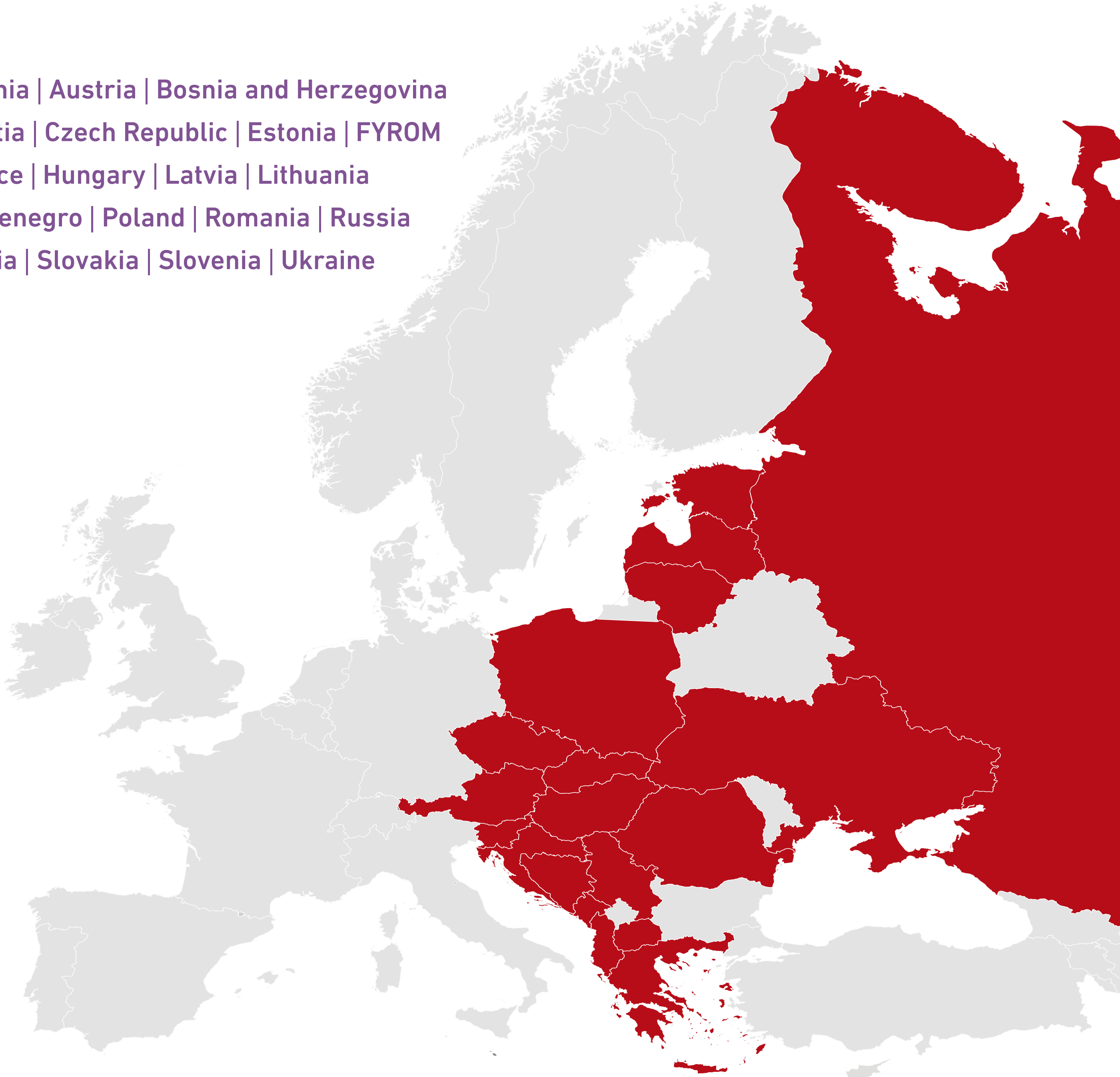
MAZARS CENTRAL EASTERN EUROPEAN TAX GUIDE 2016

Albania | Austria | Bosnia and Herzegovina
Croatia | Czech Republic | Estonia | FYROM
Greece | Hungary | Latvia | Lithuania
Montenegro | Poland | Romania | Russia
Serbia | Slovakia | Slovenia | Ukraine



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"Creating shared value"

Foreword

This is the fourth annual Mazars Central and Eastern European (CEE) tax guide, and once again it focuses on the changes in the tax systems of the region. During our review, we have observed big variations in tax strategies across the countries: some increased their consumption taxes, others introduced income tax hikes, and we also witnessed novel solutions such as sectoral crisis taxes, the introduction of direct price regulation schemes, and new taxes, all of which have placed additional burdens on economic actors. It's also clear that while unique approaches exist, some countries are taking ideas from their neighbours.

In recent years two common tendencies have emerged throughout the region. First, an increasing number of the countries under review have recognised that they must concentrate on cross-border transactions. Indeed, transfer pricing regulation has appeared in the tax systems of almost all countries, and we have devoted a separate chapter of the guide to this issue. Second, we can identify numerous measures taken to extend taxation to hitherto uncontrolled transactions, thereby helping to whiten the various economies. The tools are varied – electronic reporting systems for international trade and transport; unified registers of VAT invoices; online cash registers; summary reports, etc. – but what they have in common is the significantly increased administrative burden on businesses, which is a factor taken into consideration when investment decisions are made.

The region as a whole has moved away from the previous measurable and comparable, market-conforming solutions. It is now moving in the direction of more complicated, less transparent systems of taxation, and as a result international businesses find it increasingly hard to compare these tax regimes. This summary of the tax systems in the 19 countries is based on information and analysis from the Mazars CEE country offices; its aim is to help businesses understand and navigate these complex regimes. As detailed analysis is always needed before making any strategic business decision, we have included contact information for our offices and experts: please feel free to contact them directly with your questions. I hope and trust that all our readers will find this summary useful and inspiring.

My warmest thanks and acknowledgment go to **Heléna Csizmadia**, **Tax Director**, **Budapest**, for her coordination, vision and tireless dedication, without which this guide would not have been possible.

Sándor Szmicsek
Partner
Tax and legal services
Mazars Hungary

COVERING ALL THE BASES

Anti-tax base erosion measures and the battle against VAT fraud

Welcome to Mazars' fourth annual regional tax survey, covering the current tax regimes of the countries of Central and Eastern Europe (CEE). As with previous years, this publication has one main aim: to provide investors with timely, focused and mission critical information about tax in the CEE countries, thus enabling them to compare various competitiveness factors across the region. The 2016 edition presents a snapshot of the tax environments of the Visegrad countries, as well as Greece, Russia, Ukraine, and all successor states of the former Yugoslavia. Similarly to 2015, the report also covers the three Baltic states and Albania.

Taking the countries covered as one bloc, it is apparent that stability and vigilance are the watchwords. After the turmoil of the 2008 financial crisis, many countries reached for emergency fiscal tools to help remedy deficit issues and address imbalances. As we move more confidently into the post-crisis age, it is notable that the countries covered in this guide are more likely to be fine-tuning the tax code than making dramatic changes across the board.

Yet while continued stability is a theme running through this year's report, we also note that there is a relative lack of convergence across the surveyed countries and that each country is pursuing its own strategy to deal with the various external and internal macro pressures. This is especially true of the EU member states that we surveyed: it is notable that wildly different tax regimes exist from Estonia in the north to Greece in the south, particularly with reference to social security and VAT.

“As a result of the recognition of the OECD’s Convention on Mutual Administrative Assistance in Tax Matters, a number of countries previously treated as tax havens, are now considered as regular jurisdictions.”

Andris JAUNZEMIS/ Tax Partner/ Latvia

That being said, there are several hot button issues that cut across national boundaries. The first is the near ubiquity of the adoption of Transfer Pricing regulations, a topic covered in detail in last year’s report and further expanded on in the 2016 survey. The catalyst for such moves was the OECD’s 2014 Action Plan for combating tax Base Erosion and Profit Shifting (BEPS). The plan included guidance on Transfer Pricing documentation and country-by-country Reporting (CbC).

As has been widely reported, the guidance was designed to help lessen the negative effect on the tax base of the tax avoidance strategies of multinational companies. As an example, From 1 November 2016, pressure will be on holding companies in Estonia to prove to the tax authorities that they have actual activities and economic substance i.e. a fixed place of activity, real classified employees, management structure and other economic means.

BEPS remains a key focus for the surveyed countries in 2016 and beyond, and Mazars Hungary continues to be the centre of competence and expertise in TP issues.

“A new amendment to the Czech VAT Act should come into force during 2016. It will reflect the changes in the Customs Code in the Czech VAT Act and will extend the application of the reverse-charge regime.”

Pavel KLEIN / Leading Partner of Tax Department/ Czech Republic

Taxing times

The second hot topic is the continued appearance of **tools to combat fraud and tax avoidance**. As in 2015, the stated aim in 2016 is to help “whiten” the shadow economy in the surveyed countries. The instruments implemented are varied and include the introduction of online cash registers and electronic reporting systems in Bulgaria, Croatia, Hungary and Ukraine. From 2016, the Czech Republic will introduce electronic records of cash sales of goods and services (EET). Companies and entrepreneurs with tax residency in the Czech Republic will be required to record their sales. The first phase of implementation starts December 2016 and is applied to tax subjects providing catering and accommodation services; the next phases start from March 2017, March 2018 and June 2018, respectively.

VAT fraud remains a huge challenge across the CEE, and further introduction of the reverse charge mechanism for VAT in several countries is welcomed. Hungary, with seven international borders and the highest rate of VAT in Europe (27%) is at particular risk of so-called “missing trader” and “carousel” fraud. As a defence mechanism, an online registration of the international transportation of products has been required since 1 January 2015. Although such measures aim to reduce the extent of the black economy and tax evasion in Hungary, they also cause a relatively high VAT administration burden for taxpayers.

“Real-time transaction reporting to the tax authority is a new, powerful weapon against tax evasion in Hungary and several other countries in the region.”

Sándor SZMICSEK / Tax and Legal Partner/ Hungary

Russia has also stepped up its battle against tax fraud, and since 2015 has introduced several new anti-tax avoidance measures. The first is the identification of beneficial owners of income for application of double tax treaty (DTT) benefits; the second is the application of Controlled Foreign Company; and the third is the concept of tax residency of companies. In Slovakia, the government is targeting artificial structures in combination with levying higher penalties for additional tax assessments.

“The government is mulling a new tax on retailers that may be contrary to European Union law. If the change comes into force, retailers would face increased operating costs in Poland.”

Kinga BARAN / Manager of Tax Advisory Department/ Poland

Over the past three years many CEE countries followed Hungary’s lead and introduced **crisis taxes**. While some of these special taxes have now been withdrawn, some persist beyond their first stated duration, and other new taxes have come online. The Slovak crisis taxes, originally intended as a temporary measure for 2012-13, remain in place through 2016. From 1 February 2016 Poland levies a special sector tax on banks and financial institutions. The monthly levy is 0.0366% of the total assets (exceeding indicated minimal value) and is expected to impact the profitability and credit ratings of Polish banks and other financial institutions.

There have been no changes in **corporate tax** rates across the surveyed countries with the exception of Greece. Crisis management remains in place in the country and CIT has increased from 26% to 29%, while the ‘solidarity tax’ band has been widened to 0.7%-8%, the latter payable on annual personal incomes over EUR 500,000. For 2017, the new Slovak government has announced that it wants to abolish tax license payments and to reduce the corporate income tax rate to 21% from the current 22%.

It is difficult to make comparisons of the extent of corporate income solely on the basis of tax rates, as the methods used for the calculation of the tax base may vary considerably across countries. (Even within the EU, reaching a consensus on uniform tax bases causes considerable difficulties.) However, the 20 percentage point difference between the lowest and the highest rates of the markets we surveyed suggests significant differences in the approaches used. Greece continues to have the highest corporate income tax rate (now at 29%), followed by Austria (25%). Montenegro remains the lowest regional tax rate on corporate profits, at just 9%.

“The combination of EU norms with lower local tax rates than in core European countries makes Albania an attractive investment destination in the Mediterranean region.”

Teit GJINI / Managing Partner/ Albania

In terms of tax **competition**, Albania, Latvia and Lithuania still attract investments by way of an average VAT rate and slightly-below-average corporate income tax. In Albania, a new draft law on income tax is under discussion as the government works to simplify the tax code and make it even more appealing to foreign investors.

Estonia remains the stand out in the region with a very attractive uniform tax rate: both VAT and the corporate tax rate are 20%, although the latter is not a classic profit tax but paid only after distributed profits. Investment tax breaks related to R&D remain popular across the survey countries, with Poland introducing further such measures this year; as of 2016, a new Polish R&D tax relief allows eligible taxpayers to additionally deduct from the tax base 30% of their R&D personnel remuneration costs, as well as 20% (for SME) or 10% (for large companies) of other R&D costs incurred.

> *"Estonia's lack of traditional corporate income tax will remain a core attraction for foreign investors in 2016 and beyond."*
>
> *Karin NEEMSALU / Tax Partner | Estonia*

Tax on labour income for the average worker across the surveyed countries is either stable or falling, Austria (49.5%) and Hungary (49%) continued to have the highest average wage tax burdens (total tax/cost of employmnet). One notable exception to the trend is the increase of PIT in Ukraine from 15% to 18%. However, this must be seen against the backdrop of swingeing tax reform in Ukraine that significantly decreases the cost of labour, with SSC slashed from 36.7% to 22%. Of the surveyed CEE countries, the cost of labour remains highest in Hungary.

In summary, tax competition between the countries of the CEE region continues, while cooperation on efforts to challenge tax fraud and increase tax transparency is deepening. Use of technology and various e-tax systems is helping to increase efficiency, but the overall tax burden on workers and employers is, on average, still high.

We hope that this guide will help you navigate the various tax regimes in the region and stress that Mazars has specialist tax advisors in each and every country in this guide. Please feel free to contact our advisors directly if you have any questions on tax and its application in the covered countries.

ALBANIA

Corporate taxes and other direct taxes

Resident companies are subject to corporate income tax on their worldwide income, while non-resident companies are taxed only on their income derived from sources in Albania. Resident companies and sole traders having an annual turnover above ALL 8,000,000 (EUR 57,000) are subject to corporate income tax. Capital gains, dividends, interests, and royalties are included in the income of companies and are taxed as part of corporate income tax. Income tax is assessed on a current-year basis at the rate of 15%. The assessment of CIT is based on the FS prepared in accordance with the National Accounting Standards or IFRS, subject to certain adjustments for tax purposes as specified in the Albanian Tax Laws and other supplementary legal acts. Fiscal losses may be carried forward up to three consecutive years. The law does not provide for consolidated tax returns. Each company forming part of a group must file a separate tax return.

Transfer pricing in Albania		
Arm's length principle	✓	since 1998
Documentation liability	✓	since 2014
APA	✓	since 2014
Penalty		
lack of documentation	✓	~ Documentation submited on delay -EUR 70 / for each month of delay
tax shortage	✓	0.06% on daily bases (not more than 365 days) on tax underpayment + late payment interest
Related parties	50%<	direct or indirect control or common managing director
Safe harbours	✓	Rational value added service with 5-15% mark up

Level of attention paid by Tax Authority: 5/10

The gross amount of interest, royalties, dividends, and shares of partnerships' profits paid to non-resident companies is subject to a withholding tax of 15%, unless a Double Tax Treaty (DTT) provides for a lower rate. Albania has established agreements with 41 countries for avoiding double taxation. 38 of them are ratified and currently in force.

VAT and other indirect taxes

The new law of VAT entered in force in January 1, 2015 has been harmonized with the "acquis communautaire" in almost all respects. Any person (entity or individual) that makes supplies in the course of the person's independent economic activity is required to pay VAT. For domestic supplies and for services subject to the reverse-charge mechanism, the obligation to register for VAT purposes and charge VAT is triggered when annual turnover exceeds ALL 5 million (approximately EUR 36,000). Persons involved in import or export activities and taxpayers supplying professional services must register for VAT regardless of the amount of turnover.

VAT Options in Albania	Applicable / limits
Distance selling	N/A
Call-off stock	N/A
VAT group registration	N/A
Cash accounting	N/A
Import VAT deferment	N/A
Local reverse charge	for all services from non resident entities that are subject to VAT in their country
Option for taxation	
letting of real estate	✓
supply of used real estate	N/A
VAT registration threshold**	EUR 36,000/year

* Persons involved in import or export activities and taxpayers who supply professional services must register for VAT regardless of the amount of turnover.

Customs duty in the Republic of Albania is applied by the custom authorities on the import of goods. The liability to pay the duty is always on the importer of goods, but it is added to the cost of goods and in this way it is finally passed on to the consumers. The customs duty rates range between 0% and 15%, depending on the type of goods and the country of the origin.

Local taxes consist of different categories of taxes and vary from 300 to 800 EUR per year.

Personal income tax / Social security system

Mandatory social security and health insurance contributions are due on employment income. The social security contribution is calculated on a monthly gross salary, from a minimum amount of ALL 22,000 (approximately EUR 160) to a maximum amount of ALL 97,030 (approximately EUR 700). Social contribution payable by the employer is 15%; while the rate payable by the employee is 9.5%. The health insurance contribution rate is 1.7% for both the employer and the employee.

Employed persons are subject to income tax on remuneration and all benefits received from employment. Entities are required to withhold personal income tax from the gross salaries of their employees. In Albania a progressive rate is applicable since 2014; no tax is applicable up to a monthly salary of ALL 30,000; above that 13% applies between ALL 30,000 and 130,000. Above that level ALL 13,000 plus 23% of the amount above ALL 130,000 is payable.

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Wage-related taxes in Albania	Minimum wage		Average wage in private sector	
Exchange rate ALL / EUR 140	in EUR	in ALL	in EUR	in ALL
	157	**22,000**	**400**	**56,000**
TOTAL WAGE COST	**183**	**116.70%**	**467**	**116.70%**
Social Contribution tax	24	15.00%	60	15.00%
Health Insurance Contribution	3	1.70%	7	1.70%
GROSS SALARY	**157**	**100.00%**	**400**	**100.00%**
Personal income tax*	-	0.00%	24	13.00%
Employees' Social contributions	15	9.50%	38	9.50%
Employees' Health contributions	3	1.70%	7	1.70%
NET SALARY	**140**	**88.80%**	**331**	**82.76%**

*Salary 0 -30,000 ALL PIT rate 0%.
Salary 30,001 -130,000 ALL PIT rate 13% of the amount over 30,000 ALL.
Salary over 130,001 ALL PIT 13,000 ALL + 23% of the amount over 130,000 ALL.

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AUSTRIA

Corporate taxes and other direct taxes

The Austrian corporate income tax is flat with a rate of 25%. The Austrian Corporation Tax Act defines the tax framework for corporations, setting an annual minimum tax of EUR 3,500 for public companies (AG) and a minimum tax per year of EUR 1,750 for limited liability companies (GmbH). These minimums are to be considered as a tax in advance, and as such, the amounts can be set off against any future corporate tax obligation. The company's profits are computed by summing up the income generated by business activities performed, the passive income and the capital gains. In principle, all expenses linked to the conduct of the business are deductible. Losses can be carried forward indefinitely (but only 75% of one year's profit can be offset), but carry back is not permitted. Incentives concerning R&D are provided in the form of a 12% premium in cash for certain types of expenditure. An expert report from the FFG ("Forschungsförderungsgesellschaft") is compulsory to request this tax incentive.

Transfer pricing in Austria		
Arm's length principle	✓	since 1988
Documentation liability	✓	since 1988
APA	✓	since 2011
Hyerarchy in TP methods		Follows OECD TP Guidelines
Penalty		
lack of documentation	No	-tax reassement
tax shortage	✓	late payment interest if fraud: fiscal penal code
Related parties	20%<	direct or indirect ownership
Safe harbours	No	

Level of attention paid by Tax Authority:

5/10

Thin capitalization is not subject to any specific regulations. However, in order to avoid insolvency, the reorganization law stipulates guidelines. The standard tax rate on capital gains is 25%. Dividends paid out from resident companies to the resident shareholder in Austria are exempt regardless of the participation percentage. Several important exemptions exist, such as an international participation exemption for dividends from non-resident companies. These dividends are tax free if a minimum of 10% direct or indirect shareholding has existed for at least one year (applicable also for less than 10% shareholding if extensive mutual assistance exists with such countries). Royalties and licenses are also subject to exemptions in accordance with tax treaties and EU directives; otherwise the standard tax rate is 20%. Austria, with 90 tax treaties, offers double taxation conventions with a large number of countries. Austria has a group taxation regime: profits and losses of the group members are attributed to the group holder and the aggregated balance is subject to taxation. Losses from nonresident companies can be used in Austria (again, the 75% limitation is applicable) in the case of group taxation (if extensive mutual assistance exists). Losses in foreign countries from nonresident companies can be subject to a recapture in cases of liquidation or if they are used abroad.

VAT and other indirect taxes

The general rate is 20% for the sale of goods and services. A reduced rate of 10% (in certain cases 13%) is used for agricultural products, entertainment, tourism and rentals with a residential purpose. Exemptions are in place for banking transactions, and no VAT is levied on exports. Entrepreneurs with annual sales below EUR 30,000 are exempted from VAT obligations. Non-residents trading in Austria are also subject to registration. Monthly returns are electronically recorded, and annual returns are to be completed by 30 June of the following year. Companies represented by a tax advisor can have the deadline substantially extended.

VAT Options in Austria	Applicable / limits
Distance selling	EUR 35,000/year
Call-off stock	✓
VAT group registration	✓
Cash accounting*	EUR 700,000/year
Import VAT deferment	✓
Local reverse charge	gas, electricity, heating, emission quotas, mobile phones, game consoles, construction services, scrap, compulsory auction of immovable property
Option for taxation	
letting of real estate	✓
supply of used real estate	✓
VAT registration threshold	EUR 30,000/year

* Not applicable for capital companies

Personal income tax / Social security system

The Austrian income tax rate is progressive (maximum of 55%). The personal income tax progression (2016) adds up as follows:

- annual income up to EUR 11,000 is not taxed,
- from the 11,0001st to the 18,000th Euro earned, the marginal tax rate is 25%
- from the 18,001th to the 31,000th Euro earned, the marginal tax rate is 35%,
- from the 31,001st to the 60,000th Euro earned, the marginal tax rate is 42%,
- from the 60,001st to the 90,000th Euro earned, the marginal tax rate is 48%,
- from the 90,001st Euro earned, the marginal tax rate is 50%,
- part of the earnings which exceeds 1 mio. Euros is taxed with 55%.

Concerning capital gains, a 27.5% tax rate is applied to all capital income from both Austrian and foreign sources.
In Austria a statutory compulsory social security system is in use. All employees are subject to this system. The two most important schemes (out of six) are the Austrian General Social Insurance Act ("ASVG"), which is used for dependent employees (blue and white-collar workers) and the Austrian Commercial Social Insurance Act ("GSVG") which is used for the self-employed.

1. Salaried employees:
Social security contributions are partly paid by the employee and partly paid by the employer. The base is the monthly gross salary and special payments. Generally, a maximum contribution base is in use (2016: EUR 4,860 per month, EUR 9,720 per year for special payments.) Based on the maximum contribution base the social security contribution amounts to 37.75% (17.12% employee and 20.63% employer). Additionally employers are obliged to pay various other payroll-related costs such as a contribution of 1.53% to the employee pension provision fund ("BVK"), a contribution of 4.5% to the family allowance fund ("DB"), a surcharge of approx. 0.40% to contribute to the family allowance fund ("DZ"), and a municipal tax of 3%.

2. Self-employed persons:
For self-employed persons also a maximum contribution base is in use (2016: EUR 5,670 per month and EUR 68,040 per year). Based on the maximum contribution base the social security contribution amounts to 26.31%. This insurance covers health insurance, pension insurance and accident insurance. For the first 3 years lower contributions can be paid.

Minimum wages depend on the sector's collective agreement. Therefore, no standard minimum wage exists.

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Wage-related taxes in Austria	Minimum wage*		Average wage in private sector	
	in EUR		in EUR	
	1,630**		2,300**	
TOTAL WAGE COST	**2,488**	**130.83%**	**3,511**	**130.84%**
Employer's SS and other contributions***	586	30.83%	828	30.84%
GROSS SALARY****	**1,902**	**100.00%**	**2,683**	**100.00%**
Personal income tax	78	4.08%	257	9.58%
Employee's contributions*****	342	17.97%	482	17.98%
NET SALARY	**1,483**	**77.95%**	**1,944**	**72.44%**

* Payroll accountant in Vienna, 1yr experience
** Monthly gross salary (on 14 month basis - including 2 special payments)
*** In addition to SSC contribution to family equalization fund, surcharge, severance pay and community tax is also payable
**** Monthly gross salary (12 months)
***** Actual rate depends on the salary level.

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BOSNIA AND HERZEGOVINA

Corporate taxes and other direct taxes

It is important to note that Bosnia and Herzegovina (BiH) is divided into three tax jurisdictions: the Federation of BiH (FBiH), the Republika Srpska (RS) and Brčko District (BD). For the sake of simplicity we will focus on the RS and FBiH.

The general corporate income tax rate is flat and amounts to 10%. In addition, small taxpayers in RS are excluded from corporate income tax (those having fewer than 9 employees, a total revenue not exceeding BAM 100,000 not more than 50% of which comes from single client, and the ownership of the enterprise belonging to not more than 2 natural persons). The tax base is the pre-tax profit modified by several increasing and decreasing items. In BiH (both FBiH and RS) losses can be carried forward for up to 5 years. Loss carry-back is not permitted. There are no special limitations in case of M&A transactions. BiH does not apply a thin capitalization rule. All costs related to R&D can be recognized as expenditure. Generally in BiH dividends are non-taxable, but capital gains are taxable at the rate of 10%. In the FBiH companies whose export exceeds 30% of the total income and companies who invest over BAM 20 million (around EUR 10 million) in production over a period of 5 years are exempt from corporate tax.

Transfer pricing in Bosnia Herzegovina		
Arm's length principle	✓	since 1998
Documentation liability	No	Not explicitly mentioned
APA	No	-
Penalty		
lack of documentation	No	Not explicitly stated
tax shortage	✓	Only inclusion of difference in tax base
Related parties	50% (10%) <	direct or indirect control (50% for FBIH, 10% for RS) or common managing director or significant influence on decisions. Also, mutual significant amount of buying and selling, technological dependence or otherwise acquired control over the management.
Safe harbours	✓	For interest rates as defined by Governmental Rulebook

Level of attention paid by Tax Authority:

2/10

The general withholding tax rate is 10%, for dividends amounts to 5% in FBiH and RS unless an international tax treaty applies (currently, around 30 active DTT's). Interests, royalties and technical fees paid by a BiH (in both FBiH and RS) company to a foreign company are subject to withholdings at the rate of 10%. The group taxation concept is allowed in BiH for a group of resident companies with a minimum of 90% (FBiH) or 80% (RS) direct or indirect ownership.

In case of acquiring real estate in the FBiH, the transfer is taxable at cantonal level. In the RS, there is no transfer tax, but the owner of the real estate has to pay property tax between 0.05% and 0.5% of the market value. In BiH there is no surtax.

VAT and other indirect taxes

The general rate established at state level is 17%. There are no reduced rates beside the 0% rate (mainly for the export of goods). VAT-exempt services are mainly banking services, insurance, healthcare, etc. Export exemption as well as exemption for deliveries to free zones apply. Certain thresholds are as follows:

VAT Options in Bosnia Herzegovina	Applicable / limits
Distance selling	No
Call-off stock	✓
VAT group registration	✓
Cash accounting	No
Import VAT deferment	No
Local reverse charge	construction work exceeding approx. EUR 12,755
Option for taxation	
letting of real estate	No
supply of used real estate	No
VAT registration threshold	approx. EUR 25,510/year

Other indirect tax types in BiH are custom duties and excise duties on goods imported into BiH.

Personal income tax / Social security system

Personal income tax is taxed at a flat rate amounting to 10%, and it is applicable on the active (e.g. employment, assignment fee) and passive income (interest, real estate rental, etc.). Dividends are not taxable in BiH. In the RS, the employee contributes 33% of the gross salary. In the FBiH, the employer contributes 10.5%, and employee contributes 31% of the gross salary. The examples below show the cost of employer and the employee in case of the average wage. In case of the minimum wage the applicable PIT and contribution rates are different, due to the personal allowance applicable. The minimum net wage is EUR 181 in FBiH; and EUR 177 in RS.

BOSNIA AND HERZEGOVINA

THE CROATIAN OFFICE IS RESPONSIBLE FOR EX YUGOSLAVIAN COUNTRIES

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Wage-related taxes in FBiH and RS	Average wage in FBiH		Average wage in RS	
Exchange rate BAM / EUR 1.96	in EUR	in BAM	in EUR	in BAM
	649	**1,272**	**668**	**1,309**
TOTAL WAGE COST	**717**	**110.50%**	**689**	**100.00%**
Employer's SS and other contributions	68	10.50%	-	0.00%
GROSS SALARY	**649**	**100.00%**	**668**	**100.00%**
Employee's contributions	201	31.00%	220	33.00%
Personal income tax*	29	4.54%	35	5.17%
NET SALARY	**418**	**64.46%**	**413**	**62.97%**

*Tax base differs from the gross salary, deductions apply.

Wage-related taxes in FBiH and RS	Minimum wage in FBiH		Minimum wage in RS	
Exchange rate BAM / EUR 1.96	in EUR	in BAM	in EUR	in BAM
	267	**524**	**277**	**543**
TOTAL WAGE COST	**298**	**110.50%**	**277**	**100.00%**
Employer's SS and other contributions	28	10.50%	-	0.00%
GROSS SALARY	**267**	**100.00%**	**277**	**100.00%**
Employee's contributions	83	31.00%	91	33.00%
Personal income tax*	3	1.17%	8	3.02%
NET SALARY	**181**	**67.59%**	**177**	**66.07%**

*Tax base differs from the gross salary, deductions apply.

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CROATIA

Corporate taxes and other direct taxes

The CIT rate is 20%. The tax base is accounting profit modified by several increasing and decreasing items. Losses can be carried forward within 5 years but special limitations are applicable in case of M&A transactions. Capital gains are included in the annual corporate profits tax return. Croatia uses thin capitalization (4:1), but thin capitalization does not apply if shareholders are financial institutions, CIT payers in Croatia or PIT payers in Croatia. There is a range of tax allowances for new investments and R&D (up to 150% of qualified costs), the education of employees, etc. As of 2013, the tax base can be decreased in the amount of the net profit of the year used to increase registered share capital (reinvested earnings). However, in the tax returns for 2015 (to be submitted during 2016), the tax base can be decreased by the amount of investments in tangible and intangible assets during the tax period used to increase registered share capital.

Transfer pricing in Croatia		
Arm's length principle	✓	since 2004
Documentation liability	Yes	From 2016 to be field with the tax return
APA	No	-
Hyerarchy in TP methods	No	Not defined, follows in pracitce OECD TP Guidelines
Penalty		
lack of documentation	No	Not specifically stated, general rules apply
tax shortage	No	100% amount of shortage since it cannot be treated as tax deductible expense
Related parties	50% (25%) <	direct or indirect control (25% is commonly used by tax authority and advisors) or common managing director
Safe harbours	✓	Interest determined by the Decision of Ministry of Finance, based on the calculation of Croatian National Bank. For 2016 interest is 5,14%

Level of attention paid by Tax Authority: 7/10

A withholding tax of 15% is applied on dividend, interest, royalty and business consultancy services paid by a Croatian company to a foreign company. However, Croatia has more than 50 active DTT treaties used to avoid withholding tax. A withholding tax of 20% is applied on all payments to offshore companies. The EU Directives on withholding tax apply.

Real estate transfer tax (RETT) is applied on the transfer of immovable property at the rate of 5%. The tax base is the selling price of the transferred property and the taxable person is the buyer.

Other taxes include company tax (ranging from HRK 500 to 800), contribution to the Croatian Commercial Chamber (fixed monthly fee), forestry tax (annual percentage) and tourist tax (for certain activities).

VAT and other indirect taxes

The tax rate is 25%; a reduced rate of 13% applies to tourist accommodation services, restaurant and coffee bar services and newspapers, while a reduced rate of 5% applies on milk, books, etc. VAT-exempt services are mainly banking services, insurance, investment-related services, educational services (under certain conditions), games of luck, certain services provided by medical doctors and dentists, and certain other activities which are tax exempt with regard to their public interest or their special character. Tax is deductible on food donation to non-profit humanitarian legal entities up to 2 percent of total revenues of previous year.

VAT Options in Croatia	Applicable / limits
Distance selling	EUR 36,000/year
Call-off stock	✓
VAT group registration	No
Cash accounting	EUR 395,000/year
Import VAT deferment	No
Local reverse charge	construction work, the supply of used material, the transfer of allowances to emit greenhouse gase, the supply of immovable property in certain conditions
Option for taxation	
letting of real estate	No
supply of used real estate	✓
VAT registration threshold	EUR 31,000/year

Other indirect tax types in Croatia are excise duty and insurance tax.

Personal income tax / Social security system

Personal income tax rates are progressive from 12% to 40%, and apply on income from several sources (employment and similar, business income, sale of real estate, income from insurance (certain types only), dividend income and other income. Active incomes (employment and similar, business income, other income) fall under the scope of the SSC system: individual pension social contributions equal altogether 20% (employee contribution) and health and unemployment contribution of 17.2% represent employer contribution. Passive incomes are generally subject only to taxes. The examples below show the cost of the employer and the employee in case of minimum wage level and the average wage in the private sector. Basic personal allowance amounts to HRK 2,600 (around EUR 342) and surtax applies on taxes on income from employment, business income, dividends, etc.

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Wage-related taxes in Croatia	Minimum wage		Average wage in private sector	
Exchange rate HRK / EUR 7.6	in EUR	in HRK	in EUR	in HRK
	411	**3,120**	**1,077**	**8,185**
TOTAL WAGE COST	**481**	**117.20%**	**1,262**	**117.20%**
Employer's contribution	71	17.20%	185	17.20%
GROSS SALARY	**411**	**100.00%**	**1,077**	**100.00%**
Employees' contributions	82	20.00%	215	20.00%
Tax and surtax*	-	0.00%	101	9.42%
NET SALARY	**328**	**80.00%**	**760**	**70.58%**

* Tax base differs from the gross salary, deductions apply.

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CZECH REPUBLIC

Corporate taxes and other direct taxes

The Czech Republic has a flat corporate income tax rate of 19% applied on a general tax base. Basically, the tax base is represented by an accounting profit or loss modified by certain increasing and decreasing items. The tax base may be deducted by tax losses to be carried forward within five subsequent taxable periods. The Czech Republic applies thin capitalization rules to loans provided by related parties (generally 4:1).

Transfer pricing in Czech Republic		
Arm's length principle	✓	since 1993
Documentation liability	✓	since 2006 (scope of Documentation is only recommended)
APA	✓	since 2006
Penalty		
lack of documentation	No	
tax shortage	✓	20% on tax underpayment + late payment interest
Related parties	25%<	direct or indirect control or personally related
Safe harbours	✓	Low value added services: 3-7% mark-up

Level of attention paid by Tax Authority: 9/10

The Czech Republic provides tax exemption for holding structures: dividends and capital gains are tax exempted, provided certain conditions are fulfilled. Moreover, under certain specific conditions, an exemption may also be granted to royalties or interest from credit and loans. A withholding tax of 15% applies to dividends, royalties, interest and generally to income received in the Czech Republic, if the conditions for tax exemptions are not fulfilled and a relevant double tax treaty states otherwise. The Czech Republic has a wide international treaty network with more than 80 double tax treaties concluded. If the payments are realized to third countries without a double tax treaty (or valid international agreement on exchange of information on tax matters), the withholding tax amounts to 35%.

Road motor vehicles used in connection with business, as well as trucks with a maximum gross weight exceeding 3.5 tonnes regardless of their use are subject to a road tax if registered in the Czech Republic. A real estate tax is to be applied in relation to land and buildings, with tax rates generally depending on the type of the property, while the final amount of tax may also be influenced by local ratios (as applied by local authorities). A real estate transfer tax is to be applied at a rate of 4%. Inheritance tax and gift tax are incorporated into the income tax, with the application of standard income tax rates (15% for individuals, 19% for legal persons). Gratuitous income from inheritance is fully exempt. Gratuitous income from giving is exempt in a limited extent (e.g. gifts within family).

VAT and other indirect taxes

For 2016, the standard VAT rate is 21%, while the reduced rates are 15% (applicable, for example, on foodstuff, accommodation and selected medical/sanitary goods s) and 10% (applicable, for example, on baby formula and children's food, certain medical devices, certain printed books, children's picture books and music sheets and food for gluten-intolerant persons). VAT-exempt services include financial and insurance services, the transfer of buildings/flats/non-residential premises (after 5 years following the building approval); medical and social care services.

The following options/limits based on the EU Directive are presented within VAT legislation:

VAT Options in Czech Republic	Applicable / limits
Distance selling	approx. EUR 41,500/year
Call-off stock	✓
VAT group registration*	✓
Cash accounting	✓
Import VAT deferment	✓
Local reverse charge	construction works, waste, gold, emission permits, selected cereals and industrial crops, mobile phones, integrated circuits, portable devices for the automated processing of data, videogame consoles, real estate when supplied between two VAT payers (from 1/2016), gas, electricity (from 2/2016)
Option for taxation	
letting of real estate	✓
supply of used real estate	✓
VAT registration threshold**	approx. EUR 36,400/year

* related parties, only for Czech legal entities

As a part of provisions for preventing VAT fraud, the application of a local reverse charge regime was extended also for 2016. In addition to the VAT return and EC Sales List, a new form of reporting – control statement – was introduced in 2016. The control statement is submitted by all Czech VAT payers from the VAT period of January 2016.

Other indirect taxes include excise duties (on mineral oils, spirits, beer, wine and tobacco) and an energy tax (on gas, electricity or solid fuels). A "contribution" from electricity produced via solar facilities applies to such electricity producers.

Personal income tax / Social security system

Personal income tax is applied at a flat rate of 15% on active (employment, self-employment) and passive income (e.g. capital gains, dividends, interests). The employees' tax base is increased by health insurance/social security contributions paid by the employer, thus the effective tax rate amounts to approximately 20%. A "solidarity" increase of tax at the rate of 7% is applied for the part of the gross income from an employment/tax base from self-employment exceeding 48 times the amount of the average wage (for 2016 it is CZK 1,296,288). Income from employment and self-employment is subject to social security and health insurance contributions. In case of employment, the employee's contribution amounts to 6.5% (social security) and 4.5% (health insurance). For the employer, these amount to 25% and 9% respectively. The social security contributions are not paid on the income exceeding the maximum assessment base (for 2016 it is CZK 1,296,288). The maximum assessment base for the health insurance contributions has been cancelled as of 2013. The example below shows the employer's and the employee's costs in case of minimum wage and average wage in the private sector.

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Wage-related taxes in Czech Republic	Minimum wage		Average wage in private sector	
Exchange rate CZK / EUR 27	in EUR	in CZK	in EUR	in CZK
	367	**9,900**	**1000**	**27,000**
TOTAL WAGE COST ("SUPER GROSS" SALARY)	**492**	**134.00%**	**1,340**	**134.00%**
Social security contribution - employer	92	25.00%	250	25.00%
Health insurance - employer	33	9.00%	90	9.00%
GROSS SALARY	**367**	**100.00%**	**1000**	**100.00%**
PIT without standard tax deduction*	74	15.00%	201	15.00%
PIT after standard tax deduction**	-		125	
Employees' contributions	41	11.00%	110	11.00%
NET SALARY	**326**	**88.83%**	**765**	**76.50%**

* 15% tax rate is applied on "super gross" salary, the effective tax rate is approximately 20 %
** Each individual is entitled to deduct a lump sum of CZK 2,070 (app. EUR 76) per month from his tax liability (called "standard tax deduction")

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ESTONIA

Corporate taxes and other direct taxes

In Estonia there is no traditional corporate income tax, which means that retained profits enjoy deferred taxation, which is considered as the most attractive tax incentive for companies to invest in Estonia. Corporate profits are subject to income tax upon distribution i.e. dividend payments, liquidation proceeds, etc.

In addition, certain payments, such as fringe benefits, gifts, donations, costs of entertaining guests, expenses and payments that are not business-related are also identified as profit distributions for income tax purposes. Expenses related to business are not taxable if they have been incurred for the purposes of deriving income from a taxable business or are necessary or appropriate for maintaining or developing such business and it is clearly justified that the expenses are business-related. Also, no income tax is charged on business gifts, gifts and donations to specified non-profit associations and costs of entertaining guests not exceeding limits set by law.

The corporate tax rate is fixed as 20/80 on the net amount of the payment, which means that net distribution/payment is grossed up first and then subject to a tax rate of 20%. A calculation example in case the net payment is 1,000 EUR: the tax base is 1000 / 80% = 1,250 EUR, and the corporate income tax is 1,250 EUR x 20% = 250 EUR. There are no rules regarding how losses can be carried forward because only distributed profits are subject to income tax.

Transfer pricing in Estonia		
Arm's length principle	✓	since 1999
Documentation liability	✓	since 2007
APA	No	N/A
Hyerarchy in TP methods		Follows OECD TP Guidelines, however, internal and domestic data is preferred
Penalty		
lack of documentation	✓	Up to EUR 3,200. A criminal penalty may also be imposed up to EUR 16 million.
tax shortage	✓	Daily interest of 0.06% on the tax under-payment
Related parties	25% <	share capital or voting rights; other special rules relating mutual business interest or control
Safe harbours	No	

Level of attention paid by Tax Authority: 8/10

There is no withholding tax on dividends, interest and royalty paid by an Estonian company to either an Estonian or foreign company, provided that certain criteria are met. Also, there is no corporate income tax applied in case of pass-through dividends corresponding to certain rules. Income tax is withheld from rent from a commercial or residential lease (20%), payments to a non-resident for services provided in Estonia (10%), and payments to a legal person located in a low-tax-rate territory for services provided to an Estonian resident (20%). Estonia has a wide international treaty network with more than 55 double tax treaties.

Other direct taxes include a gambling tax and a land tax applicable in specific cases. Also, there is a social tax, which is described under the social security system below.

VAT and other indirect taxes

The general rate is 20%, while the reduced rate is 9% (e.g. books and workbooks used as learning materials, particular medicinal products, particular periodic publications, certain accommodation services). Exportation is zero-rated. VAT is not imposed on certain goods and services of social nature. Other VAT-exempt goods and services include insurance services, leasing or letting of immovable properties, the sale of immovable properties or parts thereof before their first use, securities and financial services. The options/limits based on the EU Directive are presented within the VAT legislation:

VAT Options in Estonia	Applicable / limits
Distance selling	EUR 35,000/year
Call-off stock	-
VAT group registration*	✓
Cash accounting	turnover < 200,000 EUR
Import VAT deferment	✓
Local reverse charge	specific real estate, metal waste, gold
Option for taxation	
letting of real estate	✓
supply of used real estate	✓
VAT registration threshold**	EUR 16,000/year

* There must be an element of common control over the members of the group.

** If the trade is below the registration threshold, voluntary VAT registration might be possible.

At the end of 2014 Estonia introduced an additional reporting form that companies need to submit together with their VAT returns for reporting all transactions exceeding 1,000 EUR with a single partner in a calendar month. Also, in 2014 new rules were introduced regarding vehicle-related VAT-deductions, which in general (with one specific exception) restrict more than 50% of total input-VAT deduction related with vehicle costs (purchase of car, fuel, repair, etc.).
Other indirect tax types in Estonia include excise duty and customs duty.

Personal income tax / Social security system

In Estonia there is a flat rate of PIT, which is 20%, and it is generally applicable to active (e.g. employment, assignment fee) and passive income (e.g. capital gains, dividend and interest). Resident individuals can use a monthly tax-free amount, which is 170 EUR per month starting from 2016. In addition, there a specific list of tax deductions, which can be applied via the annual tax returns e.g. deduction of housing loan interests, voluntary pension payments, donations and training expenses, an additional tax allowance in case more than one child, etc.

Active incomes fall under the scope of the SSC system: individual social contributions equal altogether 1.6%-4.6% depending of the type of mandatory pension subscription; the employer's contribution is altogether 33.8% (social tax 33% and unemployment insurance 0.8%). Passive incomes are in general not subject to SSC. Benefits in kind are taxed only on the level of the employer at two rates: corporate income tax (20/80 on net amount) plus social tax 33%, which is altogether approximately 60%. The examples below show the cost of the employer and employee in case of minimum wage level and the average wage in the private sector.

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Wage-related taxes in Estonia	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
TOTAL WAGE COST	**575**	**133.80%**	**1,398**	**133.80%**
Employer unemployment insurance	3	0.80%	8	0.80%
Social tax	142	33.00%	345	33.00%
GROSS SALARY	**430**	**100.00%**	**1,045**	**100.00%**
Personal income tax	48	20.00%	165	20.00%
Employees' unemployment insurance	7	1.60%	17	1.60%
Employees' pension insurance*	13	3.00%	31	3.00%
Minimum monthly tax deduction**	170	-	170	-
NET SALARY	**362**	**84.23%**	**832**	**79.57%**

*The rate could be 2% or 3% depending of the age and the subscription type
**For tax residents

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FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Corporate taxes and other direct taxes

The general corporate income tax rate for all taxpayers in the Former Yugoslav Republic of Macedonia is flat and amounts to 10%. Exceptionally, companies with a total revenue up to 3 million denars are exempted from the payment of CIT, and companies with a total revenue between 3,000,001 and 6,000,000 denars have the option to pay CIT in the amount of 1% of the total revenue.

The tax base is the pre-tax profit modified by several increasing and decreasing items. Losses can be carried forward within a limited period of 3 years. Loss carry-back is not permitted. No special limitations are applicable in case of M&A transactions. There are tax exemptions for investments in tangible and intangible assets (reinvested earnings) and also for taxpayers who perform their activity in a Technological Industrial Development zone for a period of 10 years (from the commencement of performance).

Transfer pricing in FYROM		
Arm's length principle	✓	since 2009
Documentation liability	No	Not explicit
APA	No	-
Penalty		
lack of documentation	✓	~ EUR 2.000-3.000 / missing documents doubled on recurrent basis
tax shortage	✓	Up to 10 times on underpayment
Related parties		- individuals and legal entities with control or significant influence - family members of owners or members of the Management Bord - any legal entity which is resident in a country with a beneficial tax system
Safe harbours	✓	Interest income/expense from the loans as EURIBOR + 1% (or SKIBOR +1% for loans extended in MKD)

Level of attention paid by Tax Authority:

3/10

TP table FYROM applies thin capitalization (3:1). Dividends are exempt from tax until they are distributed to resident or non-resident individuals. Incomes from dividends realized by participation in the equity of other taxpayers are not included in the tax base, provided that they are taxed at the taxpayer who pays the dividends. In the Former Yugoslav Republic of Macedonia, there is a withholding tax at the rate of 10% on dividends, interests and royalties paid by a FYROM company to a foreign company. FYROM has a wide international treaty (DTT) network with 45 double tax treaties, and the withholding tax rate can be reduced or abolished under the active DTT.

The tax rate on sales and other transfers of real estate and rights to real estate is 2 to 4% of the market value of the property. There is also a property tax (the rate is 0.1-0.2%) paid annually by owners of immovable properties. The transfer tax on gifts and inheritance is 0% for first-degree relatives (heritage), 2-3% for second-degree relatives and 4-5% for all others.

VAT and other indirect taxes

VAT Options in FYROM	Applicable / limits
Distance selling	No
Call-off stock	No
VAT group registration*	✓
Cash accounting	No
Import VAT deferment	No
Local reverse charge	Construction including maintenance, electrical installation, plumbing, etc.
Option for taxation	
letting of real estate	No
supply of used real estate	No
VAT registration threshold**	EUR 16,250/year

* related parties
** voluntary registration is possible

The general rate is 18%; a reduced rate of 5% applies in case of food products for human consumption, drinking water from public water supply systems, books, brochures and newspapers, certain materials and fixed assets for agriculture, drugs and medicines, etc.

VAT-exempt services are mainly banking services, insurance, the rental of real estate, certain services provided by medical doctors and dentists, certain types of education and training, as well as some other activities which are tax exempt with regard to their public interest or their special character.

Other indirect taxes in FYROM are fuel tax and excise duties.

Personal income tax / Social security system

There is a flat PIT rate of 10%, and it is generally applicable on the active (e.g. employment, assignment fee) and passive income (e.g. capital gains, dividend and interest). Social security contributions payable by employees altogether amount to 27% of the gross salary: pension contribution is 18%; health care insurance is 7.30%; unemployment insurance is 1.2%; and health care at work insurance is 0.5%. The examples below show the cost of the employer and the employee in case of minimum wage level and the average wage.

The minimum base for social security contributions equals 50% of the average monthly salary for the current month. The ceiling amount for social security contributions equals six times the average monthly salary for the current month in the Former Yugoslavian Republic of Macedonia.

FYROM

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Wage-related taxes in FYROM	Minimum wage in FYROM		Average wage in FYROM	
Exchange rate MKD / EUR 61,62	in EUR	in MKD	in EUR	in MKD
	231	**14,262**	**524**	**32,268**
TOTAL WAGE COST	**231**	**100.00%**	**524**	**100.00%**
Social contribution on salary	-	0.00%	-	0.00%
GROSS SALARY	**231**	**100.00%**	**524**	**100.00%**
Employees' contributions	62	27.00%	141	27.00%
Personal income tax*	5	2.14%	26	5.02%
NET SALARY	**164**	**70.86%**	**356**	**67.98%**

*Personal income tax base differs from gross salary, deductions apply.

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GREECE

Corporate taxes and other direct taxes

The corporate income tax is proportional in Greece. The tax base, i.e. the pre-tax profit modified by several increasing as well as decreasing items, is taxed at the rate of 29%. Additionally, a withholding tax of 10% is imposed on the after-tax dividends paid (for individual shareholders, this withholding tax exhausts the tax liability for the specific income); a lower rate may apply under an applicable tax treaty, and no withholding tax applies if the conditions of the EU parent-subsidiary directive are met. In Greece, losses can be carried forward within a period of five fiscal years; the carrying back of losses is not permitted. Special limitations are applicable in case of M&A transactions.

Transfer pricing in Greece		
Arm's length principle	✓	since 1994
Documentation liability	✓	since 2008
APA	✓	since 2014
Hyerarchy in TP methods	No	Follows OECD TP Guidelines
Penalty		
lack of documentation	✓	For inaccuracy/incompleteness; 1‰ of TP transactions (min EUR 500-EUR 2,000)
tax shortage	✓	For non submission , fine of 1‰ of TP transactions (min EUR 2,500 max. EUR 10,000)
Related parties	33%<	direct or indirect control or management dependence or exercise of decisive influence
Safe harbours	No	

Level of attention paid by Tax Authority: 10/10

Greece applies thin capitalization (based on surplus interest expenses) and CFC rules. In Greece, there is a wide range of tax allowances for new investments, R&D and shipping.

Apart from dividends, there is also a withholding tax on interest earned, royalties as well as consulting, technical and administrative services provided to a Greek company by a foreign company in Greece. Furthermore, Greece has a wide international treaty network with more than 55 double tax treaties, which can be implemented for declining the withholding tax rates applicable to income of all the above kinds earned by non-resident companies.

Regarding real estate taxation, there is a principal and a supplementary annual capital tax imposed on real estate assets. For buildings, the principal tax may vary basically from EUR 2.00 to 13.00 per square meter, according to the size, location, age, usage and other characteristics of the property. The supplementary tax is imposed on the total value of the real estate owned, at an average rate of 0.5%. Finally, there is an annual special tax of 15% on the nominal tax value of real estate assets located in Greece for legal entities that do not wish to declare their individual shareholders. (However, a wide list of exemptions is provided, including shipping companies with an establishment in Greece, firms with capital share structured on nominal shares, firms with other business revenue in Greece that is higher than their real estate revenue in Greece, and firms owned or controlled by the Greek public sector.)

VAT and other indirect taxes

The general rate is 23% and the reduced rates are 13% (e.g. food, electricity, water supply) and 6% (e.g. books, medicines). The options/limits based on the EU Directive:

VAT Options in Greece	Applicable / limits
Distance selling	EUR 35,000/year
Call-off stock	No
VAT group registration	No
Cash accounting	Optional for small companies up to 500k turnover
Import VAT deferment	✓
Local reverse charge	sale of waste
Option for taxation	
letting of real estate	optional on business rents
supply of used real estate	No
VAT registration threshold	EUR 10,000/year

VAT-exempt services are mainly banking services, insurance, investment-related services, the sale of real estate under certain conditions (the rental of real estate may be either subject to a 23% VAT or exempted, according to the common will of the two related parties), certain services provided by medical doctors and dentists, certain types of education and training, and certain other activities which are tax exempt with regard to their public-interest nature or their special character.

Other indirect tax types in Greece are stamp duty, excise duty (on energy, tobacco and alcohol products), financial transactional tax, tariffs, sale taxes (on video lottery terminal games), local business tax (restaurant and related services, advertising expenses).

Personal income tax / Social security system

The PIT is progressive in Greece. There is a different income tax rate per source of income (employees – pensioners, sole proprietorships – freelancers, real estate and securities income), and no free tax amounts are provided. The tax rate applicable to employees and pensioners consists of three income brackets (EUR 0 to 25,000: 22%; EUR 25,001 to 42,000: 32%; income above EUR 42,000: 42% tax rate applies) and the ones applicable on income derived from business activities and freelancers, of two income brackets (EUR 0 to 50,000: 26%; income above 50,000: 33%). Employment incomes fall under the scope of the SSC system: individual social contributions equal altogether 15.50%; employer's contribution is altogether 24.56%. Benefits in kind are also considered as employment income and taxed accordingly. SSC are also applicable. The examples below show the cost of the employer and the employee in case of minimum wage level and the average wage in the private sector.

Finally, a Special Solidarity Contribution is imposed on income earned by individuals, at the following rates: 0.7% for total income from EUR 12,001 to 20,000, 1.4% for EUR 20,001 to 30,000, 2% for EUR 30,001 to 50,000, 4% for EUR 50,001 to 100,000, 6% for EUR 100,001 to 500,000 and 8% above EUR 500,000.

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Wage-related taxes in Greece	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
TOTAL WAGE COST	**730**	**124.56%**	**1,548**	**124.56%**
Employer's social security contribution	144	24.56%	305	24.56%
GROSS SALARY*	**586**	**100.00%**	**1,243**	**100,00%**
Personal income tax	-	22%/32%/42%	87	22%/32%/42%
Employees' contributions	91	15.50%	193	15.50%
NET SALARY	**495**	**84.50%**	**963**	**77.48%**

* per payroll period (there are 14 payroll periods per year)

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HUNGARY

Corporate taxes and other direct taxes

The general corporate income tax rate is progressive in Hungary. The tax base up to HUF 500 million is taxed at 10%; the rate above this amount is 19%. The tax base is the pre-tax profit modified by several increasing and decreasing items. In Hungary, the losses can be carried forward for 5 years. Moreover, the losses may be used for reducing the tax base only up to 50% of the tax base calculated without the loss carry forward. Loss carry back is possible in the agricultural sector. Special limitations are applicable in case of M&A transactions.

Transfer pricing in Hungary		
Arm's length principle	✓	since 1996
Documentation liability	✓	since 2003
APA	✓	since 2007
Hyerarchy in TP methods	No	Follows OECD TP Guidelines
Penalty		
lack of documentation	✓	~ EUR 6,500 / missing documentation doubled on recurrent basis
tax shortage	✓	50% on tax underpayment + late payment interest
Related parties	**50% <**	direct or indirect control or common managing director
Safe harbours	✓	Low value added services: 3-10% mark-up

Level of attention paid by Tax Authority: **9/10**

Hungary applies thin capitalization (3:1) and CFC rules. There is a wide range of tax allowances for new investments and R&D. Furthermore, Hungary provides tax exemption on holding structures: capital gains on shares and intellectual property under certain conditions are tax free, and a 50% tax allowance is applicable on royalty incomes. There is no withholding tax on dividends, interest and royalty paid by a Hungarian company to a foreign company. Hungary has a wide international treaty network with more than 80 double tax treaties.

The local business tax of maximum 2% is payable on gross margin (sales revenue deducted by COGS, mediated services, material costs and R&D costs). A special surtax applies to the energy sector (31% of the taxable profit, payable in addition to the corporate income tax) and the bank sector (the tax is based on the total assets as of the statutory accounts of 2009). From mid-2014, Hungary introduced a new advertisement tax which is paid on the sales revenue resulting from advertisement services (costs of self-advertisement). Small companies may benefit from a special cash-based taxation system introduced from 2013 ("Kiva").

Transfer tax is applied in Hungary to a limited scope of transactions. The general transfer tax rate applied to real property transactions is 4%. In case of acquiring a real property (as an asset) or 75% of the quotas of a real property holding company, 4% applies up to a fair market value of HUF 1 billion; and 2% above the threshold, maximized at HUF 200 million tax/real property. The transfer tax is 18% on gifts and inheritance, 9% in case of flats; gifts and inheritance within family is tax-exempt.

VAT and other indirect taxes

Hungary runs a VAT system complying with the EU VAT Directives. The standard rate is 27%, while the reduced rates are 18% (e.g. bread, milk, accommodation services) and 5% (e.g. journals, books, medicines, certain livestock and unprocessed meat products and central heating). The options/limits based on the EU Directive are presented within VAT legislation:

VAT options in Hungary	Applicable / limits
Distance selling	EUR 35,000/year
Call-off stock	✓
VAT group registration*	✓
Cash accounting	approx. EUR 400,000/year
Import VAT deferment	✓
Local reverse charge	sale of waste, agricultural products, emission quotas, pawn, construction services
Option for taxation	
letting of real estate	✓
supply of used real estate	✓
VAT registration threshold**	No

* Available only for related parties
** Special VAT exemption applies for small businesses

Due to the limited voluntary compliance in certain sectors (e.g. retail business and certain services), Hungary introduced a number of measures aiming at enforcing the law, such as the online control of cash registers, enacted in 2013, domestic sales reports are also required. In order to prevent "carousel" fraud, an online registration of the international transportation of products has been required since 1 January 2015. Although all of these measures aim to reduce the extent of the black economy and tax evasion in Hungary, they also cause a relatively high VAT administration burden for the taxpayers.

Other indirect tax types in Hungary include excise duty on oil, alcohol and tobacco products, environmental protection charge on products heavily polluting the environment (e.g. all kinds of electric equipment, accumulators and batteries, packaging materials, etc.), financial transactional tax (payable by the banks completing such transactions), insurance tax and 'chips tax' (taxes on unhealthy foods and drinks).

Personal income tax / Social security system

There is a flat rate of PIT since 2013, which has now been reduced to 15%, and it is generally applicable both to active (e.g. employment, assignment fee) and passive incomes (e.g. capital gains, dividend and interest). Tax payable on active incomes is reduced by a family tax allowance.

From 2014, the family tax allowance may be also deducted from the social security contributions payable by the employee (up to 17% of the gross salary), if the PIT base is less than the maximum amount of family tax base allowance, which is HUF 83,330 / month / child up to 2 children (meaning the tax allowance is HUF 12,500 (appr. EUR 40) /child); and HUF 220,000 /month / child from 3 children (in which case the tax allowance is HUF 33,000 (EUR 110) / child).

Active incomes fall under the scope of the SSC system: social security contributions payable by the individuals concerned equal altogether 18.5%; the employer's contribution is altogether 28.5%. Passive incomes are subject to different rates of health care tax depending on the income type: 14% with a low threshold (e.g. on dividends, capital gains, real estate rental income); 6% without threshold (e.g. on interest) or 27% (e.g. income on selling rights); or they are exempt from health care tax (e.g. capital gain on shares of stock exchange).

Benefits in kind are taxed at two rates: PIT plus health care tax calculated on a special tax base altogether amounting to 34.51% or 49.98% and payable only by the employer. The examples below show the wage cost of the employer and employee at the minimum wage level and at the average wage in the private sector.

MAZARS IN HUNGARY

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www.transferpricingcenter.com

Wage-related taxes in Hungary	Minimum wage		Average wage in private sector	
Exchange rate HUF / EUR 310	in EUR	in HUF	in EUR	in HUF
	358	**111,000**	**839**	**260,200**
TOTAL WAGE COST	**460**	**128.50%**	**1,079**	**128.50%**
Vocational training contributon	5	1.50%	13	1.50%
Social contribution tax	97	27.00%	227	27.00%
GROSS SALARY	**358**	**100.00%**	**839**	**100.00%**
Personal income tax	54	15.00%	126	15.00%
Employee's contributions	66	18.50%	155	18.50%
NET SALARY	**238**	**66.50%**	**558**	**66.50%**

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LATVIA

Corporate taxes and other direct taxes

The general corporate income tax rate is 15%. The tax base is the pre-tax (accounting) profit modified by several increasing and decreasing items. In Latvia the losses can be carried forward for an unlimited number of years. Loss carry-back is not allowed. Latvia applies thin capitalization rules. There is a wide range of tax allowances for new investments, as well as for R&D.

Starting from 2014 Latvia provides a tax exemption on holding structures: capital gains on shares or other type of public securities are tax-free regardless of the holding period of shares or the share proportion owned.

Latvian companies are obliged to document the arm's length character of intra-group transactions. If the turnover of a Latvian company exceeds 1.4 million euros and the amount of its intra-group transactions exceeds 14 thousand euros, the structure of the transfer pricing documentation needs to be to in compliance with the recommendations of the OECD Guidelines.

Transfer pricing in Latvia		
Arm's length principle	✓	since 2005
Documentation liability	✓	since 2013
APA	✓	since 2013
Penalty		
lack of documentation	✓	~ EUR 1,000 administrative penalty
tax shortage	✓	20% on tax underpayment + late payment interest
Related parties	20%<	direct control for foreign companies or common managing director
	50%<	indirect control for foreign companies or common managing director
	90%<	direct or indirect control for local companies or common managing director
Safe harbours	No	

Level of attention paid by Tax Authority: 8/10

There is no withholding tax on dividends, interest and royalty paid by Latvian companies to foreign companies. A withholding tax of 10% is applied on management and consulting services paid by Latvian companies to foreign companies. A 5% withholding tax is applied on rent paid for real estate located in Latvia, and a 2% tax is applied on consideration for real estate located in Latvia paid by a Latvian company to a foreign company. However, under the active international treaty network consisting of more than 54 double tax treaties, the withholding tax might be avoided. A withholding tax of 15% is applied on all payments to offshore companies.

VAT and other indirect taxes

The general rate is 21% for the sale of goods and services. A reduced rate of 12% is used, for example, for medical goods, periodicals, accommodation services, and thermal energy supplied for private individuals. Basically, a 0% rate is applicable for the export of goods. Exemptions are in place for postal services, medical and health services, certain financial services, etc. Entrepreneurs with annual sales below EUR 50,000 are exempted from VAT obligations. Monthly returns are electronically recorded. The options/limits based on the EU Directive are determined in the VAT Act.

VAT Options in Latvia	Applicable / limits	Remarks
Distance selling	EUR 35,000/year	
Call-off stock	No	
VAT group registration	✓	
Cash accounting	EUR 500,000/year	
Import VAT deferment	✓	if conditions are met
Local reverse charge	✓	construction works and deals with the scrap metal, timber and related services, electronic goods (computers, mobile phones)
Option for taxation		
letting of real estate	No	
supply of used real estate	✓	
VAT registration threshold	EUR 50,000/year	voluntary registration is possible

Other indirect tax types in Latvia are excise and customs duties. Also some transactions related to public administrative actions (e.g. submitting application forms, issuing certificates, granting permissions, etc.) are subject to stamp duty.

Personal income tax / Social security system

There is a flat rate of PIT, which is 23%, and it is generally applicable to active (e.g. employment, assignment fee) income. Each employee is entitled to a monthly standard tax allowance in the amount of EUR 75, as well additional monthly tax allowance in the amount of EUR 175 for each dependent (e.g. child). Both tax allowances are deducted from employee's taxable income before PIT is applied. In addition those employees whose annual income is less than EUR 12 000 can apply for additional tax allowance in the amount of up to 25 EUR a month. Income from capital (e.g. dividends and interest) is taxed at 10%, while the personal income tax for capital gains is 15%.

Active incomes fall under the scope of the SSC system: individual social contributions equal altogether 34.09% out of which employer's contribution is 23.59% and employee's contribution is 10.50%. Benefits in kind are taxed with PIT and SSC at standard rates. The examples below show the cost of the employer and employee in case of minimum wage level and the average wage in the private sector.

CORRESPONDENT OF MAZARS IN LATVIA

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Wage-related taxes in Latvia	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
	370		800	
TOTAL WAGE COST	**457**	**123.59%**	**989**	**123.59%**
Social contribution tax	87	23.59%	189	23.59%
GROSS SALARY	**370**	**100.00%**	**800**	**100.00%**
Personal income tax*	59	23.00%	147	23.00%
Employees' contributions	39	10.50%	84	10.50%
NET SALARY	**272**	**73.58%**	**569**	**71.07%**

* PIT base is calculated as gross salary-employees' contributions

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LITHUANIA

Corporate taxes and other direct taxes

The general corporate income tax rate is 15% in Lithuania. An incentive corporate income tax rate of 5% is applied for small companies with an annual turnover up to EUR 300,000 and having not more than 10 employees. In Lithuania, the ordinary losses incurred may be carried forward to the subsequent taxable periods for an unlimited time, as long as the entity continues the activities that generated the losses. The amount of losses carried to the subsequent taxable periods is limited to the 70% of taxable income of the corresponding taxable period. The 70% limit does not apply for small companies. Capital losses incurred associated with the transfer of derivative financial instruments and securities may only be carried forward for 5 years and can only be covered from future capital gains.

Transfer pricing in Lithuania		
Arm's length principle	✓	since 2004
Documentation liability	✓	since 2004
APA	✓	since 2012
Penalty		
lack of documentation	✓	EUR 57 - 144/EUR 144 - 289 (missing documents on recurrent basis)
tax shortage	✓	10% - 50% on tax underpayment + late payment interest
Related parties	25%<	direct or indirect control
Safe harbours	✓	Low value added services: 3-10% mark-up

Level of attention paid by Tax Authority: 9/10

Lithuania applies thin capitalization (4:1) and CFC rules. Tax allowances apply for certain new investments and R&D. Furthermore, Lithuania provides a tax exemption on holding structures: capital gains on shares and dividends received under certain conditions are tax-free. Under certain conditions there is no withholding tax on dividends, interest and royalty paid by a Lithuanian company to a foreign company. Lithuania has a wide international treaty network with more than 50 double tax treaties.

Companies are also subject to two types of taxes on capital:

- Immovable property tax – tax on property, deemed to be immovable by law and located in Lithuania (buildings, constructions, except unfinished constructions). The annual tax rate varies from 0.3% to 3% of the taxable value of immovable property. Tax rates are set by municipalities according to the territory where the immovable property is located. The tax period is a calendar year.
- Land tax – tax on land owned in Lithuania, to be paid by both resident and non-resident entities and individuals. The tax rate varies from 0.01% to 4% of the taxable value of the land. Tax rates are set by municipalities and depend on the location of the land. The tax period is a calendar year.

VAT and other indirect taxes

The general rate is 21%, the reduced rates are 9% (e.g. journals, newspapers, books, central heating (until 31 December 2016), public transportation, tourist accommodation) and 5% (medicine). The options/limits based on the EU Directive are presented within the VAT legislation:

VAT Options in Lithuania	Applicable / limits
Distance selling	EUR 35,000/year
Call-off stock	✓
VAT group registration	No
Cash accounting	No, only optional regime for agricultural producers
Import VAT deferment	✓
Local reverse charge	Taking over the property as a transfer of contribution to a legal entity; taking over a material improvement of a building; supply of goods and services from a supplier which is under bankruptcy or a restructuring procedure; supply of certain metal scraps and certain timber materials, supply of construction services (from 1 July 2015)
Option for taxation	
letting of real estate	✓
supply of used real estate	✓
certain financial services	✓
VAT registration threshold	Local taxable person - 45,000 EUR/12 months; Foreing taxable person - No

Other indirect tax types in Lithuania include excise duty, environmental protection charge and data storage device tax.

Personal income tax / Social security system

There is a flat rate of PIT, which is 15%, and it is generally applicable to active (e.g. employment, assignment fee) and passive income (e.g. capital gains, dividend and interest). Certain tax allowances apply for persons having children. Income in general is recognized at the moment of its actual receipt.

The employee's gross salary is subject to a mandatory health insurance contributions of 6%, and the employer is required to withhold this tax. The employer also has to pay a 3% mandatory health insurance contribution on top of the employee's gross salary. The employer deducts 3% from the employee's gross salary as the social insurance contribution paid by the employee. Employers must also pay social insurance contributions equalling to 30.98% of the gross salary. An additional 1% contribution may be paid by individuals who have decided to accumulate an additional pension using the formula 2+2+2.

Lithuania is subject to EU regulations laying down social security principles for persons migrating between EU Member States.

The examples below show the cost of the employer and employee in case of minimum wage level and the average wage in the private sector.

CORRESPONDENT OF MAZARS IN LITHUANIA

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Wage-related taxes in Lithuania	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
TOTAL WAGE COST	**459**	**131.18%**	**964**	**131.18%**
Guarantee fund	1	0.20%	1	0.20%
Social contribution tax	108	30.98%	228	30.98%
GROSS SALARY	**350**	**100.00%**	**735**	**100.00%**
Personal income tax*	23	15.00%	100	15.00%
Employees' contributions	32	9.00%	66	9.00%
NET SALARY	**296**	**84.57%**	**569**	**77.41%**

* Non taxable allowance of EUR 200,0 (minimum wage) and EUR 69,1 (average wage)

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MONTENEGRO

Corporate taxes and other direct taxes

The general corporate income tax rate is a flat rate amounting to 9% and it applies to both resident and non-resident companies. Resident companies are taxed on their worldwide income, while non-residents are taxed only on income generated in Montenegro. The tax base is the pre-tax profit modified by several increasing and decreasing items. Capital gains are included in the annual corporate profits tax return and are subject to a 9% tax. In Montenegro, losses can be carried forward for 5 years while the carry back of losses is not permitted.

A tax incentive (profit tax rate for the first eight years is 0%) is applied for newly founded legal entities in economically underdeveloped municipalities which engage in manufacturing operations. The total amount of the tax exemption may not exceed 200.000 € for a period of eight years. Montenegro applies thin capitalization, but there are no specific thin capitalization rules, except that interests paid to a non-resident must be on arm's length terms.

Transfer pricing in Montenegro		
Arm's length principle	✓	since 2002
Documentation liability	No	At the moment of request from the tax authorities.
APA	No	-
Penalty		
lack of documentation	No	Not specifically stated, general rules apply
tax shortage	No	Not specifically stated
Related parties	25%<	The parties between whom special relations exist, which could directly impact the conditions or economical results of the transaction between them.
Safe harbours	No	-

Level of attention paid by Tax Authority: 2/10

TP Table Withholding tax at the rate of 9% is applicable on dividends, interests, capital gains, royalties and other intellectual property rights, fees for the lease of movable and immovable property, consulting services, market research and audit services which are paid to a non-resident legal entity.

Montenegro has a wide international treaty network with 42 double tax treaties.

A transfer tax of 3% is levied on the transfer of immovable property. There is no surtax or alternative minimum taxes. Property tax is levied on the ownership/use of property at rates ranging from 0,25% to 1%.

VAT and other indirect taxes

The general rate is 19%, the reduced rates is 7% (e.g. bread, milk, accommodation services, medications), and there is VAT-exemption for exports and banking services. Taxpayers with revenue in excess of EUR 18,000 must register for VAT purposes. The options/limits based on the VAT Act in Montenegro:

VAT Options in Montenegro	Applicable / limits
Distance selling	No
Call-off stock	No
VAT group registration	No
Cash accounting	No
Import VAT deferment	No
Local reverse charge	No
Option for taxation	
letting of real estate	No
supply of used real estate	No
VAT registration threshold	EUR 18,000/year

Personal income tax / Social security system

In Montenegro, resident individuals are taxed based on their worldwide income, and non-residents are taxed only on income provided in Montenegro. There is a flat rate of 9%, and it is generally applicable on the active (e.g. employment, assignment fee) and passive income (e.g. capital gains, dividend and interest).

Monthly salary exceeding a gross amount of EUR 720 is taxed at rate of 15%. It is important to state that non-resident income on interest is taxed by 5%. Active incomes fall under the scope of the SSC system: individual's social contributions equal altogether 24%. These include contributions for pensions (15%), health (8.5%) and unemployment (0.5%).

The employer's contribution is at the rate of 10.20% of the employee's salary. It includes pensions (5.5%), health contributions (3.8%) unemployment (0.5%), contributions to the Labour fund (0.2%) and Labour union fund (0.2%).

The examples below show the cost of the employer and the employee in case of minimum wage level and the average wage in the private sector.

MONTENEGRO

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Wage-related taxes in Montenegro	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
TOTAL WAGE COST	**317**	**109.80%**	**800**	**109.80%**
Employer's contributions	29	10.20%	74	10.20%
GROSS SALARY	**288**	**100.00%**	**726**	**100.00%**
Employee's contributions	69	24.00%	174	24.00%
Personal income tax	26	9.00%	65	9.01%
NET SALARY	**193**	**67.00%**	**486**	**66.99%**

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POLAND

Corporate taxes and other direct taxes

CIT in Poland is payable on the income, i.e. on revenues decreased by tax-deductible costs. CIT is levied at the flat rate of 19%. Tax-deductible costs exceeding the revenues in the given financial year constitute a loss, which may be carried forward for five years, but the deduction in a given year may not exceed 50% of the loss incurred in the previous five years. Introduced in 2016, a new R&D tax relief allows eligible taxpayers to additionally deduct from the tax base 30% of their R&D personnel remuneration costs, as well as 20% (for SME) or 10% (for Large companies) of other R&D costs incurred. Since 2015 the CFC rules are applied in Poland. According to CFC rules a Polish CIT taxpayer has to pay tax from income generated by its CFC. A one-time depreciation write-off up to EUR 50,000 may be available for small and start-up taxpayers.

Transfer pricing in Poland		
Arm's length principle	✓	since 1997
Documentation liability	✓	since 2001
APA	✓	since 2006
Penalty		
lack of documentation	✓	personal liability of the members of the Company's Board
tax shortage	✓	50% on tax underpayment + late payment interest
Related parties	5% <	direct or indirect control personal, family relations
Safe harbours	No	

Level of attention paid by Tax Authority: 10/10

Since 2016 CbC reporting regime was introduced for multinational enterprises with consolidated income exceeding 750 million EUR. Starting from 1 January 2017 the taxpayers will be obliged to prepare more extensive TP documentation.

Since 2015, the thin capitalization rules apply to loans granted by direct shareholders as well as to loans granted by indirect shareholders holding individually or jointly at least 25% of shares. Moreover, the thin capitalization rules are applied to loans granted by sister companies. The debt-to-equity ratio is 1:1 (formerly it was 3:1). In addition, with the exception of the general thin capitalization rules, the taxpayer has the option of applying the alternative method based on a special formula.

There is a withholding tax on dividends, interests and royalties paid by a Polish company to a foreign company. The general withholding tax (WHT) on dividends is 19%; on interest and royalties paid to non-residents it is 20% and 10%, respectively. However, the WHT rate can be reduced by double tax treaties. Poland has a wide international treaty network with approximately 90 double tax treaties. In accordance with the EU interest and royalties directive interest and royalties paid by Polish corporate residents to associated EU companies may by subject to full exemption of WHT (on certain conditions). Since 2016 a "small anti abusive clause" has been implemented for dividends related to activities whose only purpose was to gain tax benefits and which were not real.

Real property tax and transport tax are charged as local taxes in Poland. Real property tax is paid by owners of real estate.
Starting from 1 February 2016 a bank tax is introduced for banks and financial institutions. The monthly levy is 0.0366% of the total assets (exceeding indicated minimal value).

VAT and other indirect taxes

The standard VAT rate is 23%. Preferential rates of 8% and 5% apply to certain goods and services. Other goods and services (e.g. exports, intra-Community supplies of goods, international transport services) may be zero-rated or exempt. The options/limits based on the EU Directive and Polish VAT regulations:

VAT Options in Poland	Applicable / limits
Distance selling	PLN 160,000 /year (approx. EUR 40,000)
Call-off stock	✓
VAT group registration	No
Cash accounting	PLN 20,000/year (approx. EUR 5,000)
Import VAT deferment	✓
Local reverse charge	supplies of scrap; paper waste; certain kind of electronics above limit of PLN 20,000 (approx. EUR 5,000)
Option for taxation	
letting of real estate	No
supply of used real estate	✓
VAT registration threshold	PLN 150,000 /year (approx. EUR 37,500)

Other indirect tax types in Poland are excise duty and gambling tax. Some civil acts such as contracts of sale, loan agreements, foundation deeds of partnership or company, if not subject to VAT, may be subject to civil law activity tax (CLAT), the rates of which are from 0.1% to 2%. Transactions related to filling a power of attorney and public administrative actions (submitting application forms, issuing certificates, granting permissions, etc.) are subject to stamp duty.

Personal income tax / Social security system

PIT is generally calculated on the income (i.e. on revenues reduced by tax-deductible costs). However, the income calculation differs depending on the source from which the income is earned (for example, employment contract, sole traders' activity, personally performed activities, etc.). PIT is calculated according to the progressive tax scale at the rates 18% to 32%. A specific rate applies to individuals pursuing business activities as sole proprietorships or partners in partnerships, who may opt for a flat 19% PIT rate. Due to the above flat rate, as well as other rules applicable to this type of income, the taxation of sole traders is based on similar provisions as described in the previous chapter on corporate income tax (CIT).

Active incomes fall under the scope of the SSC system: individual social contributions (capped) and other insurances equal altogether 13.71%; employer's contributions equal altogether approximately 21%. Additionally, the individual is obligated to pay a 9% contribution to health insurance, out of which 7.75% is deductible from the tax and 1.25% from the net income. The examples below show the cost of the employer and of the employee in case of minimum wage level and the average wage in the private sector. and the average wage in the private sector.

MAZARS IN POLAND

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Wage-related taxes in Poland	Minimum wage		Average wage in private sector	
Exchange rate PLN / EUR 4.17	in EUR	in PLN	in EUR	in PLN
	420	**1,850**	**934**	**4,110**
TOTAL WAGE COST	**508**	**121.00%**	**1,130**	**121.00%**
Employer's social security *	68	16.26%	152	16.26%
Other insurance (approx.)	20	4.74%	44	4.74%
GROSS SALARY	**420**	**100.00%**	**934**	**100.00%**
Employee's contributions	58	13.71%	128	13.71%
Healthcare insurance	33	9.00%	73	9.00%
Personal income tax**	22	18.00%	68	18.00%
NET SALARY	**308**	**73.34%**	**666**	**71.29%**

* capped at income of PLN 121 650- over this amount only other insurance and healthcare insurance is charged
** taxable base = gross salary – employee's contributions – statutory tax deductible costs – health insurance (tax deductible part)

CONTACT

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ROMANIA

Corporate taxes and other direct taxes

The general corporate income tax is a flat rate of 16% in Romania. In order to compute the taxable profit, the accounting profit is adjusted upwards (with non-deductible expenses) or downwards (with non-taxable revenues). A maximum 50% additional deduction can be applied for certain R&D expenses. The loss recorded by a company can be carried forward for 7 years. Starting with 1 January 2013, the loss can be carried forward as well by companies resulting from an M&A or spin-off operation.

Thin capitalization rules are applicable when considering interest and foreign exchange differences. Capital gains arising from the sale of the participations held in a state with whom Romania has concluded a DTT are non-taxable (certain conditions apply). No CFC rules are applicable in Romania.

Transfer pricing in Romania		
Arm's length principle	✓	since 2003
Documentation liability	✓	since 2003
APA	✓	since 2009
Penalty		
lack of documentation	✓	fine between 3,000 and 4,000 EUR + re-assessment of intra-group transactions + late payment penalties
tax shortage	✓	regular tax regime
Related parties	25%<	direct or indirect control
Safe harbours	No	
Level of attention paid by Tax Authority:		10/10

Romania has an international treaty network consisting of 85 double tax treaties. Capital gains are subject to a 16% tax, except for gains resulting from holding or performing transactions with government bonds. Dividends and interest paid by a Romanian company to companies located in other EU member states are not taxable, provided that certain conditions are fulfilled. In all other relations for withholding tax the general tax rate and the relevant double tax treaty are applicable.

A compulsory small company scheme is applicable for companies obtaining revenues lower than EUR 100,000 as follows:

- 1% if the company has at least 2 employees;
- 2% if the company has 1 employee;
- 3% if the company has no employees.

However, companies engaged in certain types of activities (e.g. banking, insurance, consultancy, etc.) are excluded from this scheme.

There is a tax on special constructions (pipes, roads, and special constructions). The constructions that were subject to tax on buildings are exempted. The amount of this tax is calculated by applying the 1% rate to the carrying value of the respective construction, as recorded in the account books on 31 December of the previous year.

VAT and other indirect taxes

VAT Options in Romania	Applicable / limits
Distance selling	approx. 26,300 EUR/year
Call-off stock	✓
VAT group registration	✓
Cash accounting*	EUR 500,000/year
Import VAT deferment	from 01.01.2017
Local reverse charge	Sale of certain types of waste, certain types of cereal, wood, greenhouse gas emission certificates, electricity, green certificates, land and buildings, laptops, mobile phones
Option for taxation	
letting of real estate	✓
supply of used real estate	✓
VAT registration threshold**	48,890 EUR

*Optional for SME
**Optional VAT registration below the threshold is allowed

The general rate is 20%. Reduced rates are 9% (e.g. journals, books, medicines, bread, flour, food etc.) and 5% (applied to residential sales under certain conditions). The following options/limits based on the EU Directive are presented in the Romanian VAT legislation:

VAT-exempted activities consist of hospital and medical services, financial and banking services, insurance and reinsurance, sale and rental of real estate, certain types of educational and training activities, and other activities of public interest. The VAT cash accounting system is optional for companies having an annual adjusted turnover of less than RON 2,250,000 (appr. EUR 500,000). The following options/limits based on the EU Directive are presented in the Romanian VAT legislation:

Other indirect taxes applicable in Romania include excise tax and environmental tax.

Personal income tax / Social security system

Romania applies a 16% flat tax rate to revenues obtained from dependent activities (e.g. employment or activities assimilated to employment), independent activities (e.g. freelancers). Dividends are subject to a 5% tax rate.

Dependent activities are subject to SSC at both the employee (16.5%) and the employer level (most common around 23% but subject to changes for special working conditions). Freelancers pay SSC at 31%. Certain contributions are capped.

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Wage-related taxes in Romania	Minimum wage		Average wage in private sector	
Exchange rate RON / EUR 4.5	in EUR	in RON	in EUR	in RON
	230	**1050***	**596**	**2,681**
TOTAL WAGE COST	**286**	**122.75%**	**731**	**122.75%**
Employer contributions	53	22.75%	136	22.75%
GROSS SALARY	**233**	**100.00%**	**596**	**100.00%**
Employees' contributions	39	16.50%	98	16.50%
Personal deduction**	67		16	
Personal income tax***	21	16.00%	77	16.00%
NET SALARY	**174**	**74.71%**	**420**	**70.56%**

* As of 01.05.2016, the minimum gross salary will be of 1,250 RON.
** 1 family member is assumed.
*** Personal income tax base is gross salary - employee's contribution - personal deduction.

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RUSSIA

Corporate taxes and other direct taxes

The corporate income tax rate is flat and equals to 20%. The tax base is calculated as incomes minus expenses, which should be economically justified and duly documented. Certain expenses may be deducted for tax purposes within specific limits (e.g. thin capitalization rule on interest, advertising expenses, representation expenses, etc.). In Russia, losses can be carried forward within 10 years following the year in which a loss occurred, without limitation of amount.

Transfer pricing in Russia		
Arm's length principle	✓	since 1999
Documentation liability	✓	since 2012
APA	✓	since 2012
Penalty		
lack of documentation	✓	~EUR 63 for non-filing of TP Notification
tax shortage	✓	for 2016 - 20% (from 2017 40%) on tax underpayment + late payment interest
Related parties	25%<	direct or indirect control plus other criteria
Safe harbours	No	

Level of attention paid by Tax Authority:

5/10

Russia applies thin capitalization (3:1) rules. Starting from 2015 several new anti-tax avoidance concepts were introduced: (1) the concept of beneficial owner of income for application of DTT benefits; (2) CFC rules; (3) the concept of tax residency of companies.

The Russian tax legislation provides for different tax benefits to companies engaged in R&D. There are special economic zones created for the development of industry, port zones, tourism and recreation activities, in which attractive tax regimes also exist (decreased corporate income tax rates, accelerated depreciation, etc.). Tax incentives for investors into the Far East of Russia have been introduced from 1 January 2014. For participants of the "Regional Investment Project" (projects on manufacturing of goods in the territory of the Far East) special profit tax rates are set (0% - Federal Budget, 10% - Regional budget). Russia has concluded double tax treaties with more than 70 countries. In Russia, withholding tax rates are as follows:

Type of income	General rate	Tax rates under DTT
Dividends	15%	15/12/10/5%
Interest	20%	15/10/7,5/7/5/0%
Royalty	20%	18/15/13,5/10/7,5/7/5/4,5/0%

From 2015 a new tax called "trade levy" is introduced in the Tax Code, which is applicable to companies leading trading activities (e.g. retail markets). The concrete rates and the tax base formation mechanism are to be established by laws adopted for each district of the Russian Federation.

VAT and other indirect taxes

The general rate is 18%, reduced rates are 10% (certain food products, goods for children, medicine, etc.) and 0% (generally, the export of goods and domestic sales of some goods, works/services). VAT-exempt services are mainly banking services, insurance, investment-related services, medical treatment, services on carriage of passengers, services rendered in the sphere of art, sale of intellectual property rights, R&D works under certain conditions. The sale of goods in the Russian territory is considered as subject to VAT in Russia.

Works/services are taxable in Russia in case the provider of such works/services performs its business activity in Russia; however, some exceptions are possible (e.g. in respect of immaterial services, such as consulting, information services).

From 2015 companies are obliged to file a new form of a VAT return in which they have to attach all input and output VAT-invoices. This new VAT return is to be filed electronically – this way the Russian tax authorities could trace the whole chain of suppliers and identify bad-faith transactions.

The other indirect tax is excise duty.

Personal income tax / Social security system

The personal income tax rate depends on the individual's tax residency and the income received. An individual is considered a Russian tax resident if he/she spent 183 or more days in Russia within a 12-month rolling period; final assessment for the year is made as of 31 December. The tax rate is 13% (for tax residents) / 30% (for tax non-residents) on most types of income.

The employment income of an individual having a special work permit of a highly qualified specialist (HQS: a foreigner whose monthly gross income under the Russian employment agreement amounts to at least 167 KRUB, i.e. approximately EUR 2,000) is taxed at the rate of 13% regardless of the individual's tax residency status.

Limits and rates for the calculation of social contributions vary depending on the type of social fund and the status of an employee as presented in the table below:

Social Fund	Russian citizen (foreigner with residency permit)	Temporary staying foreigner	
		HQS	non-HQS
Pension Fund	22% on gross annual remuneration not exceeding 796 KRUR (~9.3 KEUR), above - 10%	exempt	22% on gross annual remuneration not exceeding 796 KRUR (~9.3 KEUR), above - 10%
Social Security Fund	2.9% on gross annual remuneration not exceeding 718 KRUR (~8.4 KEUR), above - 0%	exempt	1.8% on gross annual remuneration not exceeding 718 KRUR (~8.4 KEUR), above - 0%
Medical Fund	5.1% on gross annual remuneration	exempt	exempt

The examples below show the cost of the employer and the employee in case of minimum wage level and the average wage in the private sector.

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Wage-related taxes in Russia	Minimum wage		Average wage in private sector	
Exchange rate RUR / EUR 85	in EUR	in RUR	in EUR	in RUR
	73	6,204	824	70,000
TOTAL WAGE COST	95	130.00%	1,062	129.00%
Employer's social contribution	22	30.00%	238	29.00%*
GROSS SALARY	73	100.00%	824	100.00%
Personal income tax (for tax resident)	9	13.00%	107	13.00%
NET SALARY	63	87.00%	716	87.00%

*the rate depends on the amount of gross salary

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SERBIA

Corporate taxes and other direct taxes

The general corporate income tax rate is flat and amounts to 15%. Tax is applied to both resident and non-resident companies. Resident companies are taxed on their worldwide income, and non-residents are taxed only on income generated in Serbia. The tax base is the pre-tax profit modified by several increasing and decreasing items. Also, capital gains are included in the annual corporate profits tax return. Losses can be carried forward for 5 years while the carry back of losses is not permitted. There are several tax deductions available on investments in relation to the number of employed persons and investment funds. Serbia applies thin capitalization ratios 4:1 (10:1 for banks). Also, there is a requirement that interests paid to a non-resident must be on arm's length terms.

A withholding tax at the rate of 20% is applicable on dividends, interests, capital gains, royalties and other intellectual property rights. Also, there is tax rate of 25% applicable to revenues realized by non-resident legal persons from jurisdictions with a preferential tax system. Serbia has a wide international treaty network with more than 50 double tax treaties.

Transfer pricing in Serbia		
Arm's length principle	✓	since 2013
Documentation liability	✓	since 2013, prepare and submit transfer pricing documentation together with the CIT return
APA	**No**	-
Hyerarchy in TP methods		Follows OECD TP Guidelines
Penalty		
lack of documentation	✓	~ EUR 16,200 for missing documentation
tax shortage	✓	30% on tax underpayment + late payment interest
Related parties	**25% <**	direct or indirect control or common managing director, close family members, non-resident entities from tax havens
Safe harbours	✓	Interest as described in Governmental Rulebook, transactions (other than financial) below EUR 69.000 are not subject to TP rules
Level of attention paid by Tax Authority:		**8/10**

TP TableTransfer pricing is a relatively new topic in Serbia. Transactions between related parties must be at arm's length. The comparable uncontrolled price method may be used, but in the absence of this method, the taxpayer may use the cost-plus, the resale price method, the profit sharing method or the net profit method. There is an obligation to enclose transfer pricing documentation with the annual tax returns.

The transfer tax of 2.5% is applied on transfers listed in the Property Tax Act. There is no surtax or alternative minimum taxes.

VAT and other indirect taxes

The general rate is 20%, reduced rates are 10% (e.g. bread, milk, accommodation services, medications, fertilizer, etc.) and VAT-exemption for exports, transport and other services which are associated with the importation of goods. Taxpayers with revenue in excess of approximately EUR 65,000 must register for VAT purposes. Non-residents may register for VAT purposes only through a tax representative.

The options/limits based on the Serbian VAT Act are as follows:

VAT Options in Serbia	Applicable / limits
Distance selling	No
Call-off stock	✓
VAT group registration	No
Cash accounting	approx EUR 405,000/year
Import VAT deferment	No
Local reverse charge	sale of secondary raw materials and services that are directly related to these goods, transactions of construction buildings, construction work
Option for taxation	
letting of real estate	No
supply of used real estate	No
VAT registration threshold	approx EUR 65,000/year

VAT tableOther indirect tax type in Serbia is excise duty.

Personal income tax / Social security system

In Serbia, resident individuals are taxed based on their worldwide income, while non-residents are taxed only on income in Serbia. There is a flat rate of 10% for gross salaries. Capital gains are taxed at 15%. Furthermore, the tax rate on income from agriculture and forestry is 10%. Income from the letting of real estate is taxable at 20%, but before that, the gross basis is reduced by standardized costs equalling 20%. The tax rate on income from royalties and other intellectual property amounts to 20%. Active incomes fall under the scope of the SSC system: individual social contributions are 19.90% of the gross salary. These include contributions for pension and disability insurance (14%), health insurance (5.15%) and unemployment insurance (0.75%). Employers contributions amounts 17.90%. Only difference is that contributions for pension and disability insurance are 12% (2% less than employee's obligation). Personal deductions are applicable.

The examples below show the cost of the employer and the employee in case of minimum wage level and the average wage in the private sector:

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Wage-related taxes in Serbia	Minimum wage		Average wage in private sector	
Exchange rate RSD / EUR 120.7	in EUR	in RSD	in EUR	in RSD
	235	**28,404**	**506**	**61,145**
TOTAL WAGE COST	**277**	**117.90%**	**597**	**117.90%**
Social contribution tax	42	17.90%	91	17.90%
GROSS SALARY	**235**	**100.00%**	**506**	**100.00%**
Personal income tax	14	6.00%	41	8.10%
Employee's contributions	47	19.90%	101	19.90%
NET SALARY*	**174**	**74.13%**	**364**	**71.98%**

*Net salary differs on monthly basis approximately +/- 15 EUR

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SLOVAKIA

Corporate taxes and other direct taxes

The corporate income tax rate is charged at a flat rate of 22% in Slovakia. The tax base is determined by an accounting profit or loss modified by certain increasing and decreasing items. The possibility of deducting tax losses from the tax base was restricted in 2014 from seven to four years. The tax losses will have to be deducted evenly, i.e. a maximum of one quarter from the total amount annually. Special limitations are applicable in case of M&A transactions. Tax incentives may be provided in cases of starting new production or modernizing existing production, doing research or development. From 1 January 2015 taxpayers undertaking a research and development project will be eligible for an extra allowance by applying a so-called "super deduction".

Transfer pricing in Slovakia		
Arm's length principle	✓	since 1999
Documentation liability	✓	since 2009
APA	✓	since 2004
Penalty		
lack of documentation	✓	up to EUR 3,000 / missing documentation (recurrent basis)
tax shortage	✓	10% of tax underpayment
Related parties	25%<	direct or indirect control or common managing director or other control aimed purely on circumvention of tax
Safe harbours	✓	Not officially published/accepted - but generally accepted: Low value added services: 3-10% mark-up

Level of attention paid by Tax Authority: 9/10

Starting from 1 January 2015 thin capitalization rules are applied. The maximum amount of tax-deductible interest and related expenses from loans provided by related parties will be calculated as 25% of EBITDA. As of 1 January 2014 the tax licenses ranging from EUR 480 to EUR 2,880 for legal entities, which represent the minimum current tax, have been approved in Slovakia. This will have an impact on taxpayers generating tax losses.

A withholding tax of 19% is applicable to interest, winnings and other income from passbook deposits, income of authors for their articles for newspapers, magazines, radio, or television, etc. A new 35% withholding tax rate has been introduced for payments to taxpayers from non-contracting states which do not have either a double tax treaty or a treaty on information exchange with Slovakia. Slovakia has a wide international treaty network with more than 60 double tax treaties.

With effect from 1 September 2012 a temporary special contribution on business activities in regulated industries applies. Taxable persons are businesses operating in the following industries: energy, insurance and reinsurance, public health insurance, electronic communications, pharmaceuticals, postal services, rail traffic, public water and sewer systems, air transport and health care services under special legislation. The obligation to pay the contribution arises if the expected annual accounting profit is at least EUR 3 million, the tax base is the profit generated from the taxable activity, and the annual tax rate is 4.356%.

Starting from 1 January 2016, the penalties will take into consideration also the time aspect, i.e. the amount of the penalty will also depend on the number of days in delay with the correct amount of the tax obligation.

VAT and other indirect taxes

The options/limits based on the EU Directive:

VAT Options in Slovakia	Applicable / limits
Distance selling	EUR 35,000/year
Call-off stock	✓
VAT group registration*	✓
Cash accounting	Yes
Import VAT deferment	No
Local reverse charge	supply of construction work; deliveries of goods in the Slovakia by a taxable person who is not established in Slovakia (foreign VAT payers); sale of waste, emission quotas; sale of agricultural products, specific metal products, specific electronic devices if the tax base on the invoice exceeds 5 000 EUR, etc.
Option for taxation	
letting of real estate	✓
supply of used real estate	✓
VAT registration threshold	EUR 49,790

* domestic related parties
** voluntary arrangement and may only be used by those VAT payers who meet the defined criteria; applicable since 1 January 2016

The general VAT rate is 20%, while the reduced rate is 10% (e.g. pharmaceutical products, books, music, spectacle and contact lenses, basic food items such as bread, butter, milk and cream, freshwater fish and meat).

With effect from 1 January 2014, the obligation to file a new VAT report (Recapitulative List) electronically was implemented in Slovakia.
Starting from 1 January 2016 a special tax voluntary arrangement based on the receipt of payment for goods and services (called "cash accounting") was introduced. In addition, the domestic reverse charge mechanism was extended, i.e. transfer of VAT liability to Slovak-established VAT payers also for deliveries of goods in Slovakia by a taxable person not established in Slovakia (foreign VAT payers) as well as for construction work between VAT payers.

Other indirect tax types in Slovakia are excise taxes on wine, beer, tobacco, spirits, mineral oils, electricity, coal and natural gas.

Personal income tax / Social security system

The personal income tax rate is progressive in Slovakia and it is based on the amount of income. The income tax rate of 19% is applicable on the tax base below 176.8 times the amount of the subsistence minimum in effect (for year 2016, that amount is EUR 35,022 per year) and 25% for the part of the tax base exceeding 176.8 times the valid subsistence minimum.

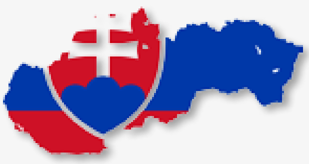
Both employers and employees are subject to social security and health contributions on the employee's gross monthly wage. The rates are 35.2% for employers (social security 25.2% and health insurance 10%) and 13.4% for employees (social security 9.4% and health insurance 4%). However, contributions are capped by a maximum assessment base of EUR 4,290. Starting from 1 January 2015 a new health insurance allowance amounting annually to 4,560 EUR was introduced for low-income employees (having an annual income up to EUR 6,840).

The examples below show the cost of employers and employees in case of minimum wage level and the average wage in private sector.

Wage-related taxes in Slovakia	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
	405		**902**	
TOTAL WAGE COST	**548**	**135.20%**	**1,220**	**135.20%**
Social contribution tax	143	35.20%	318	35.20%
GROSS SALARY	**405**	**100.00%**	**902**	**100.00%**
Personal income tax*	9	19.00%	88	19.00%
Employees' contributions**	41	10.14%	121	13.40%
NET SALARY	**355**	**87.65%**	**693**	**76.82%**

* The gross salary is decreased by the total amount of a general allowance (316,94 EUR/monthly) and by social contribution tax
** Social and health insurance paid by employee (special health contribution for low-income employees)

MAZARS IN SLOVAKIA



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SLOVENIA

Corporate taxes and other direct taxes

The general corporate income tax rate is 17%. A special rate of 0% applies to investment funds, pension funds and insurance undertakings for pension plans, under certain conditions, as well as to venture capital companies which were set up by the Venture Capital Companies Act and prepare a separate tax statement just for that part of their activity. The tax base is the pre-tax (accounting) profit modified by several increasing and decreasing items.

A company may request to be subject to tonnage tax instead of corporate tax if it meets certain conditions (i.e. it operates in international maritime shipping).

In addition, taxpayers whose revenue in the previous year did not exceed EUR 50,000 can elect to take a lump sum deduction equivalent to 80% of annual revenue, in lieu of actual expenses. Slovenia uses thin capitalization (4:1), but thin capitalization does not apply if shareholders are financial institutions and if the taxpayer provides evidence that they could have received the loan surplus from a lender that is a non-associated enterprise. There is a range of tax allowances for new investments and R&D, the education of employees, as well as investment incentives.

Transfer pricing in Slovenia		
Arm's length principle	✓	since 2005
Documentation liability	✓	since 2006
APA	✓	Available, but without detailed rules
Hyerarchy in TP methods	No	Follows OECD TP Guidelines
Penalty		
lack of documentation	✓	~ up to EUR 30,000/ missing documents
tax shortage	✓	up to 45% of the unpaid tax, but no more than EUR 300.000; EUR 5.000 for the responsible person
Related parties	25%<	direct or indirect control or common managing director
Safe harbours	✓	For interest rates in line with Governmental Rulebook, if total transaction with related entity is less than EUR 50.000

Level of attention paid by Tax Authority: 9/10

Losses can be carried forward without limitations and can be used only up to 50% of the tax base. In addition special rules apply in case of M&A transactions.

A withholding tax of 15% is applied on dividend, interest, royalty, and business consultancy services paid for by a Slovenian company to a foreign company. However, if conditions are met, an exemption is applicable to payments to EU residents (under parent subsidiary directive & interest and royalty directive) and under international double taxation treaties (currently over 50 treaties).

Real estate transfer tax (RETT) is applied on the transfer of immovable property at the rate of 2%. The tax base is the selling price of the transferred property and the taxable person is the seller.

VAT and other indirect taxes

The general tax rate is 22%; a reduced rate of 9.5% applies to some goods, e.g. food, books, watter supply, carriage of passengers and their personal luggage, etc. VAT-exempt services are services of public interest, as well as banking services, insurance, investment-related services, gambling, certain services provided by medical doctors and dentists, etc. Certain thresholds are as follows:

VAT Options in Slovenia	Applicable / limits
Distance selling	EUR 35,000/year
Call-off stock	✓
VAT group registration	No
Cash accounting	EUR 400,000/year
Import VAT deferment	✓
Local reverse charge	construction works and supply of staff in relation to construction works, supply of immovable property, transfer of greenhouse gas emission allowances
Option for taxation	
letting of real estate	No
supply of used real estate	✓
VAT registration threshold	EUR 50,000/year*

* special rules for agricultural activites

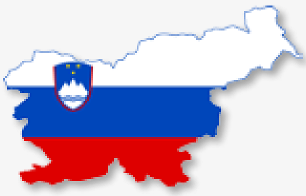
Domestic sale reports (EC Sales lists) are obligatory in Slovenia and should be submitted by the 20th day of the month following the taxable period.

Other indirect tax types in Slovenia are excise duty, insurance tax, motor vehicle tax, customs, etc.

Personal income tax / Social security system

Personal income tax rates are progressive from 16% to 50%, and apply on active income sources (employment, business income, agriculture and forestry, rentals and royalties and other income). It is important to state that the amount of tax base has been changed recreantly in order to reduce the tax burden on citizens with lower income. Income from capital is taxed at flat rate (dividends at 25%, interest at 25%, capital gains from 0% to 25%, depending on holding period). Social security contributions apply on income from employment, and are 16.10% for the employer and 22.10% for the employee. Self-employed individuals (business income) pay their own social security contributions depending on the circumstances of the case. The examples below show the cost of the employer and the employee in case of minimum wage level and the average wage in the private sector. There are a number of personal allowances that apply individually depending on the personal status of the individual.

SLOVENIA



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Wage-related taxes in Slovenia	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
TOTAL WAGE COST	**918**	**116.10%**	**1,950**	**116.10%**
Employer's contribution	127	16.10%	270	16.10%
GROSS SALARY	**791**	**100.00%**	**1,679**	**100.00%**
Employees' contributions	175	22.10%	371	22.10%
Tax and surtax*	55	6.96%	205	12.23%
NET SALARY	**561**	**70.94%**	**1,103**	**65.67%**

*Tax base differs from the gross salary, deductions apply.

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UKRAINE

On 31 December 2015 the President of Ukraine signed the law on tax reform. Respective tax changes are effective from 1 January 2016 and relate to corporate tax, VAT, personal income tax, social security contribution, excise tax, rent payments and local taxes. In particular, tax reform resulted in a significant decrease of labour cost.

Corporate taxes and other direct taxes

The corporate profits tax (the "CPT") in Ukraine is charged at the flat rate of 18%. Taxable profits are calculated as financial profits before tax (reported in the Profit and Loss Statement according to Ukrainian GAAP or IFRS) adjusted by several adjustment items. Thin capitalization rules apply to loans granted by non-resident related parties (debt-to-equity ratio is 3:5). If a company's annual income for the previous year is below UAH 20 million (approximately EUR 763,000 as of 1 January 2016), the taxpayer is entitled not to make any adjustments (except for tax losses carry forward). The tax law allows deducting prior years' losses, while the carry-back of losses is not permitted.

Transfer pricing in Ukraine

Arm's length principle	✓	since 2013
Documentation liability	✓	since 2013
APA	✓	since 2013 (applicable for large taxpayers)
Penalty		
lack of documentation	✓	3% of the value of controlled transactions, but not more than UAH 275,600 (app. EUR 10,510)
lack of report		3% of the value of controlled transactions, but not more than UAH 413,400 (app. EUR 15,765)
tax shortage	✓	25% of tax shortage; 50% in case of recurrent violation during 1095 days
Related parties	20%<	Direct or indirect or common control; or control in practice independently from the ratio
Safe harbours	No	

Level of attention paid by Tax Authority: 8/10

Sole traders and legal entities within certain limits of income, as well as entities qualifying as agricultural producers, may use a simplified taxation system (paying single tax). Certain types of business (e.g., insurance) are subject to special tax regimes that could result in lower effective tax rates.

Ukrainian tax law stipulates a withholding tax (15%) on dividend, interest, royalty, etc., paid to a foreign company; however, in most cases a lower rate or exemption may be applied under a double tax treaty. Ukraine has a wide double tax treaty network with more than 70 countries.

Real property tax and land tax are charged as local taxes in Ukraine.

VAT and other indirect taxes

The standard rate is 20% (it is 7% for pharmaceuticals and medicinal products supplies; export of goods is taxed at 0% rate). There is no concept of B2B and B2C services in Ukraine. Under the general rule, the place of the supply of services is the place where the supplier is registered; however, there are some exceptions (e.g. in respect consulting, marketing, information services, etc.). In respect to services provided by a non-resident, the reverse-charge mechanism is applicable.

Ukraine introduced the electronic VAT administration system in 2015. Taxpayers are entitled to issue VAT invoices for the amount within the certain cap. To get VAT credit a taxpayer should receive from the seller/supplier a VAT-invoice in electronic form, which is registered in the Unified Register of VAT invoices. VAT refund is provided under 2 registers with chronological order of repayment.

VAT Options in Ukraine	Applicable / limits
Distance selling	No
Call-off stock	No
VAT group registration	No
Cash accounting*	✓
Import VAT deferment	No
Local reverse charge	No
Option for taxation	
letting of real estate	✓
supply of used real estate	No
VAT registration threshold**	UAH 1 million (app. EUR 38,000)

* For several types of operations (e.g., construction works; supply of heat, water, gas to individuals or governmental agencies).

** Voluntary registration is allowed without any limitations.

Agricultural companies may apply a special VAT regime and accumulate certain part of VAT on their special accounts. However, such special regime will be cancelled from 1 January 2017.
The other indirect tax in Ukraine is the excise tax. Goods subject to excise tax are spirits, beer, tobacco, petroleum, cars, trailers, motorcycles, and electricity.

Personal income tax / Social security system

The personal income tax (the "PIT") rate applicable to both active income (e.g. employment, benefits in kind, assignment fee) and passive income (e.g. interest, royalties, investment income) for both residents and non-residents is 18%. Dividends are subject to a 18% PIT, except for dividends distributed by Ukrainian companies, which are subject to a 5% PIT. There is a temporary military tax (until the completion of the military reform) applied to the monthly income at the rate of 1.5%.
Most active incomes fall under the scope of social security contribution (the "SSC") with employer's contribution of 22%. The maximum chargeable amount per month is 25 months' minimum wages – UAH 34,450 (approximately EUR 1,314 as of 1 January 2016).

The examples below show the cost of the employer and the employee in case of minimum wage level and the average wage in the private sector.

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Wage-related taxes in Ukraine	Minimum wage		Average wage in private sector	
Exchange rate UAH / EUR 26,2 (as of 1 January 2016)	in EUR	in UAH	in EUR	in UAH
	52,5	**1,378**	**305,1**	**8,000**
TOTAL WAGE COST	**64.1**	**122.00%**	**372.2**	**122.00%**
Social contribution tax	11.1	22.00%	67.1	22.00%
GROSS SALARY	**52.5**	**100.00%**	**305.1**	**100.00%**
Personal income tax*	9.5	18.00%	54.9	18.00%
Military tax*	0.8	1.50%	4.6	1.50%
NET SALARY	**42.3**	**80.50%**	**245.6**	**80.50%**

* Tax base is gross salary less the amount of employees' USC.

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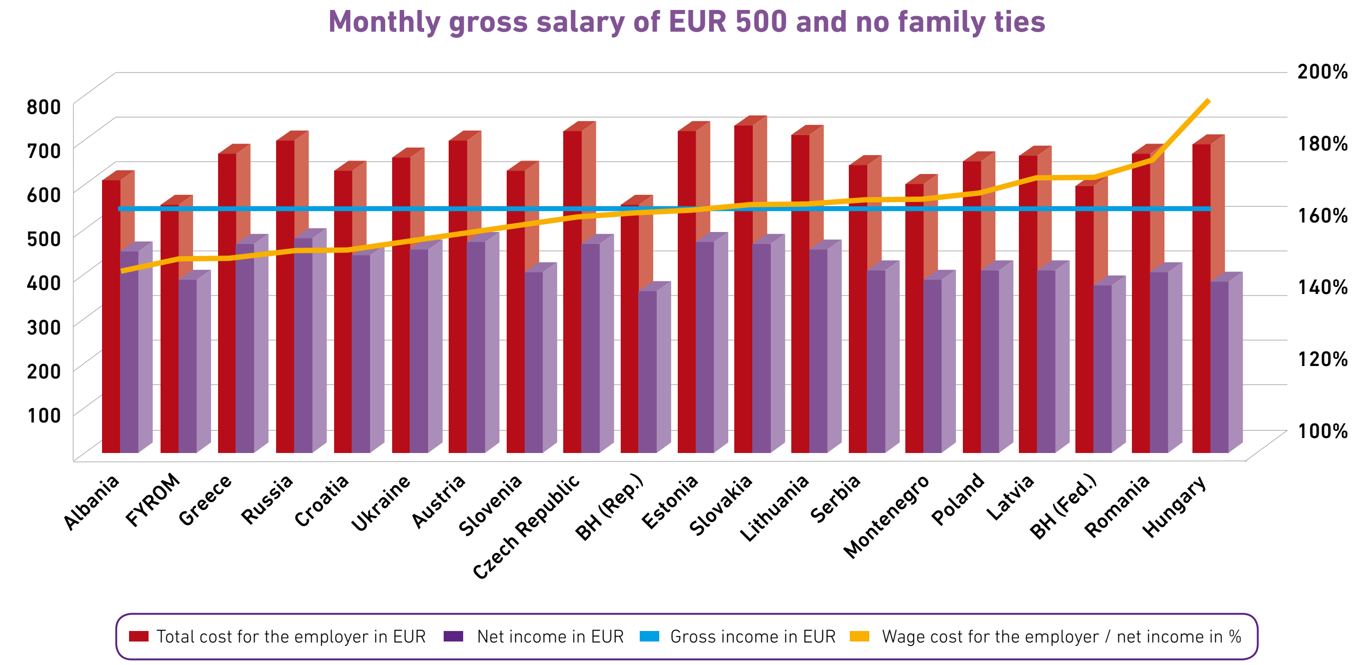
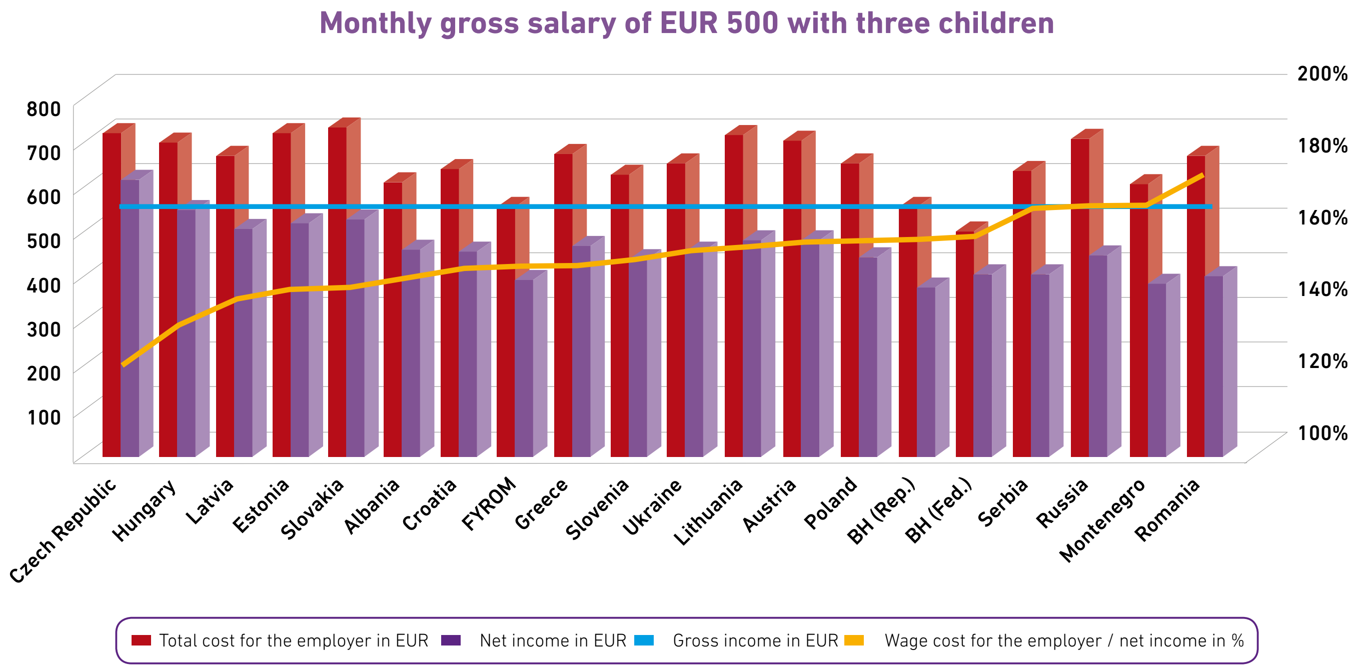
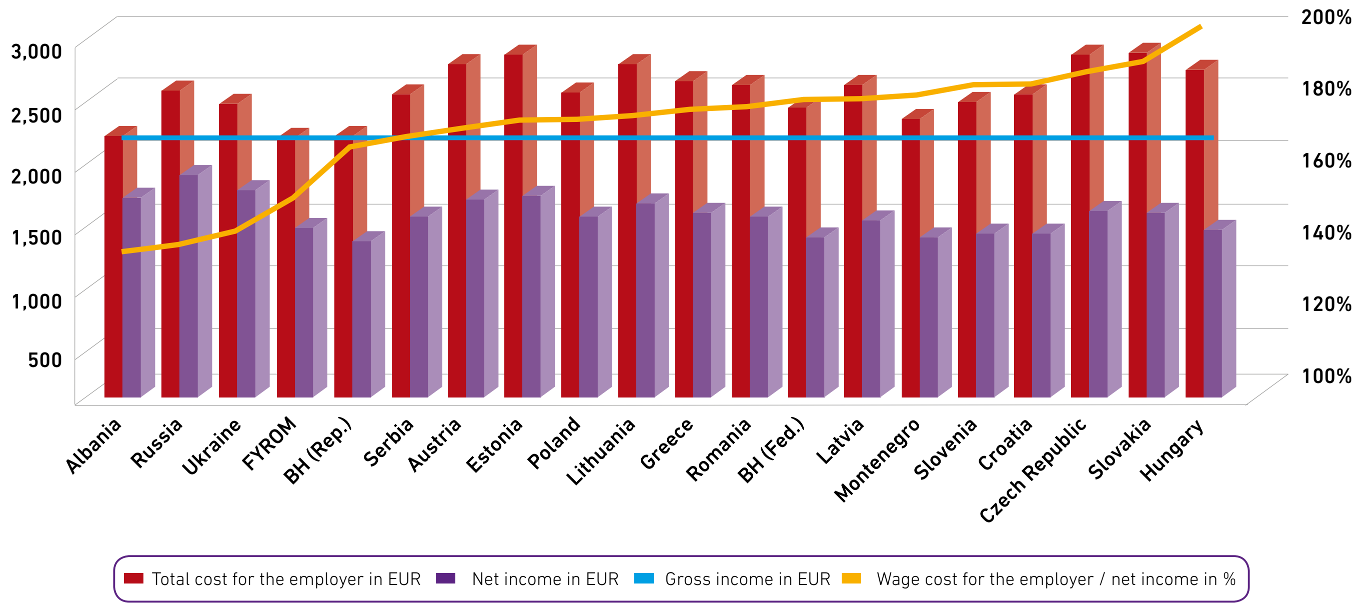
Labour-related tax burdens in the CEE region

The charts below show the wage-related tax and contribution burdens in each country, for two different monthly gross income levels: EUR 500 and EUR 2,000 and for two different options for each income category: for an individual having no family ties and for someone who has three children. The ratio of the total related costs of the employer and the employee's net income (on the chart "wage cost for the employer / net income") is particularly suitable for comparison, as it shows how much does it cost for the employer to provide the same level of net income to the employee in the different tax jurisdiction.

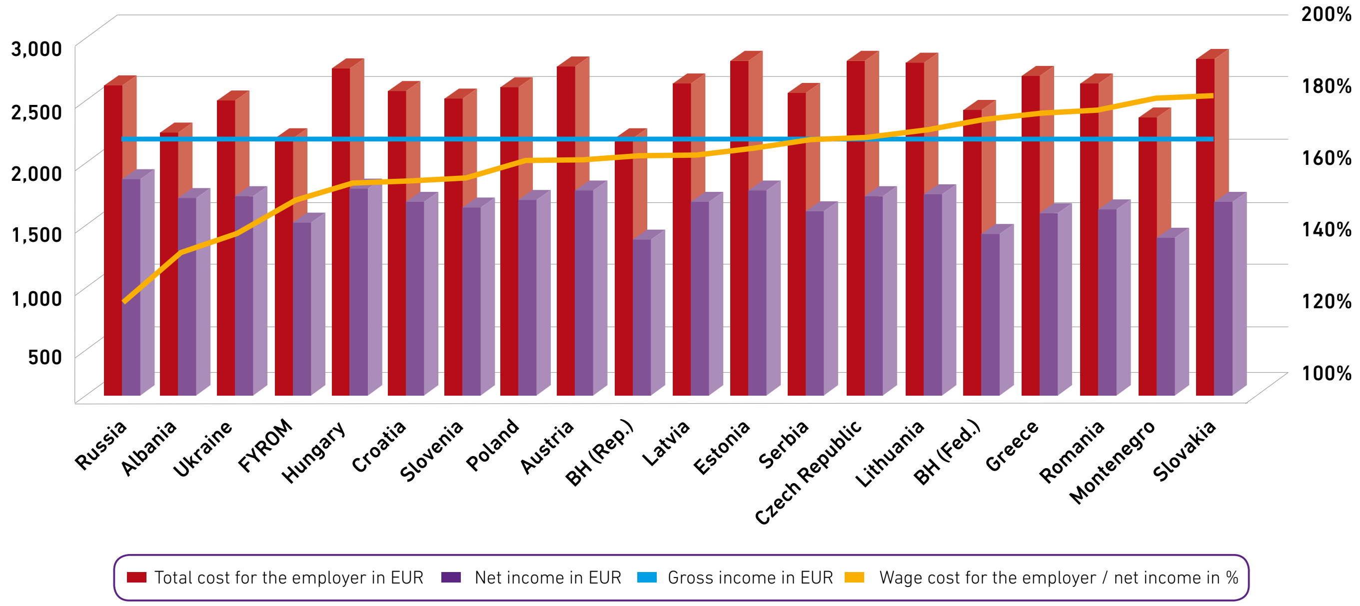




Monthly gross salary of EUR 2,000 and no family ties



Monthly gross salary of EUR 2,000 with three children



We can find some interesting results if we compare the order of the countries for two options within each income category, i.e. in case of employees with and without families, as we can immediately see which countries provide a family tax credit and in what extent.

The comparison of the various levels of income categories is also telling, since the different countries may provide tax benefits and tax credits, typically in the lower income category, or may have a progressive taxation system, as a result of which the proportion of the net income relative to the gross income, or even in comparison with the employer's total cost, may show significant differences in case of the various income levels.

Tax rates in the countries of the CEE region

Although tax rates themselves are not the sole factor in comparing tax burdens across the surveyed countries, with the composition of the tax base being - at least - as important, the following table still offers solid basis for comparison as far as the corporate income tax, VAT, as well as the personal income tax and social security contribution rates payable by the employer are concerned.

2016	VAT	CIT	TP doc	PIT	SSC
	Value added tax rates	Corporate income tax rate(s)	Transfer pricing documentation liability	Personal income tax rate(s)	Social security contribution payable by the employer
Albania	0%/20%	15%	✓	0%/13%/23%	16.70%
Austria	20%/10%/13%	25%	✓	0% - 55%	20.63%
Bosnia and Herzegovina	17%	10%/0%**	No	10%	10.5%*/No**
Croatia	25%/13%/5%	20%	✓	12%/25%/40%	17.2%
Czech Republic	21%/15%/10%	19%	✓	15% + 7% solidarity surcharge*	34%/9%**
Estonia	20%/9%	20%*	✓	20%	33.8%
FYR Macedonia	18%/5%	10%	No	10%	No
Greece	23%/13%/6%	29%	✓	22% / 32% / 42% & 0,7-8,0 Additional tax	24.56%
Hungary	27%/18%/5%	10%/19%	✓	15%	28.5%
Latvia	21%/12%	15%	✓	23%	23.59%
Lithuania	21%/9%/5%	15%/5%	✓	15%	30.98%
Montenegro	19%/7%	9%	No	9%/15%	10.2%
Poland	23%/8%/5%/0%	19%	✓	18%/32%	21%
Romania	20%/9%/5%	16%	✓	16%	22.75%
Russia	18%/10%/0%	20%	✓	13%/30%	30%/10%*
Serbia	20%/10%	15%	✓	10%	17.9%
Slovakia	20%/10%	22%	✓	19%/25%	35.2%
Slovenia	22%/9.5%	17%	✓	progr. 16% - 50%	16.1%
Ukraine	20%/7%/0%	18%	✓	18%	22%

RUSSIA *regressive rate depends on annual amount of remuneration
BOSNIA AND HERZEGOVINA *In Federation; ** In Republika Srpska
ESTONIA * No classical income taxation. 20% is calculated 20/80 from net amount and applicable only for distributed profit and certain costs.s
CZECH REPUBLIC *Only on part of the gross income from an employment/tax base from self-employment exceeding CZK 1,296,288 (approx. EUR 48,000) in 2016 ** Applicable on income exceeding CZK 1,296,288 (approx. EUR 48,000) in 2016

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NOTES

Mazars is an international, integrated and independent organization, specializing in audit, accountancy, tax, legal and advisory services.

As of 1st January 2016 , Mazars and its correspondents operate throughout 93 countries. 77 of these countries are part of the Mazars integrated partnership and 16 are Mazars correspondents.

We draw on the expertise of 17,000 professionals to assist major international groups, SMEs, private investors and public bodies at every stage of their development. The Praxity Alliance offers Mazars operating capacity via professional teams in 21 additional countries.

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