SORAINEN

TAXES IN A NUTSHELL 2018

for Estonia, Latvia, Lithuania and Belarus

Effective 1 January 2018

BASIC TAX FACTS

	ESTONIA	LATVIA	LITHUANIA	BELARUS
Corporate income tax				
Standard tax rate	20% (net/0.8*0.2)	20% (net/0.8*0.2)	15% (of gross)	18%
Special rates	14% (net/0.86*0.14)		5% (subject to requirements)	12% - dividends 25% - banks and insurance companies
CIT system	Deferred*	Deferred*	Traditional*	Traditional*
Loss carry forward	Unlimited	15% of tax losses accumulated as of 31.12.2017. can be carried forward up to five years from 2018	Unlimited / 5 years (subject to exemption)	Unlimited / 10 years
Dividend participation exemption	>10% holding	Yes, without shareholding requirement	> 10% holding	No
Holding regime	No special regime	Capital gains from sale of shares exempt if 3-year holding period met	No special regime	No special regime, but some peculiarities in taxation
Double-tax treaties	58	61	54	69
Reporting	Monthly (10th day)	Monthly (20th day)	Annual (15th day of the 6th month of following tax period) unless requirement to file advance reports applies	Quarterly (general rule), monthly (for dividends accrued by Belarusian companies)
VAT				
Standard tax rate	20%	21%	21%	20%
Special tax rates	9%	12% / 5%	9% / 5% / 0%	25% / 10% / 9.09% / 16.67% / 0%
VAT threshold – general	EUR 40,000	EUR 40,000	EUR 45 000	-
VAT threshold – distance sale	EUR 35,000	EUR 35,000	EUR 35 000	-
Reporting	Monthly (20th day)	Monthly, quarterly	Monthly (VAT report – 25th day, invoice registers – 20th day of following month)	Monthly, quarterly

	ESTONIA	LATVIA	LITHUANIA	BELARUS
Personal income tax				
Standard tax rate	20%	Progressive tax system - 20% on annual income below EUR 20,004 23% on annual income from EUR 20,004 to EUR 55,000 31.4% on annual income over EUR 55,000	15%	13%
Special tax rates	20% or 40% (final tax on business income)	10% on forest disposals, sale of scrap metal and lease of own property	Progressive from 5% to 15% on business income	16%, 10%, 9%, 4%, fixed amounts
Social security contributions	Social tax - 33% Unemployment insurance - 0.8 + 1.6% Pension - 0%/2%	11% employee part 24.09% employer part	Overall employer's part may vary from 31.18% to 34.2%, employee's – from 9% to 11%	1% employee part 34% employer part
Real estate tax				
Standard tax rate	0.1%-2.5% (based on cadastral value of land excluding buildings)	0.2%-3% (on the cadastral value)	Depending on the municipality, 0.3%- 3% of property value (subject to exemptions)	1% for companies, 0.1% for individuals (both subject to coefficients)
Tax audits				
Limitation periods	3 years (5 years if intentional non-payment)	3 years (5 years for transfer pricing)	5 years	5 years (certain exceptions)
Binding advance ruling				
Availability	Yes	Yes	Yes	No
Advanced pricing agreement (APA)	No	Yes	Yes	No
State fee	EUR 1,180 (corporate) EUR 300 (individual)	Binding ruling free of charge EUR 7,114 for APA	Free of charge	Not applicable
Right of appeal	No	No	No	Not applicable

* "Deferred" means CIT due if certain payments are made by a corporate taxpayer. "Traditional" means CIT due annually.

ESTONIA

CORPORATE INCOME TAX (CIT)

- Resident companies pay CIT on a deferred basis on profit distribution, non-business expenditure, fringe benefits and gifts. Business income earned (including interest, royalties and inbound dividends) is not taxed on receipt. Reinvested profit is not CIT-taxable. This leads to an unlimited carry-forward of losses and unlimited depreciation for tax purposes. Similar tax treatment applies to permanent establishments of foreign entities (including branches).
- Dividends received by a company can be distributed without further tax liability, provided a 10% shareholding requirement is met. Dividends received must be subject to tax abroad if received outside the EU.
- Reduced CIT rate of 14% applies to regular dividend payments. The amount of dividends subject to the reduced rate is the arithmetical average amount of dividends paid within the last three years. An additional 7% personal income tax applies to dividends subject to 14% when distributed to a natural person but no additional CIT is applied when dividends are distributed to a corporate entity.

CIT 20% Dividend EUR 1,000	CIT 20% Dividend EUR 5,000	CIT 20% Dividend EUR 6,000	EUR 4,000 CIT 14% EUR 3,000 CIT 20% **Divided** **EUR 7,000**
YEAR 1	**YEAR 2**	**YEAR 3**	**YEAR 4**

- Liquidation proceeds, capital reduction payments, and share buy-backs exceeding capital contributions are taxable at the company level. Payments not exceeding capital contributions are not CIT-taxable.
- No traditional thin capitalisation rules, meaning substantial debt financing at market rate interest is tax-neutral.
- Transfer pricing methods in use: comparable uncontrolled price, resale price, cost plus, profit split, transactional net margin or any other sufficiently substantiated method. Other methods can be used when justified. Threshold for mandatory documentation – 250 employees / turnover EUR 50 million, consolidated balance sheet of EUR 43 million.
- Capital gains derived by a non-resident from sale of Estonian real estate or shares in and liquidation proceeds of “real estate companies” (50% of the assets at some point in time within the last two years) are subject to 20% income tax in Estonia. No capital gains in Estonia if a non-resident sells their shareholding in a non-real-estate company.
- All tax compliance can be done electronically through the e-Tax Board web page accessible with an Estonian ID card (issued to Estonian residents and e-residents).

VALUE ADDED TAX (VAT)

- Special regimes apply for travel services, immovables, scrap metal, precious metal and metal products, resale of second-hand goods, original works of art, collectors’ items and antiques, electronic communications services and electronically supplied services, and cash accounting.

PERSONAL INCOME TAX

- Dividends received from an Estonian company are not taxed on a personal level, except for 7% personal income tax when falling under a special regime for regular dividend payments (subject to 14% CIT).
- Income tax liability on capital gains on a personal level can be postponed by making a non-monetary contribution to the equity of a company and sale of the asset by the company. Profits earned by a holding company are not taxed on receipt.
- When using a registered business account (bank account), business income is subject to 20 % (sales < EUR 25,000) or 40% (sales > EUR 25,000) tax (including income tax, social tax and pension payments).
- A monthly income tax allowance of EUR 500 applies regressively based on annual income.

SOCIAL SECURITY CONTRIBUTIONS

- Employer pays social tax of 33% from gross salary (not capped).
- Employer pays unemployment contribution of 0.8% and withholds employee’s unemployment contribution of 1.6% from gross salary. Employer withholds mandatory pension insurance payments 0% or 2%.

Unemployment insurance payment	0.8%	Employer pays
Social tax	33%	Employer pays
Pension payment	0% / 2%	Employer withholds
Unemployment insurance payment	1.6%	Employer withholds
Income tax	20%	Employer withholds

Employer’s taxes **Gross salary, employee’s taxes**

CUSTOMS & EXCISE: Mainly based on EU law.

LOCAL TAXES: Insignificant local taxes (e.g. advertising tax, parking fees).

LATVIA

CORPORATE INCOME TAX (CIT)

- Resident companies pay 0% CIT rate on reinvested profit - CIT payable only when a company pays dividends, deemed dividends and expenses comparable to dividends with the aim of actual profit distribution. Reinvested profit is not CIT-taxable. Business income earned (including interest, royalties and inbound dividends) is not taxed on receipt. Similar tax treatment applies to permanent establishments of foreign entities.
- Dividends received by a company can be distributed without further tax liability if CIT is paid in the country of origin.
- Withholding taxes:
  - management and consulting fees – 20% (can be eliminated if the recipient is resident in a country with which Latvia has a double tax treaty);
  - sale price of real estate located in Latvia or shares in "real estate companies" – 3%;
  - 20% on payments and dividends paid to black-listed low-tax jurisdictions (except purchase of goods and purchase of EU/EEA public securities if carried out at arm's-length prices).
- Companies can use accrued CIT losses but only 15% of those losses for up to 5 years, as of 2018. Losses can be used to decrease CIT payable on dividends but not more than 50% of CIT payable on dividends.
- Share disposals are not subject to CIT unless the company held disposed-of shares for less than 36 months.
- A company need not apply CIT to representation expenses and costs of personnel sustainability events that do not exceed 5% of total gross salary calculated in the pre-taxation year and on which SSC has been paid.
- Transfer pricing methods in use: comparable uncontrolled price, resale price, cost plus, profit split, transactional net margin method. Threshold for mandatory documentation – net turnover EUR 1.43 million and transaction with a related party over EUR 14,300. However, transfer pricing amendments are expected in the next few months, with introduction of new thresholds and transfer pricing documentation rules.
- Advance pricing agreements (APA) for transfer pricing are available for transactions over EUR 1.43 million per annum (for a charge of EUR 7,114).
- Discounts for large investment projects and CIT discounts for operations in special economic zones.
- A special tonnage tax for Latvian shipping companies and tax reliefs for sailors.

VALUE ADDED TAX (VAT)

- Standard rate 21%;
- Special tax rates: 12% eg on accommodation, medicines, baby food;
- As of 2018, a reduced tax rate of 5% applies for the supply of fresh fruits, berries and vegetables.
- Special regimes apply for supply of:
  - construction services, including those separately provided;
  - game console deliveries;
  - metal and related services;
  - timber and related services;
  - scrap metal and related services;
  - construction services;
  - mobile phones, laptops, tablets and integrated circuit devices;
  - cereal and technical crops;
  - unprocessed precious metals, precious metal alloys and precious metal clad with metals.

PERSONAL INCOME TAX

- Dividends received from a Latvian company are not taxed on a personal level.
- As of 2018, Latvia operates a progressive personal income tax system. That is, income below EUR 20,004 a year is subject to a 20% PIT rate. Income from EUR 20,004 to EUR 55,000 a year is subject to the present rate of 23%. The share of income exceeding EUR 55,000 a year is subject to a PIT rate of 31.4%.
- PIT deductible expenses, education, medical costs, donations and other items up to EUR 600 a year but not exceeding 50% of gross taxable income.
- Rate on income from capital 20%; rate on income from forest disposals and lease of own property 10%.

SOCIAL SECURITY CONTRIBUTIONS

- Employee rate: 11% of gross salary; employer rate 24.09% on top of gross salary.
- Annual salary exceeding EUR 55,000 is subject to solidarity tax.

CUSTOMS & EXCISE: Based on national and EU law.

ADVANCE (BINDING) RULINGS AVAILABLE AT NO CHARGE

LITHUANIA

CORPORATE INCOME TAX (CIT)

- General flat rate – 15%. Reduced rate of 5% applies to small companies (annual income not exceeding EUR 300 000; no more than 10 employees; shareholders in a small company own no more than 50% shares in other companies). Newly established small companies are exempt from paying CIT for the 1st year.
- Unlimited carry forward of losses, except losses from transfer of securities and derivative financial instruments, which may be carried forward for 5 years. Intra-group transfer of losses permitted (subject to specific requirements).
- Losses carried forward cannot exceed 70% of profit during a fiscal year. This restriction does not apply to legal entities entitled to apply the reduced corporate tax rate of 5%.
- Fixed assets depreciated using straight-line method; for some groups of fixed assets, the double-declining method may also be used; the production method is used in very limited cases.
- Withholding taxes:
  - dividends – 0%, if recipient owns not less than 10% of voting shares for 12 months and is not established in a black-listed country, otherwise – 15%;
  - interest – 0%, if paid to EU entities or DTT tax residents, otherwise – 10%;
  - royalties – 0% if paid to EU entities qualifying under the EU Interests and Royalties Directive, otherwise – 10%.

All above payments to Latvia are subject to 0% withholding tax.

- Thin capitalisation rules: debt-to-equity ratio 4:1. Interest-free loans not included in controlled debt.
- Transfer pricing methods in use: comparable uncontrolled price, resale price and cost-plus, transaction net margin and profit split methods. Threshold for mandatory documentation – turnover EUR 2.89 million. Threshold for financial / credit institutions and insurance companies does not apply.

VALUE ADDED TAX (VAT)

- Standard rate – 21%.
- Reduced rate of 9% applies to heating energy, some books and periodical and non-periodical publications, passenger transportation services (on scheduled routes) and on some types of accommodation. A reduced rate of 5% applies to certain compensated pharmaceuticals, means of medical aid, and technical assistance equipment for disabled individuals.
- General VAT payer registration threshold – EUR 45 000.

PROPERTY TAX

- Land tax: 0.01%-4% of the market value of land. Exact rate(s) of land tax are set by municipalities.
- Real estate tax (on real estate other than land): 0.3%-3% of property value. Exact real estate tax rate(s) are set by municipalities. Residential real estate with total value exceeding EUR 220 000 is subject to a progressive tax rate from 0.5% to 2% applied on excess value.

INCENTIVES TO INVEST

- Companies established in Free Economic Zones (FEZ) after 31 December 2017 that satisfy investment requirements enjoy 0% CIT rate for the first 10 tax periods and for the next 6 tax periods a 50% reduction of the CIT rate.
- For entities running technology investment projects (under defined conditions) taxable profit is reduced up to 100%.
- Companies carrying out Research and Development (R&D) are granted triple deduction of expenses incurred during these activities. As of 1 January 2018 a reduced 5% CIT rate applies to profit deriving from the use, sale or other transfer of assets created while executing R&D activity.

REAL ESTATE TRANSFER DUTY

- No transfer duty; notary fees apply (0.45% of transaction value, but no less than EUR 28.96 and no more than EUR 5 792.40 or EUR 14 481 in the case of transfer of multiple objects).

PERSONAL INCOME TAX

- General flat rate – 15%; tax rate from 5% to 15% applies on business income from self-employment. The exact rate depends on the amount of gross income generated and is calculated under a special formula.
- Dividends taxed at a rate of 15%.

SOCIAL SECURITY AND HEALTH INSURANCE CONTRIBUTIONS

- Employer withholds from gross salary and pays social security and health insurance contributions from 31.18% (or 32.58% for temporary employment) to 32.8% (or 34.2% for temporary employment).
- Employer withholds mandatory social security and health insurance contributions from employee's salary at a rate of 9%.
- Employees' stock option exemption from social security and health insurance contributions introduced, allowing exemption of employee's benefit deriving from grant of stock option satisfying requirements.

Social Security Contributions	**27.3% (or 28.7% for temporary employment)**	**Employer pays**
Health Insurance Contributions	**3%**	**Employer pays**
Payment to Guarantee Fund	**0.2%**	**Employer pays**
Payment to Long-term Benefit Fund	**0.5%**	**Employer pays**
Payment for Insurance of Accidents at Work and Professional Diseases	**0.18%-1.8%, depending on which category the employer falls under**	**Employer pays**
Social Security Contributions	**3% (or 5% if the employee is building their pension additionally)**	**Employer withholds**
Health Insurance Contributions	**6%**	**Employer withholds**

Employer's taxes **Gross salary, employee's taxes**

NATURAL RESOURCES TAX: imposed on use of natural resources, use of hydrocarbon resources and environmental pollution (including but not limited to packaging materials).

TAX AUDITS: tax audits can be performed going back 5 years.

ADVANCE (BINDING) RULINGS: binding tax rulings + advance transfer pricing agreements available free of charge.

BELARUS

CORPORATE INCOME TAX (CIT)

- General flat rate – 18%; dividends – 12%; banks and insurance companies – 25 %.
- Withholding taxes on income of foreign legal entities from Belarusian sources: dividends and income from sale of shares – 12%; royalties – 15%; interest – 10%; freight forwarding services – 6%; other income (eg, sale of real estate, services (eg, intermediary, consulting, audit, management, insurance, advertising), contractual penalties) – 15%.
- Losses can be carried forward for 10 years.
- Fixed assets can be depreciated according to 1 of 3 methods at the discretion of the company: straight-line method, reducing balance method (direct or indirect sum-of-years' digits or declining balance method) or productive method.
- Transfer pricing methods in use: comparable uncontrolled price, resale price, cost plus, transactional net margin profit and profit split method as a method of last resort.
- Thin capitalisation rules: debt-to-equity ratio 1:3 (1:1 for Belarusian companies producing excisable goods).

VALUE ADDED TAX (VAT)

- Standard rate – 20%. Other rates – 0%, 10%, 9.09%, 16.67%, 25%.
- Generally a single registration applies for all taxes so no special VAT registration except for foreign companies paying digital VAT.
- Delay of 60 days in VAT recovery for goods imported from non-Eurasian Economic Union countries and sold without any change.

PROPERTY TAX

- Land tax: by default, tax base is cadastral value of land. Rates vary significantly depending on the functional use of land.
- Real estate tax: general tax rate – 1% of the residual value of real estate (buildings, constructions, car parking spaces); 2% may apply to objects where construction incomplete. For individuals – 0.1% and 0.2% (tax is calculated by tax authorities based on the assessed value of the real estate object).
- Local Councils of Deputies may increase or decrease the tax rate for certain categories of taxpayers but by no more than 2.5 times. Local Councils of Deputies may increase the tax rate for certain real estate tax objects but by no more than ten times.

INCENTIVES TO INVEST

- Six Free Economic Zones. Generally a company must invest EUR 1 million. Exemption from some taxes and duties, certain taxes at reduced rates.
- High Technology Park. Residents – exempt from almost all taxes and duties.
- China-Belarus Industrial Park. Residents – a wide range of tax benefits.
- Beneficial tax regime if a production business is operating in rural areas and small town centres.
- Simplified Taxation System. Unified tax imposed on gross revenue. There are two types of Simplified Taxation System. Tax rates are: 3% with payment of VAT (1st type) or 5% without payment of VAT (2nd type). A special 16% rate applies to certain items of non-operating income. The law establishes thresholds for personnel numbers and gross revenues for application of Simplified Taxation System (separately for legal entities and individual entrepreneurs).

PERSONAL INCOME TAX

- General flat rate – 13% (including dividends).
- Other rates apply to specific income: 16% on income from entrepreneurial, private notarial and advocacy activities; 9% on income from High Technology Park residents under labour agreements; 4% on income in the form of gains (returned unplayed entries) received from Belarusian legal entities that organise gambling games.

SOCIAL SECURITY CONTRIBUTIONS

- Employee rate is 1% of gross salary; for employer – generally 34% on top of gross salary.

CUSTOMS & EXCISE

- Excise duties imposed on import and manufacture of a list of goods. Customs duties imposed on imports to the customs territory of the Eurasian Economic Union; a limited number of goods subject to export duties.

ECOLOGICAL TAX AND NATURAL RESOURCES TAX

- Ecological tax is imposed on volume of waste, emissions and waste-water discharge.
- Natural resources tax is imposed on volume of natural resources used (eg, water, oil, sand, clay, salt).

TAX AUDITS: Tax audits are normally performed for periods not covered by a previous tax audit. Generally, the period under review should not exceed 5 years plus periods already passed of the year of a tax audit.

ADVANCE (BINDING) RULINGS NOT POSSIBLE

SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS

Sorainen offers expertise in all key tax and customs areas in the Baltic States and Belarus, including:

- tax and customs advice and optimisation:
    - advance ruling requests;
    - transfer pricing compliance;
    - local and cross-border mergers;
    - managing the "effective tax rate";
    - market entry strategies and structuring, focusing on the new Baltic holding opportunities;
    - permanent establishment risks;
    - input VAT deductibility optimisation;
    - special economic zones and free ports;
- tax and customs disputes at all levels;
- tax due diligence and local tax compliance reviews.

Cooperation partner of WTS, a global network of consulting firms represented in some 100 countries

Member of Transfer Pricing Associates Global

For tax updates in the region follow us on Twitter twitter.com/Sorainen_tax and visit Sorainen Tax on Facebook facebook.com/SorainenTax.

ESTONIA

Allar Jõks
Partner

Pärnu mnt 15
10141 Tallinn
ph +372 6 400 900
estonia@sorainen.com

LATVIA

Jānis Taukačs
Partner, Regional Head

Kr. Valdemāra iela 21
LV-1010 Riga
ph +371 67 365 000
latvia@sorainen.com

LITHUANIA

Saulė Dagilytė
Partner

Jogailos 4
LT-01116 Vilnius
ph +370 52 685 040
lithuania@sorainen.com

BELARUS

Alexey Anischenko
Partner

ul Internatsionalnaya 36-1
Minsk 220030
ph +375 17 306 2102
belarus@sorainen.com

ISO 9001 certified
www.sorainen.com