpayer's request within 45 days of submission of the refund claim. If the taxpayer does not request a refund of the surplus tax paid, the surplus will be treated as an advance payment for the following period.
- Losses from business, financial and non-business transactions, except a capital loss incurred on the sale of securities, may be offset against the profit of future accounting periods, but for no more than three years from the year the losses were made. This right cannot be used if the taxpayer's status changes because of a merger, acquisition, division or other ownership transformation. The taxpayer can only use this right with the approval of the Public Revenue Office, following a written request which must be submitted no later than 31st March of the year after the year in which the loss is shown.
- Thin-capitalisation rules on are not applicable in Macedonia.
- Profit tax must be paid by all legal entities (resident or non-resident). Residents are taxed on the profit they generate both in the country and abroad, while non-residents are only taxed on the profit they generate from a business activity in the Republic of Macedonia. Legal entities are considered residents if they are registered in accordance with the Trading Companies Law, or if they have a head office in the Republic of Macedonia.
- The Corporate Income Tax Law includes a definition of a permanent establishment ("PE") of a foreign legal entity, as the fixed place of business through which any kind of business activity of a foreign legal entity is wholly or partly carried on in Macedonia, directly or through a dependent agent. A permanent establishment is also created by the performance of services, including consulting services, but only if such activities last longer than 90 days in any 12-month period.
- The head office of a legal entity and its branch offices that represent a group of legal entities may pay profit tax as a single taxpayer (tax consolidation) if they are all residents of the Republic of Macedonia and if there is direct or indirect control among them over at least 90% of the stocks or shares. Requests for tax consolidation must be submitted to the tax authorities by 31 January of the year following the year for which the request is made.
- Both domestic trading companies and foreign trading companies that have established a subsidiary in the Republic of Macedonia can be lessors. Before starting to conduct leasing activities, the legal entities concerned have to obtain a license from the Ministry of Finance. The minimum amortisation period of leasing contracts is not less than 20% of the prescribed amortisation period and not shorter than two years. Amortisation is not recognised as expenditure in the lessee's corporate tax calculations during the financial leasing period.
- Long-term reserves for tangible and non-tangible costs are not recognised as expenditures in the tax balance, except for reserves to cover obligations defined by the Law on Forests.
- A domestic legal entity (resident of the Republic of Macedonia) is entitled to a reduction in its computed tax of the amount of tax paid by its branch office in another country on the amount of the branch's profit included in the income of the domestic legal entity. The domestic legal entity is entitled to this tax reduction if it has continuously held 25% or more of the shares in the non-resident branch office for at least one year.
- The tax base includes 70% of capital gains on the sale of equipment and real estate.

- Under the recent changes in the Corporate Income Tax Law, depreciation calculated on tangible and intangible assets cannot be included as expenditures in the tax balance for the period over which the assets are fully depreciated if such assets qualify for tax exemption because they were purchased from reinvested profit.

- Another new feature is that for banks and savings institutions, the tax base is fully decreased by the amount allocated as a statutory reserve to cover potential losses. This does not apply to insurance services, for which the tax base is decreased by up to 75% of the statutory reserve allocated for covering potential risks.

Withholding tax

- All domestic legal entities or sole traders that are registered to conduct business activities, or foreign non-resident legal entities or sole traders with a permanent business unit in Macedonia, are obliged to withhold and pay tax on income paid to foreign legal entities in Macedonia or abroad.

- Withholding tax is imposed on the following forms of income: dividends; interest; royalties; income from management, consulting, finance, technical, administrative and other services; income from the renting of real estate; income from insurance premiums; and income from telecommunication services between Macedonia and other countries.

- By exception, withholding tax is not imposed on the following forms of income: on the transfer of the part of the profit of a permanent business unit of a foreign legal entity in Macedonia, on which corporate tax is paid; on interest from bonds issued or guaranteed by the Government; on interest on deposits in banks located in Macedonia; and on income from transactions in state securities on the international finance market.

- Withholding tax at the rate of 10% is imposed on gross income. If a Double Tax Treaty is in place, the withholding tax rate will be reduced to the treaty rate.

- In accordance with the corporate income tax law, domestic legal entities are required to apply for a withholding tax identification number (WTIN) for non-resident recipients of income. An application for a WTIN should be made in the following cases:

  – for all payments abroad by domestic legal entities to non-resident recipients. All such payments to a particular foreign tax payer should be classified under a single WTIN;
  – for any payments of withholding tax to the tax authorities; and
  – for the certificate issued for withholding tax paid in Macedonia.

- Pursuant to the latest changes in the Corporate Income Tax Law, withholding tax is not recognized as an expense for tax purposes. It should be added back at the end of the year in the annual tax balance statement.

Double Tax Treaties

- The Republic of Macedonia has concluded Double Tax Treaties with 38 countries.

Transfer pricing

- All inter-company transactions with related parties must be reported separately in the tax return, with the transfer prices used in the transactions. The difference between the market price and transfer price will be included in the tax base.

Investment incentives

- The tax base can be reduced by the amount of investments, i.e. profits reinvested in tangible assets (equipment, etc.) and in non-tangible assets (software and patents), but not in cars, furniture, carpets, audio and visual equipment, or works of art for workplace-decoration purposes. Reinvested profit means year-end profit which is invested in the following years. The taxpayer is obliged to retain ownership of these assets for which he has used the right of tax deduction for at least three years starting from the year in which the deduction was used.

Indirect taxation

VAT

- The general VAT rate is 18%. This rate applies to overall turnover and imports of goods and services, except for turnover and imports of goods subject to taxation at the privileged rate of 5%, which include:

  – food products;
  – drinking water from public supply systems;
  – publications such as books, pamphlets, newspapers and other printed material, except for publications mainly used for advertising purposes or with pornographic content;
  – seed and plant material;
  – fertilizers;
  – chemical and plant protection;
  – plastic foil for use in agriculture;
  – agricultural machinery;

  - computers and their accessories;
  - solar power systems (solar heat collectors, solar water heaters, etc.);
  - medical and orthopaedic products (wheel chairs, crutches, etc.);
  - the transport of passengers

- When the amount of the tax credit in a given tax period is higher than the tax assessed for the supply, the difference will be refunded to the taxpayer on the basis of a written claim included in the tax return. When the taxpayer fails to submit such a written claim for a tax refund, the difference will be transferred in the succeeding tax period as a credit against future tax. If the refund is not made within 30 days of the date the tax return was submitted, interest will be paid at the rate of 0.05% for each day's delay.

- All taxpayers whose total supply for the previous calendar year will exceed the amount of MKD 1.3 million (approx. EUR 21,300) or whose total supply as projected at the beginning of the business activity will exceed this amount, will be liable to register for Value Added Tax.

- Residents that do not meet the above criteria may voluntarily register for Value Added Tax at the beginning of each calendar year.

- The VAT period is one calendar month, or if the total turnover in the previous calendar year did not exceed MKD 25 million (approx. EUR 409,000), the tax period is the calendar quarter. The tax period for voluntarily registered taxpayers is the calendar year.

- The taxpayer is obliged to submit a tax return for each tax period within 15 days following the tax period for which he/she has calculated the tax.

- The Law prescribes that a non-resident buyer in Macedonia has the right to reclaim the VAT on a supply of goods with a value of more than MKD 5,000 (approx. EUR 82) including VAT which is transported out of the country before the end of the third month from the date of purchase.

- Goods which are temporally imported with full customs exemption are also VAT-exempt. These include, for example, means of transport, materials used to assist in accidents, medical equipment, animals, promotional materials, equipment, wrapping materials, spare parts, etc.

Customs duties

- The Customs Tariff Code, which is part of the Customs Tariff Law, has been adjusted to bring it in line with obligations related to the Republic of Macedonia's membership of the World Trade Organisation and in accordance with the Combined Nomenclature announced in the Official Gazette of the European Union.

- New custom rates have come into force. The former rates have been reduced by approximately 10% overall for 2008.

- The customs duties prescribed by the Customs Tariff Law apply to goods originating from the following countries: the member countries of the World Trade Organisation; countries that have concluded agreements with Macedonia conferring Most Favoured Nation status; and countries where the clause related to the Most Favoured Nation status applies to goods originating from the Republic of Macedonia. Customs duties for such countries with which Macedonia has preferential trading regimes are explicitly detailed in the individual country agreements.

- For goods originating from countries not covered above, customs duties are 70% higher than for those listed in the Customs Tariff Law.

- The Government of Macedonia has also defined a category of nations to which "liberal" customs duties apply. These countries are only charged customs duties 30% higher than those given in the tariff law.

- In a protocol to the CEFTA, any goods produced in Macedonia from raw materials originating from CEFTA countries, the European Union (EU), the European Free Trade Area (EFTA) and Turkey, will be granted Macedonian origin, and subsequently exported to other CEFTA countries. This condition will not apply if the goods are exported to other EU and EFTA countries, and Turkey. Raw materials from the EU, EFTA and Turkey may gain preferential Macedonian origin where prescribed under the relevant free trade agreements.

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

- The new Customs tariff code applicable from 1 January 2008 has been adjusted and harmonised with the obligations that Macedonia has undertaken towards its WTO membership and amended in accordance with the changes in the Combined Nomenclature of the EU.

Excise duties

- Petroleum products, alcohol and alcoholic beverages, and tobacco products are subject to excise duty at flat or percentage rates.
- The excise duty on passenger motor vehicles is based on engine capacity, and ranges from MKD 0 to MKD 550,000 (approx. EUR 9,000).

Individual taxation

Personal income tax

- The flat personal income tax rate is 10%.
- Personal income tax is paid annually on the total net revenue realised from all sources in the country and abroad.
- A taxpayer who has paid tax in a foreign country on income from work there is entitled to reduce the domestic personal income tax on his/her worldwide income by the amount of the income tax paid abroad. This reduction cannot exceed the tax computed using the domestic tax rate of 10%.
- Taxpayers who earn personal income from abroad, as well as those who earn personal income from the diplomatic and consular representative offices of foreign states that are granted diplomatic immunity, are obliged to submit an annual tax return and to pay income tax within eight business days of the date of receipt of salary, unless the tax is calculated and paid by the employer.
- Foreign companies and organisations that do not have diplomatic immunity in the Republic of Macedonia are obliged to determine the income tax, which is payable within eight days of the date the salaries are paid.
- A tax resident is any person who has permanent residence and whose usual place of residence is in the Republic of Macedonia. “Usual place of residence” applies to individuals who have resided in the Republic of Macedonia for an aggregate of at least 6 months in a 12-month period.
- Non-residents are obliged to pay tax on income earned in the Republic of Macedonia.
- An individual who is a resident of the country is obliged to pay tax on income earned both in Macedonia and abroad.
- The personal income tax rate for employees in Free Economic Zones has been reduced by 50%.

Social security

- The following contributions are due on gross salary:
  - healthcare insurance contribution: 9.2%;
  - unemployment contribution: 1.6%; and
  - additional contribution for compulsory healthcare insurance: 0.5%.
- Employers are obliged to calculate and withhold all personal income tax and social security contributions from the gross salary of the employees. Employers are not subject to any social security contributions.
- There is no cap on the employees’ annual social security contribution base.
- The Republic of Macedonia has concluded Social Security Treaties with 16 countries. The countries with which it has signed Social Security Treaties are: Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Germany, Denmark, Luxembourg, the Netherlands, Poland, Romania, Slovenia, Switzerland, Turkey and former Yugoslavia (applicable for Serbia and Montenegro). The Government has adopted and recognized six more Social Security Treaties concluded with France, Italy, Norway, Slovakia, Sweden, United Kingdom & Northern Ireland and former SFR Yugoslavia. The signing procedure of the Social Security Treaties between Canada, Hungary and Macedonia is pending.

Pensions

- Contributions to pension and disability insurance are 21.2%.
- There are no exemptions related to the pension and disability insurance contributions.

Other taxes

Real estate and land tax

- Property tax has to be paid on the ownership of real estate and on certain categories of movable property (including vehicles and other forms of transport and mobile machinery) which is not directly used for business activities. The tax is payable by the owner or user of the property. The tax rate is 0.1% of the property’s market value and is due from the date of purchase. Tax on real estate is due from the date of issue of a Land Certificate.
- The sale of real estate and rights, the

exchange of one real property for another, as well as other means of acquiring real estate with compensation, are subject to tax at 3% of their market value. The tax is payable by either of the contracting parties (seller or buyer), as agreed in the contract of sale.

Legal and other developments

Foreign currency regime

- Payments made to other countries must be carried out by banks authorised to do so by the National Bank of the Republic of Macedonia.
- Authorised banks may conclude credit operations with non-residents on their own behalf using their own account, and on a client's behalf from the client's account but in the bank's name.
- Residents that are not authorised banks may conclude credit operations with non-residents using their own account and on their own behalf.
- The National Bank of the Republic of Macedonia prescribes the method for registering foreign credit transactions.
- Authorised banks may grant credit to residents in foreign exchange.
- The National Bank of the Republic of Macedonia defines the purposes and conditions under which residents may conclude credit operations in foreign exchange and make payments on the basis of the transactions.
- Current transactions are transactions between residents and non-residents, whose objective is not a transfer of capital. The payments and transfers for a current transaction include:
  - payments due on the basis of goods and services exchanged, as well as the usual short-term banking payment instruments and credit instruments connected with exchanges of goods and services;
  - interest payments due on credit and net income payments due from other investments;
  - repayment of reasonable credit balances or payments arising from the depreciation of direct investments;
  - reasonable remittances to cover living expenses.

Labour code

- Foreign nationals are subject to the same law as Macedonian citizens. According to the law on establishing employment relationships with foreign persons, foreign or stateless persons can initiate employment relationships if they have permission for a temporary or permanent stay in the country and if they have received a work permit issued by the Employment Bureau of the Republic of Macedonia.
- The new law on the employment of foreigners governs the conditions and procedures for the employment of foreigners in Macedonia. Foreigners can be employed in Macedonia under contracts with Macedonia-resident employers. The law also covers services provided by foreigners under temporary employment contracts in Macedonia.
- The regulations govern procedures for issuing work permits to foreigners, governance over various types of work permit as well as procedures for the registration and deregistration at the Employment Agency of work performed by foreigners.

Competition law

- The law against limiting competition states that contracts signed between enterprises or a group of enterprises to achieve a common goal and decisions enacted by a group of enterprises are invalid when such contracts or decisions will adversely affect production or market conditions related to the trading of certain products or services by limiting competition.

Intellectual property

- The protection of intellectual property is regulated by several laws, including the Law on Industrial Property, the Law on Copyright and Related Rights, the Law on the Protection of the Topography of Integrated Circuits, and many other regulations.
- According to the industrial property law, patents, trademarks, industrial designs and certificates of origin are rights which are protected in the Republic of Macedonia. Foreign entities can protect their rights and have to be represented by an authorised representative.

Concessions

- Concessions may be granted to both domestic and foreign legal entities and individuals (concessionaires), in accordance with the Concession Regulation.

Environmental law

- Changes and amendments have been introduced, providing new regulations on Environmental Protection Reports and the persons obliged to prepare them, the gathering and processing of information related to environmental protection, the list of environmental protection measures and cross-border environmental impacts. In addition, there are also changes in the section on licensing.

- The new amendments have widened the scope of activities of the State Environmental Protection Inspectorate, which now include approval for imports of new technology, checking that protection standards have been implemented, checking emissions of toxic substances, checking product packaging, checking waste treatment, checking exhaust gases, etc. Infringements of this law will lead to increased fines and other penalties and sanctions such as suspension of manufacturing activity, full or partial closure of factories, confiscation of equipment or products which do not meet the criteria of this law, etc. The State Environmental Protection Inspectorate will issue a decision with an explanation and the penalty for each infringement.

Consumer protection

- The Law on market inspection generally regulates the principles, organization and authorization of the market inspectorate and the inspection procedure.

- A new law on the protection of loan customers was enacted at the end of May 2007 and governs all the consumer protection aspects of offering and providing loans, and the conditions for obtaining a lender's permit.

Other

- Company registration has been shortened to one working day in the changes to the One-Stop-Shop Law, made at the end of December 2007.

- By the end of October 2007, the Macedonian Parliament had adopted the Electronic Trade Law. This new law contains provisions which regulate services related to electronic trade, the responsibilities of service providers, commercial communication and the rules concerning contracts concluded in an electronic form. The provision of electronic communications services (telephone, fax, internet, etc.) is free, except in the following areas: copyright and intellectual property rights, money transfers via the internet or by fax, telephone, etc., the activities of insurance companies, the freedom of parties to choose which state's laws will govern their contracts, the validity of contracts for the transfer of real estate rights, etc.

  Accordingly, from now on, contracts can be concluded in an electronic form (i.e. through electronic processing equipment). The service provider is obliged to perform the services according to the laws and other legislation in Macedonia. A contract in electronic form is considered concluded when the bidder receives the electronic message which contains a statement by the receiver that he accepts the substance of the contract. The contracting parties can settle disputes between them by arbitration.

- The Macedonian parliament passed a new Public Procurements Law which came into effect on 1 January 2008. This new law additionally strengthens public procurement procedures, ensures transparency in the process, and enables equal treatment and competition. The law prescribes that procurements up to EUR 5,000 are not subject to public announcement. The law also prescribes the types of goods and services that are subject to public procurement and their separate procedures, and the procedures and conditions for electronic auctions. This law is applicable for companies that provide services in the public interest in the following areas: water supply, energy, transport, postal services and other. The government will prepare a complete list of all the goods and services that the public procurement procedure rules apply to.

- The new Agricultural Land Law replaces the old one and in general regulates the use, disposal, protection and transformation of agricultural land. Agricultural land in state ownership cannot be purchased but only leased through public tender. Foreign companies can participate in tenders by establishing a Macedonian branch. The lease period varies depending on how the land is to be used. This law also regulates the fees, conditions, and types and classifications of agricultural land that can be reclassified as construction land.

1 Albania

Capital:	Tirana
Population (million):	3.2
Exchange rate (av ALL:USD):	84.3
GDP per capita at market exchange rate (USD):	4,180
GDP growth (%):	6.0
Consumer prices change (%):	3.5
Unemployment (%):	12.5
Trade balance (USD billion):	-3.1
Total foreign debt (USD billion):	N/A

2 Armenia

Capital:	Yerevan
Population (million):	3.0
Exchange rate (av AMD:USD):	309.4
GDP per capita at market exchange rate (USD):	3,930
GDP growth (%):	8.0
Consumer prices change (%):	3.6
Unemployment (%):	N/A
Trade balance (USD billion):	-1.8
Total foreign debt (USD billion):	N/A

3 Azerbaijan

Capital:	Baku
Population (million):	8.7
Exchange rate (av AZN:USD):	0.8
GDP per capita at market exchange rate (USD):	4,780
GDP growth (%):	17.0
Consumer prices change (%):	14.1
Unemployment (%):	1.0
Trade balance (USD billion):	21.8
Total foreign debt (USD billion):	2.9

7 Czech Republic

Capital:	Prague
Population (million):	10.2
Exchange rate (av CZK:USD):	18.7
GDP per capita at market exchange rate (USD):	20,280
GDP growth (%):	4.8
Consumer prices change (%):	5.4
Unemployment (%):	5.6
Trade balance (USD billion):	3.2
Total foreign debt (USD billion):	70.2

8 Estonia

Capital:	Tallinn
Population (million):	1.3
Exchange rate (av EEK:USD):	10.7
GDP per capita at market exchange rate (USD):	18,280
GDP growth (%):	4.3
Consumer prices change (%):	8.2
Unemployment (%):	4.8
Trade balance (USD billion):	-3.3
Total foreign debt (USD billion):	25.6

9 Georgia

Capital:	Tbilisi
Population (million):	4.4
Exchange rate (av GEL:USD):	1.7
GDP per capita at market exchange rate (USD):	2,210
GDP growth (%):	10.0
Consumer prices change (%):	8.5
Unemployment (%):	N/A
Trade balance (USD billion):	-3.1
Total foreign debt (USD billion):	N/A

13 Lithuania

Capital:	Vilnius
Population (million):	3.4
Exchange rate (av LTL:USD):	2.4
GDP per capita at market exchange rate (USD):	13,580
GDP growth (%):	7.4
Consumer prices change (%):	6.4
Unemployment (%):	3.1
Trade balance (USD billion):	-6.5
Total foreign debt (USD billion):	26.2

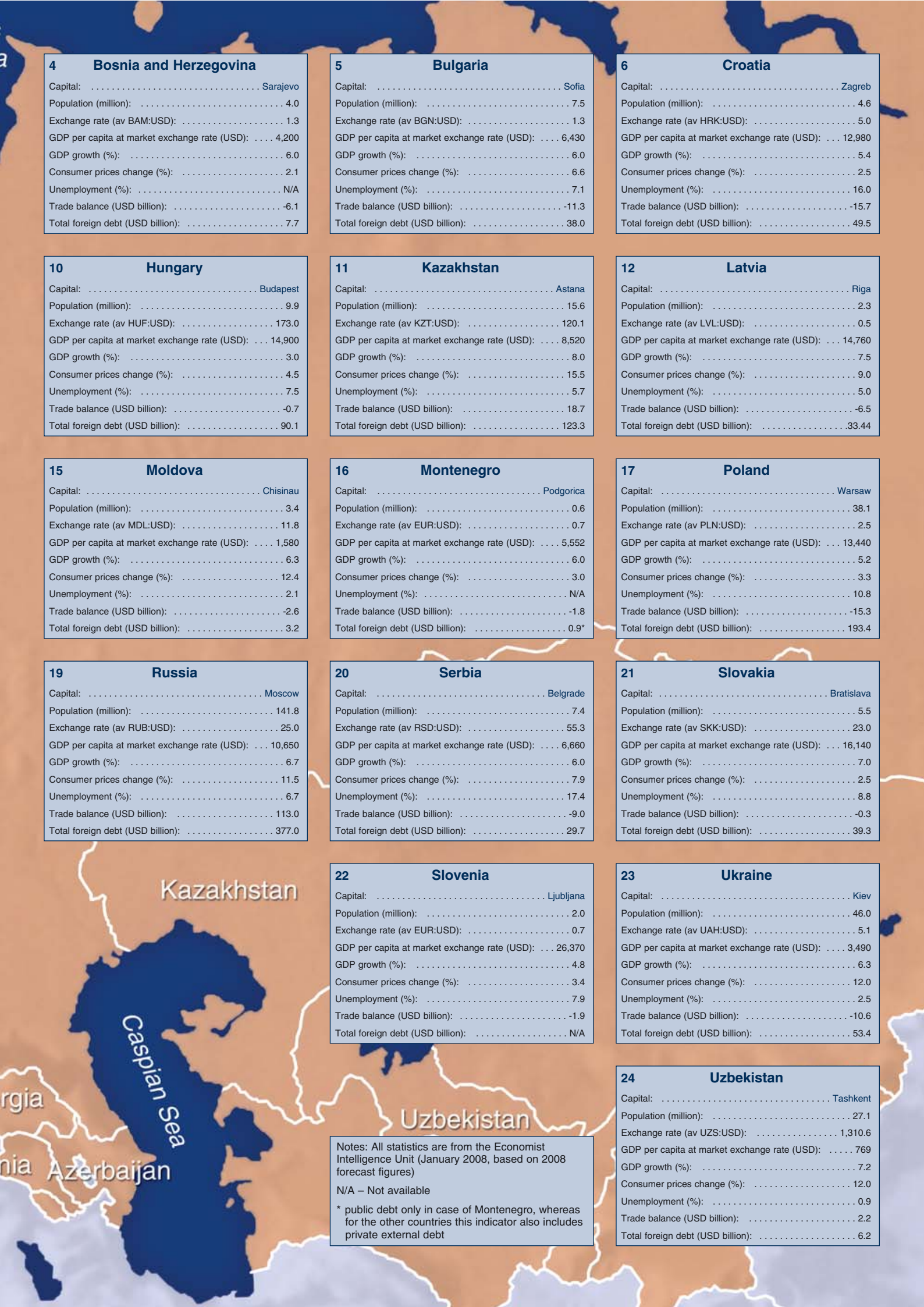
14 Macedonia

Capital:	Skopje
Population (million):	2.1
Exchange rate (av MKD:USD):	42.1
GDP per capita at market exchange rate (USD):	3,720
GDP growth (%):	4.7
Consumer prices change (%):	2.7
Unemployment (%):	35.0
Trade balance (USD billion):	-1.6
Total foreign debt (USD billion):	2.9

18 Romania

Capital:	Bucharest
Population (million):	21.6
Exchange rate (av RON:USD):	2.4
GDP per capita at market exchange rate (USD):	9,020
GDP growth (%):	5.3
Consumer prices change (%):	6.5
Unemployment (%):	4.4
Trade balance (USD billion):	-35.4
Total foreign debt (USD billion):	118.6

The CEE region at a glance



4 Bosnia and Herzegovina

Capital:	Sarajevo
Population (million):	4.0
Exchange rate (av BAM:USD):	1.3
GDP per capita at market exchange rate (USD):	4,200
GDP growth (%):	6.0
Consumer prices change (%):	2.1
Unemployment (%):	N/A
Trade balance (USD billion):	-6.1
Total foreign debt (USD billion):	7.7

5 Bulgaria

Capital:	Sofia
Population (million):	7.5
Exchange rate (av BGN:USD):	1.3
GDP per capita at market exchange rate (USD):	6,430
GDP growth (%):	6.0
Consumer prices change (%):	6.6
Unemployment (%):	7.1
Trade balance (USD billion):	-11.3
Total foreign debt (USD billion):	38.0

6 Croatia

Capital:	Zagreb
Population (million):	4.6
Exchange rate (av HRK:USD):	5.0
GDP per capita at market exchange rate (USD):	12,980
GDP growth (%):	5.4
Consumer prices change (%):	2.5
Unemployment (%):	16.0
Trade balance (USD billion):	-15.7
Total foreign debt (USD billion):	49.5

10 Hungary

Capital:	Budapest
Population (million):	9.9
Exchange rate (av HUF:USD):	173.0
GDP per capita at market exchange rate (USD):	14,900
GDP growth (%):	3.0
Consumer prices change (%):	4.5
Unemployment (%):	7.5
Trade balance (USD billion):	-0.7
Total foreign debt (USD billion):	90.1

11 Kazakhstan

Capital:	Astana
Population (million):	15.6
Exchange rate (av KZT:USD):	120.1
GDP per capita at market exchange rate (USD):	8,520
GDP growth (%):	8.0
Consumer prices change (%):	15.5
Unemployment (%):	5.7
Trade balance (USD billion):	18.7
Total foreign debt (USD billion):	123.3

12 Latvia

Capital:	Riga
Population (million):	2.3
Exchange rate (av LVL:USD):	0.5
GDP per capita at market exchange rate (USD):	14,760
GDP growth (%):	7.5
Consumer prices change (%):	9.0
Unemployment (%):	5.0
Trade balance (USD billion):	-6.5
Total foreign debt (USD billion):	33.44

15 Moldova

Capital:	Chisinau
Population (million):	3.4
Exchange rate (av MDL:USD):	11.8
GDP per capita at market exchange rate (USD):	1,580
GDP growth (%):	6.3
Consumer prices change (%):	12.4
Unemployment (%):	2.1
Trade balance (USD billion):	-2.6
Total foreign debt (USD billion):	3.2

16 Montenegro

Capital:	Podgorica
Population (million):	0.6
Exchange rate (av EUR:USD):	0.7
GDP per capita at market exchange rate (USD):	5,552
GDP growth (%):	6.0
Consumer prices change (%):	3.0
Unemployment (%):	N/A
Trade balance (USD billion):	-1.8
Total foreign debt (USD billion):	0.9*

17 Poland

Capital:	Warsaw
Population (million):	38.1
Exchange rate (av PLN:USD):	2.5
GDP per capita at market exchange rate (USD):	13,440
GDP growth (%):	5.2
Consumer prices change (%):	3.3
Unemployment (%):	10.8
Trade balance (USD billion):	-15.3
Total foreign debt (USD billion):	193.4

19 Russia

Capital:	Moscow
Population (million):	141.8
Exchange rate (av RUB:USD):	25.0
GDP per capita at market exchange rate (USD):	10,650
GDP growth (%):	6.7
Consumer prices change (%):	11.5
Unemployment (%):	6.7
Trade balance (USD billion):	113.0
Total foreign debt (USD billion):	377.0

20 Serbia

Capital:	Belgrade
Population (million):	7.4
Exchange rate (av RSD:USD):	55.3
GDP per capita at market exchange rate (USD):	6,660
GDP growth (%):	6.0
Consumer prices change (%):	7.9
Unemployment (%):	17.4
Trade balance (USD billion):	-9.0
Total foreign debt (USD billion):	29.7

21 Slovakia

Capital:	Bratislava
Population (million):	5.5
Exchange rate (av SKK:USD):	23.0
GDP per capita at market exchange rate (USD):	16,140
GDP growth (%):	7.0
Consumer prices change (%):	2.5
Unemployment (%):	8.8
Trade balance (USD billion):	-0.3
Total foreign debt (USD billion):	39.3

22 Slovenia

Capital:	Ljubljana
Population (million):	2.0
Exchange rate (av EUR:USD):	0.7
GDP per capita at market exchange rate (USD):	26,370
GDP growth (%):	4.8
Consumer prices change (%):	3.4
Unemployment (%):	7.9
Trade balance (USD billion):	-1.9
Total foreign debt (USD billion):	N/A

23 Ukraine

Capital:	Kiev
Population (million):	46.0
Exchange rate (av UAH:USD):	5.1
GDP per capita at market exchange rate (USD):	3,490
GDP growth (%):	6.3
Consumer prices change (%):	12.0
Unemployment (%):	2.5
Trade balance (USD billion):	-10.6
Total foreign debt (USD billion):	53.4

24 Uzbekistan

Capital:	Tashkent
Population (million):	27.1
Exchange rate (av UZS:USD):	1,310.6
GDP per capita at market exchange rate (USD):	769
GDP growth (%):	7.2
Consumer prices change (%):	12.0
Unemployment (%):	0.9
Trade balance (USD billion):	2.2
Total foreign debt (USD billion):	6.2

Notes: All statistics are from the Economist Intelligence Unit (January 2008, based on 2008 forecast figures)

N/A – Not available

* public debt only in case of Montenegro, whereas for the other countries this indicator also includes private external debt

Moldova

Highlights

- The corporate income tax rate has been reduced to 0%, starting with 2008.
- The withholding tax rate on dividends paid to non-residents and to resident individuals, under certain specific circumstances, has been raised from 10% to 15% in 2008.
- The number of progressive personal income tax rates has been decreased from three to two.

The exchange rate between the Moldovan leu ("MDL") and euro ("EUR") used in this report is MDL 16.55 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate income tax rate has been reduced from 15% to 0%, starting with 2008. Therefore, no preliminary corporate income tax will be due on advance dividend payments, and no corporate income tax will be payable in instalments during the fiscal year.
- Taxpayers will remain liable for calculating their taxable income for corporate income tax purposes and submitting annual corporate income tax returns. Furthermore, despite the implementation of the nil corporate income tax rate, the Moldovan tax authorities (MTA) are entitled to impose a fine for the under-reporting of taxable income, which is 25% of the difference between reported and actual income.
- From 1 January 2008, dividends distributed by resident companies will be treated as taxable income for all categories of beneficiaries, except in cases where the dividends paid to resident individuals are from profits earned before 2008.
- Thin capitalisation rules apply to businesses recording interest paid to both individuals and legal entities (except financial institutions). 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.
- From 1 January 2008, income in the form of contributions in kind to the statutory capital against a certain shareholding in a company, is not subject to corporate income tax, regardless of the control gained over that company.
- Tax losses can be carried forward in equal instalments for the following five years, but only up to the amount of annual taxable income.
- Bad debts are deductible provided they are related to the business activity of the company and subject to certain conditions established in the law concerning specific back-up documentation.
- Provisions created by companies are treated as non-deductible, except for certain compulsory types of reserves established by law, applicable for financial and micro-financing institutions and for insurance companies.
- In relation to capital gains derived from sales of shares, 50% of the difference between the income from the sale of the shares and their fiscal value (i.e. all costs included in the fiscal value of the shares) is treated as taxable income. The capital gain principle applies exclusively to transactions carried out as an investment activity (not operational one).
- Interest income that legal entities earn from bank deposits and company bonds for a period exceeding three years is tax-exempt up to 2010. Interest income that legal entities earn from government securities is tax-exempt up to 2015.

Withholding tax

- Due to the implementation of the nil corporate income tax rate from 2008, no withholding tax is due on payments made between resident legal entities or between legal entities and private entrepreneurs.
- The withholding tax rate applicable on payments of dividends to non-residents is 15%. All other income payable to non-residents is subject to a 10% withholding tax rate according to domestic tax law, except for income earned from sales of shares to non-resident buyers, from services performed outside the territory of Moldova, and certain payments to non-resident individuals, which fall under different withholding tax regimes.
- Deductibility and transfer pricing issues will need to be taken into account more thoroughly because, from 2008, a 15% withholding tax rate also applies to payments to non-residents, which are treated as non-deductible for tax purposes, as well as to payments made to resident individuals which are treated as non-deductible for tax purposes and non-taxable for the beneficiary.

Double Tax Treaties

- As of 1 January 2008, Moldova has 37 Double Tax Treaties in force.
- New Double Tax Treaties with Israel and Oman took effect on 1 January 2008.
- Certain Double Tax Treaties are currently pending, e.g. with France, Italy, Spain, Cyprus, the UK and Luxemburg.

Transfer pricing

- Transfer pricing rules are at an early stage of development in Moldova. The Fiscal Code stipulates that transactions between related parties must be taken into account provided that the relationship between the parties does not affect the outcome of the transaction.
- No deductibility is allowed for corporate income tax purposes, of losses incurred on the sale or exchange of property, or on the supply of services/work between related parties, carried out either directly or through intermediaries.
- No deduction is allowed for expenses incurred in relation to related parties if they do not correspond to market prices.

Investment incentives

- As the corporate income tax rate has been reduced to 0% from 1 January 2008, applying for investment incentives is no longer relevant. However, businesses should note that the tax law contains no guarantee as to how long the nil corporate income tax rate will apply.

Indirect taxation

VAT

- The standard VAT rate is 20% and is due on supplies and imports of goods and services.
- The VAT law also provides a number of reduced VAT rates. An 8% VAT rate applies to local supplies of bread and bakery products, milk and dairy products, and to supplies and imports of certain pharmaceutical products and sugar produced from sugar beet. A reduced 5% VAT rate applies to supplies and imports of natural and liquefied gas, except for certain specific cases. A nil VAT rate applies to exports of goods and services, international transportation for passengers and commodities, supplies of goods in duty-free shops, etc.
- Certain operations are VAT-exempt, including the supplies and imports of fixed assets as contributions in kind to a company's statutory capital.
- Imports and local supplies of certain products (mainly cereals and cereal products) will be VAT-exempt until 1 July 2008, provided certain conditions are met.
- Imports of goods and services and acquisitions made in Moldova by residents of scientific and technological parks, as well as by innovation laboratories are exempt from VAT.
- The total or partial transfer of the right to carry on a business activity is deemed to be outside the scope of VAT, provided certain conditions are met.
- Registration for VAT purposes is compulsory if supplies of goods and/or services exceed the threshold of MDL 300,000 (approx. EUR 18,130) within a period of 12 consecutive months. This also applies for services subject to the reverse charge mechanism. A range of specific conditions must be met for VAT registration purposes.
- Voluntary VAT registration is allowed if the total amount of taxable supplies of goods and/or services exceeds the threshold of MDL 100,000 (approx. EUR 6,040), provided certain conditions are met.
- New VAT refund provisions have come into force in 2008. In particular, VAT-payers that are registered and carry out their business activity in Moldova, except for Chisinau and Balti, will be entitled to refunds of the amount of input VAT that exceeds output VAT and which relates to certain types of investments.
- The VAT reporting period is the calendar month. VAT returns must be filed by the end of the month following the reporting period.

Customs duties

- Generally, customs duties vary between 0% and 35%, depending on the tariff classification of the goods. Besides "ad valorem" customs duties, there are also specific customs duties (e.g. EUR 0.5 per litre) and combined customs duties (e.g. 20% + EUR 200 per tonne). Moldova also has certain safeguard measures whereby additional duty may be imposed regardless of the origin of the goods.
- Customs duty exemptions are currently applicable for certain types of imports, including fixed assets destined to be contributed to the statutory capital of companies; movable goods imported by leasing operators for the purpose of fulfilling their contractual liabilities, etc.

- Imports of goods by the residents of scientific and technological parks and of innovative laboratories are exempt from customs duty.
- Individuals are not liable to pay customs duties on goods whose customs value does not exceed EUR 200 and which will not be used for business purposes.
- Certain specific limitations apply for the import of second-hand vehicles into Moldova.
- Moldova has Free Trade Agreements (FTAs) with several CIS countries. Moldova is also a CEFTA signatory. CEFTA establishes a free trade area consisting of CEFTA Member States for a transitional period ending on 31 December 2010, at the latest.
- Moldova is currently benefiting from the GSP+ (i.e. General System of Preferences+) granted by the EU, which is a unilateral system of preferences granted to developing countries (i.e. based on the proof of origin Form A and the direct transportation condition, goods originating in Moldova will benefit from preferential treatment when released for free circulation in the EU).
- Certain changes have been made concerning the authorities entitled to issue certificates of origin. In particular, the Chamber of Commerce is only entitled to issue certificates of non-preferential origin, while the Customs Authority is entitled to issue certificates of preferential origin for exports of goods, as well as to verify the authenticity of (non-)preferential certificates of origin upon import.
- On 21 January 2008, Council of Ministers of the EU adopted the Regulation introducing Autonomous Trade Preferences for Moldova. This new trade regime provides for duty- and quota-free access to EU markets for all products originating in Moldova, except for certain agricultural products. The regulation will take effect from March 2008.

Excise duties

- In Moldova, excise duty is imposed on certain consumer goods, including coffee, caviar, beer made from malt, wines, cigarettes, perfumes, cars, certain video and audio equipment, etc.
- Excise duty rates are established either in fixed amounts on the measurement unit of the excisable goods item classified under a specific tariff code or “ad valorem” as a percentage of the value of the goods item.
- From 2008, excise duty rates have changed for certain excisable goods (e.g., beer made from malt, filter-tipped cigarettes). A new method of computing the excise duty for filter-tipped cigarettes has been introduced, based on the maximum retail price.

Individual taxation

Personal income tax

- Table of progressive taxation of individual annual income for 2008:

Annual income brackets (in MDL)	Income tax
up to 25,200	7%
above 25,200	1,764 + 18% on the amount above 25,200

- Personal income tax should be calculated and withheld by the employer when salaries are paid.
- A person qualifies as a resident of Moldova if he/she has a permanent home address in Moldova, even if at the time he/she is abroad for study, medical treatment, or on business, and if he/she is physically present in Moldova for a period exceeding 183 days during a calendar year (except for persons who have the status of a non-resident diplomat or consular official or member of the staff of an international organisation or family member of such person, or persons who are in the country solely for study or on a business trip).
- The main categories of tax-exempt income are:
  - business trip allowances;
  - royalties received by resident individuals older than 60 years;
  - compensation for damage to health and sickness allowances;
  - payments from insurance contracts, in certain cases;
  - interest received on deposits in Moldovan banks (until 2010);
  - dividends computed for periods up to 2008 and received from a resident business entity by resident individuals who do not carry on entrepreneurial activities;
  - legacies from family members and gifts from any person;
  - gains from advertising or promotional campaigns, up to MDL 630 (approx. EUR 38);
  - compensation for moral damage; and
  - indemnity for work-related illness.
- The annual personal deduction for individuals is MDL 6,300 (approx. EUR 381) in 2008, and the dependency allowance is MDL 1,560 (approx. EUR 94).

Social security

- The employer and employee are each required to contribute to the Social Security Fund.
- From 1 January 2008, employers are required to pay social security contributions of 24% of their salary fund and employees are required to pay 5% from their gross salary. The base of the employees' social security contribution is capped annually at MDL 157,800 (approx. EUR 9,530). However unlike other countries, Moldova apply the cap on monthly basis (i.e. they divide the annual cap by twelve).
- Employers calculate and withhold social security contributions when salaries are computed. These contributions are payable by the end of the month following the reporting period.
- Social security contributions are optional for expatriates. Moldova has reciprocal Social Security Treaties with six countries.
- Both the employer and the employee are liable to pay a compulsory health insurance contribution.
- From 1 January 2008, employers are required to pay health insurance contributions of 3% from the salary fund and employees are required to pay 3% of their gross salary.
- Unlike the social security contributions, health insurance contributions are mandatory for expatriates.

Pensions

- Under the current Moldovan law, neither employees nor employers have to pay contributions directly to the pension fund. However, the individual employees' social security contributions of 5% of salary and other remuneration are used for assuring pensions.

Other taxes

Tax on immovable property

- Immovable property is subject to a compulsory local tax, based on the value of the property and payable to the local budgets. It is divided into building and land taxes.
- The following assets are subject to taxation: immovable property, including land located within or outside the municipal area, and/or improvements to it (e.g. buildings, apartments).
- The maximum tax rate on immovable property used for entrepreneurial activity is 0.1% of the property's book value. The maximum tax rate on residential property is 0.25% of the property's estimated value, depending on its location.
- The tax on immovable property is payable quarterly by legal entities and by 15 August or 15 October of the current year by individuals.
- The taxpayer has to pay the land tax in two equal instalments by no later than 15 August and 15 October of the current year. Land tax rates are based on the classification and fertility rating of the land.

Legal and other developments

Foreign currency regime

- Transactions between residents can be denominated in foreign currency but must be settled in Moldovan leu (MDL).
- Business entities are only allowed to purchase foreign currency from authorised banks and for the following purposes: making external payments to non-residents, business trip expenses or the repayment of foreign currency loans granted by authorised banks or a non-resident.
- Accounting records for the foreign currency are kept in MDL, at the exchange rate of the National Bank of Moldova.
- Foreign loans granted to a resident of Moldova by a non-resident must be notified to the National Bank of Moldova. Overnight credits are not subject to registration.
- The repatriation of foreign currency obtained from the export of goods and services is mandatory. The terms vary and are subject to the individual terms of the international agreements under which these payments are generated. A penalty of 0.1% is applied to business entities for each calendar day of delay.
- Resident legal entities are required to provide banks with supporting documents or further information when making payments to non-residents (especially with bank cards).
- Individuals have the right to bring an unlimited amount in bank notes, coins and cheques in national currency and in foreign currency into Moldova, and to take up to EUR 10,000 (or its equivalent) per person out of the country without supporting documents, or EUR 50,000 (or its equivalent), if providing confirming documents.

Labour code

- The Labour Code covers individual labour agreements, working time, the minimum age for employment, vacation and holidays, payments (salaries and other forms of remuneration), guarantees and responsibilities, the resolution of labour conflicts, and dismissal.
- The legal maximum working week is 40 hours.
- There are three basic types of employment contract in Moldova: 1) for an indefinite period; 2) for a fixed term but not more than five years; and 3) project-specific contracts, which terminate when the task is completed.
- Every foreign citizen who comes to Moldova is registered at the state border by identification information on this person being entered in the State Population Register. If the length of stay does not exceed 90 days in six months, no additional registration is required. Foreign citizens and stateless persons who enter Moldova through the Moldovian-Ukranian border, which the Moldovan authorities leave uncontrolled, are obliged to declare their entry to the country to any office of the Ministry of Information Development that deals with evidence and documentation of the population within 72 hours of crossing the Ukrainian border. For this purpose, the foreign citizen or the stateless person should submit the national identity document with which he/she entered Moldova.
- All foreign citizens who stay in the country for more than 90 days must obtain either an immigration certificate or repatriation confirmation. Foreigners need these documents to apply for a residence permit. For a longer stay, a fixed-term (up to three years) or permanent residence permit can be applied for.
- In general, foreign persons have the same labour-related rights and obligations as Moldovan citizens. The labour conditions for foreign employees must be specified in an individual labour contract. The employment agreement has to be concluded in writing. In certain cases the employment agreement can be concluded for a pre-set period (up to five years).
- Foreign personnel can obtain visas and residence permits as necessary for their activity in enterprises with foreign investments.
- There are two types of work permit, temporary and permanent.
- Work permits are required for all foreign citizens working in the Republic of Moldova.
- Temporary work permits for expatriates working under an employment agreement are valid for one year, and for the founders of foreign companies with registered capital of no less than USD 100,000 and for the members of the Board of Directors, for five years. Permits can be extended for a further year or five years.

Competition law

- The Acts on competition are the Law on Competition Protection, and the Law on the Limitation of Monopolistic Activity and Competition Development.
- These two Laws set out the legal and organisational aspects of competition protection, and the main ways of avoiding, limiting and preventing monopolistic practices and unfair competition.
- These two Laws regulate the relations between legal entities and between legal entities and state authorities with regard to unfair competition in their activities in the national markets for commodities and securities.
- The Law does not apply to entities which carry out state or natural-monopoly activities unless their activity leads to the limitation of competition.
- The National Agency for Protection of Competition exercises control over the competition legislation observance.

Intellectual property

- The laws regulating intellectual property in Moldova mainly cover patents on inventions, copyright and other related rights, industrial design protection, trademarks and appellations of the origin of goods, plant variety protection, and the protection of integrated circuit topographies.
- The provisions of the current legal framework on intellectual property are being amended to harmonise them with international treaties and European Union law.

Environmental law

- The main objectives of the Moldovan laws regulating environmental protection are:
  - the creation of an economic system which will comply with the environmental protection legislation; and
  - the implementation of ecological technology in all industry sectors.

- Moldovan law includes detailed regulations on the environmental approvals, authorisations and permits required to conduct activities that have a negative impact on the environment.

Consumer protection

- The consumer legislation of the Republic of Moldova contains provisions on the safety of consumers, on the liability of producers and sellers for breaches of the law and their contractual obligations, the procedure for concluding contracts, establishing the shelf-life of food and non-food products, the replacement of products or reimbursement of their cost, etc.
- Under the consumer protection law consumers must be informed about the essential features of products, and their rights are protected from abusive practices. Consumers also have the right to participate in relevant decision-making processes.
- An important requirement with respect to consumer protection is that the information on the labels of all imported goods must be translated into Romanian.

Concessions

- Concessions are granted to individuals or legal persons, of either Moldovan or foreign nationality, for the extraction and exploitation of natural resources, the provision of public services, the extraction and/or exploitation of state or municipal property which are excluded from or have limited status in civil transactions under the current legislation, as well as for the right to carry out certain types of activity, including state monopolies.
- The maximum term of a concession agreement should be 50 years, during which the concessionaire has to pay royalties.
- Compensation paid by the concessionaire under a concession agreement can be either in-kind or in cash as a lump sum (bonus), or as rent, or payments for the right to extract and/or exploit natural resources, or for manufacturing products (royalties).
- Concessions are granted either by public auction or, if no concessionaire is selected after the public auction, by direct negotiation. The implementing rules of the law provide details of these procedures.

Corporate regulations

- According to the Law on investments in entrepreneurial activity, non-resident companies are entitled to establish branches and representative offices in the Republic of Moldova.
- Branches of non-resident companies are incorporated as enterprises from the time of their registration. The representative offices of non-resident companies are registered in Moldova without the status of a legal entity or the right to conduct economic activities.
- Moldovan branches and representative offices of resident companies established in the Republic of Moldova are not legal entities.
- Foreign investors, with the exception noted below, can freely acquire real estate in the Republic of Moldova.
- Foreign citizens, stateless persons, foreign legal entities and legal entities registered in Moldova which have foreign investments in their statutory capital cannot buy agricultural or forested lands.
- Certain types of activities can only be carried out by legal entities if they obtain licenses from the competent state authorities. Companies applying for licences must meet additional licensing requirements established by the Licensing Chamber of the Republic of Moldova.
- Companies that were incorporated within one year before the submission of the license application are entitled to a 50% discount on the total license fee.
- The Law on Limited Liability Companies has been approved. The Law contains provisions concerning the incorporation, reorganisation and liquidation of limited liability companies, and on company property and statutory capital (formation, increase and decrease), associates and steering bodies, etc. A limited liability company can be incorporated by one or several individuals and/or legal entities. The number of associates can not exceed 50 members. The minimum statutory capital is MDL 5,400 (approx. EUR 325).
- According to the amendments to the Law on Joint Stock Companies, such companies shall not be divided into open and closed types. The minimum statutory capital of a joint-stock company cannot be less than MDL 20,000 (approx. EUR 1,200).

Business transformations

- Business transformations are allowed under the law in the form of an amalgamation of two or more companies, a split-off, or a transfer of business.

- Changes in corporate structure resulting from business transformations must be recorded in the Register of legal entities.
- Business transformations have labour law and competition law implications.
- A financial evaluation of the companies involved in a merger/split should be made on the merger/split date in order to establish the exchange rate for their respective shares.

Other

- There is no visa regime for citizens of Canada, the EU, Iceland, Japan, Norway, Switzerland or the USA.
- The law on support for small and medium-sized businesses creates favourable conditions for the development of small and medium-sized businesses.
- The law on the basic principles of entrepreneurial activity has been approved. This law incorporates the following principles: transparency of decisions on the regulation of entrepreneurial activity, analysis of the effect of regulations, and equitability in relations between the state and entrepreneurs. This Law establishes the basic principles and rules concerning the procedure for amending the laws which regulate such entrepreneurial relations. The Law came into effect on 1 January 2008.
- The current legal framework regulates issues related to electronic signatures and electronic trade. Additional regulations, which allow the practical implementation of electronic signatures and electronic trade, have also been passed.
- A new Law on preventing and combating money-laundering and the financing of terrorism has been approved. The reporting units are obliged to inform the Centre for Combating Economic Crimes and Corruption of any suspicious activity or transaction in development, as well as of transactions with a value exceeding MDL 500,000 (approx. EUR 30,000). The reporting units are financial institutions, exchange offices, investment funds, insurance and reinsurance companies, casinos, real-estate agencies, lawyers, notaries and other people in liberal professions, auditors, independent accountants and consultants in both financial banking and non-banking financial areas, etc.
- According to the new Law on insurance, insurance and reinsurance activities can be carried out exclusively by the insurer and the reinsurance provider organized in the form of a joint-stock company, including those with foreign investments, holding a license issued according to this law. The statutory minimum share capital for an insurer or reinsurance provider is MDL 15 million (approx. EUR 906,000) to which coefficient 1 is applied for general insurance activity; coefficient 1.5 for life assurance activity; and coefficient 2 for reinsurance activity.
- The Law on public property management and its privatisation has been approved. The Law regulates relationships in the field of public property management and its privatisation in the off-budget sector of the national economy. The list of goods not subject to privatisation has been enclosed as an appendix to the Law. The lists of state-owned goods, land allocated for construction and assets under construction due for privatisation have been approved.

Montenegro

Highlights

- The transfer tax rate on real estate has increased to 3% from January 2008.
- Social security contributions rates have been reduced. Further rate decreases have been announced for 2009 and 2010.
- Parliament has ratified the regional Free Trade Agreement under the Central European Free Trade Agreement (CEFTA).

The official currency of Montenegro is the euro.

Corporate taxation

Corporate tax

- Corporate profit is taxed at the flat rate of 9%. The taxable base is the IFRS accounting profit for the year, adjusted for items in the Corporate Tax Law.
- The tax year is the calendar year. The corporate tax return must be submitted by the end of March following the tax year.
- In practice, an overpayment of taxes is offset against future liabilities.
- Losses can be carried forward for up to five years.
- A corporate group consists of the principal and related companies if 75% of the shares in related companies are owned by the principal. Related companies are only entitled to consolidated tax treatment if they are all Montenegrin residents. Once approved, tax consolidation applies for at least five years.
- Capital gains and losses are included in the taxable base together with operating profits. There is no separate treatment of capital gains and losses.
- A capital gain from selling securities which is reinvested in buying new securities within 12 months will not be included in the tax base. If this capital gain is not reinvested it will be included in the tax base for the next year. Additionally, any capital gain from selling securities that the taxpayer had previously held in his portfolio for more than two years will not be taxed.
- Thin-capitalisation rules are not applicable in Montenegro.

Withholding tax

- In Montenegro, 15% withholding tax is calculated and paid on dividend payments to residents and non-residents as well as on payments of royalties, capital gains and rent from real estate that is leased to non-residents.
- The withholding tax rate on interest is 5%.
- The provisions of applicable Double Tax Treaties can reduce these rates.
- Dividends and shares in profit that are used for an equity increase are not subject to withholding tax.

Double Tax Treaties

- Montenegro is a party to 34 Double Tax Treaties.
- Montenegro continues to honour all the treaties signed by the former Yugoslavia and the State Union.

Transfer pricing

- In Montenegro, a transfer price is any price that is charged between related parties.
- A related party is a company or an individual that can significantly influence a company's business decisions.
- The difference between the transfer price and an arm's length price adjusts taxable income.

Investment incentives

- If a company employs new staff on permanent contracts that remain in place for at least two years, it will be entitled to decrease its taxable profit by the amount of salaries and contributions paid on the employer's behalf.
- Corporate profit tax is not payable for the first three years by new companies established in underdeveloped regions and municipalities.

Indirect taxation

VAT

- The sale and import of all goods and supplies of services are subject to VAT, unless a specific exemption or exception applies.

- The general VAT rate is 17%.
- A reduced 7% VAT rate applies to the following supplies (among others):
  - sales of basic products for human consumption;
  - accommodation services;
  - supplies of drinking water;
  - sales of daily and periodical publications;
  - services related to the use of sports facilities and cultural events;
  - copyrights;
  - computer equipment (applicable until Montenegro joins the EU);
  - services provided in marinas (applicable until Montenegro joins the EU).
- The following main categories of supplies are exempt with credit: the export of goods, and transport and other services directly related to the export; the dispatch of goods to duty-free shops; the entry of goods into a free zone (excluding goods for final consumption in the free zone); and transportation.
- Supplies that are exempt without credit include (among others) most banking services, the renting of flats and buildings for residential purposes, insurance and reinsurance services, the renting of agricultural, forest and construction land.
- A taxpayer is any person who conducts any business activity independently in any place, regardless of the purpose or result of that activity. This includes all the activities of production, trade and providing services, including mining, agriculture, and professional activities. The use of tangible and non-tangible property (property rights) as a source of permanent income is also defined as a business activity. Additionally, a taxpayer is a person who temporarily carries out activities relating to the delivery of newly-built construction facilities or parts of construction facilities.
- VAT registration is required if supplies exceeded EUR 18,000 in the previous year.
- A monthly VAT return must be submitted by the 15th of the following month.
- Refunds of claimed VAT credits are made within 60 days of the VAT return being submitted (30 days in the case of taxpayers that have been in a VAT credit position for three consecutive VAT periods).

Customs duties

- Montenegro has applied the provisions of the Central European Free Trade Agreement (CEFTA) since April 2007.

Excise duties

- In Montenegro, excise duties are paid by producers and importers of the following goods:
  - alcohol and alcoholic beverages;
  - tobacco products;
  - mineral oils and their distillates and substitutes.
- Excise duty on cigarettes is levied at both a fixed rate of EUR 1 per 1,000 cigarettes (specific excise duty), and a proportional rate of 26% of the retail price ("ad valorem"). Excise duty assessed on cigarettes is payable within 60 days of the receipt of excise duty stamps. In addition, the taxpayer is obliged to provide security for the payment with adequate collateral.

Individual taxation

Personal income tax

- The previous progressive personal income tax system has been replaced by a 15% flat rate tax on salary income for 2007 and 2008. It is planned that the flat rate will be reduced to 12% in 2009 and then to 9% for 2010 onwards.
- The employer is responsible for calculating and withholding personal income tax and social security contributions.
- A resident is a person who:
  - has permanent resident status or whose centre of business or vital interests is in Montenegro;
  - stays in Montenegro for over 183 days in a calendar year.
- Capital gains received by an individual are not subject to personal income tax.
- The register of personal income tax and social security contribution payers was centralized and transferred from various government funds to the tax authority on 1 January 2006.

Social security

- In December 2007, Parliament adopted a new Law on Mandatory Social Security Contributions. Social security contributions are levied on both the employer, at the rate of 15% (14.5% in 2009; 13.5% after 2009), and the employee, at the rate of 19% (17.5% in 2009; 16.5% after 2009).

- The pension insurance contribution base is subject to an annual salary cap of approx. EUR 20,900. The cap is adjusted for annual increases in the average salary. Health and unemployment contributions are not capped.

- Montenegro has social security treaties with: Austria, Belgium, Bulgaria, the Czech Republic, Denmark, Egypt, France, Germany, Hungary, Italy, Libya, Luxemburg, the Netherlands, Norway, Panama, Poland, Serbia, Sweden, Switzerland and the UK.

Other taxes

- As of 1 January 2008, the transfer of immovable property is subject to 3% transfer tax (formerly 2%). The tax base is the market value (usually the sales price between third parties) of the property at the time of the transaction. The tax is payable by the acquirer of the property.

- A number of local charges are levied. Generally, the local municipality determines the criteria for the liability and the amount. The most significant is the public building land-use charge, which is levied on owners or users of an object that occupies public land. The amount of the liability is determined by the local municipality, depending on the level of infrastructure, the location of the land and other significant criteria. Depending on the municipality, the charge unit is the square metre of either the public land or the object occupying the public land.

Legal and other developments

Foreign currency regime

- The official currency in Montenegro is the euro (EUR).

- Under the Foreign Investment Law passed in November 2000, foreign investors are allowed to invest in any industry and freely transfer all financial and other assets, including profits and dividends. The Law guarantees legal certainty to the foreign investor.

- A Law on Current and Capital Foreign Transactions was adopted in July 2005. The Law provides rules for currency and capital foreign exchange transactions with persons abroad, the foreign exchange market and the supervision of payment transactions with non-residents and the application of international standards. This Law extended the liberalization of foreign exchange operations. The Central Bank of Montenegro is in charge of applying international standards and of supervising current and capital transactions.

- The inflow of foreign direct investments (FDI) into Montenegro has recently shown an unprecedented increase, which has put the country among the top world FDI-per-capita recipients.

Labour code

- The Labour Law was adopted in July 2003 and amended in 2004 and 2006. It regulates matters relevant to the rights and obligations of employees on the basis of collective agreements (CAs) and individual labour contracts, to achieve compliance with international standards and relevant conventions. All CAs and labour contracts must comply with the Labour Law.

- The minimum legal age for employment is 15. Special requirements may be determined at the discretion of the employer, depending on the type of job. Any special requirements must not contravene anti-discriminatory clauses.

- The labour relationship is established by an employment contract concluded between employer and employee. The contract may be entered into for an indefinite or fixed term.

- A new Labor Law is on Parliament's agenda for 2008. However, it is not possible to say if and when it will be passed.

Competition law

- The Law on Competition was adopted in November 2005 and came into effect on 1 January 2006. It was amended in June 2007.

- This Law covers restrictive agreements, abuse of dominant position, mergers and concentrations, and the creation of a competition body. The Law now differentiates between horizontal and vertical agreements.

- The competent authority is the Ministry for Economic Development. However, an independent Competition Commission is to be established in the near future.

- In 2006, the Government of Montenegro also adopted three relevant decrees:

  – a decree on the content and manner of completing a request for approval to carry out a concentration;
  – a decree on the content and manner of completing a request for initiating a procedure;
  – a decree on the content and manner of completing a request for an individual exception.

Intellectual property

- The Law on the implementation of legislation dealing with the protection of IP was adopted in July 2005, and its implementation started on 1 January 2006. The most important IP Conventions relating to IP protection were ratified by the Republic of Montenegro in December 2006. Some of the ratified Conventions are: the Berne Conventions, the Paris Conventions, the European Patent Conventions, the Madrid and Nice Arrangements, and others.

- The authority dealing with the protection of IP rights is the Intellectual Property Office of Montenegro.

Environmental law

- Important recently adopted laws dealing with environmental protection include the Law on the Environment, the Law on the Integrated Protection and Control of Environmental Pollution, the Law on the Ratification of the Kyoto Protocol, the Law on the Strategic Evaluation of impacts on the Environment, the Law on the Evaluation of Impacts on the Environment, the Law on Protection against Ionised Emissions, the Law on Nature Protection, the Law on Waste Management, the Law on Air Quality, the Law on Fishing and the Law on Forests.

- The Government of Montenegro has developed a National Strategy for Sustainable Development. An Agency for Environmental Protection has also been established to institutionalize and improve environmental protection and serve as a catalyst for focusing investments in this sector.

- The competent environmental authority is the Ministry for Environmental Protection and Spatial Planning.

Consumer protection

- The new Montenegrin Law on Consumer Protection was adopted in May 2007. The Law prescribes the fundamental rights and protection of the consumer's economic interests.

- In addition, the Law contains provisions on (among other things) safety requirements, the issuing of invoices, warranty clauses, packaging issues, consumer credits, distance sales, unfair clauses in consumer contracts, the protection of consumer's rights and time-share arrangements.

- The Law makes judicial and extra-judicial protection available to consumers who suffer injuries caused by faulty products, or whose goods are damaged in the course of repair or servicing.

Concessions

- Concession matters (leasing and management agreements) are mainly covered by the Law on the participation of the private sector in providing public services, adopted in 2002, which creates favourable conditions for obtaining and utilizing concession licenses.

- The Law applies to the provision of public services under leasing and management contracts, concessions, and the Build-Operate-Transfer (BOT) system.

- A concession can be granted for up to 30 years, with the possibility of extension.

Company law and ownership transformations

- The main legislation includes:

  – The Law on Ownership and Management Transformations, which applies to socially-owned capital and relevant enterprises;
  – The Law on Business Organisations (the Company Law), which prescribes company forms (limited liability companies, joint stock companies and limited partnerships) and the procedure for the registration of companies;
  – The Law on Takeovers of Companies, which regulates (among other things) takeovers of joint stock companies, takeover bid conditions and the obligations of the parties involved; and
  – The Insolvency Law, which regulates bankruptcy and the administration and reorganization of companies.

Poland

Highlights

- The number of tax changes for the beginning of 2008 is very limited.
- Social security rates have been decreased both for the employer (by two percentage points) and the employee (by five percentage points).
- Due to the increased children's allowance, people with children are entitled to decrease their personal income tax liability by the equivalent of approximately EUR 325 per child.

The exchange rate between the Polish zloty ("PLN") and the euro ("EUR") used in this report is PLN 3.60 = EUR 1.00. This rate is not fixed, and approximates the market level on 1 January 2008.

Corporate taxation

Corporate tax

- Parliament has not passed any corporate income tax amendments for 2008. Therefore, the corporate income tax legislation as of 2008 will be nearly the same as it was in 2007. The only significant change relates to dividends received by a Polish corporate income tax resident from another Polish resident. Beneficiaries of such dividends will no longer be entitled to one of the tax allowances related to dividend taxation that was applicable in 2007 based on transitional rules. However this will not affect major shareholders which can make use of the participation exemption and thus pay no corporate income tax on collected dividends.
- The corporate income tax rate in 2008 remains at 19%.
- The Polish Tax Code provides the opportunity to request advance rulings from the tax authorities (official interpretations of tax provisions applicable to particular transactions or circumstances). The advance rulings are binding on any tax authorities, including those that may conduct a tax audit. In other words, the tax authorities cannot assess tax arrears in contradiction with an advance ruling. It should be noted that advance rulings can be requested in relation to any kind of tax (corporate income tax, personal income tax, VAT, etc.).
- Generally, the tax year is the calendar year. However, taxpayers can opt for a different tax year, provided it contains 12 consecutive calendar months. Exceptions to this rule include the transitional period after a change of the tax year, or taxpayers commencing their business activities.
- The annual corporate income tax return should be submitted to the tax office within three months after the end of the tax year. The same deadline applies to the settlement of the annual corporate income tax liability. In financial terms the above final settlement is not significant, since most of the annual liability is paid in advances over the whole tax year. The corporate income tax advances should be paid for each month by the 20th day of the following month. There is no need to report them in monthly tax returns. Furthermore, some taxpayers can opt to make advance settlements on a quarterly basis (instead of the monthly basis). That opportunity is available to entities which have started business activities (except companies organised as a result of certain transformations) and entities, whose gross sales revenue (i.e. including VAT) in the prior tax year did not exceed EUR 800,000.
- If the total amount of advances made over the year is higher than the corporate income tax liability reported in the annual corporate income tax return, the tax office should refund the overpayment within three months after the annual corporate income tax return is submitted.
- The Corporate Income Tax Act provides a "tax credit" that can be used by small businesses in the second year of their activities, subject to certain exceptions. The tax credit means that the business is not obliged to pay the corporate income tax due for a given year by the deadline set for that year (nor is it obliged to pay the monthly/quarterly advances). Instead, the corporate income tax liability can be settled in five equal instalments, payable according to a time-schedule of annual corporate income tax payments for the subsequent five years.
- A tax loss reported in a tax year can be carried forward over the next five consecutive tax years. However, only 50% of a loss can be deducted against income reported in any one particular year of the above five-year period. Therefore, the whole process of the loss carry-forward takes at least two years. For example, a taxpayer that incurred a PLN 100 annual loss in 2007 can carry it forward to the years 2008-2012. However the maximum loss deduction in any of these years cannot exceed PLN 50 (assuming that there are no other losses available for deduction).
- There are no local business taxes in Poland.
- If a foreign company establishes a subsidiary in Poland, such subsidiary is liable for corporate income tax based on the general rules. Another option for a foreign company is to establish a branch office, or a representative office. It should be noted that a branch is allowed to run business exclusively within the scope of activity of its foreign owner, while a representative office may be involved only in promotion and advertising.

  A branch office nearly always has permanent establishment ("PE") status in Poland. Consequently, once a branch is established, its foreign owner pays corporate income tax at the standard rate of 19% on the basis of income attributable to the operations of the

Polish branch. For this purpose, as well as for accounting purposes, a branch is obliged to keep accounting books that should include all the data necessary to establish the taxable base. The taxable base is determined based on general rules, i.e. the same rules which apply to Polish companies. In those few cases in which a branch can demonstrate, on the basis of a tax treaty, that its business presence in Poland does not amount to a permanent establishment, its profits are not subject to Polish corporate income tax.

- The Corporate Income Tax Act includes provisions on group taxation – i.e. in theory, a group of companies, if it meets certain conditions, can be treated as a single taxpayer. However, the conditions that need to be met are extremely demanding and thus, in practice, very few taxpayers of this type exist. Therefore, in our further comments the provisions on group taxation will be disregarded.

- Dividends received from Polish residents (the "domestic dividends") are excluded from the overall income. Instead, they are subject to 19% tax, which is withheld and remitted to the tax office by the payer of dividends. In the past the above tax was recoverable for all corporate taxpayers. Namely, any corporate entity, which received a dividend from a Polish company, was allowed to deduct the above 19% tax against its general corporate income tax imposed on the overall income. If the general corporate income tax was less than the tax on dividend, the deduction could be made in the following years. While amending the Corporate Income Tax Act for 2007, Parliament decided to replace the deduction with the "participation exemption" based on the relevant EU Directive. Nevertheless the deduction scheme was upheld based on transitional rules, which applied to dividends paid up to the end of 2007. Starting from 2008 the deduction scheme no longer applies.

  However, the end of the deduction scheme should not affect major shareholders since they can make use of the participation exemption. Based on the relevant provisions, domestic dividends are free from the 19% tax, provided that the Polish beneficiary holds at least a 15% share in the paying company for at least two years.

- Dividends, interest and royalties collected by a Polish corporate tax resident, if paid by a non-resident, are treated as regular income and taxed at the standard corporate income tax rate. Corporate income tax paid on such dividends, interest or royalties in other countries can be credited proportionately against Polish corporate income tax. Furthermore, the applicable Double Tax Treaty can provide other methods of double taxation avoidance.

  With respect to dividends from foreign sources, the Corporate Income Tax Law also provides for "underlying tax credit", which is related to the corporate income tax paid by a foreign subsidiary under a foreign tax jurisdiction. Such underlying tax credit can be applied subject to conditions specified in the Corporate Income Tax Act. These conditions include the existence of a Double Tax Treaty between Poland and the subsidiary's country of residence, as well as the 75% shareholding of the Polish holding company in the foreign subsidiary. The underlying tax credit does not apply if a foreign subsidiary is based in the EU, Iceland, Liechtenstein, Norway or Switzerland. This is due to the fact that dividends received from such subsidiaries can be subject to even more favourable treatment which is described in the next paragraph.

  Dividends received from subsidiaries having their residences in the EU countries as well as in Iceland, Liechtenstein, Norway and Switzerland are corporate income tax exempt ("participation exemption") provided the Polish recipient holds at least 15% of the shares in the paying company for at least two years (with respect to the Swiss subsidiaries, the minimum shareholding is 25%). The described exemption does not apply to income resulting from the liquidation of a company (but applies to income from the redemption of shares).

- The Corporate Income Tax Law includes detailed provisions on leasing. Rental payments are generally tax-deductible costs for the lessee and taxable revenue for the lessor. Furthermore, the lessor is entitled to depreciate the leased object for tax purposes (provided that the leased object is a fixed or intangible asset).

  However, different rules apply to a financial lease. Under this type of transaction the capital element of lease payments is tax-neutral for corporate income tax purposes. Therefore, only the interest element is a tax-deductible cost for the lessee and taxable revenue for the lessor.

  An agreement is classified as a financial lease if the following conditions are met:

  – A lease agreement has been concluded for a fixed period of time.
  – The total amount of the lease payments is equal to or higher than the initial value of the leased asset.
  – The lease agreement includes a provision that the lessee is entitled to depreciate the leased asset for corporate income tax purposes; consequently, the lessor is not entitled to depreciate the leased asset.

- Interest on debt is generally tax deductible when paid. However, interest attributable to investments on fixed and intangible assets is not deductible if paid or accrued within the investment period. Instead, such interest increases the initial value of fixed or intangible assets, which is subsequently depreciated for tax purposes.

  Furthermore, the Corporate Income Tax Act prescribes thin-capitalisation restrictions related to interest paid on loans and credits drawn from qualified lenders.
  A qualified lender is:

  – A direct shareholder with at least 25% of the shares in the borrower's share capital; or

– A sister company, provided that the same entity (or individual) holds at least 25% of the shares in the borrower's share capital and 25% in the lender's share capital.

Thin capitalisation restrictions can be applied if a loan or credit is drawn from a qualified lender and a Polish corporate income taxpayer has the 3:1 debt-to-equity ratio as defined in the Corporate Income Tax Act. Thin capitalisation restrictions apply to interest on loans and credits drawn from foreign as well as from Polish corporate tax residents.

- Generally, provisions are not deductible for corporate income tax purposes. However, provisions made for unpaid receivables can be tax deductible provided that a number of conditions are met. Accruals are not tax-deductible. Therefore, the accrued amounts can be set off against the taxable income only when paid or booked as regular liabilities based on the appropriate document (e.g. an invoice).

- There is no separate capital gains tax in Poland. Capital gains or losses are aggregated with the entity's other taxable income or losses. Based on the general rule, expenses incurred in the acquisition of shares and other securities are not tax-deductible at the moment of acquisition; instead, they are included in the tax-deductible costs when the purchased securities are subsequently sold.

- Numerous elements of the Polish corporate income tax system can appear quite attractive from the tax structuring standpoint. The first one is a low corporate income tax rate (19%). Additional opportunities to reduce income tax liabilities are offered in the Special Economic Zones, where businesses can enjoy an effective rate of 0% for a considerable period (please see below the section on investment incentives). In numerous cases dividends paid to other countries (especially to the EU countries as well as to Iceland, Liechtenstein, Norway and Switzerland) are exempt from the withholding tax (please see the next section on withholding tax). Consequently, it seems that Poland can be a very good place to locate a profitable operating subsidiary involved in manufacturing or services.

  Additional opportunities result from the participation exemption on dividends collected by Polish companies, which was introduced with effect from 1 January 2007. Consequently, dividends from numerous European countries are corporate income tax free in Poland. Taking also into account that Poland has a very good Double Tax Treaty network, Polish companies can make useful links in a variety of tax structuring models.

Withholding tax

- In 2008, the general withholding tax rate for dividends remains at 19% (as it was in 2007). Some other types of income, such as income from investing in companies, including income from the redemption of shares and income resulting from the liquidation of a company are taxed at the same 19% rate. The general withholding tax rate on interest and royalties paid to non-residents is 20% (i.e. this rate has also remained unchanged from 2007). The above withholding tax rates may be reduced by Double Tax Treaties.

- Apart from the above, dividends, royalties and interest paid to numerous European countries receive special treatment based on the Corporate Income Tax Act provisions, which implement the relevant EU Directives. Dividends paid to corporate residents of EU countries as well as Iceland, Liechtenstein, Norway and Switzerland are exempt from withholding tax subject to certain conditions specified in the Corporate Income Tax Act. The basic requirement is that the foreign beneficiary should hold at least 15% of the shares in the Polish company for at least two years (with respect to the Swiss shareholders, the minimum shareholding is 25%). The described exemption also applies to income resulting from the redemption of shares or the liquidation of a company.

- When joining the EU, Poland was granted a transitional period for removing the withholding tax on interest and royalty payments paid by Polish corporate residents to associated EU companies. Subsequently, the applicability of the transitional rules were extended to the effect that they also apply to interest and royalties paid to associated companies which have their residence in Switzerland. Currently, the withholding tax rate on all the above payments is 10%. From 1 July 2009, it will be reduced to 5%. Starting from 1 July 2013, the full exemption will apply. In general, the transitional rules, as well as the full exemption after 1 July 2013 only apply to interest and royalty payments between associated companies (parent-subsidiary relationships or sister-sister relationships) in which capital involvements are significant. Furthermore, in those cases in which the transitional rules are less favourable than the provisions of the applicable Double Tax Treaty, the businesses may follow the latter.

- Payments made to non-residents as a consideration for intangible supplies (such as consulting services) are subject to 20% withholding tax. However, if a payment is made to a country which has a Double Tax Treaty with Poland, this tax can be avoided if certain minimal administrative formalities are completed.

Double Tax Treaties

- Poland has concluded Double Tax Treaties with most developed countries. In total, Poland has concluded 79 Double Tax Treaties, which are effective in 2008.

- When a Polish resident earns income in a country that has not concluded a Double Tax Treaty with Poland, double taxation is avoided based on the credit method provided in the Corporate Income Tax Act. Under this method a Polish resident is liable for income tax imposed on its worldwide income, but this tax is proportionately reduced by the income tax paid abroad. The same rules apply to individuals subject to the Personal Income Tax Law.

Transfer pricing

- Transactions between related parties should be conducted in accordance with the arm's-length principle. The tax authorities can increase the taxable base if the pricing used between related parties differs from that which would have occurred between unrelated ones in a similar business transaction and if the difference results in income being shifted from a Polish taxpayer to another entity (whether a Polish resident or not). Similar rules apply to transactions between Polish residents and the residents of the "tax havens". These transactions can be subject to transfer pricing control even if the parties thereto are not related.

- The Corporate Income Tax Act also contains detailed requirements for transfer pricing documentation.

- The taxpayers can reduce the transfer pricing risk by applying for an Advance Pricing Arrangement (APA). APA is a type of decision issued by the Minister of Finance in response to a taxpayer's application. Based on such a decision a taxpayer is obliged to follow a specified methodology when calculating the transfer prices applicable to transactions with related entities; in exchange, the tax authorities will not be entitled to challenge the agreed methodology.

Deferred tax

- The Polish Accounting Act requires businesses to create a provision (or an asset) related to deferred tax if there are temporary differences between income tax and accounting treatment of specified items. Such temporary differences concern, in particular, interest which are included in the Profit and Loss Account on the accrual basis; but for tax purposes it becomes taxable revenue or tax-deductible cost on a cash basis (i.e. only when realised).

- Based on the Accounting Act, creating the provision (or the asset) for deferred tax is mandatory for those companies that are required to have their financial reports reviewed by an external auditor. As a result, it is an accounting standard (in particular in companies with foreign participation).

Investment incentives

- Polish legislation provides for investment incentives related to business activities carried out in 14 zones defined as Special Economic Zones. To benefit from these incentives a company must obtain a permit from the Ministry of Economy to run business activities within a Special Economic Zone and meet other legal requirements.

- Most of the Special Economic Zones offer income tax exemptions, the maximum equal to 50% of the investment expenditure. In other words, the annual corporate income tax due is reduced by 50% of investment expenditure. If the amount available for deduction exceeds the annual corporate income tax due, the excess can be utilised in the following years. Consequently, in the case of significant investment expenditure, a company can enjoy total exemption from income tax for several years. Even more favourable rules apply to entities classified as small entities or medium-sized. In the case of small entities, the maximum exemption is 70% of the investment expenditure. The medium-sized entities can enjoy the maximum corporate income tax exemption of the value up to 60% of the investment expenditure.

- A number of Special Economic Zones offer corporate income tax exemptions at less generous levels, which are, however, still very attractive. Instead of the maximum levels of 50% (for big entities), 70% (for small ones) and 60% (for medium-sized ones), the relevant figures in these Zones are 40%, 60% and 50% respectively.

Indirect taxation

VAT

- VAT applies to the following activities:
  - supplies of goods and services within the territory of Poland;
  - exports of goods outside the territory of the EU;
  - imports of goods from countries that do not belong to the EU;
  - intra-Community acquisitions of goods;
  - intra-Community supplies of goods.

- The VAT rates are 22% (standard rate), 7%, 3%, 0% and exemption. The standard 22% VAT rate applies generally to the supply of all goods and services, except for those which are covered by special VAT provisions providing other rates or treatments.

- Supplies covered by a reduced rate of 7% include, among others, supplies of pharmaceutical products and passenger transport services. Furthermore, the 7% rate applies to the supply, construction, renovation and alteration of apartments which do not exceed 150 square meters and houses which do not exceed 300 square

meters. If a dwelling exceeds these limits, the area up to the limits is taxed at 7% and the standard 22% rate applies to the excess area. However, the supply of an apartment or a house in the non-new real estate market is exempt from VAT.

- Zero-rated activities include, among others, exports of goods to countries outside the EU, as well as the international transport of goods (i.e. transport to or from countries outside of the EU).
- VAT-exempt supplies include, among others, certain financial, insurance and educational services.
- Numerous services, if rendered to a foreign customer, are subject to special treatment. Namely, they are not subject to the Polish VAT, while a Polish service provider is entitled to deduct input VAT paid in connection with rendering such services.
- In general, the VAT due equals the VAT on the output minus the VAT already paid on the inputs. Input VAT can be deducted from output VAT when a business (with VAT-payer status) receives an invoice for goods or services it has purchased. Input VAT cannot be deducted unless a purchased supply is linked to the VAT-able activities. Furthermore, the deductibility of input VAT is restricted with respect to purchasing certain goods and services. For example, only 60% of the input VAT on a passenger car purchase can be deducted and the deduction cannot exceed PLN 6,000 (approx. EUR 1,670) per car.
- Subject to numerous conditions, output VAT can be reduced when receivables resulting from VAT-able sales turn out to be uncollectible.
- The Polish VAT Law allows direct refunds when input VAT (available for deduction) exceeds output VAT.
- There are also provisions concerning VAT refunds for foreign businesses purchasing goods and services from Polish VAT payers as well as VAT refunds for foreign tourists. In both cases, numerous conditions have to be met in order to obtain a refund. Specifically, refunds are only available for residents of countries that have VAT and where Polish residents are eligible for VAT refunds (the reciprocity rule).
- Registration for VAT is not mandatory if a taxpayer's turnover in the previous tax year did not exceed a PLN equivalent of EUR 10,000.
- Generally, the VAT reporting period is a month. VAT returns should be submitted by the 25th day of the following month. An exception has been made for "small taxpayers" (as defined in the VAT Law), who may report quarterly and should submit VAT returns by the 25th day of the month following the last month of the quarter being reported.
- Finally, businesses involved in intra-Community acquisitions or supplies of goods are obliged to submit additional quarterly VAT returns reporting these particular transactions.

Customs duties

- Poland is subject to the EU Community Customs Code and other EU customs provisions including the customs tariff. Consequently, customs duties are an EU tax collected by the domestic authorities on behalf of the EU Commission. It is payable on the importation into Poland or another EU country of goods from outside the EU. Once the applicable customs duty is paid in any of the Member States, the imported goods can freely circulate within the whole Community with no further customs duties.
- The above is connected with fundamental rules of the Single Market that no customs duties are levied on goods between Member States and there are no intra-EU border customs controls, provided that goods originate in the EU or, if they do not, they are in free circulation (i.e. the customs duty was paid on the first importation into the EU).
- Based on the EU customs tariff, the standard customs duty rates vary between 0% and 16% depending on the imported goods' classification. Some particular goods may be subject to higher rates. Furthermore, specified goods originating from specified countries can be subject to reduced customs rates or total exemption due to the Free Trade Agreements concluded between the EU and these countries.

Excise duties

- Excise tax is levied on the production, sale, import and intra-community acquisition of "excise goods", which are listed in the Excise Duty Law and include (among other things) alcohol, cigarettes, petrol, passenger cars, electric power and cosmetics.
- It should be noted that cosmetics are subject to a 0% excise duty rate based on a regulation issued by the Minister of Finance. Therefore, though they are still regarded as excise goods, effectively, there is no excise burden on trading in cosmetics.
- Depending on the excise goods in question, one of four types of excise rate may be applicable: a) a percentage of the taxable base; b) an amount per unit; c) a percentage of the maximum retail price; d) an amount per unit and a percentage of the maximum retail price. For example, the excise rate for standard car petrol is PLN 1,565 (approx. EUR 435) per 1,000 litres.
- Passenger cars are subject to the following excise rates:
  - 3.1% for cars with engine capacities not exceeding 2,000 cubic centimetres; and
  - 13.6% for cars with engine cubic capacities exceeding 2,000 cubic centimetres.

Tax on civil law transactions

- As far as businesses are concerned, the tax on civil law transactions (TCLT) applies, basically, to transactions that fall outside the scope of VAT. Most typical of them are incorporations of companies and share capital increases. Both are subject to a flat TCLT of 0.5% calculated on the increased (created) share capital value. The same 0.5% burden is levied on two other transactions that are often used as alternatives to a share capital increase. The first is a loan drawn by a company from a shareholder. The other is an "additional payment" contributed to the company's capital reserves. In each of theses cases, the company receiving a loan/capital injection is the entity obliged to pay the TCLT.

- Furthermore, businesses are obliged to pay the TCLT on two more common transactions:

  – transfer of shares (1% TCLT rate); and
  – transfer of real property, where it is exempted from VAT (2% TCLT rate).

  In both cases the TCLT is payable by the purchaser. As mentioned above, transfer of real property, if made between businesses, can be taxed with the TCLT only if it is exempted from VAT. This condition is met in a limited number of cases, e.g. where residential properties or flats are transferred, unless they are sold for the first time.

Individual taxation

Personal income tax

- Table of progressive taxation of individual annual income for 2008:

Income brackets (in PLN)	Income tax
up to 44,490	19% minus 586.85
44,491-85,528	7,866.25 + 30% on the amount above 44,490
above 85,528	20,177.65 + 40% on the amount above 85,528

- Individuals conducting business activities (as sole traders or as partners in partnerships) can opt for a flat 19% income tax rate, subject to certain conditions.

- It should be noted that the rates shown above (including the flat 19% rate for individual businesses) are effectively increased by 1.25 percentage points due to the additional healthcare contributions (they do not belong to the social security system discussed below).

- During the second half of 2007, Parliament passed an amendment to the Personal Income Tax Law that considerably increased the amount of "children's allowance". As a result, in 2008 people with children are entitled to decrease their personal income tax liability by PLN 1,170 (approx. EUR 325) per child.

- The employer is obliged to withhold the employee's monthly advance payments. The advance for a particular month should be remitted to the tax office by the 20th day of the following month. After the end of the year the employer is obliged to file the annual tax return, which would cover all advances withheld from the employee's salary over the year. The appropriate deadline for each year is the end of January of the following year.

- The final annual personal income tax settlement, including all sources of income, is made by individuals themselves. With some exceptions, individuals are obliged to submit annual returns for the tax year by 30 April of the following year. Within the same deadline, they have to pay the difference between the annual tax due and total amount of advance payments made over the year.

- A Polish resident is a person who: 1) has a centre of personal or business interests (a life interest centre) within the territory of Poland, or 2) spends more than 183 days in a year in Poland.

- Polish tax residents pay Polish personal income tax on their worldwide income. Non-residents are subject to Polish tax on their Polish-sourced income only.

- In many cases, non-residents can benefit from a 20% flat tax rate calculated on their revenues (i.e. with no deduction of costs). The above flat tax applies to various sources of income, including management fees (but not salaries resulting from an employment contract).

- From the tax optimisation perspective, due attention should be paid to personal income tax rules related to copyrights. Namely, the standard cost deduction applicable to the income from copyrights is 50% of the gross revenue. Simultaneously, in many cases it is possible to split the employee's salary into basic remuneration and the copyright element.

Social security

- Both the employer and the employee are obliged to contribute to the Polish social security system.

- The employer is obliged to withhold monthly advance social security contributions and remit them to the Social Security Board (ZUS) monthly.

- Recently, the social security rates have been considerably reduced. As compared to the legislation applicable at the beginning of 2007, the 2008 rate for the employer is two percentage points lower, while the rate for the employee is five percentage points lower.

- As a result, in 2008 the employer pays in a range of 17.48%-20.41% of the employee's gross salary (the employer's contribution rate includes an accident

insurance element that varies according to the business sector). The contribution rate for the employee is 13.71% of gross salary. The social security shares payable by the employer and the employee are tax-deductible items in their respective tax settlements.

- The above rates apply to salaries below the cap of PLN 85,290 (approx. EUR 23,690). After exceeding this cap, the salary is subject to a contribution rate of 3.22%-6.15% payable by the employer and 2.45% payable by the employee.

- Expatriates from EU countries are entitled to exemption from social security contributions under the EU regulations. The basic condition is that an E101 certificate has to be obtained in the expatriate's home country.

Other taxes

Real estate and land tax

- Real estate tax rates are fixed by municipalities within limits set in the Law on Local Taxes and Fees.

- In 2008, land used for business purposes is subject to a rate limit of PLN 0.71 (approx. EUR 0.2) per square meter.

- In 2008, buildings used for business purposes are subject to a rate limit of PLN 19.01 (approx. EUR 5.28) per square meter.

Product fee

- Product fee applies to businesses that introduce specified types of products (e.g. IT equipment and batteries), as well as products with specific types of packaging. Such businesses are obliged to achieve a legally prescribed level of recycling or recovery. If the required level is not achieved (which is often the case), a business is obliged to pay the mentioned product fee, which is calculated annually. The basis for the calculation is the difference between the required level of recycling or recovery and the quantity of products that were actually recycled or recovered.

Legal and other developments

Foreign currency regime

- Currency restrictions are very limited with respect to transactions between Polish residents and residents of EU, OECD and European Economic Area countries. Restrictions that are in place with respect to these transactions are not likely to affect business activity in any way.

- Specifically, no foreign exchange permit is required if a Polish entity draws a loan from or grants a loan to a party that is a resident of a country belonging to the EU, the OECD or the European Economic Area. If this other party is a resident of a "third country" (not belonging to the above organisations), a foreign exchange permit is required in cases where a loan agreement provides for the repayment of more than 50% of the loan in less than a year.

- Transactions made in foreign currency must be booked in PLN for both accounting and tax purposes.

- Costs and revenues expressed in foreign currency arising under import and export transactions respectively, should be booked according to the average rates fixed by the National Bank of Poland ("NBP"). Afterwards, when such costs and revenues are realised (the actual payment is made or received) businesses should make additional booking related to the exchange difference between actual exchange rate applied in a transaction and the average NBP rate applied for the purposes of its initial booking.

Labour code

- Based on general rules, the maximum working time is eight hours per day over five days a week. Therefore, it cannot exceed 40 hours per week. In specific cases the above limits can be exceeded and then the maximum overtime is 150 hours per year. Overtime should be paid extra; alternatively, the employee may request free time in exchange for the overtime.

- Dismissing employees is generally perceived to be difficult under the Polish Labour Code.

- Currently, hiring an expatriate employee generally requires a work permit. The procedure is quite complex and demanding in most cases, but less so for high-ranking corporate officers.

- At this point the work permit requirement no longer applies to citizens of Finland, Greece, Ireland, Italy, Portugal, Spain, Sweden, the United Kingdom or to citizens of countries that joined the EU at the same time as Poland. These countries are the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Slovakia, and Slovenia.

- The work permit requirement will no longer apply to citizens of other EU countries after a lapse of transitional periods resulting from bilateral agreements. Based on the agreements that are currently in force, these transitional periods should lapse on the following dates:

  – 30 April 2011 for citizens of Austria and Germany;
  – 30 April 2009 for citizens of Belgium, Denmark, France, Iceland, Lichtenstein, Luxemburg, the Netherlands and Norway.

- Citizens of the EU countries covered by the transitional periods are subject to various exemptions from the work permit requirement, related (among other factors) to a particular person's length of employment with the Polish employer. Apart from the above, and subject to no conditions, citizens of all EU countries do not require a work permit for serving on a management board.

Competition law

- Based on the Law on the Protection of Competition and Consumers Act the authorities are empowered to monitor and challenge anti-competition agreements between businesses and those practices which abuse a monopolistic position. Furthermore, the authorities can oppose excessive business concentrations.

- The most powerful administrative authority within the area of competition law is the President of the Competition and Consumer Protection Board, who is empowered to decide whether business activities qualify as monopolistic practices and ban them, and also to impose fines on businesses that carry out such activities. Appeals against these decisions can be made to the special Competition and Consumer Protection Court.

Intellectual property

- The principal acts pertaining to intellectual property law are the Law on Industrial Property and the Copyright Law. The former allows businesses to register exclusive rights to – among other things – patents, trademarks and industrial designs.

- The provisions of both acts are being continuously amended in order to harmonise them with EU Law, as well as with international agreements.

Environmental law

- Environmental provisions are included in numerous Acts. The most important is the Law on Environmental Protection. Protection is wide-ranging and businesses therefore have to make significant administrative efforts to ensure that all the requirements are observed. Violation of environmental law provisions may expose a company to administrative fines and an obligation to pay damages, while the responsible individuals may be subject to penal sanctions.

Consumer protection

- Consumer protection provisions are included in several Acts, including the Act on the Protection of Competition and Consumers, the Civil Code and the Civil Proceedings Code. These provisions list contract clauses which are deemed to be abusive. Consumers are entitled to protect their rights through court action if such clauses are imposed on them. Furthermore, the President of the Competition and Consumer Protection Board is entitled to take special action in the Competition and Consumer Protection Court.

Concessions

- Areas in which business activity is subject to concessions are listed in the new Law on Business Activity Freedom that came into force in August 2004. The number of such areas has been reduced to six. They include (among other activities): manufacturing and trading in explosives, arms and ammunition; manufacturing and trading in fuel and energy; providing air transport services; broadcasting radio and TV programs; and mining. The competent authority can refuse to grant a concession if it is determined that a particular company's activities are against the public interest as defined in the Law on Business Activity Freedom.

- Apart from the above, various Acts contain provisions requiring businesses to obtain permits for conducting certain types of activity. These are numerous, and include (among other things): trading in alcoholic beverages; establishing banks and providing bank services; producing and trading in pharmaceuticals; and providing postal services. The fundamental difference between a permit and a concession lies in the fact that the competent authority cannot, in general, refuse to issue a permit if a business entity meets the legally prescribed requirements.

Business transformations

- Provisions related to business transformations are included in the Polish Commercial Companies Code and permit the transformation of a partnership into a company or into another type of partnership, and vice-versa.

- The Commercial Companies Code allows a company to merge with another company or with a partnership. Two or more partnerships can only merge to create a new company. De-mergers, as defined in the commercial law, can only involve companies (and not partnerships). Such a de-merger results in the universal succession of rights and obligations of the split company, which are transferred to the successors according to a "de-merger plan". A partnership can only be split by means of selling a part of their business to another entity. However, these transactions do not result in a universal succession of rights and obligations, and are not regarded as a "de-merger" in the proper legal sense.

- Generally, businesses wishing to transform, to merge or to split have to meet various requirements, including drafting a transaction plan which must be reviewed by an external auditor.

Romania

Highlights

- VAT simplification measures for construction and assembly works or for supply of immovable property will no longer apply.
- The employer's and employee's social security contribution base is no longer capped.
- The procedure for the allocation of public procurement contracts, public works concession contracts and services concession contracts has been substantially modified.

The exchange rate between the Romanian leu ("RON") and the euro ("EUR") used in this report is RON 3.59 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate income tax rate is 16%.
- The income tax rate for micro-companies has been increased from 2% in 2007 to 2.5% for 2008 and will increase again to 3% for 2009. If a micro-company's revenue exceeds EUR 100,000 in a fiscal year or its revenue from consultancy and management services exceeds 50% of annual turnover, it will become a profit-tax payer from the beginning of that particular year.
- The profit tax system with quarterly advance payments was introduced last year and applies to Romanian banks and branches of foreign banks. From 2010, the system will also apply to all other profit-tax payers, with certain exceptions.
- Taxpayers may request an advance tax ruling from the Central Fiscal Committee, subject to certain conditions.
- Dividends received by a Romanian legal person from another Romanian legal person are not taxable revenue. However, in general they are subject to a final 10% withholding tax. From 2007, dividends received from a foreign legal person in another EU Member State are not taxable if the Romanian legal person has held a minimum of 15% of the shares in the foreign legal person for at least two consecutive years on the date when the dividend is paid. The minimum participation threshold will be reduced to 10% from 2009.
- Tax losses can be carried forward for five years.
- Profit tax depreciation can be different from accounting depreciation. Accelerated tax depreciation is available for technical equipment, computers and peripherals, and patents.
- Provisions for doubtful receivables are deductible up to 30%, provided that the following conditions are met: they were recorded after 1 January 2004; they remain unpaid for more than 270 days after the due date; they are not guaranteed by another person; the debtor is not a related party; and the receivables were included in the taxpayer's taxable revenues.
- The following reserves and provisions are no longer deductible for profit tax purposes:
  - reserves established by banks, other authorised lending institutions and mortgage loan companies;
  - reserves established by insurance and reinsurance companies to equalise their corporate tax liabilities in subsequent years (known as 'equalisation reserves');
  - provisions created by guarantee funds, in accordance with the method prescribed by the National Bank of Romania.
- The deductibility of interest on loans contracted from related parties and non-financial institutions (where financial institutions include banks, leasing companies, mortgage companies, etc.) is firstly limited to 7% for loans denominated in foreign currency and to the National Bank of Romania reference interest rate for loans denominated in local currency. Interest exceeding these limits is non-deductible and cannot be carried forward in future periods. Secondly, if the debt-to-equity ratio is higher than 3:1, all the interest expenses and net losses from foreign exchange differences related to credits or loans with a reimbursement period longer than 12 months are non-deductible in the year in which they are booked. These expenses are carried forward indefinitely to the following fiscal years, and they will become deductible in the first year in which the debt-to-equity ratio falls below 3:1.
- The interest expenses and the net losses from foreign exchange differences related to loans from Romanian or foreign banks, leasing companies and other entities expressly mentioned by law are fully deductible.
- Loans contracted directly or indirectly from Romanian or foreign banks, leasing companies, mortgage companies and other entities expressly mentioned by the law are no longer taken into account when computing the debt-to-equity ratio.
- Travel and accommodation expenses that employees and administrators incur for business purposes in Romania and abroad, as well as business trip

allowances granted to employees up to 2.5 times the legal ceiling set for public institutions, are deductible.

- The Romanian tax authorities are increasingly focusing on activities (including management services) that constitute a permanent establishment in Romania. There are certain requirements for the supporting documentation for expenses allocated by headquarters.

- As regards the definition of financial leasing, three new conditions for a lease agreement to qualify as a financial lease have been introduced, and apply from 1 January 2007:

  – The user has the option to buy the leased goods item on the expiry date of the contract, and the ratio between the residual value payable and the principal must be lower than or equal to the ratio between the maximum useful life less the lease period, on the one hand, and the maximum useful life on the other hand;
  – The total amount of the lease instalments, less ancillary expenses, is higher or equal to the initial value of the goods item.
  – Moreover, the minimum lease period which defines a financial lease has been increased to 80% (as compared to 75% previously) of the useful life of the goods item.

- A flat tax of EUR 4,000 per fiscal year is levied on representative offices (payable in RON using the exchange rate valid on the payment date). The tax must be paid in two instalments by 20 June and 20 December respectively. Foreign companies' representative offices in Romania, incorporated after the beginning of a year, are taxed pro-rata according to the number of months they have been in operation in that year.

Withholding tax

- Domestic withholding tax is levied at the rate of 16% on revenues such as dividends, interest, royalties, commissions and fees for management advisory services obtained from Romania by non-resident individuals and legal entities. There are some exceptions to the general 16% rate.

- Romanian entities paying dividends to other Romanian entities must apply 10% withholding tax subject to the exemption under the Parent-Subsidiary Directive below.

- Starting from 1 January 2007, according to the provisions of the Parent-Subsidiary Directive, dividends paid by a Romanian company to a company resident in one of the EU Member States are exempt from withholding tax if the dividend beneficiary has held a minimum of 15% of the shares (10% from 2009) of the Romanian company for a continuous period of at least two years ending on the date that the dividends are paid.

- As part of its EU accession terms, Romania has a transition period until 2010 within which to apply the Interest-Royalties Directive in full. During this transition period, payments of interest and royalties by a Romanian company to a company resident in another EU Member State will be subject to 10% withholding tax, provided that the receiving company has held not less than 25% of the share capital of the paying (i.e. Romanian) company for an uninterrupted period of two years ending on the date when the payment is made. From 1 January 2011, these payments will be exempt from withholding tax, provided that the above conditions are met.

- From 1 January 2007, revenues derived by non-residents from the liquidation or dissolution without liquidation of a Romanian legal entity are also subject to 16% withholding tax.

- The withholding tax rates can be reduced under Double Tax Treaties. The more favourable treaty rates may be applied immediately if the payment recipient makes a tax residence certificate available by the payment date. Since 1 January 2007, tax residence certificates have also been valid for the first 60 days of the following year.

- If a contract with a foreign party stipulates net payments to that party (and assuming withholding tax would be due for the type of payment concerned), it is the view of the tax authorities that the Double Tax Treaty provisions cannot be applied, even if a tax residence certificate is available.

Double Tax Treaties

- Romania is a party to 81 Double Tax Treaties.

Transfer pricing

- In line with the Romanian transfer pricing legislation, transactions between related parties should be conducted on the arm's length principle. If transfer prices are not set at arm's length, the Romanian tax authorities have the right to adjust the taxpayer's revenues and expenses to reflect market value.

- Traditional transfer pricing methods (as well as any other method that conforms with the OECD Transfer Pricing Guidelines) may be used for setting transfer prices. Domestic legislation expressly stipulates that, in implementing the transfer pricing rules, the Romanian tax authorities will also consider the OECD Transfer Pricing Guidelines.

- Taxpayers engaged in related-party transactions are required to prepare transfer pricing documentation and make it available at the request of the Romanian tax authorities. The detailed content of transfer pricing documentation has not yet been approved.

- The Advance Pricing Arrangement system has been introduced. As long as the terms and conditions of an Advance Pricing Arrangement remain unchanged, it is binding on the tax authorities and can be used to challenge a tax authority decision. The standard procedure for issuing Advance Pricing Arrangements is still to be approved by the government.

Deferred tax

- Accounting for deferred taxation is available in Romania under the accounting regulations, which have been harmonised with the Fourth European Economic Council Directive. The difference between the accounting rules and the tax regulations causes certain differences between the carrying value of assets and liabilities for financial reporting and tax purposes respectively. Deferred income taxes are calculated on all temporary differences under the liability method, using the statutory tax rate of 16%.

Investment incentives

- A new Investment Bill is expected to come into force in 2008. The incentives granted under this new law include loans at preferential interest rates, loans guaranteed by the state, subsidies, and exemptions, reductions and postponement of local taxes as well as other exceptions. In order to qualify for such incentives, investments must meet the criteria for the investment amount, duration, objectives and eligibility stipulated in this law.

- Government Decision 1164 on the “de minimis aid scheme” and Government Decision 1165 were issued in order to stimulate economic growth. Under these state aid schemes, if certain conditions are met, companies registered in Romania can benefit from incentives without the need for such aid to be notified to the European Commission.

Indirect taxation

VAT

- The standard VAT rate is 19% and applies to all supplies of goods and services that do not qualify for an exemption (with or without credit) or for the reduced 9% VAT rate.

- The following are included in the range of items subject to VAT:

  – supplies of goods and services;
  – imports of goods;
  – intra-community acquisitions and operations deemed to be intra-community acquisitions.

- The transfer of a going concern is not subject to VAT if the recipient is a taxable person. In addition, the recipient is regarded as the assignor’s successor for the purpose of any adjustment to previously deducted VAT.

- Companies conducting triangular operations, work on movable goods, or that have goods in a consignment stock or call-off stock, or that receive or supply goods on trial, may face VAT registration requirements. However, companies need not register for VAT purposes if certain conditions are fulfilled.

- Importers are required to physically pay the VAT imports of goods in the customs office, unless they secure a deferment certificate. Deferment certificates are issued by the national customs authority, provided that certain conditions are fulfilled.

- The rules for establishing the place of supply for goods and services are fully aligned with the EU 6th VAT Directive.

- Services rendered by off-shore entities to Romanian companies, whose deemed place of supply is in Romania, are subject to Romanian VAT under the reverse-charge mechanism, provided that the off-shore entities are not established in Romania for VAT purposes.

- Some operations are exempt with credit (i.e. with right of deduction) for input VAT (e.g. intra-Community supply of goods in another Member State, exports of goods, the supply of services, including transport and ancillary services, supply of goods intended to be placed in one of the following regimes: temporary importation customs regime, bonded warehouse, free zone/warehouse, etc.).

- The exemption applicable for services performed on goods acquired from or imported into Romania with a view to being placed under an inward processing regime will be extended to all processing services on goods acquired in or imported into Romania, provided the finished products are subsequently transported outside the Community by the service-supplier or the client.

- Certain financial, banking and insurance activities as well as medical, veterinary and social services provided by authorised persons and educational organisations are exempt without credit.

- VAT exemption without credit applies for the renting of real-estate, the leasing of immovable goods, the supply of old buildings and land not used for construction purposes. However, the option for these operations to be taxed is available.

- For computing pro-rata VAT, the value of sales of capital goods, as well as the value of other transactions performed on an occasional basis, will not be included in the pro-rata calculation. The pro-rata amount should be rounded up in the taxpayer's favour.

- Under certain conditions it may be possible for a number of companies to form a single fiscal group for VAT purposes. However, VAT grouping only consists in the consolidation of the VAT payable/reimbursable positions of the individual VAT returns within the group, whereas the transactions between the members are still treated as ordinary transactions for VAT purposes.

- The supply of a new building or a part of it, or the supply of building land, by any person, are subject to VAT, irrespective of whether or not that person deducted the input VAT related to the acquisition or building of that immovable property.

- From January 2008, simplification measures for construction and assembly work or for supplies of immovable property no longer apply. Therefore, real estate developers and buyers now have to pre-finance the VAT, irrespective of whether they are registered for VAT purposes or not.

- As a general rule, the fiscal period is the calendar month. For VAT-registered persons whose turnover had not exceeded EUR 100,000 at the previous year-end, the fiscal period is the calendar quarter. The VAT return should be submitted and the payment remitted to the tax authorities by 25th of the month following the fiscal period. The VAT return should be submitted on an electronic carrier (floppy disc).

- Taxable persons are required to file quarterly EC Sales and Acquisitions Lists. Taxable persons are also required to file monthly Intrastat returns if their intra-Community acquisitions exceed EUR 85,700 a year and/or their intra-Community supplies exceed EUR 257,000 a year. Also, new recording requirements must be complied with, such as the non-transfer ledger and the ledger for goods received from another Member State. Advance payments received for intra-Community supplies of goods or paid for intra-Community acquisitions of goods should also be reflected in the VAT reporting.

- Taxable persons established in the EU are entitled to VAT reimbursement for the VAT costs incurred in Romania under the Eighth Directive. Companies established outside the EU can reclaim the VAT costs in Romania, if a reciprocity agreement is concluded between Romania and the non-EU country in this respect.

Customs duties

- The customs duties are those specified in the EU Common Customs Tariff. Also, the import measures (e.g. antidumping, anti-subsidy, countervailing duties or prohibition, restrictions or control measures) applicable in the EU on the release for free circulation of goods originating from outside the EU (e.g. China, Turkey) are applicable in Romania as well, due to its accession.

- From 1 January 2008, a new Combined Nomenclature ("CN") applies, replacing the 2007 CN. The 2008 CN tariff codes are also used for Intrastat reporting.

- Certain agricultural products are subject to specific taxation. For some agricultural products there are additional duties on, e.g. sugar, chocolate and flour.

- Companies can seek rulings (binding tariff information) from the Romanian customs authorities on the tariff classification of imported goods, which are binding on customs authorities for six years when a goods item identical to the one described in the binding tariff information is imported. A similar type of ruling can be obtained on the origin of goods. Binding origin information is valid for three years.

- Customs regimes such as Inward Processing Relief (IPR), Outward Processing Relief (OPR), bonded warehouse and temporary admission, and customs destinations such as free warehouses and free zones, are also available.

Excise duties

- The following products are subject to harmonised excise duties: alcoholic beverages, tobacco products and energy products (e.g. unleaded petrol, electricity, coal).

- Excisable products can only be produced, transformed, held and received under a duty suspension arrangement in a tax warehouse, which should have prior approval from the tax authorities. Such excisable products can

also be received from within the EU under excise duty suspension arrangements by both registered and unregistered traders.

- Ethyl alcohol and other alcoholic products are exempt from excise duty payment if they are denatured and used in the food, pharmaceuticals or cosmetics industries.

- Following the EU Accession negotiations, Romania was granted several derogations in the field of excise duties. Thus, for certain products (e.g. tobacco products, unleaded petrol, diesel fuel, natural gas used for non-commercial purposes, oil supplied by utility companies for urban heating, electricity for commercial and non-commercial purposes), Romania has transitional periods before reaching the minimum EU excise duty levels.

- On 1 July 2007, the excise duty rate on cigarettes was increased from EUR 34.5/1,000 cigarettes to EUR 41.5/1,000 cigarettes (i.e. EUR 20.89/1,000 cigarettes plus 27% levied on the maximum retail price). The minimum excise duty rate was set at EUR 37.78/1,000 cigarettes.

- From 1 January 2008, traders purchasing non-harmonised excisable products from abroad (e.g. coffee, perfumes, jewellery and furs) are entitled to a refund of the excise duties paid if the products are exported, supplied to another Member State or returned to the supplier in an unaltered state.

- The excise duty on motor vehicles has been replaced by a special registration tax. This tax must be paid when a motor vehicle is first registered in Romania and is calculated on the basis of the emission rating, engine capacity and age of the vehicle.

Environmental tax

- For certain activities (e.g. sales of ferrous and non-ferrous scrap, activities resulting in air-polluting emissions, and the placing of packaging, tires and hazardous substances on the market), companies must pay contributions to the Environmental Fund. From November 2007, the contribution to the Environmental Fund for polluting emissions released into the atmosphere by mobile sources (e.g. vehicles) has been abolished.

- Companies have to report and pay these taxes to the Environmental Fund Administration monthly, half-yearly or yearly, depending on the tax concerned.

Individual taxation

Personal income tax

- The personal income tax rate is a flat 16%.

- Income tax should be withheld by the employer and paid by the 25th day of the following month.

- From 2007, foreign individuals who have met the Romanian tax residence criteria for the three prior consecutive years will be taxed in Romania on their global income.

- An amount of up to RON 300 per year (approx. EUR 84) of the expenses that individuals incur with banks that provide housing loans in connection with savings schemes for house and flat purchases is deductible from the income tax base of the salary earned from the individual's main employment.

- Rental income derived from more than five rental contracts at the end of a fiscal year is deemed to be income from freelance activities, starting with the following fiscal year.

- The tax rate for capital gains is 16% (for securities owned for less than 365 days) and 1% (for securities owned for more than 365 days). Since 1 January 2007, capital gains earned on the securities of unlisted companies and the shares of limited liability companies have been taxed at 16%, irrespective of how long they have been owned. No tax is payable on income gained when stock options are granted, vested or exercised.

- Income from the following sources is subject to 10% advance personal income tax payments: intellectual property, sales under consignment, civil agreements, and technical, accounting or legal expertise. Income from civil agreements can also be subject to 16% final tax as other income, if an individual chooses this option.

- Transfers of real estate are taxed at rates of up to 2% or 3% on the value of the property sold. The applicable rate depends on the period of ownership (three years or more than three years) and the value of the real estate (above or below RON 200,000, approx. EUR 55,710).

Social security

- Both employers and employees are required to contribute to the social security system. The percentages paid by the employer and the

employee are levied on gross salary and are as follows:

- Employees' contributions:
  - Social security contribution: 9.5% (as of 1 August 2007, this is levied on an uncapped base).
  - Unemployment fund contribution: this was reduced from 1% to 0.5 % as of January 2008; also, the monthly base for calculating the individual unemployment contribution will increase to total monthly gross income (including bonuses, overtime and allowances.
  - Health fund contribution: 6.5%; this will be reduced to 5.5% with effect from July 2008.
- Employer's contributions:
  - Social security contribution: 19.5% (for standard working conditions), 24.5% (for particular working conditions), and 29.5% (for special working conditions), of salary fund, un-capped as of January 2008. The social security contribution for all types of working conditions is expected to decrease by 1.5% with effect from December 2008.
  - Health fund contribution: 5.5%.
  - Contribution for sickness leave: 0.85%. The monthly base for calculating the medical leave contributions cannot exceed the result of multiplying the number of employees by the value corresponding to 12 minimum gross salaries (approx. EUR 1,760).
  - Salary guarantee fund (for payment of salary debts): 0.25% of salary fund.
  - Unemployment fund: 1% of salary fund for the period January 2008 – November 2008. The unemployment fund is expected to decrease by 0.5% with effect from December 2008.
  - Occupational accidents and diseases fund: 0.4%-2%, depending on the risk category (company activity type).
  - Labour office commission: 0.25% or 0.75% of salary fund.
- Employers calculate and withhold social security contributions. They are also obliged to pay the contribution no later than 25th of the month following the month to which the salary relates. Failure to pay the contributions within 15 days of this date is a criminal offence and is penalised accordingly.
- The employment contracts of directors of joint-stock companies with management responsibilities should have been lawfully terminated as of 29 June 2007, and the remuneration received by these directors should be based on mandate agreements. From a tax perspective, such income is to be treated as salary income and therefore subject to all social security charges due by both employer and employee (except for the employer's Labour Office administration charge).

Pensions

- Pension income below RON 1,000 per month (approx. EUR 280) is tax-free.
- Employees and employers may contribute to private pension funds in addition to the mandatory state pension fund. The employee's contribution is deductible for income tax purposes, and capped at EUR 200 per year. The employer's contribution up to the same cap is not taxable for the employee and is deductible for profit tax purposes.

Expatriates

- Expatriates working in Romania and extending their right to stay in Romania beyond 90 days must pay (in addition to 16% income tax) the monthly health fund contribution on salary income received from abroad.
- Since EU accession, the EU social security regulations also apply in Romania and EU employees working in Romania will pay social security contributions in Romania. An exception applies for secondees who may be exempted from contributing to the Romanian social security system, provided that they continue to pay social security contributions in their employer's home country (EU States) and can produce an E-101 certificate.
- As of July 2007, EU nationals are no longer required to obtain work authorisations (i.e. work permits as in the past) in order to work in Romania as secondees or local employees.
- Foreign individuals seconded to Romania by EU/EEA based companies are exempted from obtaining work authorisations. Instead, they have to notify the labour and immigration authorities about their secondment.
- Since EU accession, foreigners who are family members of Romanian nationals no longer have to obtain work authorisations in Romania, prior to entering into Romanian employment agreements.
- EU nationals can enter and reside in Romania for three months without obtaining a formal residence document. Afterwards, they should obtain a "certificate of registration" to extend their legal stay. However, family members who are not EU/EEA citizens themselves are subject to a different immigration compliance procedure.

Other taxes

- Since 1 January 2007, the local tax authorities have been entitled to exceed the statutory cap on any local tax by 20%.
- In the case of buildings, land and means of transport subject to financial leasing, the related taxes are no longer due from the owner but from the lessee (the beneficiary), unless the lease contract is terminated before its maturity date.
- Local tax exemption incentives for up to five years are no longer available for investments larger than EUR 500,000 if put into operation after 1 January 2007.

Real estate and land tax

- Building tax ranges between 0.25% and 1.5% of the building's book value. This percentage increases to 5%-10% of the building's book value if the building was not revalued in the last three years.
- If the land tax due for the entire year is paid in advance by 31 March, a reduction of up to 10% is granted. The rate is decided by the local council.

Legal and other developments

Foreign currency regime

- Under the Foreign Currency Regulations of the National Bank of Romania (NBR), current and capital foreign currency transactions between residents can only be conducted in RON, but both foreign currency and RON can be used by certain categories of persons and/or for certain categories of transactions.
- Transactions between Romanian residents and non-residents can be conducted without restrictions, in both RON and in foreign currencies, with a few exceptions set out in the Foreign Exchange Regulations.
- There are no restrictions on non-residents opening foreign currency accounts (current or time deposit accounts) or RON current accounts at Romanian banks.
- The NBR has deregulated foreign currency transactions, so that NBR authorisation is not necessary for current and capital foreign currency transactions. Likewise, investment in government securities is not restricted for non-residents, and they can invest in such securities under the terms of the issue prospectus.
- The NBR is also entitled to apply certain safeguard measures if capital inflows for the purchase of Romanian financial instruments cause strong fluctuations in the market.

Labour code

- The Romanian Labour Code was amended a number of times in 2006. The legal framework currently in place covers, among other things:
  - probationary periods of 30-90 calendar days (to be included in the individual employment agreement), depending on the position held by the employee;
  - detailed rules on the termination of individual employment agreements (including individual and collective dismissals), in terms of both reasons for termination and the procedure to be followed by the employer;
  - the possibility of including special clauses in the individual employment agreements, such as a non-compete clauses, mobility clauses and confidentiality clauses;
  - the employer's liability to employees has been extended to include moral damage caused to an employee during or in connection with the performance of the employee's duties. This liability for moral damage is additional to the existing liability for material damage under the Labour Code.
- Directors of a joint-stock company are totally forbidden to have any employment relationship with that company. On the other hand, persons appointed as directors in limited liability companies are allowed to conclude individual employment agreements with the companies concerned.

Competition law

- The Romanian anti-trust regulations are now harmonised with EU competition regulations, both in terms of anti-competition agreements and practices, and as regards economic concentrations.
- A new state aid scheme for investments in industrial parks was published recently. This scheme mainly provides local tax exemptions for land and buildings, as well as exemptions from land reclassification taxes.
- The Competition Council has become noticeably more active lately, in relation to both anti-trust structures and activities (economic concentrations, vertical or horizontal agreements, abuse of dominant position, etc.) and state aid. Failure to comply with anti-trust law is subject to significant fines and corrective measures imposed by the Competition Council on the undertakings concerned.

Intellectual property

- Further steps in the harmonisation of national laws with European law in respect of industrial design will become effective on 21 March 2008.
- Design models are regulated under Romanian laws (to become effective on 12 March 2008) in light of the proposal for a European Parliament and Council Directive on the legal arrangements for the protection of inventions by means of design models and the need for harmonised legislation in this field.

Environmental law

- Further steps in the adoption of the EU regulations have been made by passing new regulations. In addition, new regulations on air quality and noise emission limits have been adopted. The Romanian authorities will have to keep the European Commission informed on certain environmental issues. During 2007, further steps in the adoption of the EU 'acquis' were made by the enactment of various laws concerning integrated pollution prevention and control, waste management and green areas.
- New regulations on waste management and environmental awareness have been implemented.
- A new procedure for issuing/obtaining environmental permits has been implemented.
- The domestic legislation on the use of hazardous substances in electrical and electronic equipment has been amended to implement Commission Decision (EC) No 310/2006. This amendment extends the number of exemptions for the use of hazardous substances in electrical and electronic equipment, to keep up with technological progress.
- Companies that manufacture, process or trade in electrical and electronic equipment (EEE) have to register with the relevant authority. The registration requirements for producers have now been reduced. Companies registering after 1 January 2007 no longer have to submit proof of the guarantee for financing waste management operations. This provision also applies to companies that applied for registration before this regulation was issued and are in the process of registration.
- New steps have been taken to ensure the protection of green areas and to provide incentives for their development. A new regulation on environmental liability with reference to the prevention and repair of damage to the environment has been implemented. This regulation requires all undertakings (individuals and legal entities undertaking economic and professional activities) to control, isolate, eliminate or manage any polluting substances for the purpose of limiting the spread of existing or preventing future environmental damage, as well as to take any necessary repair measures.

Consumer protection

- Several important pieces of legislation in the field of consumer protection came into effect on 1 January 2007.
- The Product Safety Act transposes Directive 95/2001/EC on general product safety. Since 1 January 2007, Romania has been integrated into the RAPEX system, a rapid alert system for products which pose a serious risk and must be withdrawn from the market if they are likely to put the health and safety of consumers at risk.
- On 3 April 2007, Order No. 205/2007 of the National Authority for Consumer Protection came into force, giving customers the right to be informed correctly, fully and precisely about the exchange rate used by economic operators in foreign exchange transactions. For this obligation to be fulfilled, customers have to complete an acceptance form for the foreign exchange transaction before the transaction takes place. The acceptance form has to be in both Romanian and English and has to be signed by both parties, i.e. by both the customer and the economic operator.

Public procurement and concessions

- The Romanian public procurement national authority ("NARMPP") has extensive inspection and monitoring powers, and the authority to conduct prior checks on the accuracy and legality of tender procedures for awarding contracts of significant value.
- Tender procedures are also prescribed for the awarding of public works and service concession contracts by central or local contracting authorities. Private undertakings that have entered into concession contracts must also observe strict transparency rules (including the publication of a tender notice in the European Union Official Journal), when awarding sub-contracts that exceed EUR 5 million in value.
- During 2007, the procedure for the allocation of public procurement contracts, public works concession contracts and services concession contracts was substantially modified. The main changes are:

– The 'de minimis' threshold previously established at EUR 5,000 was changed to the RON equivalent of EUR 10,000. Contracts below this threshold can be given directly to suppliers;
– It expressly states that candidates/bidders do not have the right to submit two or more individual or joint offers in the same procedure, under the sanction of these offers being excluded from the competition. Furthermore, candidates/bidders do not have the right to submit an individual or joint offer and be nominated as subcontractor in another offer in the same procedure, under the sanction of exclusion of its individual offer, or the one in which they are an associate bidder, given the existence of different provisions in the documentation of allocation;
– If the official Web-based Romanian Electronic System for Public Acquisitions (SEAP) is not able to send an announcement for publication, the contracting authority and not NARMPP is held liable for sending the announcement for publication;
– The thresholds at which public tenders must be offered have changed to EUR 75,000 for supply or services contracts and EUR 500,000 for works contracts.

Business transformations

- The following forms of business transformation are allowed:

  – merger of two or more companies;
  – partial or total spin-off a company; and
  – transfer of business.

- A financial valuation of the companies involved in a merger/spin-off should be made on the merger/spin-off date in order to establish the exchange ratio for their respective shares.

- In certain cases, the companies taking part in a merger/spin-off can set the date for the merger/spin-off for accounting purposes.

- The managers of the companies involved in a merger or spin-off must draft a report justifying the economic and legal grounds for the process.

- Changes in corporate structure resulting from a business transformation must be registered in the Trade Register.

- Business transformations have labour law and competition law implications.

Other

- The Fiscal Procedure Code was amended in September 2007. The main changes are as follows:

  – Taxpayers will have to pay duties, taxes, contributions and other charges that are due to the state consolidated budget, which are to be defined by order of the president of the National Agency for Fiscal Administration, into a single account from 1 January 2008. For taxpayers without outstanding tax liabilities that pay their full tax obligations within the statutory time limits, the legal provision can be applied from September 2007.
  – Late-payment penalties for tax liabilities do not apply when insolvency procedures have started, regardless of when the liabilities were assessed.
  – Enforcement against debtors' assets has to be made, as provided by the Law, up to a limit of 150% of the amount of their tax liabilities, including the enforcement costs.

Russia

Highlights

- Dividends received by Russian companies from certain "strategic investments" are subject to a 0% dividend tax rate.
- Special rules on the taxation of the sale and purchase of an enterprise as a property complex (i.e. the sale of a business unit) have come into effect.
- The list of VAT-exempt supplies has been extended to include the transfer of certain intellectual property rights (not including trademarks).

The exchange rate between the Russian rouble ("RUB") and the euro ("EUR") used in this report is RUB 35.88 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The maximum corporate profits tax rate is 24%, comprising 6.5% federal and 17.5% regional components. The regional authorities are allowed to reduce the tax paid to their budget by 4 percentage points.
- The tax year in Russia is the calendar year. Other fiscal year-ends are not permitted.
- Profits tax is calculated on a year-to-date basis. Advance payments are made monthly, with different calculation methods for quarterly or monthly schedules subject to the taxpayers' choice. The annual balance is due by 28 March of the following year.
- The Profits Tax Chapter of the Tax Code contains an open list of deductible items. There is a general requirement that expenses be economically justified and supported by documents. Certain business expenses are either deductible within certain limits (e.g. per diems, medical insurance expenses, certain types of advertising expenses) or are treated as non-deductible.
- The depreciation period of fixed assets is to be determined in accordance with government regulations. The revaluation of fixed assets is not recognized for tax purposes. In addition to depreciation at standard rates, taxpayers may deduct up to 10% of the historical cost of fixed assets (except for fixed assets obtained free of charge) in the year when the asset is put into use (when depreciation starts).
- Taxpayers' accounting policies must set out a list of direct expenses and the method of allocating them to work-in-progress and finished products. Taxpayers that provide services may deduct direct costs in full for profits tax purposes, without allocating a portion to work-in-progress.
- Losses may be carried forward for 10 years. In cases of reorganisation, the predecessor company's losses may be utilised by its successor.
- Foreign organisations are taxed as follows:
  - Russian tax applies to profits (income) generated from sources in Russia.
  - In general, only the business profits of foreign organisations attributable to a permanent establishment are subject to Russian corporate profit tax.
  - Certain types of income are subject to Russian withholding tax (see the "Withholding tax" section below).
  - A permanent establishment is broadly defined in the Profits Tax Chapter of the Tax Code as "a branch, division, office, bureau, agency, or any other place through which a foreign legal entity regularly carries out its business activities in Russia". Preparatory and auxiliary activities carried out on behalf of the head office are not treated as a permanent establishment. However, the provisions of tax treaties between the Russian Federation and other countries, which may provide tax relief, may contain different definitions of a permanent establishment.
  - If a foreign legal entity carries out or intends to carry out an activity in the Russian Federation through a place of business for a period exceeding 30 days, it is required to register with the tax authorities at the place where the activity is conducted, regardless of whether the activity is taxable. If the foreign legal entity has activities in several regions throughout Russia, separate tax registration and reporting is required in each region.
  - Foreign companies with permanent establishments in Russia are subject to tax on substantially the same basis as Russian legal entities, although a deemed profit (20% of related expenses) may be used as the tax base if it is not possible to calculate their profit directly and a foreign organisation conducts free of charge preparatory and/or auxiliary services for the benefit of third parties.
- Tax refunds are technically possible but are very difficult to obtain in practice. Often they can only be obtained through court action.
- Tax consolidation of tax reporting/payments by different legal entities (or grouping) is not permitted in Russia at present.

- Leased assets can be depreciated for tax purposes at rates up to triple the normal tax depreciation rates. Unlike in most other countries, in Russia, it is for the parties of the financial lease agreement to decide whether the lessee or the lessor should account for the leased assets and depreciate them.

- Interest is deductible on loans used to finance both capital and current outlays. Deductible interest should not deviate by more than 20% from market levels of interest or, if the taxpayer chooses, the officially accepted levels (currently 15% on loans in foreign currency, or the Central Bank of Russia refinancing rate multiplied by 1.1 on rouble loans).

- Under the thin-capitalisation rules, a proportion of the interest payable by a Russian organisation to a foreign organisation that owns (directly or indirectly) more than 20% of its charter capital may be disallowed for deduction and reclassified as a dividend. The thin-capitalisation rules also cover loans provided to a Russian legal entity by another Russian legal entity which is considered to be an affiliate of the foreign shareholder, as well as loans under which this affiliate company and/or foreign shareholder itself are deemed to be a guarantor, or are in any other way obliged to ensure payment of the loan. The thin-capitalisation rules only apply to indebtedness that exceeds three times the foreign organisation's proportionate ownership in the taxpayer's capital. This is increased to 12.5 times for leasing and credit organisations.

- Companies may create reserves against bad debts in relation to debts arising on the sale of goods, performance of work and rendering of services, as well as reserves for warranty repairs and service, for repairing fixed assets, and for employee vacation allowances, all of which may be deducted under certain conditions.

- There is no separate capital gains tax in Russia. Capital gains are included in taxable income, which is subject to corporate profit tax. Losses from the sale of securities are deductible only up to the amount of gains earned on the same class of securities (although certain exceptions apply for banks, brokers and other financial institutions). Losses from the sale of fixed assets may be deducted for profits tax purposes in equal instalments during the remaining economic life of the asset sold.

- Under Production Sharing Agreements concluded with the Government, companies investing in the extraction of natural resources may use a special tax regime.

- Certain types of businesses, such as gambling, are taxed under separate rules and are not subject to general profits tax provisions. Regional authorities have the right to tax the imputed income of legal entities and individual entrepreneurs in certain industries, including retail and transport, provided that certain criteria are met (e.g. floor space of a retail outlet). The tax rate has been set at 15% of imputed income, which is determined using special formulae. Payers of the tax on imputed income do not have to pay most other taxes.

- Enterprises, farms and individual entrepreneurs producing agricultural products may be obliged to pay a unified agricultural tax instead of most other taxes if their revenues from agricultural activity for the previous calendar year are equal to at least 70% of their total revenues.

Withholding tax

- Under Russian legislation, dividend income payable to a foreign organisation is subject to withholding tax at 15%. From 1 January 2008, the same rate applies to dividend income paid to non-resident individuals.

- Russian-sourced interest and income from copyrights, licenses and some other items are subject to income tax withholding at the rate of 20%, provided the above types of income are not connected with a permanent establishment of a foreign legal entity in Russia.

- Some types of income can be taxed at either 20% on proceeds or 24% on margins (provided there is proper documentary support of the expenses incurred).

- Margins (or proceeds) from sales of the shares of a Russian company are subject to withholding tax at 24% (or 20%), provided that immovable property constitutes more than 50% of the underlying assets of the issuer.

- Income from the use, maintenance or leasing of ships, aircraft and other mobile transportation vehicles, vessels or containers in connection with the performance of international shipments is subject to withholding tax at 10%.

- Withholding tax may be reduced or exempted under a Double Tax Treaty. To apply Double Tax Treaty benefits, the income payer should obtain a duly apostilled tax residence certificate of the recipient of the income prior to making any payments. The provisions of Double Tax Treaties override domestic tax legislation.

Double Tax Treaties

- Russia currently honours tax treaties signed by the former Soviet Union until they are replaced with new ones, and continues to renegotiate existing treaties and enter into new treaties. Treaties tend to follow the guidelines of the

Organization for Economic Cooperation and Development (OECD) Model Convention, although the UN Model Convention for developing countries has had an influence as well. Including the Double Tax Treaties concluded by the USSR, there are now 69 Treaties in force, with about 20 more currently at various stages of negotiation or ratification.

Transfer pricing

- The tax authorities have the right to control the prices applied in transactions between related parties, barter transactions, foreign trade transactions and transactions in which the prices fluctuated by more than 20% within a short period of time. The price applied in "controlled" transactions may only be adjusted for tax purposes if it differs from the market price by more than 20%.

- Three methods are available to determine the market price (in order of preference): 1) Comparable Uncontrolled Price (CUP), 2) Resale-Minus, and 3) Cost-Plus.

- The provisions of the Tax Code do not contain detailed guidelines on the transfer pricing documentation that a taxpayer should have at the time of filing a tax return for the period in which the transaction was effected. However, such documentation may be requested by the tax authorities.

- Changes in the Russian transfer pricing rules are expected, but not earlier than 2009. Currently, there are two draft laws under discussion. Among other changes, both drafts introduce transfer pricing reporting and documentation requirements.

Deferred tax

- Russian organisations should disclose information in their Russian statutory financial statements about their current profits tax, deferred tax assets and deferred tax liabilities and permanent tax differences.

Investment incentives

- Regional authorities are allowed to reduce the rate of profits tax attributable to the region's budget by no more than four percentage points (i.e. from 17.5% to 13.5%). This incentive is only available in certain regions.

- The federal Law "On Special Economic Zones" defines the following special economic zones ("SEZs"):

  – technical research and implementation zones for scientific projects;
  – industrial production zones for the development of industrial production;
  – tourism and recreational zones for the development and effective use of Russian tourism resources; and
  – special port zones (effective from 5 December 2007).

- SEZ residents may not have separate subdivisions outside the SEZ. There are special requirements for the minimum amounts of investments and the maximum length of existence of SEZs.

- SEZ residents may be entitled to a number of other tax benefits under certain conditions, including reductions in property tax, land tax and Unified Social Tax, and the use of accelerated tax depreciation.

- SEZs, except for tourist-recreation zones, will be treated as Free Customs Areas (FCAs). Generally, foreign goods delivered and used in a SEZ under FCA rules will be free from import customs duties, import VAT and other economic restrictions established by Russian legislation on foreign trade activity. Excise duty must be paid in full (except on goods placed or used in FCAs in special port zones).

Indirect taxation

VAT

- The standard VAT rate is 18%. A special zero rates apply to exports, cross-border transportation and the service of processing goods placed under processing customs regimes (sale-and-purchase arrangements involving processing are not covered). Some categories of goods are taxed at 10% (e.g. some basic food products, goods for children, medicines and some mass media products). Since 1 January 2006, the accruals method of revenue recognition for VAT purposes applies for all taxpayers. Advance payments continue to be subject to VAT, with the exception of export advances, which are not VAT-able. The changes to the Tax Code provide special rules to be used during the transition period until the end of 2007.

- VAT on expenses incurred in connection with the performance of activities subject to VAT, as well as VAT on purchased or imported fixed and intangible assets, is recoverable against output VAT. Input VAT recovery with respect to certain business trips, entertainment and advertising expenses is limited in the same proportions as for profits tax deduction. If sales are exempt from VAT, as a general rule the corresponding input VAT is not credited but is included in the cost of corresponding expenses. Customs VAT and reverse-charge VAT must be paid in order to obtain a refund.

- From 1 January 2008, the following types of transaction were included in the list of VAT-exempt goods, work and services:
  - transfers of exclusive rights on software, know-how, databases, inventions, etc. (but not trademarks);
  - certain research and development services;
  - transfers of loans.
- From 1 January 2008 the exemption available for scrap and waste ferrous metals ceases and sales of these items will be subject to VAT.
- Input VAT cannot be recovered without a relevant VAT invoice containing all the required details.
- Refunds of input VAT by way of offsetting against future VAT payments and other taxes, or by way of reimbursement in cash, is in theory available in relation to exported goods and some export-related services, as well as where the amount of input VAT credit exceeds the amount of VAT charged on sales revenues. However, in practice it is difficult to obtain such refunds in cash.
- For VAT "place of supply" rules, services such as the provision of licences or trademarks, consulting, legal, accounting, engineering, marketing services and software database development services, the provision of personnel, and the renting of movable property (except for land motor transport), are considered to be supplied in Russia if the buyer of the services has a "place of activity" in Russia. Transportation services supplied by Russian companies are also taxed in Russia if the point of departure or destination is located in Russia.
- There is no VAT registration threshold in Russia. However, exemption from VAT-payer obligations is available if the taxpayer's turnover for the three preceding calendar months did not exceed RUB 2 million (approx. EUR 55,740). A special application should be submitted to the tax authorities to obtain this exemption. During the first three months after the taxpayer's registration, VAT should be paid irrespective of expected turnover for this period.
- From 1 January 2008 VAT is payable quarterly. The quarterly payments should be made no later than 20th of the month following the reporting period. The returns should be filed by the same date.

Customs duties

- The majority of import customs duty rates in Russia are "ad valorem" and the basis for the assessment of imported goods for customs duties is the customs value of the goods. There are also specific duties for certain types of imported goods, which are based on their volume, weight or quantity. Some duties are levied at a combined rate and therefore the tax base may vary.
- The customs value is usually determined in line with GATT/WTO principles and is generally equivalent to the DAF/Russian border transaction price of the goods concerned.
- The classification of goods for customs purposes follows the international Harmonised System of Coding and Description of Commodities. The customs duty rate depends upon the customs classification code.
- Base duty rates vary widely, from 100% on spirits to 0% on printed materials, some food products and some other priority imports. However, the average range of duty rates is from 5% to 20% of the customs value of goods. The duties should be paid before or at the moment of submission of a Cargo Customs Declaration. The base rates specified in the legislation apply to countries that have been granted Most Favoured Nation status. Some goods originating from developing and underdeveloped countries may be imported at 75% of the base rates or at the zero rate, respectively.
- Certain goods are exempt from customs duties, e.g. goods (with the exception of excisable goods) imported into Russia as in-kind contributions to the charter capital of enterprises with foreign investments (subject to certain conditions).
- Reduced import customs duty rates apply on car parts imported for the industrial assembly of cars under agreements signed with the Russian Ministry of Economic Development and Trade. The Russian Ministry of Economic Development and Trade stopped signing agreements on the industrial assembly of cars as of 10 November 2007. Companies which have concluded preliminary agreements of intent to establish the industrial assembly of cars and car components with the Russian Ministry for Economic Development and Trade can still apply for this procedure.
- The Russian Government has recently made the temporary import duty rate of 0% permanent for certain types of technological equipment.

Excise duties

- Excise duty is imposed on a limited number of goods produced or imported. Excise duty is charged as a percentage of the sales price or customs value, as a fixed amount in roubles per unit of certain products, or as a combination of both.

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

Individual taxation

Personal income tax

- Russia has flat personal income tax rates of 13% on income received by tax residents and 30% for non-residents (except for certain types of income, e.g. from lottery prizes and dividends).

- Different rates are established for dividends (9% and 15% for tax residents and non-residents, correspondingly), and income gained by tax residents from the receipt of prizes and excessive interest on bank deposits and loans (35%).

- Russian organisations, separate subdivisions of foreign organisations and individual entrepreneurs that pay employment income qualify as tax agents and are required to make payroll calculations, withhold the tax and transfer it to the state budget. A penalty of 20% of the personal income tax due to the budget may be imposed on tax agents for non-withholding.

- Tax residence in Russia is determined by the number of days a person is physically present in Russia in the calendar year. For personal income tax, beginning with the reporting period of 2007, an individual is considered a resident if physically present in Russia for 183 or more days in 12 consecutive months (rather than a calendar year, as under the previous rules). According to clarifications issued by the Ministry of Finance of the Russia the "final" tax status of an individual taxpayer has to be defined for a calendar year, i.e. in order to enjoy the 13% resident tax rate, the taxpayer must spend at least 183 days in Russia in a calendar year.

- Russian tax residents are liable to tax on the total worldwide income they receive in a calendar year. Non-residents are taxed on income received from sources in Russia. Russian-sourced income includes income attributable to work in Russia, rental income from property located in Russia, dividends from Russian organisations, etc.

- Tax treaties may contain taxation rules other than those in the Tax Code.

Social security

- Companies currently pay the following tax, contributions and tariffs on an employee's compensation:

  – Unified Social Tax;
  – Obligatory Pension Insurance Contributions; and
  – Insurance tariffs for mandatory social insurance against work-related accidents.

- The Unified Social Tax is generally levied on total income payable to employees and contractors at regressive rates varying from 26% for low-income employees to 2%. It includes a federal budget contribution, a medical funds contribution, and a social fund contribution. The federal budget portion of the Unified Social Tax is reduced by the amount of Obligatory Pension Insurance due to the Pension Fund, if any. The portion of Unified Social Tax attributable to the Social Fund does not apply to contractors. Unified Social Tax is due in full on expatriate remuneration. Starting with the reporting period of 2007, a separate favourable scale is set for organizations operating in the information technology industry.

- Companies are obliged to pay insurance tariffs on mandatory social insurance against work-related accidents. The current rates vary from 0.2% to 8.5% of each employee's remuneration, depending on the employer's type of activity. Income payable to contractors working under civil contracts is exempt from insurance tariffs, provided that accident insurance is not required in the civil law contracts concluded with them.

Pensions

- As with the Unified Social Tax, Obligatory Pension Insurance contributions are accrued on total income payable to employees and contractors at regressive rates depending on the cumulative remuneration. The remuneration of foreign nationals temporarily residing in Russia is exempt from such contributions.

Other taxes

Property tax

- Property tax is imposed on fixed assets recorded on the taxpayer's balance sheet in accordance with Russian statutory financial accounting rules. The maximum property tax rate is 2.2%; however, regional legislative bodies may introduce lower tax rates and grant tax exemptions.

- Foreign organisations that conduct business in the Russian Federation through a permanent establishment have to determine the taxable base using Russian statutory financial accounting rules. Foreign organisations that have immovable property in the Russian Federation and do not have a permanent establishment in Russia have to pay property tax on

the so-called inventory value of this property as recorded in the official books of the authorised government body, i.e. the Technical Inventory Bureau.

- Most exemptions provided by the Property Tax Chapter of the Tax Code apply to governmental and non-commercial organisations, and organisations established in special economic zones.

- A new article on the "Avoidance of double taxation" has been added to the property tax chapter of the Tax Code under which property tax paid abroad can be credited against tax due in Russia. To secure this benefit, a taxpayer must present documentary evidence of payments made abroad (certified by the foreign tax authorities) to the Russian tax authorities. The amendment applies retroactively to 1 January 2007.

Land tax

- Organisations and individuals that own land or have the right of continuous (indefinite-term) use are classified as land tax payers.

- The tax rates depend on the category of land plots and vary from 0.3% to 1.5% of the cadastral value of a plot of land.

Mineral resources extraction tax

- Specific rates apply for each type of mineral resource.

- Mineral Resources Extraction Tax ("MRET") on crude oil is calculated as the amount of oil produced multiplied by a basic tax rate set in RUB per tonne, and adjusted by a special coefficient ("C") to reflect the dynamics of world oil prices and the RUB/USD exchange rate.

- A zero rate or so called "royalty holiday" is applicable to certain green-field sites (unexploited oil and gas fields). The rate of MRET declines with respect to old fields once a depletion ratio of 80% has been reached.

Legal and other developments

Foreign currency regime

- Russian currency control legislation has been relaxed significantly as of 1 July 2006 but certain requirements remain in force.

- In particular, the following currency control requirements should be taken into account:

  – Russian companies must receive all export proceeds in both foreign currency and roubles in their bank accounts in Russia ("repatriation of currency proceeds");
  – Russian companies must open "transaction passports" with Russian banks in connection with certain transactions;
  – Foreign currency transactions between Russian residents are prohibited (with some exceptions);
  – Reporting requirements with regard to (for example) the opening/closing of foreign bank accounts.

- Amended reporting requirements apply from 15 November 2007 to Russian residents maintaining bank accounts abroad.

- Effective from 15 October 2007, Russian banks must follow a procedure for reporting currency control violations to the Central Bank.

Labour code

- The new law "On Personal Data" came into effect in January 2007. It sets forth stricter rules on the transfer of personal data to third parties and across borders and the processing of sensitive data (on a person's health, previous convictions, etc.).

- On 1 September 2007, the Administrative Code was amended to increase the fine for breaches of labour legislation by executive officers.

- Certain amendments were introduced into the Labour Code, primarily covering the minimum monthly salary, with effect from 1 September 2007. From 20 September 2007, the federal minimum monthly salary was raised from RUB 1,100 (approx. EUR 31) to 2,300 (approx. EUR 64).

- According to the Federal Law "On the Legal Status of Foreigners in Russia", foreign nationals only have the right to be engaged in gainful employment if they hold a work permit, and employers and customers contracting for work (services) are only entitled to hire and employ foreign employees if the latter hold employment permits. This procedure does not apply to foreign nationals permanently residing in Russia, foreign nationals temporarily residing in Russia and several other categories of individuals.

Competition law

- The competition law requires notification or approval of certain transactions involving assets located in Russia, irrespective of where parties to such transactions are located.

- The competition law prohibits arrangements that could hamper competition, including fixing and maintaining similar prices, division of the market by territory, unjustified refusal to conclude a contract, and any other agreements and actions which could limit competition. It also prohibits the abuse of a dominant position in the market.

- The competition law establishes the procedure for dealing with violations of the anti-monopoly regulations.

Intellectual property

- Russia is a party to all major international agreements and conventions concerning intellectual property. Certain steps are being taken to address intellectual property protection issues as part of the WTO accession process.

- On 1 January 2008, Chapter IV of the Civil Code of the Russian Federation came into force, covering the full range of intellectual property issues, including those concerning patents, trademarks, know-how and copyright. It replaces all the previous legislation in this area, and represents a significant change in the regulation of several forms of intellectual property.

Environmental law

- Environmental law is an important part of the regulatory framework for business in Russia. Rules concerning the impact of business activities on the environment are included in the Water, Forest and Land Codes, as well as in other legislation.

- Under environmental law, entities are required to obtain approvals, permits and (or) licenses to perform certain types of activities. If the environmental regulations are violated, sanctions such as fines or the limitation or suspension of the offending entity's activities may be imposed by the competent state agencies and (or) court.

Consumer rights

- Consumer protection legislation establishes consumer rights and enforcement measures, which include both civil liabilities (compensation for damage caused) and administrative liabilities (fines or revocation of licenses). Sellers may also be held criminally liable for selling products, services or work that do not meet safety requirements, or for a violation of hygiene standards that leads to mass human illness or poisoning, or has similar consequences.

- Special rules apply to certain consumer-related areas, including advertising, tourism, catalogue sales and some other areas.

Concessions

- The regulations on concession agreements whereby one party builds and operates assets belonging to another party (usually the state) for a period of time are included in the relevant federal legislation relating to certain areas such as electricity and heat-energy production and transfer; pipeline transport; educational facilities; roads and other engineering construction including bridges and tunnels; cultural heritage objects, etc.

- In late 2007, new federal laws on seaports and roads were adopted. They include guidelines on signing concession agreements in these areas.

Business transformations

- Russian civil legislation recognises five types of corporate re-organisation: merger, absorption, de-merger, split, and change of the form of business entity (i.e. transformation of a closed joint-stock company into a limited liability company).

Serbia

Highlights

- The Serbian Parliament has adopted amendments to several laws, including the Value Added Tax Law, Property Taxes Law, the Law on Tax Administration and Tax Procedure and the Excise Duty Law.
- Serbian Parliament has ratified the regional Free Trade Agreement under the Central European Free Trade Agreement (CEFTA).

The exchange rate between the Serbian dinar ("RSD") and the euro ("EUR") used in this report is RSD 76.66 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate income tax rate is 10%.
- Taxable income is calculated by adjusting accounting profit determined in the profit and loss account in accordance with the IFRS. Under the current law, expenses that are not deductible against accounting profit include non-business and non-documented expenses, advertising and entertainment expenses exceeding 3% of total revenues, bad debt provisions overdue less than 60 days, impairment of assets, accrued but not paid remuneration to employees for retirement/employment termination, etc.
- Monthly advance payments are due by 15th of the following month. In the current year, the taxpayer makes monthly advances corresponding to the monthly income tax liability of the previous tax period. If a taxpayer has paid more advance tax than required, the excess amount can be treated as an advance on the following tax period or be reimbursed at the taxpayer's request.
- Operational and capital losses can be carried forward for 10 years.
- Various taxes and charges are levied at a local level but the amounts are not significant.
- A resident is a legal entity formed in Serbia, or whose head office with management and control is in Serbia. Resident legal entities are taxed on their worldwide income. A non-resident is a legal entity formed and having its head office with actual management and control outside Serbia. A non-resident legal entity is subject to tax on any profit it generates through a permanent operating unit in Serbia.
- Group consolidation is applicable to Serbian resident companies when the parent company holds a minimum of 75% of the shares in the related company. Each member of a group of associated enterprises files its own tax return, and the parent enterprise files a consolidated tax return. The losses of associated companies are used in the consolidated tax return. Once approved, tax consolidation is applied for at least five years.
- Thin-capitalisation is not regulated by a prescribed debt-to-equity ratio but by the arm's length principle. In principle, this means that interest paid to a related entity cannot exceed four times the value of the taxpayer's share capital and reserves multiplied by:
  - in the case of a loan in a foreign currency, 110% of the interest rate charged by the central bank of the country whose currency is involved, on loans given to commercial banks, as of 31 December of the previous year;
  - in the case of a loan in RSD (the Serbian local currency), 110% of the interest rate charged by the National Bank of Serbia on loans given to commercial banks, as of 31 December of the previous year.
- Inbound investments tend to be made through entities located in countries that have favourable tax treaties with Serbia (e.g. the Netherlands), thereby allowing for a more efficient repatriation of funds and the minimisation of capital gains on disposal.
- Capital gains are taxed at the same rate as for operating income (10%) but are taxed separately (i.e. a company with an operating loss may be liable to pay tax on capital gains). Capital losses may only be offset against a capital gain. Capital losses may be carried forward for up to 10 years.

Withholding tax

- In Serbia, 20% withholding tax is calculated and paid on certain payments to non-residents (dividends, royalties, interest, capital gains, lease payments for real estate and other assets). The provisions of applicable Double Tax Treaties on withholding tax apply. However, the non-resident must prove, by submitting a valid document issued by the other state, that the entity is a treaty resident of such State.

Double Tax Treaties

- Serbia is a party to 35 Double Tax Treaties. In 2007, Serbia signed Double Tax Treaty with Lithuania and ratified a Double Tax Treaty with India. The agreements will come into force on the day the treaty implementation process is finalised by the signatories, and will apply from 1 January of the following year.
- Double Tax Treaties with Latvia, Moldova and Switzerland became effective in 2007 and a Double Tax Treaty with Turkey will become effective on 1 January 2008.
- In the absence of a treaty, foreign income tax is credited against Serbian income tax. The tax credit may not be greater than the amount that would be obtained by applying Serbian tax on the profit accrued in the State.

Transfer pricing

- In Serbia, the price charged between related parties is considered the transfer price.
- A related party is a company or an individual who can significantly influence a company's business decisions. Owning 50% or more of the largest proportion of a company's shares is considered a significant influence. A related party is also a company in which the same employees or management bodies conduct management, exercise control or own capital as in the other company.
- The prices charged between related parties are compared to an arm's length price, and taxable income is adjusted for any difference.

Deferred tax

- Generally, deferred tax assets and liabilities can arise on the basis of the following:
  - a tax credit for investment in fixed assets that can be carried forward for the subsequent 10 years;
  - the difference between the carrying value of property, plant and equipment (PPE) and financial instruments in accounting records and the tax value of PPE available for tax depreciation in future years and the tax value of financial instruments; and
  - tax losses that can be carried forward for 10 years.

Investment incentives

- A tax credit for investment in tangible assets is available (cars, furniture, works of art and antiques are not eligible). The credit is 20% of the investment, limited to 50% of the tax due. Any unused credit can be carried forward for 10 years.
- A taxpayer conducting business in certain industries is granted a tax credit for 80% of its investment in its own fixed assets in the current year. The investment must be in assets for production. There are no limitations related to taxable profit made by the taxpayer. This tax credit can be carried forward for up to 10 years.
- The tax of any taxpayer who employs new workers for an indefinite period will be reduced in the tax period by an amount equal to the cost of employment of new workers (100% of the gross salaries paid to such employees, plus the corresponding public revenues paid by the employer). If the employment of a certain number of workers is terminated, the tax reduction only applies partially.
- Pro-rata 10-year-tax holidays are available for investments of RSD 600 million (approx. EUR 7.8 million) and the employment of a minimum of 100 new employees.

Indirect taxation

VAT

- The delivery of goods and provision of services (i.e. sales of goods and services) carried out by a taxpayer in Serbia for consideration and in the course of performing a business activity, and imports of goods into Serbia, are liable to VAT.
- The Law covers two categories of supplies. Those taxable at the general rate of 18% or at the lower rate of 8%, and exempted (zero-rated) supplies with and without the right to recover input VAT.
- Supplies that are exempt with credit include the export of goods and transport and other services in direct relation to the export, the transit or temporary import of goods, transportation and other services related to the import of goods if the value of such services is included in the customs base, the dispatch of goods to duty-free shops, the entry of goods into a free zone (excluding goods for final consumption in the free zone) and transportation, etc.
- Supplies that are exempt without credit include most banking services, activities in the public interest (medical, educational, scientific services, etc.), renting flats and buildings if used for residential purposes, postal services rendered by a public company as well as the delivery of the related goods, the renting of agricultural, forest and construction land, etc.

- VAT cannot be recovered on specific supplies such as the acquisition, production and import of cars, motorcycles, vessels and aircraft and their spare parts, gas, entertainment expenditures, the acquisition or import of carpets, electrical household appliances, television and radio receivers and decorative items for office premises (with some exceptions).

- Generally, Serbia follows the supply rules set out in the EU's Sixth Directive. In accordance with the destination principle, VAT applies to supplies made in Serbia and imports into Serbia.

- A taxpayer is considered to be a person who independently, and in the course of his business activities, undertakes the supply of goods or services, or imports goods. A non-resident without a head office or permanent establishment in Serbia cannot register for VAT purposes.

- A taxpayer whose total annual turnover or estimated turnover (starting from 1 January 2008) exceeds RSD 4 million (approx. EUR 52,200) in a period of 12 consecutive months is obliged to register for VAT. Starting from 1 January 2008, if a taxpayer's turnover or estimated turnover is between RSD 2 million (approx. EUR 26,100) and RSD 4 million (approx. EUR 52,200), the taxpayer will be able to opt for VAT registration. If the taxpayer's turnover or estimated turnover does not exceed RSD 2 million (approx. EUR 26,100), it cannot register for VAT. The Tax authorities will deregister taxable persons whose total turnover in 2007 did not exceed RSD 2 million (approx. EUR 26,100).

- The VAT Law requires taxpayers to file VAT returns and pay VAT within 10 days of the end of each taxable period. The usual taxable period is a calendar month, but if a taxpayer's total turnover for the last 12 months is less than RSD 20 million (approx. EUR 261,000), or is forecast to be so for the next 12 months, the taxable period is three calendar months. The customs authorities are in charge of collecting VAT on imports of goods.

- Generally, if the input tax is higher than the tax liability, the taxpayer is entitled to a refund of the difference. This can take the form of an actual cash refund or can be treated as a VAT prepayment to be carried forward against the next VAT liability.

- Reimbursement to foreign taxpayers is only allowed for VAT charged to foreign taxpayers who participate in trade fairs on all supplies on goods and services related to fair participation (provided that certain conditions are met).

- For all types of violation (failure to issue an invoice, to keep the prescribed records, to pay the VAT within the prescribed term, to submit the registration form within the prescribed term, etc.) the same penalty range applies, i.e. from RSD 100,000 up to RSD 1 million (approx. EUR 1,300-13,000). The responsible individual within the legal entity may also be liable to a personal fine of RSD 10,000 to RSD 50,000 (approx. EUR 130-650).

- The Serbian VAT Law has introduced a system of the direct attribution of input VAT to taxable and non-taxable supplies of goods and services, in accordance with the EU model.

- The VAT Law deals in more detail with certain types of business, such as tour operators, farming, leasing, sale of land and buildings, etc.

Customs duties

- The rules on valuation, origin and tariff classification are harmonized with World Customs Organization, World Trade Organization and EU rules. Customs procedure simplifications are now available and are expected to be applied more extensively in the future.

- Serbian regulations provide for special customs procedures such as inward and outward processing, transit, temporary importation and bonded warehousing.

- Three Free Zones remain fully operational: Pirot, Subotica and Zrenjanin.

- The Customs Tariff Law provides Most Favored Nation (MFN) rates for imports of goods from specified countries or in cases of reciprocity. In other cases MFN rates increased by 70% apply.

- The Central European Free Trade Agreement (CEFTA) came into force in Serbia in 2007. Parties to CEFTA are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Montenegro, Romania, Serbia and UNMIK Kosovo. This regional FTA replaced the network of 32 bilateral FTAs concluded between listed parties. One of the most important benefits that this regional FTA will bring to the market it covers is diagonal cumulation of origin and the abolition of the 'no-draw back' rule in transactions between parties to CEFTA. This effectively means that flows of goods originating in CEFTA countries, for the purposes of processing and final consumption, should be possible without payment of customs duties in the countries of import and export. The only remaining bilateral FTA that Serbia has in force is with the Russian Federation. Other Balkan countries do not have such an arrangement, so this should be regarded as an incentive for foreign investment in Serbia.

- Specific minimum and maximum duty amounts have been introduced as an alternative to ad valorem duties. When the specific minimum duty is higher than the ad valorem duty, the specific minimum duty will apply. If the ad valorem duty is higher than the specific maximum duty, the latter will apply. At present, this dual regime is only available for other cigarettes containing tobacco. The ad valorem customs duty on these goods has now been increased from 15% to 57.6%. Alternatively, the specific customs duties for these goods have been set at a minimum of EUR 5.15 per 1,000 pieces, and a maximum of EUR 7.57 per 1,000 pieces.

Excise duties

- All types of alcoholic beverages, tobacco products and petroleum products are subject to excise tax. The duty rates on the following products are:
  - Oil derivatives: RSD 27.5 (approx. EUR 0.36)/litre (gasoline), RSD 16.66 (approx. EUR 0.22)/litre (fuel oil), RSD 32 (approx. EUR 0.4)/litre (derivatives in the 380 °C distillation range);
  - Liquid petroleum gas used for powering motor vehicles: RSD 10/kg (approx. EUR 0.13) as of 1 January 2008;
  - Tobacco products: RSD 18.36 (approx. EUR 0.24)/pack (imported cigarettes), RSD 5.44 (approx. EUR 0.07)/pack (cigarettes produced in Serbia), plus 33% of the retail price until 31 December 2009;
  - Alcoholic drinks: from RSD 53.83 (approx. EUR 0.7)/litre to RSD 136.55 (approx. EUR 1.78)/litre depending on type, and RSD 9 (approx. EUR 0.12)/litre for low-alcohol-content beverages;
  - Coffee (green, roast, ground and coffee extract): 40% of the customs value increased by import duties. As of 8 July 2007, the duty rate on coffee was reduced from 40% to 30%.
- Excise duty is no longer due on imported non-alcoholic refreshment beverages, refreshment beverages, powders and syrups for refreshment beverages, fruit juices, concentrated fruit juices, fruit nectar and fruit juice powders.
- Excise duty has now also been abolished on exports of excisable products to Montenegro, while previously it was charged.
- The amounts of excise duties stated in RSD for oil derivatives, beer and other alcoholic beverages and cigarettes will be adjusted annually in accordance with fluctuations in the Consumer Price Index for the previous year. The first annual adjustment will be made in January 2008.
- As of 8 July 2007, the following are exempt from excise duty:
  - sales of oil derivates that are used solely for the purposes of ethylene and propylene production; and
  - sales of jet engine fuel (kerosene).
- From 1 January 2008, the same excise duty rate will apply for imported cigarettes as for cigarettes produced in Serbia. As at 31 December 2007, the excise duty rate is RSD 18.36 (approx. EUR 0.239) per pack for imported cigarettes, whereas the rate is only RSD 5.44 (approx. EUR 0.07) for domestic cigarettes. The standard excise duty rate (the same for both kinds of cigarettes) will gradually increase from RSD 7.7 (approx. EUR 0.1) on 1 January 2008 to RSD 13.6 (approx. EUR 0.18) for the period after 1 January 2012. The current 33% ad valorem excise duty rate will also gradually increase, to 43% for the period after 1 January 2012. The excise duty rate base is the retail price per unit.

Individual taxation

Personal income tax

- The withholding salary tax rate is 12%. A non-taxable salary cap of RSD 5,050 per month (approx. EUR 66) applied in 2007. The cap will be adjusted annually in accordance with Consumer Price Index changes.
- Salaries and other benefits (in cash or in kind, such as the use of a company car for private purposes, the use of employer-owned apartments) are also taxed at the flat salary tax rate.
- Salary tax relief is available for the following categories of employees: new employees younger than 30, trainees younger than 30, individuals older than 45 and disabled individuals.
- This relief is only available if such employment contributes to an increase in the total number of employees on the date of employment of the new employees. The regulations include certain additional conditions that have to be fulfilled by a taxpayer in order to enjoy this relief fully.
- Other types of income, e.g. royalties, business income, income from agriculture and forestry, investment income, income from immovable property, capital gains and miscellaneous income, are subject to a flat rate tax of between 14% and 20%, depending on the type of income concerned.

- Any taxpayer who earns a salary and other revenues in or from another State, from a diplomatic or consular mission of a foreign state or from an international organization; or representatives of such mission or organization, must calculate and pay withholding tax within 15 days of receiving the income, if tax has not been charged and paid by the income payer.

- The current annual income tax thresholds for local citizens and foreigners are as follows:

  – three times the official average annual salary in Serbia for Serbian citizens, and
  – five times the official average annual salary in Serbia for foreign citizens.

- The amount of annual income tax due for 2007 depends on the amount of income gained in 2007. Progressive annual income tax rates will apply to taxable income (i.e. income that exceeds the relevant threshold) as follows:

Taxpayer	Taxable income (income over the relevant prescribed threshold)	Tax rate
Serbian citizen	Up to six times the average annual salary*	10%
	For income over six times the average annual salary*	15%
Foreign citizen	Up to eight times the average annual salary*	10%
	For income over eight times the average annual salary*	15%

* As per official data published by the Statistical Office of the Republic of Serbia.

- These thresholds and tax rates will be used to determine annual income tax for the year ending 31 December 2007. Please note that at the time of going to press, the Serbian Statistical Office had not yet published the average annual salary for 2007.

- Residents are taxed on their worldwide income, while non-residents are only taxed on Serbian-sourced income. A resident means any individual whose residence or centre of business and vital interests is in Serbia, or who resides in Serbia for 183 or more days, continuously or with breaks, over a period of 12 months beginning or ending in the respective taxation year.

- Expatriate residents of Serbia, employed by a resident entity or a representative office of a foreign entity, are entitled to a tax-free payment from the employer equivalent to 35% of their gross salary, to cover accommodation and similar expenses.

Social security

- Social security contributions are calculated and withheld by the employer. Monthly contributions are payable by both the employer and employee at equal rates (17.9%) on amounts up to a specified cap which varies from month to month and is usually announced one month in advance.

- Employers' social security contribution incentives are available for the same employee categories described in the personal income tax section. Incentives also exist for employers who hire employees older than a certain age and who have been registered at the National Employment Service as unemployed for at least a year. Using this incentive, an employer can partially decrease its taxable base, or in some cases reduce it to zero.

- Voluntary pension insurance premiums paid by an employer and exceeding RSD 3,000 (approx. EUR 39) per month are considered to be salary and are liable to social security contributions.

- The minimum social security contribution base is 35% of the official Serbian average monthly salary.

- Serbia has social security treaties with Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Denmark, Egypt, France, Germany, Hungary, Italy, Libya, Luxemburg, Macedonia, Montenegro, the Netherlands, Norway, Panama, Poland, Romania, Sweden, Switzerland, Turkey and the UK.

Pensions

- Pension contributions are included in the mandatory social security rates mentioned above. They are calculated on the applicable minimum/maximum insurance base and are payable by the employer and the employee in the ratio 50:50. The total pension contribution is 22% (i.e. 11% by the employer and 11% by the employee).

Other taxes

Property tax

- Property tax is payable in Serbia by all legal entities and individuals that own or have rights over real estate located in the Republic of Serbia. If the taxpayer keeps books, the property tax on real estate is levied at a flat rate of 0.4 percent. If the taxpayer does not keep books, the property tax rates on real estate are progressive.

Taxable base (in RSD)	Property tax
Up to 6,000,000 (approx. EUR 78,300)	0.4%
6,000,001-15,000,000 (approx. EUR 78,300-EUR 195,700)	24,000 (approx. EUR 310) + 0.8% on the amount above 6,000,000 (approx. EUR 78,300)
15,000,001-30,000,000 (approx. EUR 195,700-EUR 391,400)	96,000 (approx. EUR 1,250) + 1.5% on the amount above 15,000,000 (approx. EUR 195,700)
over 30,000,000 (approx. EUR 391,400)	321,000 (approx. EUR 4,200) + 3% for the amount above 30,000,000 (approx. EUR 391,400)

- From 1 January 2008, the following exemptions to property tax apply:

  – all real estate owned by a given taxpayer and located in one municipality, with an aggregate tax base of less than RSD 400,000 (approx. EUR 5,200), is exempt from property tax;
  – no property tax is levied on the lease of state-owned construction land and agricultural land; and
  – immovable property is exempt from property tax if prescribed by an international agreement.

Inheritance and gift tax

- Inheritance and gift tax is payable by residents and non-residents of Serbia who have inherited or received rights over real estate as a gift. The rates of inheritance and gift tax in Serbia are progressive.

Taxable base (in RSD)	Inheritance and gift tax
Up to 300,000 (approx. EUR 3,910)	2%
over 300,000 (approx. EUR 3,910)	6,000 (approx. EUR 78) + 2.5% on the amount above 300,000 (approx. EUR 3,910)

Tax on transfer of absolute rights

- The tax on the transfer of title over property is payable by a natural person or legal entity who sells rights in relation to real estate, intellectual property, interests in legal entities and securities and similar. The transfer tax rates in Serbia range from 0.3% (transfer of shares and stakes) to 2.5% (all other taxable transfers).

Legal and other developments

Foreign currency regime

- According to the Foreign Exchange Law, the collection and transfer of funds in Serbia may be effected in a foreign currency in cases such as:

  – payments of deposits as a collateral;
  – purchases or sales of claims and payables arising from foreign trade operations;
  – life assurance premiums and related charges;
  – the sale and leasing of real estate.

Foreign trade transactions law

- The main goal of the Foreign Trade Transactions Law is to create stable conditions for free foreign trade. The basic principles, as well as restrictions provided by the Law, accord with EU and WTO principles.

- The Law covers the export/import of goods, direct investments, a national treatment clause, branches and representative offices established by a foreign legal entity, quantitative limitations and permits, special conditions for conducting foreign trade operations, safeguard matters, and temporary regimes and measures related to them.

- The Law prescribes the categories of foreign trade transactions for which restrictions have been reduced or removed. Legal entities or entrepreneurs that are registered for business activities may carry out both foreign trade and domestic trade operations.

- The Serbian Agency for Business Entities is now the competent authority for the registration of representative offices (the Ministry of International Economic Relations was formerly in charge of keeping the register of representative offices). Bylaws regulating the registration of representative offices have been adopted.

- The National Bank of Serbia (“NBS”) has issued a Decision allowing Serbian companies to take credits and loans from non-residents for the purpose of direct investments abroad. These credits and loans may be obtained for financial transactions in relation to the acquisition of management rights in foreign entities by resident companies.

- The NBS has also issued a new Decision on the reporting of operations with foreign countries. It lists the operations with foreign countries that residents are obliged to report to the NBS. The NBS may only use these reports to monitor the balance of payments and foreign investments and cannot publish them, except in the form of a summary of the data received.

Labour code

- The Labour Law regulates the rights, obligations and liabilities of employers and employees. The Law applies to all employment relationships, except those in state institutions, where there is a specific regime established by a separate Law. Generally, the Law is in accordance with EU standards and the International Labour Organisation's recommendations.
- General work ability is assumed for an employee who is over 15 years of age. Special requirements may be determined at the discretion of the employer, depending on the type of job. Any special requirement must not be in conflict with anti-discriminatory clauses.
- The labour relationship is established by an employment contract, concluded between an employer and an employee. This contract may be concluded for an indefinite or definite period (up to 12 months and as stipulated by the Law).
- The Labour Law prescribes the special types of engagement which constitute an employment relationship, such as an agreement on the performance of temporary and occasional jobs, a service agreement, as well as representation and intermediation agreements or agreements on vocational training.
- The Labour Law does not regulate many issues in detail, but leaves them to be regulated by collective agreements (CA). Larger companies usually have a CA. These issues commonly relate to the scope of employees' rights, such as leave and rewards. A CA must be in compliance with the Labour Law. Collective agreements are negotiated and signed between the employer and trade union representatives and may only be changed with the consent of both parties.
- The Law also deals with the conditions for setting up employers' associations and trade unions.
- Expatriates employed by or seconded to locally registered entities must obtain a residence or business permit and a work permit. Foreign nationals are required to register with the Ministry of the Interior at the Municipal Police Station within 24 hours of entering the country, and must apply to the Police Office for Foreign Nationals for a residence or business permit within three days of their arrival in the country. Residence and business permits are usually issued for six months. If a foreign national is not eligible for a business permit, he/she will be issued with a residence permit.
- The following foreign nationals are entitled to a business permit: founders/shareholders of a domestically registered company; directors of companies with registered foreign shareholders; directors of (foreign) representative offices; and directors of (foreign) banks, (foreign) banks' representative offices, (foreign) insurance companies, and (foreign) insurance companies' representative offices.
- After obtaining a residence/business permit, a foreign national must obtain a work permit. The permit is issued for six months and may be renewed. A separate application has to be submitted for residence/business permits for family members.
- A food allowance and annual leave subsidy are included as part of the salary. These two categories should be included in the employment agreement/general labour agreement and are subject to taxation and social security.

Competition law

- The Competition Law introduced modern competition criteria covering restrictive agreements, abuses of dominant position, mergers, and the creation of an independent competition body. The Law differentiates between horizontal and vertical agreements. Horizontal agreements are agreements among existing and potential undertakings operating on the same production or supply level. Vertical agreements are agreements referring to the terms of supply, sale or resale among existing and/or potential undertakings not operating on the same production or supply level.
- The Law is framed to cover any instrument, i.e. agreements, contracts, and explicit and tacit agreements. Any such instrument that has or is designed to have the effect of preventing, restricting or distorting competition in the relevant market is null and void.

- According to the Law, the Commission for the Protection of Competition (CC) is an independent regulatory body responsible to the Serbian Parliament.

- A participant has a dominant position in a market if it has the power to act independently of other undertakings, and is thus in a position to make business decisions without taking into account those of its competitors, purchasers or suppliers and/or final users of its goods and/or services.

- A participant with a relevant market share exceeding 40% may or may not be considered dominant, depending on the market share of competitors, barriers to entry to the relevant market and the economic strength of potential competitor(s), as well as the eventual dominant position of the buyer. However, a participant with a relevant market share below 40% may still be considered dominant.

- According to the Law, the acquirer has to report the concentration to the CC and to seek approval if one of the following thresholds is met:

  – worldwide turnover, i.e. if the joint worldwide turnover of the companies involved in the concentration (the acquirer and the target company) in the preceding financial year exceeded EUR 50 million, provided that one of the companies involved in concentration is a local entity; or
  – local turnover, i.e. if the joint turnover of the companies involved in the concentration in Serbia in the previous financial year exceeded EUR 10 million.

Intellectual property

- Previously, IP rights were regulated and protected by the State Union of Serbia and Montenegro ("the Union"). With the dissolution of the Union, the Republic of Serbia has become responsible for regulating and protecting IP rights and as the legal successor of the Union, Serbia is considered a party to the Berne Conventions, the Paris Conventions, the European Patent Convention, the Madrid and Nice Arrangements and others. The authority in charge remains the same, i.e. the Intellectual Property Office, based in Belgrade.

- The Law on Special Powers for the Effective Protection of IP Rights includes provisions adopted from the Trade Related Aspects of Intellectual Property Agreement ("TRIPs Agreement"), with the objective of securing effective protection of IP rights. The competent authorities have acquired the right to exercise various measures on the spot, in order to restrict abuses of IP rights.

- Generally speaking, the IP field is in accordance with the TRIPs Agreement and the WTO and EU requirements.

Environmental law

- The protection of the environment is regulated by several laws. In addition to these laws, legislation is in place to deal with protection from ionised emissions, the banning of nuclear plant construction and the transport of hazardous materials.

- In 2007, the Republic of Serbia ratified the Kyoto Protocol to the Framework Convention on Climate Change.

- The competent authority is the Ministry of Environmental Protection.

Consumer protection

- Under the Law on Consumer Protection, the competent authorities for this area are the Serbian Ministry of Trade and Services, and the Council for Consumer Protection acting as an advisory body.

- The Law includes provisions on water and air quality, basic consumer rights and the protection of consumers' economic interests, invoice collection and warranty clauses, standard agreements, consumer credit, packaging issues, etc. The Law also regulates the operation of future consumer protection organisations.

Concessions

- A foreign investor may be granted a concession for the use of natural resources or the provision of goods in general use or for the performance of activities of general interest. The law recognises the build-operate-transfer system as a special form of concession. Permission may be granted to build, operate and transfer certain projects, production plant or capacity as well as infrastructure or communication facilities.

- The Law on Concessions states that the duration of a concession may be up to 30 years, taking into consideration the degree of operating risk, construction needs at an early phase of the concession and the requirement for the competitive market development of the business concerned.

Business transformations

- The forms of business transformation prescribed are merger, de-merger and status changes. Business transformations have to be registered with the Agency for Business Entities, in Belgrade.

- A company may change its legal form (for instance a limited liability company can be transformed into a joint stock company, or vice versa) by a resolution of its competent body, which must be in accordance with the provisions of the Company Law. If the change of form implies changes of the existing rights and obligations of the shareholders, their approval of the change is required.

- According to the Privatisation Law, the core model for privatisations is the purchase of capital through public auction or public tender. According to the Law, the privatisation of socially-owned capital should be initiated by 31 December 2008 by the announcement of auctions or tenders. The process for the privatisation of state-owned companies is still to be determined. The bidding party may be domestic or foreign, and either a legal or a natural person.

Other

- The new Law on Ministries was passed following the election of the government and envisages 22 Ministries.

Slovakia

Highlights

- New Act on Investment Incentives has been introduced.
- The reduced VAT rate of 10% applies to books and other printed material from 1 January 2008.
- The maximum monthly employer's and employee's contributions for most classes of social security have increased by one third from 1 January 2008.

The exchange rate between the Slovak koruna ("SKK") and the euro ("EUR") used in this report is SKK 33.60 = EUR 1.00. This rate is not fixed and approximates to market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The corporate tax rate in Slovakia is 19%.
- The deadline for filing Slovak corporate income tax returns is three months after the tax period ends. Slovak companies must pay monthly corporate income tax advances, unless their tax charge in the previous 12-month tax period was SKK 500,000 (approx. EUR 14,880) or less. If the tax charge was less than SKK 500,000 (approx. EUR 14,880) and above SKK 50,000 (approx. EUR 1,488) the tax advances must be paid quarterly. There is an exemption from paying tax advances for companies established during the calendar year.
- It is possible for a Slovak entity to have a year-end that is not the same as the calendar year-end.
- Entities that have to report their financial results according to the International Financial Reporting Standards ("IFRS") must, for tax purposes, adjust their financial result for items that have a different treatment under the Slovak accounting legislation, under a ruling issued by the Slovak Ministry of Finance.
- The Tax Office will generally refund tax overpayments within one month of receiving a complete and correct application.
- A loss for tax purposes can be carried forward over a maximum of five consecutive tax periods, starting with the tax period immediately following that in which the taxpayer reports the tax loss.
- Slovakia has no local business taxes.
- Employees of a foreign company providing services in Slovakia for more than six months over a 12-month period may create a Slovak permanent establishment of their foreign employer. Under certain Double Tax Treaties, this period is extended to nine months over a 12-month period.
- There is no special tax treatment for groups of companies in Slovakia. Each company is taxed separately. For example, it is not possible for the losses of one company to be used by another company in the same group.
- A financial leasing fee is tax deductible if the duration of the leasing period is at least 60% of the standard depreciation period for the leased asset, and not less than three years. Tangible fixed assets under a financial lease are depreciated by the lessee.
- Assets subject to financial leases should be depreciated by the lessee based on the amount of acquisition costs in the company's accounts (i.e. the accounting depreciation of the lessee will be followed). In the past, depreciation was based on the acquisition value of the assets.
- Operating leasing fees are tax deductible on an accrual basis.
- Interest on debt is tax deductible for a Slovak entity in the year it is accrued. The thin-capitalisation rules were abolished with effect from 1 January 2004, but new thin-capitalisation rules have now been introduced, although these will not become effective until 1 January 2009.
- Transfer pricing rules apply to interest on related-party loans.
- Slovak legal entities or individuals who pay interest and other income from bank deposits, loans and credits to an individual who is a tax resident of another EU Member State must report information about this income and about the beneficiary to the tax authorities by 31 March of the following year. This income is exempt from Slovak income tax if it is paid directly to the beneficial owner of the income, who is a taxpayer in an EU Member State, and who confirms this by submitting a residence certificate.
- The creation of accruals, including those for goods and services where an invoice has not been issued by the year-end, is tax deductible. Reserves created for the cost of unused staff holiday time, bonuses, released emissions, handling of waste electrical and electronic equipment, fees for the statutory audit, fees for preparing the financial statements, and fees for preparing the corporate tax return are also tax deductible. Provisions for bad debts are only tax deductible if a number of conditions are met. Most other provisions and reserves are non-deductible for tax purposes.

- Provisions for unsecured bad debts created by banks, and other debts of regular commercial companies, are fully tax deductible once the debt has been overdue for more than 36 months (20% of the bad debt is tax deductible when it has been overdue for more than 12 months, and 50% after 24 months).

- The amount of a company's unpaid liabilities overdue for more than 36 months should be treated as taxable income for that company (provided such liabilities arose from tax deductible costs).

- Slovak corporate income tax is not levied on the transfer of shares in a Slovak company, unless the company is sold by or to a Slovak entity or individual. If the seller is a foreign entity, a Double Tax Treaty may apply to prevent Slovakia taxing any gain on the sale.

- Slovakia does not levy stamp duty or similar taxes on transfers of shares.

Withholding tax

- Dividends paid to shareholders from after-tax profits arising in 2004 and later years are not taxable in Slovakia and are not subject to withholding tax.

- Dividends paid from profits arising in 2003 and earlier years are subject to withholding tax of 19% if paid to Slovak tax non-residents. Dividends paid to an EU-resident shareholder are not subject to Slovak withholding tax if that shareholder directly holds at least 25% of the share capital of the Slovak entity paying the dividend. Withholding tax may be reduced under a relevant Double Tax Treaty.

- Interest paid by Slovak companies to foreign tax residents is subject to domestic withholding tax of 19%. This is reduced to nil under most Double Tax Treaties. Furthermore, the provisions of the EU Interest-Royalties Directive on interest payments are applicable in Slovakia from 1 January 2005, so that interest paid to related entities resident in the EU is not subject to Slovak withholding tax provided the necessary conditions are met.

- Royalty payments made by Slovak entities to Slovak tax non-residents are subject to domestic withholding tax of 19%. This rate is reduced under most Double Tax Treaties. Royalties paid to a related entity whose registered office is in the EU are tax-exempt under Slovakia's implementation of the EU Interest-Royalties Directive, provided certain conditions are met.

Double Tax Treaties

- Slovakia has 59 Double Tax Treaties, with several more being negotiated. Most are based on the OECD model tax treaty.

Transfer pricing

- Transactions between Slovak and foreign related parties must be based on the arm's length principle. The tax authorities can increase an entity's tax base if the prices charged between related parties differ from what would have been charged between unrelated parties in a similar business transaction.

Deferred tax

- For Slovak statutory accounting purposes, deferred tax is recognised on various items, including tax losses, provisions for items of a taxable or tax-deductible nature, and the differences between tax and accounting depreciation.

Investment incentives

- Under a new Act on Investment Incentives effective from 1 January 2008 an entity can apply for investment incentives if it meets certain conditions. In particular, it must invest at least SKK 800 million (approx. EUR 23.8 million) in tangible or intangible fixed assets, of which SKK 400 million (approx. EUR 11.9 million) should be covered by equity. However, a lower minimum investment is required for technology centres: SKK 40 million (approx. EUR 1.2 million), centres for strategic services: SKK 35 million (approx. EUR 1 million), and tourism: SKK 500 million (approx. EUR 14.9 million). Aid may be granted for establishing or extending a new operation or modernizing existing production facilities, or for purchasing an existing establishment.

- If the business activity is to be performed in a region with an unemployment rate higher than the Slovak average, the minimum investment amount is generally half of the above threshold. If the region's unemployment rate is at least 50% higher than the average, the minimum investment thresholds are reduced to around a quarter of the standard threshold.

- At least 80% of the Slovak company's total income must be generated from the business activities set out in its application for investment incentives.

- At least 60% of the investment must be in modern technology.

- The investment project must meet environmental criteria.

- The Act introduces a new corporate income tax credit which entities will be able to use for five years if they meet special conditions that are generally stricter than those applicable to tax credits up to the end of 2007. The tax credit will be potentially available to both newly-established and existing companies.

Indirect taxation

VAT

- The standard Slovak VAT rate is 19%. A reduced VAT rate of 10% applies to specific medical and pharmaceutical products and devices. This rate also applies to books and other printed material from 1 January 2008.
- The Slovak VAT law applies to the following:
  - supplies of goods and services that a taxable entity provides for consideration in Slovakia;
  - EU intra-community acquisitions of goods for consideration in Slovakia;
  - imports of goods into Slovakia from outside the EU.
- Slovak businesses have to follow EU single-market rules that regulate the movement of goods within the EU, either from one Member State to another, or through more than one Member State.
- Certain services are exempt from Slovak VAT, including: postal services, financial and insurance services, educational services, public radio and TV broadcasting services, health and social services and, under certain conditions, the transfer and leasing of real estate.
- If a VAT-payer has excess input VAT in its VAT return for a particular period, and it is not able to recover this in its next VAT return, the tax office will automatically refund the excess input VAT. The refund should be received within 30 days of filing the tax return for the period following that in which the tax credit arose.
- A call-off stock simplification is effective from 1 January 2005. This applies where a foreign person registered for VAT in another EU Member State transports or dispatches goods from a third EU Member State to Slovakia, and stores them in Slovakia in order to supply them to one VAT payer only. Provided all the legal requirements are met, the foreign person will not have to register for Slovak VAT.
- The VAT registration threshold for entities established in Slovakia is a turnover of SKK 1.5 million (approx. EUR 44,600) for not more than the previous 12 consecutive calendar months.

Customs duties

- Customs duties only apply to goods imported from non-EU member countries.
- Import duty rates are levied according to the EU Customs Tariff applicable in the EU, which applies to goods imported to Slovakia after 1 May 2004.

Excise duties

- Slovak excise duties are levied on mineral oils, beer, wine, spirits, and tobacco products.

Environmental tax

- Slovakia does not impose any specific environmental taxes. However, some environmental fees are payable, such as fees to the Recycling Fund for vehicles, electrical and electronic waste.

Individual taxation

Personal income tax

- The Slovak personal income tax rate is a flat 19%.
- The tax year is the calendar year.
- An employer should withhold income tax from employment income when he makes monthly salary payments to employees, unless the employee calculates and pays his own tax advances based on the actual employment income, bonuses, allowances and benefits in kind he has received in each particular month (see below for further details).
- Individuals must submit a personal income tax return to the tax office by 31 March of the year following that in which the income was earned. An employee does not have to submit a Slovak personal income tax return if he received only employment income during the year, this income was taxed through a Slovak payroll and the employee asked the employer for a year-end payroll reconciliation.
- Slovak tax residents include individuals with permanent Slovak residence and those who stay in Slovakia for 183 days or more in a calendar year.
- Slovak tax residents pay Slovak personal tax on their worldwide income.
- Non-residents are subject to Slovak personal tax on their Slovak-sourced income only.

- Expatriates providing services in Slovakia but employed abroad must pay personal tax advances every month based on their actual monthly income. Slovak tax residents must do this from the first day they start working in Slovakia. Slovak tax non-residents do not have to pay advances until they have spent 183 days in Slovakia. However, if it is clear from the start that they will be in Slovakia for more than 183 days, they should register with the local tax office and pay advances from the month when they start working in Slovakia.

Social security

- Both the employer and the employee must contribute to the social security systems.

- The employee must pay contributions totalling 13.4% of his remuneration, up to certain limits, while the employer must contribute 34.4% of each employee's remuneration, up to certain limits. In addition, the employer must pay injury insurance contributions of 0.8% of total salaries, with no contribution cap. From 1 January 2009, the injury insurance rates will be from 0.3% to 2.1% of total salary costs per month, depending on the employer's safety classification determined according to the law.

- The maximum remuneration on which any social contributions are calculated is SKK 75,044 (approx. EUR 2,233) from 1 January 2008. The maximum monthly contribution base for health insurance is SKK 56,283 (approx. EUR 1,675) from 1 January 2008.

- The statutory representatives of Slovak limited liability companies (s.r.o.) and join stock companies (a.s.) are treated as regular employees for health insurance purposes, i.e. they contribute 4% of their remuneration up to a maximum monthly contribution of SKK 2,252 (approx. EUR 67), and their companies contribute 10% from their monthly remuneration up to a maximum contribution of SKK 5,629 (approx. EUR 168).

- Individuals contributing to the Slovak health insurance system must file an annual health insurance reconciliation, if they meet certain conditions. The deadline for filing the 2006 health insurance reconciliation with the relevant health insurance company was 30 June 2007. The deadline may change for 2007.

Pensions

- Obligatory pension contributions are included in social security contributions (see above). The employee's contributions (called retirement insurance) are 4% of his remuneration, up to a maximum contribution of SKK 3,002 (approx. EUR 89) from 1 January 2008. The employer's contributions are 14% of the employee's remuneration, up to a maximum contribution of SKK 10,507 (approx. EUR 313) from 1 January 2008.

Other taxes

Real estate and land tax

- Registered owners of land and buildings located in the Slovak Republic are subject to real estate tax. This tax is payable by the owner (or user) of the land and by the owner of the property. The taxable period is the calendar year, and the taxpayer must file the real estate tax return by 31 January of the relevant tax period. The tax rates depend on the type, use and location of the land and buildings. It is up to the municipal authority to decide how high the tax rate will be, but the rates should not exceed certain maximum limits. As an example, the 2008 real estate tax on a 10-storey office building in the centre of Bratislava is approximately SKK 350 (approx. EUR 10) per square metre of land occupied by the building.

- Real estate transfer tax has been abolished.

Legal and other developments

Foreign currency regime

- Slovakia does not impose any restrictions on foreign currencies, foreign loans, foreign payments, or currency exchange related to the export and import of goods. However, a Slovak entity that receives a loan from or provides a loan to a foreign entity must report this to the National Bank of Slovakia if a certain threshold is reached. The entity must also report certain other payments made to foreign entities.

- The accounting entries and financial statements of a Slovak entity must be kept in Slovak currency, although records of certain transactions in foreign currency should be kept in both Slovak and the foreign currency.

Labour code

- The maximum working hours are 40 hours per week, but the employer may ask the employee to work up to 150 hours of overtime in any calendar year. In addition, the employer may, with the employee's agreement, extend the number of overtime hours to an additional 250 hours per year.

- The Labour Code also includes procedures for dismissing employees, setting salary levels, employee representation, working from home or over the telephone and other matters.

- Currently, most foreign citizens must obtain a work permit and a temporary residence permit to live and work in Slovakia. EU citizens only need to provide the Slovak Foreign Police with a copy of their passport and a copy of a lease agreement concluded in Slovakia. The individuals need to register within ten days of the day they enter Slovakia. The Foreign Police should then issue a permanent residence confirmation or an identification card valid for five years. An employer that wants to employ an EU citizen must inform the Labour, Social Affairs and Family Office within seven days of the day that the work contract is concluded or an employee is seconded to Slovakia. An employer must also complete an information card for each employee or assignee and send it to the Labour, Social Affairs and Family Office.

- An entry visa may be required in addition to work and residence permits for citizens of certain non-EU countries with which Slovakia has not concluded a relevant treaty.

Competition law

- The Act on the Protection of Economic Competition prohibits the abuse of a dominant market position or the use of agreements that restrict competition. In certain circumstances, the Slovak Anti-monopoly Office must approve mergers and acquisitions.

Intellectual property law

- Slovak law concerning intellectual property is in line with that of the EU.

Environmental law

- Slovak law concerning environmental law is in line with that of the EU.

Consumer protection

- A seller cannot discriminate against a consumer. In particular, it cannot refuse to sell any product on display to a particular customer when it has the potential to meet the customer's demand.

- Most goods must carry a two-year warranty period, although this does not apply to certain goods, including chemicals and food.

- A producer or importer must provide information to the seller about all the risks directly or indirectly associated with the product or its use. In addition, information identifying the producer and importer and identifying the product, together with any related documentation such as a user's guide, must be included with the product. A producer must test products already in circulation. If the test results are negative, the producer must inform consumers and withdraw the product from circulation. Consumers have the right to return the product and receive a refund within three calendar days. Products must not be kept in circulation after their expiry date.

Business transformations

- Under the Slovak Commercial Code, a company can be merged with an existing or a newly established Slovak company. It can also be de-merged into new companies. A limited liability company (s.r.o.) can also be converted into a joint stock company (a.s.) or vice versa.

- Depending on the type of business transformation in question, it can take several months to bring the process to completion.

Slovenia

Highlights

- The corporate tax rate has been reduced to 22% and will be further reduced to 20% by 2010.
- The 8:1 debt-to-equity ratio has been reduced to 6:1.
- Payroll tax will be abolished in 2009.

The official currency of Slovenia is the euro.

Corporate taxation

Corporate tax

- The corporate income tax rate in 2008 is 22% and will decrease by one percentage point a year until it reaches 20% in 2010. Investment companies established in accordance with the law regulating the operations of investment funds and asset management companies will be subject to a tax rate of 0% in the tax periods 2008-2011 if at least 35% of their operating income from the previous tax year is distributed by 30 November of the given year.
- The EU Merger Directive, the Parent-Subsidiary Directive and the Interest-Royalties Directive have been incorporated into the Corporate Income Tax Act.
- A taxpayer employing trainees or students can reduce its tax base by 20% of the average monthly payment for every month that the person carries out practical work.
- A taxpayer employing disabled persons may decrease its taxable base by 50% of the salary paid to such persons. A taxpayer employing a person with 100% disability or a person with combined total hearing and speech impairment may reduce its taxable base by 70% of the salary paid to that person. In all cases, such reductions are allowable only up to the amount of the taxable base.
- The Slovenian tax period is the calendar year. The taxpayer must self-assess and pay tax monthly or quarterly, based on the assessment. The tax statement must be presented to the tax authorities within three months for the previous tax period. A taxpayer may also choose a tax year different from the calendar year. The tax authorities must be informed of the tax period chosen and the taxpayer has to keep the same 12-month period for three years.
- If the total amount of corporate income tax pre-payments exceeds the tax assessed for the year, a refund can be requested.
- According to the Corporate Income Tax Act, a taxpayer with a tax loss has the right to use the loss by reducing its taxable base in the following years. There is no time limit for using these losses. The loss relief may not exceed the amount of current taxable income. The losses must be used in the order in which they were incurred, i.e. the earliest first. If the ownership of the company changes by more than 50% (directly or indirectly), there may be some restrictions on using the tax losses from previous years.
- There are no local business taxes.
- The concept of a permanent establishment in Slovenia has been harmonized with the OECD Model Convention on income and capital.
- The Slovene accounting standards recognise both financial and operating leasing. If assets are leased under a financial lease, the lessee is considered the beneficial owner of the asset and bears the costs of depreciation. According to Slovene accounting standards, in order for a lease to qualify as a financial lease, one of the following criteria must be met:
  - the lease transfers ownership of the assets to the lessee by the end of the lease term; this condition is considered to be satisfied if it is clearly stipulated in the lease agreement;
  - the lessee has the option of purchasing the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
  - the lease term is for the major part of the economic life of the asset, and at the end the title may or may not be transferred;
  - at the inception of the lease, the present value of the minimum lease payments (i.e. minimum lease payments as defined in IFRS Accounting Standard 17) amounts to at least most of the full fair value of the leased asset; and
  - the leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- The interest rate charged between related parties should be at arm's length. The arm's length interest rate is defined by the Ministry of Finance.
- The debt-to-equity ratio is 6:1 for loans from entities that own (directly or indirectly) at least 25% of the equity or voting rights in the debtor company. This also applies to loans from third parties, including banks, if such a shareholder or partner has issued a guarantee for the loan. Interest on the part of a company's debt that exceeds this ratio is not tax-deductible. The debt/equity ratio will remain at 6:1 for 2008-2010, decrease to 5:1 in 2011, and to 4:1 from 2012. If a taxable entity can prove

that the loan it has would have been given on the same terms by a third party, the thin-capitalisation rules do not apply.

- The Corporate Income Tax Act has expanded the participation exemption to exclude income from dividends received from all countries with a tax rate higher than 12.5%, provided that the country is on the list published by the Ministry of Finance. It also exempts from tax 50% of the profit from the disposal of shares from a country with a tax rate higher than 12.5% when there has been a participation of at least 8% for a period of at least six months and where the holding company has had at least one employee. Similarly, 50% of a loss from such a disposal is not deductible. The amount equal to 5% of dividends and profit from the disposal of shares is additionally non-deductible.

Withholding tax

- Withholding tax at 15% applies to a number of payments made to non-residents, including dividend distributions, interest payments, royalties, lease payments for real estate located in Slovenia, payments for the services of performers or sportsmen and sportswomen including such payments made through an intermediary, and services charged from low-tax jurisdictions. Interbank interest payments are exempt from withholding tax.

Double Tax Treaties

- Slovenia has 43 Double Tax Treaties.

Transfer pricing

- Slovenia applies the arm's length principle. Transfer pricing documentation requirements were introduced in 2005. A list of the required documentation is provided in the Tax Procedure Act. Penalties may be imposed if the documentation is not available during a tax audit within 30-90 days of the tax authority's request, depending on the nature and volume of documentation. Certain information should be disclosed with the submission of the tax return: cumulative amounts of receivables and liabilities and loans between related parties are to be disclosed in a form. The EU's transfer pricing documentation guidelines were implemented from January 2007. Notwithstanding the arm's length principle, in the case of transactions between related resident companies the tax base can be neither increased nor decreased unless one of the resident companies is in a non-taxpaying position.

Working capital management

- According to the Financial Operations of Companies Act, the Board of Directors must take action if the company's capital is inadequate.

- A limited company is deemed to have inadequate capital if its loss for the current year and losses brought forward amount to one half of the company's share capital.

- The Supervisory Board has to give a written opinion on the Board of Directors' report on ensuring capital adequacy. The Board of Directors has to add their report on ensuring capital adequacy, accompanied by the Supervisory Board's opinion, to the agenda of a general meeting called to discuss appropriate measures.

Investment incentives

- A 20% investment tax credit is granted for investment in research and development (R&D) in 2008. The investment tax allowance can be obtained for expenditure on internal research and development activities within the company, or for the purchase of research and development equipment from related or non-related parties or another private research institution.

- A 30% tax credit on R&D investment will apply if the taxable entity's headquarters is located in one of the regions of the country which has an average per-capita GDP that is up to 15% lower than the average per-capita GDP of the whole country and if it also conducts its operations in that region.

- Similarly, a 40% tax credit on R&D investment will apply if the taxable entity has its headquarters and conducts its operations in a region of the country which has an average per-capita GDP that is15% or more lower than the average per-capita GDP of the whole country. The provisions described in this and the previous paragraphs are pending European Commission approval.

Indirect taxation

VAT

- The standard VAT rate is 20%. A reduced rate of 8.5% applies to certain goods and services. In addition, until the end of 2010 Slovenia is entitled to apply a reduced rate of not less than 8.5% to the supply of houses, flats, construction, and renovation and maintenance work on residential housing even if it is not provided as part of a social policy.

- Intra-community acquisitions of goods by non-taxable persons or taxable persons that do not have the right to deduct input VAT are not subject to Slovenian VAT if the total value of acquired goods does not exceed EUR 10,000 in the current or previous calendar year. This does not apply in certain instances (e.g. new cars, products subject to excise duty).

- Other VAT exemptions include:
  - supplies of goods and services in the public interest (including supplies to NATO);
  - insurance and reinsurance services; financial services (with exceptions, such as factoring and debt collection services);
  - leasing and letting immovable property (with exceptions for hotel and similar accommodation, holiday homes and camps, etc.);
  - the disposal of land, except building land (option to tax);
  - tax and court stamps and other similar stamps;
  - the supply of construction work or part of a construction project and the land on which the construction work is carried out, with the exception of supplies made before first use or occupation or if the supply is made two years before first use or occupation (option to tax).

- Slovenia has implemented the full use-and-enjoyment rules in compliance with the EU VAT Directive. These rules apply to the cross-border supply of certain services if the service provider or receiver is established outside the EU.

- Recovery of input VAT in Slovenia can be made through a VAT return if a foreign taxable person is obliged to be registered for VAT purposes in Slovenia. Alternatively, if a foreign taxable person is not established in Slovenia and does not carry out economic activities in Slovenia, input VAT can be recovered by means of the VAT refund procedure, providing certain criteria are met.

- The reciprocity principle for VAT refunds applies to non-EU countries. So far, VAT refund reciprocity for non-EU countries has been established with the following countries: Canada, Iceland, Israel, Japan, Liechtenstein, Macedonia, Norway, South Korea and Switzerland. VAT refund reciprocity has also been established with Croatia, but only with respect to fares, and Turkey, with respect to fares, transport and related costs.

- The threshold for obligatory registration for VAT for residents is EUR 25,000 worth of purchases subject to VAT made within a period of 12 months. If the threshold is not reached, voluntary registration is possible.

- Non-resident taxable persons are obliged to register for VAT purposes regardless of the threshold if they carry out taxable transactions in Slovenia (if they only carry out exempt transactions, they are not required to register). Slovenia has not implemented any simplifications for the supply of goods with related installation services or similar one-off transactions. Therefore, registration for VAT purposes is required.

- For distance selling, the obligatory registration threshold is EUR 35,000 for transactions carried out in the current or previous calendar year.

- Residents' VAT returns may be filed monthly or quarterly, depending on their turnover (the threshold is EUR 210,000). Non-residents registered for VAT file their VAT returns monthly.

- Intrastat reports on trade in goods between EU Member States have to be completed if the thresholds of EUR 200,000 for supplies of goods and EUR 85,000 for acquisitions of goods are exceeded. Sales and Purchase lists concerning trade in goods supplied to taxable persons in EU Member States have to be completed quarterly.

- Taxable persons with less than EUR 208,000-worth of taxable supplies (exclusive of sales of assets) during the previous 12 months can opt for a special scheme for charging and deducting VAT. Under this scheme, the chargeable event occurs when the taxable person receives payment for an invoice issued for goods or services supplied. The taxable person can deduct input VAT when it pays the invoice for goods or services it has received. Some transactions are excluded from the special scheme and follow the normal rules on chargeable events, among them imports and exports of goods and intra-Community acquisitions and supplies of goods.

- A taxable person that is not established in Slovenia and not obliged to establish a branch but that fulfills the requirements to be registered for VAT purposes in Slovenia, may appoint a fiscal representative to carry out its VAT liabilities. Any legal or natural person can act as such, provided that it is established in Slovenia or has a permanent address in Slovenia and is also registered for VAT purposes in Slovenia. A Slovene branch office cannot act as a fiscal representative.

Customs duties

- Bilateral trade agreements between Slovenia and foreign countries no longer apply since Slovenia joined the EU. European customs policy is based on the Customs Code, which includes provisions on how persons and legal entities are to handle goods imported into the EU from third countries or exported from the EU.

- Slovenia adopted an Act on the implementation of EU customs regulations in 2004.

Excise duties

- Excise duties apply to alcoholic beverages, tobacco products, energy products and electricity.

- Excise duty liabilities arise in cases where excise products are produced in Slovenia, when excise products are imported into the European Community and when excise products are introduced into Slovenia from other Member States.
- Under special conditions provided by the Excise Law, an excise duty liability may be transferred from a producer or importer to the holder of an excise licence or to a tax-exempt user.
- Persons subject to excise duty are producers of excise products, registered traders in excise products received from other Member States, importers of excise products, legal or natural persons that deal in excise products at the wholesale level, or any person to whom an excise duty liability may be transferred.
- Excise duty is suspended where:
  - excise products are produced and stored in an excise warehouse;
  - excise products are stored at a tax-exempt user's premises;
  - excise products are moved under conditions set by the Excise duty Act.
- An excise license must be obtained from the customs authority to establish a tax warehouse where dutiable products are produced, held, received or dispatched under duty suspension arrangements.
- The excise duty accounted for a tax period becomes due on the last day of the tax period concerned and should be paid within 30 days of that date.

Individual taxation

Personal income tax

- Progressive taxation of individual annual income for 2008:

Income brackets (in EUR)	Income tax
up to 7,187.60	16%
7,187.61-14,375.20	1,150.02 + 27% on the amount above 7,187.60
above 14,375.20	3,090.67 + 41% on the amount above 14,375.20

- Resident individuals are liable for personal income tax on their world-wide income, whereas non-resident individuals are taxed on their income from Slovenia. All income is taxable unless otherwise specified in the Personal Income Tax Act.
- Taxable income is divided into active income (income from employment, pensions, or business activities) and passive income (capital gains, interest, dividends, etc.).
- Capital gains, dividends and interest are taxed separately at 20%. Interest on bank deposits of up to EUR 1,000 is not taxable.
- Capital gains on share sales are taxed according to the length of the holding period, and the 20% tax rate is decreased by five percentage points for each five-year period for which the shares were held.

Social security

- Social security contribution rates:

Fund	Employee (%)	Employer (%)
Pension insurance	15.50	8.85
Health insurance	6.36	6.56
Unemployment	0.14	0.06
Disability	–	0.53
Maternity leave	0.10	0.10
Totals	22.10	16.10

- There is no cap on the employees' annual social security contribution base.

Payroll taxes

- Payroll tax is levied on employers who are obliged to pay social security contributions. These employers are usually those employing people on a permanent basis. Tax rates on monthly gross salary are as follows:

Income brackets (in EUR)	Payroll tax
up to 688.53	exempt
688.54–1,669.17	1.1% on the amount above 688.53
1,669.18–3,129.69	2.3% on the amount above 1,669.17
above 3,129.69	4.4% on the amount above 3,129.69

- Payroll tax will be abolished in 2009.

Pensions

- The obligatory total contribution rate for pension insurance is 24.35%. The employee's contribution is 15.5% and the employer's is 8.85%.

Other taxes

Real estate and land tax

- Property tax is levied if VAT has not been charged on a real estate transfer (VAT and Immovable Property Transfer Tax are mutually exclusive). The rate is 2% of the market value of the immovable property transferred.

Certain transfers are exempt. The tax authority may adjust the taxable base in certain circumstances. In general, the taxpayer is the seller of the immovable property.

Environmental tax

- Slovenia has five different environmental duties for:
  - water pollution;
  - carbon dioxide air pollution;
  - pollution of the environment caused by the dumping of rubbish;
  - pollution of the environment caused by the use of lubricating oils and liquids;
  - pollution of the environment caused by motor vehicles in general use.
- Polluters are liable for environmental duties under the "polluter pays" principle.
- Legislation on Waste Electrical and Electronic Equipment (WEEE), compliant with the joint Directive 2002/96/EC of the European Parliament and of the Council, came into force on 1 January 2006.

Tax on insurance premiums

- A tax of 6.5% levied on insurance premiums is payable by insurance companies and other legal providers of insurance services in the Republic of Slovenia.
- The tax period is a calendar month and the tax has to be paid within 15 days of the end of the month for which the tax return was submitted.
- There are four exemptions from liability to this tax:
  - compulsory contributions for pension, disability and health insurance;
  - premiums for health, accident and life insurance, provided that the duration of the contract exceeds 10 years;
  - premiums for insurance against accidents occurring outside Slovenia;
  - reinsurance premiums.

Legal and other developments

Labour code

- The Labour Relationship Act governs employment conditions in Slovenia. The main requirements under Slovenian employment legislation are as follows:
  - Working time is limited to 40 hours per week. In certain cases the employer may ask the employee to work up to 170 hours of overtime in one year or 230 hours with employee's consent.
  - Employees may terminate the employment relationship at any time. The minimum notice period is one month. Employers may terminate the employment relationship only in cases that are expressly covered by the Labour Relationship Act. The statutory termination notice period varies depending on the circumstances.
  - The amount of the monthly gross salary cannot be less than the minimum set by the legislation in force. Currently it is approximately EUR 540.
  - An employee's minimum annual holiday entitlement is four weeks.
- In general, foreign citizens must obtain a work permit and a temporary residence permit to live and work in Slovenia. EU citizens and their family members are not required to have work permits but they have to declare the start of their employment and have to register their residential status and permanent address.

Environmental law

- The Biocidal Products sets out the criteria for the evaluation of products and the procedure for obtaining approval for putting biocidal products on the market. The Act also implements the system of reciprocal approval among EU Member States, and the EU reporting and evidence requirements.

Consumer protection

- The legally compulsory dual display of prices (in both Slovene tolars and euros) ended on 30 June 2007.
- A Decree on the Execution of the 2nd and 12th Articles of the Consumer Protection Act came into effect on 3 October 2007. This decree goes a considerable way towards harmonising Slovenian legislation with the judgements of the European Court of Justice. Information about the characteristics, terms of sale, use and purpose of a product must be in Slovenian or a widely-understood language. Alternatively, generally recognised symbols can be used.

Takeover act

- The Slovenian Takeover Act came into effect on 11 August 2006 and goes a considerable way towards harmonizing Slovenian legislation with the EU 13th Directive on Takeover Bids (2004/25/EC).

- The Takeover Act applies not just to all corporations quoted on the stock-exchange but also to unquoted corporations that have their registered office in the Republic of Slovenia and had more than 250 shareholders and at least EUR 4.2 million in registered share capital on 31 December 2005.

- When a single shareholder's voting rights in a company reach 25%, the shareholder must bid for all the remaining shares in the company. The price offered for the shares must not be lower than the highest price at which the bidder acquired shares in the target company during the year preceding the announcement of the takeover bid.

- When parties acting in concert have jointly reached the threshold, they are obliged to make a public takeover bid, subject to certain conditions which are known as 'refutable and irrefutable assumptions'. Refutable assumptions may be contested by means of an application to the Securities Market Agency. Irrefutable assumptions cannot be contested.

- A refutable assumption that the parties are acting in concert is proved in following cases:

  – the parties are connected by the circumstances in which they acquired their shares in the target company;
  – the members of the parties' management or corporate supervisory bodies are acting in concert with each other;
  – one or more parties, including legal entities and their management or supervisory board members, are acting in concert to gain absolute control or to strengthen their control of a target company, or to obstruct another party's bid for it (N.B., this is, in fact, a complex provision; please contact PwC Slovenia for more details.);
  – the parties are close family members;
  – the parties have proposed that the target company's General Meeting should accept a decision for which a 75% majority is required.

- An irrefutable assumption that the following parties are acting in concert with each other is proved in following cases:

  – they are controlled and controlling entities, respectively;
  – they are entities that are dependent on the same controlling entity;
  – they are a management company and an investment fund managed by it, respectively.

- The New Takeover Act prohibits the use of defensive tactics by a company's management without the prior authorization of a General Meeting.

- The existing anti-takeover defences provided in the Articles of Association, Shareholder Agreements, and agreements made between a company and its shareholders are allowed by the new Takeover Act.

Business transformations

- The Companies Act introduces the option for companies to choose a one or two-tier system of corporate governance; the concept of audit committees; ways of setting up a European joint-stock company (Societas Europea); and minority shareholder protection.

- Changes to the Court Register Act came into force on 28 April 2007. The Act abolishes trade register fees and simplifies the establishment of a limited liability company. From 1 February 2008, an LLC may also be established electronically and the Founding Act can be signed on a standard form.

- The new Standard Classification of Activities came into force on 1 January 2008 and on the same date the classification of activities from the year 2002 stopped being used, so entities have had to report their suggested classification of their primary activity. Secondary activities will be changed in 2008.

- The Law on venture capital companies came into force on 25 October 2007. The act governs the management of the status and investments of venture capital companies with a registered office and place of management in Slovenia. Venture capitalists are owners of investments in entities whose securities are not listed on the stock market. Investments in securities imply acceptance of active management obligations, such as:

  – increasing the company's basic capital;
  – establishing a new entity.

Other

- On 1 January 2008, the central department for authentic documents at the District Court in Ljubljana started to operate. The District court in Ljubljana is competent for motions for the enforcement of civil claims on the basis of authentic documents. The procedure is automatic and is designed to reduce judicial arrears. Claims can be made electronically or on a prescribed form.

Ukraine

Highlights

- Corporate profit tax and import VAT incentives for energy-saving activities will come into effect.
- VAT refunds are no longer limited to the amount of input tax paid in the previous month.
- The charge for the purchase of foreign currency through banks in Ukraine has been reduced to 0.5%.

The exchange rate between the Ukrainian hryvnia ("UAH") and the euro ("EUR") used in this report is UAH 7.38 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The standard corporate tax rate is 25%. For insurance companies, net insurance premiums are taxed at 3%. Qualifying small legal entities may opt to use simplified taxation.
- Tax returns must be filed within 40 days of the last day of each reporting quarter. An eleven-month return is also required. The tax should be paid within 10 days of filing the tax return. Overpaid corporate tax may be refunded.
- Losses may be carried forward indefinitely. The previous government practice of limiting the carry-forward period to one year has now ended. However, it is possible that the law will be amended in early 2008 to reinstate the restriction.
- From 1 January 2008, the following corporate tax incentives have come into effect:
  - Income from the sale of energy-saving and alternative energy-supply equipment manufactured in Ukraine will be exempt if the income is reinvested in the production of such equipment.
  - Up to 50% of the taxable profit of entities considered by the state authorities to be involved in the development, implementation or utilisation of energy-saving projects may be tax-exempt.

  The above exemptions are granted for five years. However, the procedure for claiming these exemptions is still unclear.
- Fourteen different local taxes may be levied at the discretion of the local authorities. The principle local taxes include advertising tax, municipal tax and a charge for the use of local symbols.
- Corporate tax paid abroad may be offset against Ukrainian tax, provided that a Double Tax Treaty exists with the relevant country and the taxpayer can produce appropriate evidence that foreign taxes have been paid.
- If a foreign entity does not have a permanent establishment in Ukraine, a 15% withholding tax will generally apply to income gained in Ukraine, unless relief under a relevant tax treaty is available. A branch (as the term is used in the international sense) cannot be established in Ukraine. It is not possible for foreign entities to conduct full commercial activities (executing contracts, selling and accepting payments for goods, etc.) through a representative office. However, a commercial representative office may be effective for a limited range of activities.
- Each company is taxed individually.
- Gains from securities' trading are taxable and the results of securities' transactions must be separately computed for each type of security.
- There are no thin-capitalisation rules in the traditional sense but a partial limitation on the deductibility of interest expenses applies if at least 50% of the borrower's capital belongs to a non-resident and the interest is payable to the non-resident and/or its related entities (based on a formula). Interest on foreign loans should not exceed the permitted interest rate on loans, which is determined by the National Bank of Ukraine based on the cost of state borrowing in foreign financial markets.
- Advanced corporate tax should be paid when dividends are distributed (the amount paid can be further offset by regular payments of corporate tax). The advance payment of corporate tax does not apply in the case of dividends paid by a taxpaying entity which receives more than 90% of its income in the form of dividends from resident related entities.

Withholding tax

- Dividend distributions, interest and royalties paid to non-resident companies are subject to 15% withholding tax.

Double Tax Treaties

- Currently, Ukraine has Double Tax Treaties with 63 countries.
- From 1 January 2008, a new Double Tax Treaty with Slovenia will come into force. Under the Treaty, the following rates of withholding tax apply: 5% on dividends

if the recipient directly owns at least 25% of the capital, or otherwise 15%; 5% on interest; and 5% or 10% on royalties, depending on the type of royalty.

- In 2007 the negotiations started on a new tax treaty with Cyprus. The existing treaty was inherited from the USSR and exempts dividends, interest and royalties from withholding tax. The new treaty introduces withholding taxes at the following rates: 5% on dividends if the recipient directly owns at least 25% of the capital, or otherwise 15%; and 10% on interest and royalties. No date has been set so far for the signing of this treaty.

Transfer pricing

- For tax purposes, transactions between related entities must be on arm's length terms. Related entities are defined as legal entities which control or are controlled by the taxpayer or are under common control along with the taxpayer. Control means direct possession or possession through a number of related individuals or legal entities of the largest share in the registered capital or not less than 20%.

Investment incentives

- Ukraine currently has very few incentives, although some are available (for the publishing and agricultural industries, for example). There have been discussions in Parliament about the possibility of restoring special tax regimes but there is no guarantee that any such measure will be enacted.

- Ukraine offers generous depreciation rates for fixed assets.

Indirect taxation

VAT

- A standard VAT rate of 20% applies, unless an exemption is available, to the supply of goods and services where the place of supply is in Ukraine, and to the importation into Ukraine of goods and ancillary services (i.e. the costs of services are included in the goods' customs value). Zero-rated transactions are limited and include exports of goods, and work on movable property imported into Ukraine and designated for re-export.

- Transactions that are not subject to VAT include:

  – the issue, sale and exchange of securities;
  – depository, clearing and registrar activities in respect of securities;
  – the interest/commission element of lease payments under financial lease agreements up to double the prime rate of the National Bank of Ukraine;
  – the provision of financial loans and bank guarantees;
  – foreign currency exchange;
  – insurance and reinsurance services supplied by licensed insurers and the services of insurance/reinsurance agents and brokers;
  – dividends and royalty payments in cash or securities;
  – funds under loan, deposit, insurance or proxy agreements;
  – brokerage and dealership services provided in respect of securities transactions;
  – the transfer of a taxpayer's assets to another taxpayer in the course of a merger or acquisition;
  – the transit of cargo and passengers through Ukraine.

- The amount of VAT will be determined based on the transaction price for the supply of goods or services. If the market price exceeds the transaction price by more than 20%, the seller must account and report output tax based on the market price.

- For imported goods, VAT is based on the higher of either the contract price or the customs value stated in the bill of entry, increased by the amount of the costs of transporting those goods to Ukraine, excise taxes and duties payable at the time of importation, and any payments for the use of intellectual property incorporated into the goods.

- Input tax credits will be based on the transaction price. However, if the transaction price exceeds the market price by more than 20%, the input tax credit should be based on the market price.

- Input VAT can be recovered if it was incurred on purchases of goods and services intended for use in VAT-able transactions. Input VAT on purchases used in exempt supplies is not recoverable but can be deducted for corporate tax purposes. Input VAT on purchases used in taxable and exempt supplies is partly recoverable to the extent of their use in taxable supplies (pro-rata).

- Entities must register for VAT if the volume of their transactions has exceeded UAH 300,000 (approx. EUR 40,650) during the previous 12 calendar months. Voluntary registration is available.

- The reporting period is the calendar month for taxpayers whose volume of transactions in the preceding calendar year exceeded the registration threshold. Below this threshold, taxpayers may opt for either monthly or quarterly reporting.

- VAT returns must be submitted to the tax authorities within 20 days following the reporting month by entities that pay VAT monthly and within 40 days of the last day of the reporting quarter by entities that pay VAT quarterly. The tax should be paid within 10 days of the date when the tax return is filed.

- VAT-registered persons may apply for a refund if they have been in a VAT credit position for two consecutive months. From 1 January 2008, refunds are no longer restricted to the amount of VAT paid in the previous month.

- VAT-registered persons are generally not entitled to refunds if:

  – they have been registered for VAT for less than 12 calendar months before the month for which a refund is sought; or
  – the amount of the refund claimed exceeds taxable sales for the last 12 calendar months; or
  – they have not carried on business activities during the last 12 calendar months.

- Foreign entities without a registered presence in Ukraine cannot obtain VAT refunds in Ukraine.

- From 1 January 2008, energy-saving goods are VAT-exempt.

Customs duties

- Imports are subject to customs duties.

- Relief rates of duty apply to goods originating in countries enjoying Most Favoured Nation trade status (e.g. the USA, EU countries).

- Full duty rates apply to goods originating in other countries.

- Ukraine has concluded free trade agreements with all the CIS countries and Macedonia, allowing duty-free imports of goods originating from these countries.

Excise duties

- The excise tax rates for the following main products are:

  – Beer: approx. EUR 0.04 per litre;
  – Wine: approx. EUR 0.03-0.06 per litre;
  – Alcohol: approx. EUR 2.9 per litre of 100% alcohol;
  – Cigarettes: approx. EUR 1.9 per 1,000 cigarettes plus 12.5% of sales turnover, but not less than a total of EUR 2.4;
  – Petrol: EUR 60 per 1,000 kg;
  – Cars (new): approx. EUR 0.02-0.1 per cubic centimetre of engine capacity.

Individual taxation

Personal income tax

- The standard personal income tax rate is 15% for residents. Other tax rates (from 0% to 15%) apply to specific types of income (e.g. gifts, inheritance, dividends, royalties, income from sales of movable property and real estate).

- Income received by non-residents in the form of interest, royalties, dividends and salary paid by a Ukrainian employer is taxed at 15%. Other income may be taxed at 30%.

- Employers and other resident business entities that pay income to individuals are defined as tax agents. They are responsible for withholding the tax payable on income and remitting it to the State. Tax agents must pay the tax to the State not later than the date the income is paid to individuals. Tax on income that is accrued but not paid to individuals must be transferred to the State within 20 calendar days of the end of the reporting month. Personal income tax reports must be filed with the tax authorities quarterly.

- If an individual, either resident or non-resident, receives any income subject to tax in Ukraine from entities/sources other than tax agents (e.g. foreign entities, other individuals), the individual is required to file a personal income tax return with the tax authorities. The tax return must be filed by 31 March and the tax due must be paid by 10 April of the following year.

- Residents are individuals who have a place of abode in Ukraine. If an individual has a place of abode in another country as well, the individual is deemed to be a resident of Ukraine if he/she has a permanent abode (domicile) in Ukraine. If an individual has a domicile in another country as well, he/she is deemed to be a resident of Ukraine if his/her centre of vital interests is in Ukraine. A sufficient but not exclusive ground for determining the country of an individual's centre of vital interests is the permanent abode of the individual's family members. If an individual's centre of vital interests cannot be determined or the individual has no domicile in any country, he/she is deemed to be a resident of Ukraine if he/she stays in Ukraine for at least 183 days during the tax year (calendar year). If residence status cannot be determined based on the above rules, an individual will be deemed to be a resident of Ukraine if he/she is a citizen of Ukraine.

Resident taxpayers are liable to pay tax on any income they receive or accrue in Ukraine and/or abroad during the reporting period, except for items specifically exempt from tax under the law. Taxable income may be decreased by the amount of tax credit (deduction) allowed in the reporting year.

- Non-residents are individuals who do not qualify as residents of Ukraine. Individuals who qualify as non-residents for Ukrainian personal income tax purposes are subject to Ukrainian tax only in respect of the income they earn in Ukraine. Income earned in Ukraine is defined as any income received from any activity performed in Ukraine.

Social security

- Employers are required to pay the following payroll taxes on their employees' gross salaries:

  – 33.2% to the State Pension Fund;
  – 1.5% to the Social Security Fund;
  – 1.3% to the Employment Insurance Fund;
  – 0.66%-13.6% to the Fund for Social Insurance against Accidents at Work. The tax rate depends on the level of accident risk in enterprises in certain sectors of the economy.

- Employees' contributions are withheld and paid by the employer and are:

  – 2% to the State Pension Fund;
  – 1% to the Social Security Fund (0.5% if gross monthly salary does not exceed the subsistence minimum – currently approx. EUR 85);
  – 0.5% to the Employment Insurance Fund (for Ukrainian national employees only).

- The taxable base for both the employer's and employee's social security and pension contributions is capped, currently at UAH 9,495 (approx. EUR 1,287) per employee per month (the legislation is unclear regarding the tax base of contributions to the Fund for Social Insurance against Accidents at Work, as it can be lower). The amount of the cap is subject to annual review by Parliament. It may also be increased during the year.

Pension

- Pension contributions are part of the social security contributions and are described in the previous section.

Other taxes

Real estate and land tax

- There is no real estate tax. Owners or users of land must pay land tax. The rate depends on the nature and location of the land.

Environmental tax

- An environmental pollution charge is payable by legal entities that discharge contaminants into the environment or dispose of waste. The charge rates depend on the type and hazard-rating of each specific contaminant. Where the entity exceeds the limit for the discharge of contaminants and the disposal of waste, the charge rate is multiplied by five.

Legal and other developments

Foreign currency regime

- Payments under trade contracts between a resident and a non-resident entity must be in foreign currency.

- Foreign currency payments between residents in the territory of Ukraine are generally prohibited.

- Foreign loans must be registered with the National Bank of Ukraine before they are received. An exception is provided for commercial credits and credits secured under the guarantees provided by the Cabinet of Ministers of Ukraine.

- From 1 January 2008, Ukrainian companies must ensure receipt of payment for exported goods, and obtain pre-paid imported goods, within 180 days of export/payment. Violations of this requirement attract severe fines.

- Before remitting service fees to non-residents, Ukrainian customers must obtain written confirmation from the Foreign Market Monitoring Centre that the service fees comply with usual market prices if the total payment under the contract exceeds EUR 100,000.

- Due to an unfavourable clarification issued recently by the National Bank of Ukraine, recovering the value of investments may be difficult for a foreign investor that has purchased Ukrainian shares from another foreign investor in a transaction that took place outside Ukraine with foreign currency payments through a foreign bank account.

- Purchases of foreign currency through banks in Ukraine are subject to a charge of 0.5%.

Securities and the stock exchange market

- Securities and the Stock Exchange Market are regulated by the law "On Securities and the Stock Market". The main objectives of the law are:
  - to stipulate general provisions regulating securities and the stock market;
  - to regulate professional activities in the stock market, namely the management of securities, the procedure for access by professional participants to the stock market and the requirements with which they must comply;
  - to clarify the procedures for issuing securities through open (public) and closed (private) securities offerings;
  - to clarify the requirements for the disclosure of information by issuers and professional participants in the stock market, the notion of insider information and responsibility for the illegal use of insider information, the rules for the allocation of shares of Ukrainian issuers abroad, and control of unfair advertising on the stock market.

Labour code

- The Labour Code governs the conditions of employment in Ukraine. The main requirements of Ukraine's employment legislation are:
  - Working time is limited to 40 hours per week. Overtime is generally prohibited and may take place only in cases specified by the law. Overtime is prohibited for certain categories of employees, such as pregnant women, individuals younger than 18 years old, etc. Overtime for any given employee must not exceed four hours for four consecutive days at a time and a total of 120 hours per year.
  - The monthly wage must not be less than the minimum wage stipulated by the legislation. Wages and all other payments to employees who are Ukrainian nationals may be paid only in the Ukrainian national currency.
  - Employees may terminate their employment relationship at any time by giving two weeks' prior notice to the employer. Employers may only terminate the employment relationship in cases that are expressly covered by the Ukrainian Labour Code. The statutory termination notice period is two months.
  - An employee's minimum annual holiday entitlement is 24 calendar days.
  - The normal retirement age is 55 years of age for women and 60 years of age for men.
- Enterprises must guarantee employment for handicapped persons according to quotas specified in the law.
- Ukrainian employers must obtain work permits for foreign nationals they employ in Ukraine. A work permit may be issued for up to one year with subsequent renewals. Work permits for intra-corporate assignees (e.g. top executives, managers and specialists) and for individuals providing services without a commercial presence in Ukraine may be issued for the term of employment. The overall time of employment in Ukraine is not limited.

Competition law

- According to Ukraine's law "On the Protection of Economic Competition", prior approval of the Anti-Monopoly Committee is required for an 'economic concentration', particularly if the aggregate value of the assets or sales turnover of all participants in the concentration, including assets and turnover of their affiliated entities, exceeded EUR 12 million for the last financial year, if:
  - The assets or sales turnover, including those abroad, of at least two participants in the concentration, including the assets and turnover of their affiliated entities, exceeded EUR 1 million each for the last financial year; or
  - The assets or sales turnover in Ukraine of at least one of the participants, including the assets and turnover of its affiliated entities, exceeded EUR 1 million for the last financial year.

  Prior approval of the Anti-Monopoly Committee is also required if the concentration takes place in a market where the share of a participant or the aggregate share of all participants of the concentration, including their related entities, exceeds 35%.

  Approval of the Anti-Monopoly Committee may not be required if only affiliated entities are involved in the concentration.

Intellectual property

- The major law in the field of intellectual property is the law "On Copyright and Allied Rights" which:
  - sets out the definition of a work's/product's author and of a copyrighted work/product;
  - determines when copyright (and allied rights) arises and how it is exercised;
  - sets out its period of validity and the procedure for its transfer to third parties;
  - covers the issues of copyright (and allied rights) ownership; and
  - lists property and/or non-property rights owned by the author.

Environmental law

- Under the law "On Environmental Protection", companies are required to keep records of discharges of hazardous substances into the environment and of their compliance with targets for pollution and the use of natural resources. If demanded, data must be given to the relevant authorities. In general, legal entities must:
  - conduct environmental audits before beginning commercial activities;
  - comply with established environmental regulations and discharge limits, including the rules on the disposal and handling of waste and hazardous substances;
  - pay compensation for the use of natural resources and for pollution or other damage caused to the natural environment.
- The Code "On Administrative Offences" imposes penalties for polluting emissions made without a special licence from the relevant state authorities, as well as for polluting emissions that exceed the permitted quota.

Consumer protection

- The protection of consumers' rights is guaranteed by the law "On the Protection of Consumers' Rights". The main objectives of the law are:
  - to establish the rights and duties of consumers;
  - to define the main rules on the protection of consumers' rights;
  - to define the areas of responsibility of the appropriate state authorities in the field of the protection of consumers' rights.

Concessions

- In accordance with the law "On Concessions", concessions are allowed for public utilities, public transport, telecommunications, construction and exploitation of passenger and cargo ports, airports, roads and transport routes, as well as for some other areas. Concessions for road construction are governed by Ukraine's Law "On Concessions for the Construction and Operation of Roads".
- In accordance with the law "On Production Sharing Agreements", domestic and foreign investors may participate in the exploitation, development and extraction of mineral resources, under production-sharing agreements with the State.

Business transformations

- Business transformations are regulated by the Civil and Commercial Codes. The rules on business transformations vary according to the organisational form of the legal entity. In particular, special regulations apply to the transformation of banks.

Banks

- Banks may only be incorporated in the form of open joint stock companies or cooperative banks. The minimum capital requirement for a newly-established bank is EUR 10 million.

Uzbekistan

Highlights

- Exemption from corporate income tax until 1 April 2009 and unified tax payment until 31 December 2010 is available for certain enterprises.
- A new net profits tax was introduced on 1 January 2008 for foreign legal entities operating in Uzbekistan through permanent establishments.
- From 1 January 2008, subsurface users are subject to the following three taxes: subsurface use tax, excess profits tax and signing / commercial exploration bonuses (one-off payments to the Uzbekistan government by subsurface users).

The exchange rate between the Uzbek soum ("UZS") and the euro ("EUR") used in this report is UZS 1,886.04 = EUR 1.00. This rate is not fixed and approximates to the market rate on 1 January 2008.

Corporate taxation

Corporate tax

- The general rate of corporate income tax in 2008 is 10%. Commercial banks are subject to a rate of 15%. Provided that a certain export ratio is achieved, reduced rates of corporate income tax are available to companies that export self-produced goods, services and "works", (an Uzbek taxation term for a third category of deliverables which combine products and services, e.g. building construction). The corporate income tax is computed on the basis of a company's taxable profit, which is determined as statutory accounting profits, adjusted for specific non-deductible expenses.
- Wholesale / retail sale companies, public catering companies, private notaries, as well as micro-firms and small companies (except for micro-firms and small companies producing excise goods or extracting natural resources) are subject the unified tax payment regime. Unified tax payment rates vary depending on the company's activity, e.g. the rate is 10% for public catering companies, 5% for wholesalers, and 8% for micro-firms and small companies.
- Corporate income tax is paid in three advance instalments every quarter (due before the 15th of each of the first three months of the quarter), based on the estimated profits for the quarter, with a final quarterly adjustment before the 25th of the month following the reporting quarter.
- The new Tax Code allows refunds of overpaid taxes after all obligations for all other tax payments have been discharged.
- Tax losses can be carried forward for up to five years, allowing a reduction of taxable income of the respective year by up to 50%. The tax base can be reduced by the amount of losses, based on annual results. Losses incurred in more than one calendar year are recoverable in the order of their occurrence. Losses incurred in the period during which taxpayers were exempt from corporate income (profits) tax cannot be recovered in subsequent periods.
- Operating losses are generally non-deductible, except for losses from the disposal of fixed assets, if the fixed asset has been used for more than three years. Losses from production spoilage are deductible within statutory norms.
- Rules on thin-capitalisation are not applicable in Uzbekistan.
- There is an 8% local tax for infrastructure development, which is charged on net income after the payment of corporate income tax.
- Non-residents operating in Uzbekistan through permanent establishments are subject to corporate income tax at 10% in 2008. The taxable base for such non-residents is similar to the base set for Uzbek legal entities; however the list of non-deductible expenses is broader and includes, among other items: royalty and other payments for the use of the non-resident's assets or intellectual property; service commission fees; interest on loans provided by the non-residents; management or administration costs that non-residents incur outside Uzbekistan.
- The filing deadline for permanent establishment corporate income tax declarations is 25 March following the reporting year. Payment is made annually and is due within a month of the assessment notice issued by the tax authorities.
- Corporate income tax consolidation among group companies is not allowed.
- The tax treatment of operating and financial leasing differs. Financial leasing is treated by the lessee as the purchase of a fixed asset and is subject to the normal depreciation regime, whereas a fixed asset under an operating lease is accounted by the lessor and the lessee deducts the lease payments for tax purposes.
- Interest on short-term and long-term loans is deductible, except for interest which is capitalised and interest on overdue loans.
- The implementation of the branch concept and the transfer pricing rules is still in the initial phase, which limits opportunities for long-term planning.

- Since 14 March 2007, enterprises have been allowed to reduce their corporate income tax base for three years by the cost of modernisation and technical/technological re-equipment of production facilities (less annual depreciation), and the repayment of loans taken for these purposes. Micro-firms and small enterprises are eligible to reduce their unified tax payment base by the value of new technological equipment, but not by more than 25% of the taxable base.

- Enterprises providing banking and financial services such as leasing, insurance, audit, accounting, micro-crediting and certain social services are exempted from corporate income tax until 1 April 2009 and from unified tax payment (for micro firms and small enterprises using the simplified taxation regime) until 31 December 2010.

- From 19 September 2007, insurance premiums on property and long-term life insurance expenses are fully deductible (previously, these costs were deductible within statutory norms).

- Capital gains arising from the disposal of tangible and intangible assets are calculated as the difference between the selling price and the net book value of an asset. Capital gains are included in taxable profits, and capital losses are deductible (provided that the asset sold had been used for business purposes for three or more years). However, this provision applies to Uzbekistan residents, i.e. Uzbek legal entities and permanent establishments of foreign legal entities registered with the Uzbek tax authorities, while the capital gains of non-resident companies may be subject to income tax withholding assessed on the selling price with no deduction of the net book value.

Withholding tax

- If a foreign legal entity does not have a permanent establishment in Uzbekistan, withholding tax has to be assessed at source, with no deduction, at the following rates:

Income type	Rate
Dividend and interest	10%
Insurance and reinsurance premiums	10%
International freight and telecommunications	6%
Royalties, rents, lease income, freight-forwarding service fees, management fees and other income	20%

Double Tax Treaties

- Uzbekistan has effective Double Tax Treaties with 41 countries and further three treaties are pending. The Tax Code does not provide unilateral relief from double taxation in the absence of a tax treaty with a particular country.

Transfer pricing

- The new Tax Code does not stipulate any transfer pricing rules. Separate legislation may be introduced in 2008. Meanwhile, the transfer pricing concept does not exist in Uzbekistan.

Investment incentives

- Certain tax incentives have been granted to companies with foreign investments, i.e. companies that meet the following criteria:

  – The registered capital is USD 150,000 or more.
  – At least one of the participants is a foreign legal entity.
  – Foreign investors own at least 30% of the total registered capital.

- In August 2005 a new concept was introduced into the laws regulating foreign investment. If a foreign investor is granted additional guarantees and protective measures (incentives and preferences), other than those already provided by the general legislation, an investment agreement must be concluded between the Government and the foreign investor. The Government would be represented in the investment agreement by the Ministry of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan (MFERIT). The draft investment agreement should be pre-agreed with MFERIT, which would obtain approval from the Ministry of Justice, Ministry of Finance, State Tax Committee and other relevant ministries.

- Foreign investors are granted a 10-year guarantee against adverse changes in legislation. However, the application of this clause is limited to increases in the income (withholding) tax rate on dividends payable to foreign investors, and is subject to the imposition of procedural or other limitations, while increases in other tax rates and the introduction of new taxes are not deemed to be adverse changes for the purpose of this guarantee.

Indirect taxation

VAT

- The standard VAT rate is 20% on domestic sales of goods (works, services) and on imports. VAT at 0% is charged on exports of goods for foreign currency, international freight and passenger transportation, tolling and sales to diplomatic missions.

- Taxable turnover is determined as sales of all goods (works, services), except for: sales of VAT-exempt goods or by VAT-exempt entities, and goods (works, services) where the place of sale is outside of the Republic of Uzbekistan. While it is quite obvious with goods, the place of sale in respect of services depends on the type of service. For instance, the place of sale of consulting, auditing, legal and engineering services is where the buyer of the services is located, i.e. if the

buyer is in Uzbekistan, the services are deemed to have been sold in Uzbekistan (even though they may have been provided outside the country) and are subject to VAT.

- The following goods/services are among the VAT-exempt items: insurance/reinsurance transactions; operations related to bank accounts, currency and securities transactions; services related to the shipment and transportation of goods for export; medical and veterinary services; fixed and intangible assets contributed to charter capital; interest under financial lease terms; technological equipment and spare parts imported into Uzbekistan; property imported/contributed as an investment commitment; imported medicines.

- Input VAT offsetting is allowed on the VAT payable to suppliers for the goods (works, services) received during the reported period, provided that such goods (works, services) are used for production of taxable supplies. The credit is allowed once the purchaser has accepted the goods, works or services and has received a standard VAT invoice. VAT paid on imported goods, works or services is treated as input VAT and can only be offset after the VAT on imports has been paid. VAT on fixed and intangible assets cannot be offset.

- There is no separate registration for VAT purposes in Uzbekistan. All legal entities engaged in entrepreneurial activity are VAT-payers, except for entities applying a simplified taxation regime, such as small companies, micro-firms, trading and public catering companies and agricultural producers. Payers of the unified tax payment may choose to pay VAT at their own discretion.

- Taxpayers are required to file VAT returns and pay their VAT liabilities by the 25th of the month following the reporting quarter, for micro-firms and small companies (quarterly reporting), and following the reporting month for other VAT-payers (monthly reporting). VAT-payers are also required to file the registers of invoices from suppliers along with their VAT returns.

Customs duties

- Customs duty rates levied on the value of imported commodities vary from 0% to 30%, depending on the type of goods.

- The imposition of customs duties also depends on the country of origin of imported items, in particular:

  – No import customs duties are imposed on imports of goods originating in members of the CIS Free Trade Zone convention (i.e. Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan and Ukraine).
  – Import customs duties are imposed at the standard rates on imports of goods originating in some European and Asian countries and the USA which have been granted Most Favoured Nation status.

- Import customs duties are payable at twice the standard rates on imports from all other countries.

Excise duties

- Excise tax is charged as a percentage of the declared customs value of the imported item, or is set as a fixed monetary value per definite number of units. The rates depend on the type of imported item and may vary significantly.

- Examples of the import excise tax rates in 2008 are: juices, 70%; cigarettes, USD 10 per 1,000 units; alcohol, from 65% to USD 2 per litre; petroleum and petroleum products, 20%-30%; video appliances, 45%; furniture, 50%; refrigerators, 30%.

- Excise tax is also imposed on certain goods produced in Uzbekistan. The rates vary, depending on the type of goods.

Other

- There is a small tax on fuel consumption, which is added as a fixed amount to the sales price of the fuel. This tax only applies to individuals and not to legal entities. In 2008, the tax is UZS 100 (approx. EUR 0.05) per litre of petrol or diesel, or kilogram of gas.

Individual taxation

Personal income tax

- Table of progressive taxation of individual annual income for 2008:

Income brackets	Income tax
Up to six times the minimum annual wage*	13%
The part exceeding five times and up to ten times the minimum annual wage	18%
The part in excess of 10 times the minimum annual wage	25%

* Currently the minimum annual wage is UZS 223,560 (approx. EUR 119).

- Personal income tax is charged on all earned income, benefits in-kind and capital gains, subject to specific allowances and exemptions in accordance with the legislation. Certain types of costs incurred by employers are not considered income for the purpose of personal income tax: free transportation of employees to/from office; milk and uniforms; relocation costs; business trip expenses (travel; the full cost of accommodation, provided that

appropriate supporting documents are in place; and per diems, within the statutory norms); compensation, e.g. for personal cars used for business purposes; injury allowances and compassionate pay; property and long-term life insurance premiums.

- Personal income tax is calculated cumulatively, at the marginal rates shown above for residents, and at the rates mentioned in the "Withholding tax" section for non-residents.

- According to the Uzbek tax legislation, legal entities (employers or other sources of income, e.g. dividend payers) are responsible for withholding Uzbek personal income tax. The employer has to pay personal income tax at the same time as and not later than the payment of salaries.

- Both residents and non-residents are subject to tax in Uzbekistan. Residents are taxed on their worldwide income, whereas non-residents are taxed on income from sources in Uzbekistan. An individual is a resident if one of the following two conditions is met:

  – The individual resides in Uzbekistan permanently.
  – The individual is present in Uzbekistan for 183 or more days during any 12-month period ending in the reporting period.

- Certain categories of individuals are either fully exempt from personal income tax (e.g. diplomats) or provided with an additional monthly deduction of four times the statutory minimum monthly wage (approx. EUR 39 per month), including war veterans, people with disabilities, widows/widowers with children, and women with 10 or more children.

- There are certain payments which are specifically exempt from personal income tax. These include, among others, gains from the disposal of personal items; income from intellectual property; financial assistance (payment for social or family needs); out-patient and in-patient medical treatment charges; the value of gifts from individuals, in full, and from legal entities up to six times the minimum monthly wage (approx. EUR 59); severance pay, up to 12 times the minimum monthly wage (approx. EUR 117).

- Under the new Tax Code, no special rules apply to expatriates. In calculating the Uzbek tax liability, for reporting purposes, expatriates who are normally remunerated in foreign currency should convert their foreign currency receipts into UZS at the official exchange rate on each payment date.

- Personal income tax returns have to be filed by Uzbek residents (including expatriate individuals who have become Uzbek tax residents) who have received income in the form of capital gains and gains on intellectual property, income from more than one source and income from sources outside of Uzbekistan, during the reporting period. The annual filing deadline is 1 April of the year following the reporting year. Expatriate individuals who became Uzbek tax residents before 15 April of the current year should file a tax return for the preceding year. Any tax liability remaining by the time of the submission of the final return is payable after receipt of the tax assessment issued by the tax authorities, but not later than 1 June of the year following the reporting year.

Social security

- The unified social security payment is a mandatory payment from the payroll fully borne by the employer. In 2008, the payment is 24% of the total staff remuneration (excluding expatriate staff). As of 1 January 2008, the unified social security payment is also payable by non-residents who operate in Uzbekistan through a permanent establishment.

- In addition, a 2.5% mandatory contribution to the non-budgetary Pension Fund is withheld from the employee's remuneration.

- Employees may also pay 1% contributions to the Professional Union Federation Council. These contributions are optional.

- According to the Uzbek tax legislation, legal entities (employers) are responsible for paying the unified social security payment and for withholding and paying the 2.5% contributions to the Pension Fund. When determining the taxable base for these charges, exemptions include financial assistance (payment for social or family needs), compensatory payments (e.g. per diems), free meals, medical treatment, one-off bonuses for continued employment, etc.

- The unified social payment is not charged on expatriates' salaries. Expatriates are not subject to the 2.5% personal contributions to the non-budgetary Pension Fund.

Pensions

- Since 1 January 2005, the Uzbek pension system has been supplemented with a cumulative pension mechanism which is mandatory for employers and for individuals working under labour contracts.

- The mandatory monthly contribution rate is 1%, which applies to employees' individual monthly income. The contributions are withheld as part of personal income tax (e.g. 1% of total salary, offset against 25% personal income tax liability).

- Employees are required to pay these contributions, whereas employers are required to withhold and remit the amount of contributions to individual cumulative pension accounts opened specifically for these purposes.

- Currently there are no exemptions in respect of the new pension contributions.

Other taxes

Real estate and land tax

- Property tax is paid by both individuals and legal entities. The property tax rate in 2008 is 3.5% for legal entities. The tax is calculated on the basis of the net book value of the fixed assets adjusted for the effect of revaluation (which should be made annually, on 1 January), the residual value of intangibles and the value of overdue construction-in-progress. The rate is doubled for equipment not installed in due time and can be reduced for export producers, depending on the export share in the total sale. Newly-opened enterprises are exempt from property tax for two years from their date of registration. Technological equipment can be exempt temporarily from property tax if specified in the statutory list. Terminals and ATMs are exempt from property tax until 1 January 2010.

- As of 1 January 2008, property tax is also payable by non-residents. Property tax is due from non-residents operating in Uzbekistan through a permanent establishment in respect of fixed assets related to their activities, which are recorded in their accounting as per the Uzbek accounting laws, and real estate they own. Non-residents that do not have permanent establishments in Uzbekistan are charged Uzbek property tax on real estate they own in Uzbekistan.

- Individuals and legal entities that own land plots or rights to their use are subject to land tax. The tax is due on the basis of fixed fees determined by the government and the quality, location and level of water supply of each plot of land. Land tax is also payable by non-residents on land plots they own or use.

Other

- Subsurface users, except for those operating under production-sharing agreements, are subject to the following three taxes:

  – The payers of the subsurface use tax are both the legal entities extracting minerals and legal entities processing minerals. The taxable base is the value of the extracted or processed minerals. The rates differ depending on the type of minerals concerned.

  – Excess profits taxpayers are subsurface users extracting or producing cathode copper, cement, polyethylene granules and natural gas. The taxable base is the difference between the price set by legislation and the selling price. The tax rates are 60% for cathode copper and 75% for cement, polyethylene granules and natural gas.

  – Signing and commercial exploration bonuses are one-off payments to the Uzbekistan government by subsurface users. The taxable base is the value of extracted minerals based on the price set at the stock exchange.

- There are mandatory contributions to the Road Fund (the general rate is 1.5%), Pension Fund (1%) and School Education Development Fund (1%). These are called “turnover taxes” and are generally charged on a company’s gross annual turnover less VAT and excise tax.

Legal and other developments

Foreign currency regime

- The national currency in the Republic of Uzbekistan is the Uzbek soum (UZS). The UZS was introduced on 1 July 1994. All settlements in Uzbekistan should be made in UZS (except for limited cases such as cash payments in USD or EUR for entry visas to foreign countries, or similar cases).

- As a general rule, all Uzbek enterprises are required to convert 50% of their foreign currency revenue receipts into UZS through the domestic foreign exchange market. The conversion must be arranged through a bank authorised to undertake this activity. Small enterprises that meet the employee number criterion are exempt from this obligatory conversion.

- To stabilise and further regulate the use of UZS, settlements between businesses may only be made through bank transfers, regardless of the type of business. Payments made with corporate debit or credit cards are treated as non-cash settlements. An enterprise’s right to hold petty cash is restricted; an enterprise may only withdraw cash from its bank accounts for two specific purposes: for the payment of wages, and to cover certain allowances for business trips.

- Since 1 October 2002, all legal entities and individuals have been allowed to convert UZS into freely convertible currencies for the purpose of importing consumer goods, provided that certain requirements are met. These include: timeliness and completeness of payment of applicable import taxes and duties; the availability of certificates of conformity for

the imported goods; and strict observance of the trade rules, such as mandatory registration with respective authorities, use of cash-register machines, mandatory labelling of certain listed goods in the Uzbek language, etc.

- Uzbek enterprises are not allowed to hold bank accounts outside the country without obtaining prior approval from the Central Bank of Uzbekistan.

- In general, Uzbek entities have to keep their books in UZS. Only certain Uzbek enterprises with foreign investments are allowed to keep their books in a convertible foreign currency.

- Invoices issued and received in foreign currency must be converted for the accounting records at the official exchange rate of the Central Bank of Uzbekistan on the date on which the transaction took place.

- Foreign loans may only be received by Uzbek entities after they have obtained clearance from the Central Bank of Uzbekistan. Clearance from the Central Bank is also required for other operations "related to the movement of capital", such as investment activity, trading in real estate, financial leasing, etc.

Labour code

- Employment conditions for Uzbek national and expatriate staff are governed by the Uzbekistan Labour Code and the Law on Employment in Uzbekistan. These are still largely influenced by practices from the Soviet era, and consequently tend to favour the employee rather than the employer. The most important features are as follows:

  – Written employment contracts are compulsory and are usually valid for an unlimited period. Fixed-term contracts, either for five years or less, or for the duration of a project, are possible under certain conditions. A contract may include a three-month probationary period during which an employee may be dismissed without a stated reason.
  – Notice of dismissal under a fixed-term contract must be provided no later than one week after the last day of the contract, otherwise the contract will be regarded as having been confirmed and the appointment made permanent. Employees are protected against instant dismissal.
  – Except in cases of drunkenness, theft and "immoral activity", dismissal for other reasons, such as incompetence, must be preceded by a history of under-performance and a minimum of three reprimands. It is recommended that job descriptions be given to all staff, and that they be informed of the disciplinary procedures in force at the company.

- The Labour Code specifies the minimum benefit requirements, although most foreign enterprises usually offer more advantageous packages. Women are guaranteed up to 140 days' paid maternity leave and an option to work for reduced pay for up to a year after the birth of a child. Holiday leave, paternity leave and family bereavement leave are also mandatory.

- Employees have the right to strike, and may join labour unions.

- The regular working week is 40 hours. For each hour of overtime worked, an employee must be compensated at twice his/her normal hourly rate. The minimum paid annual vacation is 15 working days. Certain categories of employees (underage workers, employees with disabilities) may receive extended paid annual vacation leave of up to 30 working days.

- Uzbekistan companies must pay their Uzbekistan employees in UZS. The minimum wage should not be less than the industry minimum set by the Uzbek government.

- Foreigners wishing to work for an Uzbek enterprise, including those with foreign participation, or for a representative office of a foreign enterprise, must possess a valid visa and work permit. These can be obtained from the Ministry of Foreign Affairs and the Ministry of Labour respectively. For expatriate individuals accredited with the Agency of Foreign Economic Relations, an accreditation card is sufficient documentation to work in Uzbekistan, and no work permit is required.

Competition law

- The Law of the Republic of Uzbekistan On Competition and the Limitation of Monopolistic Activity in Commodity Markets regulates competition in Uzbekistan. The Law defines the features of unfair competition as:

  – spreading false or inaccurate information about a competitor's goods or services;
  – the unauthorised use of a competitor's intellectual property (trademarks, name, label, etc.);
  – false advertising;
  – incorrect comparisons with a competitor's products;
  – the unauthorised receipt, use or disclosure of research and development, production or commercial information and trade secrets without the owner's agreement;
  – the restriction of new companies' access to the commodities markets.

- The Uzbekistan's civil, administrative and criminal legislation provides protection against unfair competition.

Intellectual property

- In general, Uzbekistan's intellectual property legislation consists of the Civil Code of the Republic of Uzbekistan, the Inventions Act, the Useful Models and Industrial Specimens Act, the Trademarks, Service Marks and Appellations of Origin of Commodities Act, the Legal Protection of Computer and Database Programmes Act, and the Legal Protection of the Topology of Integrated Circuits Act.

- The State Patent Office is the agency responsible for the protection of all intellectual property rights.

- The Republic of Uzbekistan has joined the international conventions on patent protection cooperation and on trademarks. The Republic of Uzbekistan has concluded a number of bilateral treaties on the protection of intellectual property.

Environmental law

- The major laws on environmental protection are the Protection of Nature Act, the Protection of Airspace Act, the Protection and Use of Phytogenous Nature (Plants) Act, the Protection and Use of Animals Act, the Protected Areas Act, the Water and Use of Water Act, and the Land Code.

- Uzbekistan is a party to various bilateral and multilateral international environmental protection agreements, including the Kyoto Protocol to the United Nations Framework Convention on Climate Change. A series of measures were developed in early 2007 aimed at reducing carbon gas emissions, including the attraction of foreign investment and modern technologies. There is a standard procedure for companies to develop and implement Clean Development Mechanism (CDM) projects, involving the submission of a project application with a detailed description/study of the project, and technical documentation at a later stage (if the application is accepted). Applications are considered by the special CDM committee of the Uzbek Cabinet of Ministers. Foreign companies making direct investments in CDM projects are exempt from paying Uzbek corporate income tax on revenues they receive from such projects.

- Special licenses must be obtained for activities related to the extraction and use of natural resources, transport services, etc. Uzbekistan legislation also sets certain limits on the exploitation of natural resources (e.g. water-use, fishing and hunting).

- Infringements of environmental legislation can incur administrative penalties as well as criminal sanctions.

Consumer protection

- Consumer protection in Uzbekistan is governed by the Law of the Republic of Uzbekistan on the Protection of Consumers' Rights. The main consumers' rights include:

  – receipt of true and complete information about a product (work, service) and its manufacturer (producer or seller);
  – freedom of choice in the selection of products (work, services), and the right to expect that they will be of the appropriate quality;
  – the safety of the product (work, service);
  – full compensation for any material, moral or any other loss caused by the product (work, service) or caused by unlawful action (or inaction) by the manufacturer (producer or seller);
  – application to the courts or authorised state authorities for the protection of their rights;
  – membership of the union of consumers.

- Certain goods (works, services) are subject to mandatory certification by state agencies, in accordance with a procedure established by law.

Concessions

- The major law regulating concessions in Uzbekistan is the Law on Concessions.

- The concession authority is the Cabinet of Ministers of Uzbekistan, which has very wide authority in respect of concessions.

- The term "concession" in the Uzbek Law on Concessions means that the Government grants a foreign investor the right to undertake business activity in relation to State-owned property, including buildings, land plots, and mineral extraction sites including the subsurface use rights that have been made available to the foreign investor under the concession agreement.

- Concession agreements are valid for up to 15 years. The Cabinet of Ministers can, in certain cases, extend the term of a concession agreement.

- No concessions have been granted under the Law on Concessions to date.

Business transformations

- Uzbekistan does not have a separate law that governs business transformations. Certain general rules are stipulated in the Civil Code of Uzbekistan, the Law on Joint-Stock Societies and Protection of Shareholders' Rights of 26 April 1996, and the Law on Societies with Limited and Additional Liabilities of 6 December 2001.

Appendix

Corporate tax rates and corporate taxation-related information

Please note that the tax rates and other tax-related information below are of a general nature, and therefore should not be applied to special cases or transactions. For further details, please check the individual country chapters.

	Corporate tax rate (%)	Capital gains tax rate (%)	Thin-capitalisation debt:equity ratio	Tax loss carryback/carryforward (years)
Albania	10	10	4:1	0/3
Armenia	20	20	N/A	0/5
Azerbaijan	22	22	N/A	0/5
Federation of Bosnia and Herzegovina	10	10	N/A	0/5
Republika Srpska	10	10	N/A	0/5
Bulgaria	10	10	3:1	0[1]/5
Croatia	20	20	4:1	0/5
Czech Republic	21	21	2:1 and 6:1[2]	0/5
Estonia	21/79[3]	21/79[3]	N/A	N/A
Georgia	15	15	N/A	0/5
Hungary	16[4]	16[4]/0[5]	3:1	unlimited
Kazakhstan	30	30	4:1	0/3
Latvia	15	15	4:1	0/5
Lithuania	15	15	4:1	0/5
Macedonia	10	7	N/A	0/3
Moldova	0	0	N/A[6]	0/5
Montenegro	9	9	N/A	0/5
Poland	19	19	3:1	0/5
Romania	16	16	3:1	0/5
Russia	24	24	3:1	0/10
Serbia	10	10	4:1	0/10[7]
Slovakia	19	19	N/A	0/5
Slovenia	22	22	6:1	0/unlimited
Ukraine	25	25	N/A[8]	0/unlimited
Uzbekistan	10	10	N/A	0/5

Key:

N/A – Not Applicable

1 10 years in specific cases.

2 2:1 applies to debts from related parties, 6:1 applies to debts from unrelated parties, there are also other limitation rules for the tax deductibility of financial costs which include interest costs on loans.

3 Undistributed profits are not subject to tax. The distribution of profits incurs a 21% deferred corporate income tax charge (21/79 on net distribution).

4 An additional 4% special tax is levied on the pre-tax profit reported in the financial statements, as adjusted by specific tax base modifying items.

5 Tax rate on capital gains is 0 for registered participations.

6 No exact debt-to-equity ratio provided under the thin cap rules.

7 This is only applicable to tax loss carry forward.

8 No debt/equity ratio but a limitation on related parties' interest applies.

Withholding tax rates on passive income of non-residents

Please note that the table below only lists the maximum withholding tax rates for the various types of income, based on the local tax legislation. Exceptions such as the reduced rates of Double Tax Treaties, the EU Parent-Subsidiary Directive or the EU Interest-Royalties Directive are not included in this table. The financial transactions are between resident and non-resident legal entities. For more comprehensive information, please check the individual country reports.

	Withholding tax on passive income of non-residents			
	Dividends (%)	Capital gains (%)	Interest (%)	Royalties (%)
Albania	10	10	10	10
Armenia	10	10	10	10
Azerbaijan	10	10	10	14
Federation of Bosnia and Herzegovina	5	N/A	10	10
Republika Srpska	10	N/A	10	10
Bulgaria	5	10	10	10
Croatia	N/A	N/A	15	15
Czech Republic	15	N/A[1]	15	15
Estonia	0[2]	N/A	0[3]	15
Georgia	10	10	10	10
Hungary	N/A	N/A	N/A	N/A
Kazakhstan	15	20	15	20
Latvia	10	2	5/10[4]	5/15
Lithuania	15	10	10	10
Macedonia	10	N/A	10	10
Moldova	15	10[5]	10	10
Montenegro	15	15	5	15
Poland	19	N/A	20	20
Romania	16	16	16	16
Russia	15	20	20	20
Serbia	20	20	20	20
Slovakia	N/A	19[6]	19	19
Slovenia	15	N/A	15	15
Ukraine	15	15	15	15
Uzbekistan	10	20	10	20

Key:

N/A – Not Applicable

1 For non-EU residents, a tax deposit of up to 10 % from sale proceeds may apply if the buyer is a tax resident of the Czech Republic or if a Double Tax Treaty does not state otherwise.

2 21% applies to non-resident legal entities that hold less than 15% of the share capital or voting power of the Estonian company, and to all legal entities located in low-tax countries.

3 21% applies to the part of the interest that significantly exceeds the arm's-length level.

4 5% – applies if the payment is made by a Latvian-registered commercial bank to a related party; 10% – on interest paid by any other Latvian entities to their related parties; both will be gradually eliminated by 1 January 2009 on interest to EU companies.

5 Tax at the rate above must be withheld by applying the capital gains rule. The capital gain would be computed as 50% of the positive difference between the sale price and the cost of acquisition of capital assets.

6 For capital gains' income earned by non-residents in Slovakia, tax deposits of 19% will apply instead of withholding tax (except for EU residents, to which no withholding applies from 2007).

General and reduced VAT rates

Please note that the reduced VAT rate does not include the 0% VAT rate or the VAT-exempt without credit category.

	General VAT rates (%)	Reduced VAT rates (%)
Albania	20	N/A
Armenia	20	N/A
Azerbaijan	18	N/A
Federation of Bosnia and Herzegovina	17	N/A
Republika Srpska	17	N/A
Bulgaria	20	7
Croatia	22	10
Czech Republic	19	9
Estonia	18	5
Georgia	18	N/A
Hungary	20	5
Kazakhstan	13	N/A
Latvia	18	5
Lithuania	18	9/5
Macedonia	18	5
Moldova	20	8/5
Montenegro	17	7
Poland	22	7/3
Romania	19	9
Russia	18	10
Serbia	18	8
Slovakia	19	10
Slovenia	20	8.5
Ukraine	20	N/A
Uzbekistan	20	N/A

Personal income tax, social security contribution rates and related information

The social security contributions are aggregate figures and include all the separate social security elements which relate to payroll in each country (including, but not limited to, healthcare, pension, accident, and unemployment contributions). The annual income cap refers to the maximum social security contribution base on which the employee has to pay contributions. Please note that some countries cap their contribution base at a monthly level, and therefore the annual figures may be misleading. The EUR figures are approximations. For more comprehensive information, please check the individual country reports.

	Highest Personal Income Tax rate (%)	Employer's Social Security Contribution (%)	Employee's Social Security Contribution (%)	Annual income cap for the employee's Social Security Contribution (EUR)
Albania	10	21.7	11.2	6,480
Armenia	20	5/15[1]	3	N/A
Azerbaijan	35	22	3	N/A
Federation of Bosnia and Herzegovina	10-20[2, 3]	10	28	N/A
Republika Srpska	15[2, 3]	42	N/A	N/A
Bulgaria	10[2]	20+ (0.4-1.1)[4]	13	12,276
Croatia	45	17.2	20	68,510[5]
Czech Republic	15[2]	35	12.5	38,920[6]
Estonia	21[2]	33.3	2.6[7]	N/A
Georgia	25[2]	0	N/A	N/A
Hungary	36+4[8]	32	17	28,200
Kazakhstan	10[2]	13-5[9]	10[10]	53,640[11]
Latvia	25[2]	24.09	9	42,120
Lithuania	24[2]	30.98-31.7	3	N/A
Macedonia	10[2]	N/A	32.5	N/A
Moldova	18	24	5	9,530
Montenegro	15[2,12]	15[13]	19[14]	20,900[15]
Poland	40	17.48-20.41	13.71	23,690[16]
Romania	16[2]	27.75-39.85	16.5	N/A
Russia	13[2, 17]	(26-2)[18]+(0.2-8.5)[19]	N/A	N/A
Serbia	12[2]	17.9	17.9	N/A[20]
Slovakia	19[2]	34.4[21]	13.4	26,796
Slovenia	41	16.1	22.1	N/A
Ukraine	15/30[2, 22]	36.66-49.60	3.5[23]	15,444
Uzbekistan	25	24[24]	2.5[24]	N/A

Key:

N/A – Not Applicable

1 The monthly social security contribution is made up of a fixed amount and an amount which is derived from the application of the 5% and 15% progressive scale rates.

2 Flat rate.

3 It should be noted that in the Federation of BiH, personal income tax rates are set at the cantonal level, typically between 10% and 20% of annual income (e.g. 15% for the Sarajevo canton). In addition to personal income tax, there is a salary tax of 3% of gross salary in the Federation of BiH, and 10% of net salary in the RS.

4 Contribution to the Accident at Work and Occupational Illness Fund. The rate varies between 0.4% and 1.1% according to the employer's economic activity.

5 The annual cap only applies to the calculation of pillar 1 contributions; (pillar 1 is compulsory pension insurance based on the pay-as-you-earn system).

6 The amount is calculated as 48 times the average monthly salary for a particular year.

7 Only applies if the employee has joined the compulsory cumulative pension scheme. If not, the employee's contribution is 0.6%.

8 Since 1 January 2007, "Solidarity tax" of 4% has been levied on annual salary that exceeds the annual income cap for the employee's pension contribution. The figure for 2008 is HUF 7,137,000 (approx. EUR 28,200).

9 Since 2008, social tax rates have been unified at 13%-5% for both local and expatriate personnel. (The calculated tax amount is further reduced by the amount of obligatory social insurance contributions of 3% of monthly income, capped at approximately EUR 18 per month (only applicable to the income of local personnel).

10 Contributions to cumulative pension fund (obligatory for local personnel only).

11 The annual cap on income is based on the monthly cap of 75 times the minimum monthly salary (approx. EUR 4,470 per month for 2008). (See note 10 for contributions to cumulative pension funds.)

12 The 15% flat tax rate on salary income will also apply in 2008. It is planned that this flat rate will be reduced to 12% for 2009 and to 9% from 2010 onwards.

13 The 15% rate applies in 2008. It is planned that this rate will be reduced to 14.5% in 2009 and to 13.5% in 2010 and onwards.

14 The 19% rate applies in 2008. It is planned that this rate will be reduced to 17.5% in 2009 and to 16.5% in 2010 and onwards.

15 This cap relates to pension insurance contributions. Health and unemployment contributions are not capped.

16 The cap applies to both the employee's and the employer's contributions. When the cap is exceeded, the employer's rate is 3.22%-6.15% and the employee's rate is 2.45%.

17 Individuals considered non-resident for tax purposes are subject to a higher rate of 30%.

18 Unified social tax. A regressive scale applies. Calculation is per employee.

19 Accident insurance contributions. The rate varies according to the risk factor attributed to the industry in which the taxpayer works.

20 Monthly cap announced a month in advance.

21 Injury insurance is also payable in addition to this, at the rate of 0.8% of total salary, with no cap.

22 The tax rate for tax residents who are taxable on their world-wide income is 15%. Non-tax residents are taxable at the rate of 30% on the income they receive from Ukrainian sources. If a non-resident's salary is paid through a Ukrainian payroll, the standard 15% tax rate applies.

23 3% for foreign nationals.

24 Does not apply to expatriates' income.

Appendix

Double Tax Treaties concluded by CEE countries

Please note that the table below shows the Double Tax Treaties concluded by CEE countries in effect on 1 January 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	Total
Albania					✓	✓	✓			✓				✓	✓	✓	✓	✓	✓	✓					11
Algeria					✓													✓					✓		3
Armenia					✓			✓	✓			✓	✓		✓		✓	✓	✓				✓		10
Australia							✓			✓							✓	✓	✓		✓				6
Austria		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓	✓	✓	20
Azerbaijan							✓		✓		✓	✓	✓		✓		✓	✓	✓				✓	✓	11
Bangladesh																	✓	✓							2
Belarus		✓	✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	20
Belgium	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	24
Bosnia and Herzegovina						✓	✓			✓					✓	✓	✓	✓		✓	✓	✓			10
Brazil							✓			✓											✓		✓		4
Bulgaria	✓	✓				✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	20
Canada		✓	✓		✓	✓	✓	✓		✓	✓	✓	✓		✓		✓	✓	✓		✓	✓	✓	✓	18
Chile						✓											✓								2
China (P.R.C.)	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	23
Costa Rica																		✓							1
Croatia	✓			✓	✓		✓	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		18
Cyprus				✓	✓		✓			✓				✓		✓	✓	✓	✓	✓	✓	✓	✓		13
Czech Republic	✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	22
Denmark				✓	✓	✓	✓	✓		✓		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		17
Ecuador																		✓							1
Egypt	✓			✓	✓		✓			✓				✓		✓	✓	✓	✓	✓	✓		✓		13
Estonia		✓				✓	✓		✓	✓	✓	✓	✓		✓		✓	✓			✓	✓	✓		14
Finland			✓	✓	✓	✓	✓	✓		✓		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	19
France	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	23
Georgia		✓	✓		✓		✓	✓			✓	✓	✓				✓	✓					✓	✓	12
Germany			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	22
Greece	✓	✓			✓	✓	✓		✓	✓		✓	✓		✓		✓	✓	✓		✓	✓	✓	✓	17
Hungary	✓			✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		19
Iceland							✓	✓		✓		✓	✓				✓		✓		✓				8
India		✓			✓		✓			✓	✓						✓	✓	✓		✓	✓	✓	✓	12
Indonesia					✓		✓			✓							✓	✓	✓		✓		✓	✓	9
Iran		✓		✓	✓				✓		✓			✓			✓	✓	✓				✓	✓	11
Ireland					✓	✓	✓	✓		✓		✓	✓				✓	✓	✓		✓	✓			12
Israel					✓	✓	✓			✓		✓	✓		✓		✓	✓	✓		✓		✓	✓	13
Italy	✓			✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	20
Japan					✓		✓			✓					✓		✓	✓	✓		✓		✓	✓	10
Jordan						✓											✓	✓							3
Kazakhstan			✓		✓		✓	✓	✓	✓			✓		✓		✓	✓	✓				✓	✓	14
Korea (D.P.R.K.)					✓		✓									✓		✓	✓	✓					6
Korea (R.O.K.)					✓	✓	✓			✓	✓						✓	✓	✓		✓	✓	✓	✓	12
Kuwait					✓		✓			✓						✓	✓	✓	✓	✓			✓	✓	10
Kyrgyzstan											✓				✓		✓		✓				✓	✓	6
Latvia		✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	20
Lebanon		✓			✓		✓										✓	✓	✓				✓		7
Lithuania		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓			✓		✓	✓	✓		✓	✓	✓	✓	18
Luxembourg					✓		✓	✓		✓		✓	✓				✓	✓	✓		✓	✓		✓	12
Macedonia	✓				✓	✓	✓			✓		✓			✓	✓	✓	✓	✓	✓	✓	✓	✓		15
Malaysia	✓					✓	✓			✓	✓			✓		✓	✓	✓	✓	✓			✓	✓	13
Mali																			✓						1
Malta	✓				✓	✓	✓	✓		✓		✓	✓				✓	✓			✓	✓			12
Mauritius						✓																			1
Mexico							✓										✓	✓			✓				4
Moldova	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	22
Mongolia					✓		✓			✓	✓						✓	✓	✓		✓		✓		9
Montenegro*	✓			✓	✓	✓	✓			✓		✓		✓	✓		✓	✓	✓		✓	✓	✓		15
Morocco					✓		✓			✓							✓	✓	✓						6
Namibia																		✓	✓						2
Netherlands	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	23
New Zealand																	✓		✓						2
Nigeria							✓											✓			✓				3
Norway	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		20
Oman															✓										1
Pakistan				✓						✓	✓						✓	✓						✓	6
Philippines							✓			✓				✓			✓	✓	✓						6
Poland	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	23
Portugal					✓		✓	✓		✓		✓	✓				✓	✓	✓		✓	✓	✓		12
Qatar		✓																	✓						2
Romania	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	23
Russia	✓	✓	✓		✓	✓	✓			✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	19
San Marino						✓																			1
Serbia*	✓			✓	✓	✓	✓			✓		✓		✓	✓		✓	✓	✓		✓	✓	✓		15
Singapore					✓		✓	✓		✓	✓	✓	✓				✓	✓			✓				10
Slovakia				✓	✓	✓	✓	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	18
Slovenia				✓	✓	✓	✓	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		17
South Africa					✓	✓	✓			✓							✓	✓	✓		✓		✓		9
Spain					✓	✓	✓	✓		✓		✓	✓	✓			✓	✓	✓		✓	✓	✓		14
Sri Lanka							✓							✓		✓	✓	✓	✓	✓	✓				8
Sudan																		✓							1
Sweden	✓			✓	✓	✓	✓	✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		19
Switzerland	✓	✓	✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	22
Syria		✓			✓												✓	✓	✓				✓		6
Taiwan (R.O.C.)														✓											1
Tajikistan											✓				✓		✓		✓				✓		5
Thailand		✓			✓		✓			✓							✓	✓				✓	✓	✓	9
Tunisia							✓			✓							✓	✓			✓				5
Turkey	✓		✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	20
Turkmenistan		✓							✓		✓								✓		✓		✓	✓	7
Ukraine		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	21
United Arab Emirates		✓					✓										✓	✓					✓		5
United Kingdom			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	21
United States							✓	✓		✓	✓	✓	✓				✓	✓	✓		✓	✓	✓		12
Uruguay										✓															1
Uzbekistan			✓		✓		✓		✓		✓	✓	✓		✓		✓	✓	✓		✓		✓		13
Venezuela							✓																		1
Vietnam					✓		✓			✓							✓	✓	✓				✓	✓	8
Zambia																		✓							1
Zimbabwe					✓												✓								2
Total	24	27	23	24	62	46	72	38	23	64	39	45	44	38	37	34	79	81	69	35	59	43	63	41	1,110

* Serbia and Montenegro have recently become independent states and thus are listed separately in the table above. Although Serbia is the successor state for the Double Tax Treaties concluded by the former Yugoslavia, the Montenegrin Authorities indicate that Montenegro too will honour the Treaties.

Abbreviations for legal entities in the CEE region

Please note that the company forms represented by these abbreviations are similar but not in all cases identical to the forms named in the headings. Readers should therefore consult their local PwC firm on the particular form and nature of legal entities in any of the countries.

Country	Partnership	Limited partnership	Limited Liability Company	Corporation
Albania	Ortakeri	N/A	Sh.p.k.	Sh.a.
Armenia	N/A	N/A	SPH	Co
Azerbaijan	N/A	N/A	MMC	ASC/QSC
Bosnia and Herzegovina	j.t.d.	k.d.	d.o.o.	d.d.
Bulgaria	SD	KD	OOD	AD
Croatia	N/A	N/A	D.O.O.	N/A
Czech Republic	v.o.s.	k.s.	s.r.o.	a.s.
Estonia	UÜ	UÜ	OÜ	AS
Georgia	N/A	ShPS (LLP)	ShPS (LLC)	S/S (JSC)
Hungary	Kkt	Bt	Kft	Nyrt/Zrt
Kazakhstan	GP	LP	LLP	JSC
Latvia	Pilnsabiedrība	Komandītsabiedrība	SIA	A/s
Lithuania	TŪB	KŪB	UAB/AB	UAB
Macedonia	JTD	KD/KDA	DOO/DOOEL	AD
Moldova	SC	SNC	SRL	SA
Montenegro	OD	KD	DOO	AD
Poland	s.c. or s.j.[1]	sp.k.	sp. z o.o.	S.A.[2]
Romania	SCA	SCS/SNC	SRL	SA
Russia	PT[3]	KT[4]	OOO	OAO
Serbia	o.d.	k.d.	d.o.o.	a.d.
Slovakia	v.o.s.	k.s.	s.r.o.	a.d.
Slovenia	d.n.o.	k.d.	d.o.o.	d.d.
Ukraine	FP	LP	LLC	N/A
Uzbekistan	KhSh	MChSh	MChJ	K

Key:

N/A – Not Applicable

1 Legal construction of "s.c." and "s.j." is similar (direct responsibility of partners, etc.). However, an s.c. is governed by the Civil Code while an s.j. is governed by the Commercial Companies Code. As a rule, an s.j. is bigger than an s.c. If you need to use only one abbreviation, it's better to mention only s.c.

2 S.A. is the abbreviation of the legal form that is more or less equivalent to the British Public Limited Company (the legal form for the biggest corporations).

3 Prostoye Tovarishestvo

4 Komanditnoe Tovarishestvo

Appendix

Membership of International Organisations in CEE Region

Country	EU	NATO	EAPC[3]	OECD	WTO	IMF	EBRD
Albania	✗	✗	✓	✗	✓	✓	✓
Armenia	✗	✗	✓	✗	✓	✓	✓
Azerbaijan	✗	✗	✓	✗	observer[5]	✓	✓
Bosnia and Herzegovina	✗	✗	✓	✗	observer[5]	✓	✓
Bulgaria	✓	✓	✓	✗	✓	✓	✓
Croatia	candidate[1]	✗	✓	✗	✓	✓	✓
Czech Republic	✓	✓	✓	✓	✓	✓	✓
Estonia	✓	✓	✓	candidate[4]	✓	✓	✓
Georgia	✗	✗	✓	✗	✓	✓	✓
Hungary	✓	✓	✓	✓	✓	✓	✓
Kazakhstan	✗	✗	✓	✗	observer[5]	✓	✓
Latvia	✓	✓	✓	✗	✓	✓	✓
Lithuania	✓	✓	✓	✗	✓	✓	✓
Macedonia	candidate[2]	✗	✓	✗	✓	✓	✓
Moldova	✗	✗	✓	✗	✓	✓	✓
Montenegro	✗	✗	✓	✗	observer[5]	✓	✓
Poland	✓	✓	✓	✓	✓	✓	✓
Romania	✓	✓	✓	✗	✓	✓	✓
Russia	✗	✗	✓	candidate[4]	observer[5]	✓	✓
Serbia	✗	✗	✓	✗	observer[5]	✓	✓
Slovakia	✓	✓	✓	✓	✓	✓	✓
Slovenia	✓	✓	✓	candidate[4]	✓	✓	✓
Ukraine	✗	✗	✓	✗	observer[5]	✓	✓
Uzbekistan	✗	✗	✓	✗	observer[5]	✓	✓

Key:

1 The EU started accession negotiations with Croatia on 3 October 2005.
2 In December 2005, the European Council granted the former Yugoslav Republic of Macedonia the status of a candidate country; accession negotiations have not started.
3 If a country is not a NATO member, it can still participate in NATO through the Euro-Atlantic Partnership Council (EAPC).
4 In May 2007, the OECD countries agreed to invite Chile, Estonia, Israel, Russia and Slovenia to open discussions on membership of the Organisation and offered enhanced engagement.
5 Observers must start accession negotiations within five years of becoming observers.

Euro exchange rates used in this edition of CEE Tax Notes

Country	Exchange rate: EUR 1.00
Albania (ALL)	121.75
Armenia (AMD)	443.38
Azerbaijan (AZN)	1.24
Bosnia and Herzegovina (BAM)	1.95583
Bulgaria (BGN)	1.95583
Croatia (HRK)	7.33
Czech Republic (CZK)	26.59
Estonia (EEK)	15.6466
Georgia (GEL)	2.33
Hungary (HUF)	252.80
Kazakhstan (KZT)	176.50
Latvia (LVL)	0.702804
Lithuania (LTL)	3.4528
Macedonia (MKD)	61.11
Moldova (MDL)	16.55
Montenegro (EUR)	1.00
Poland (PLN)	3.60
Romania (RON)	3.59
Russia (RUB)	35.88
Serbia (RSD)	76.66
Slovakia (SKK)	33.60
Slovenia (EUR)	1.00
Ukraine (UAH)	7.38
Uzbekistan (UZS)	1,886.04

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