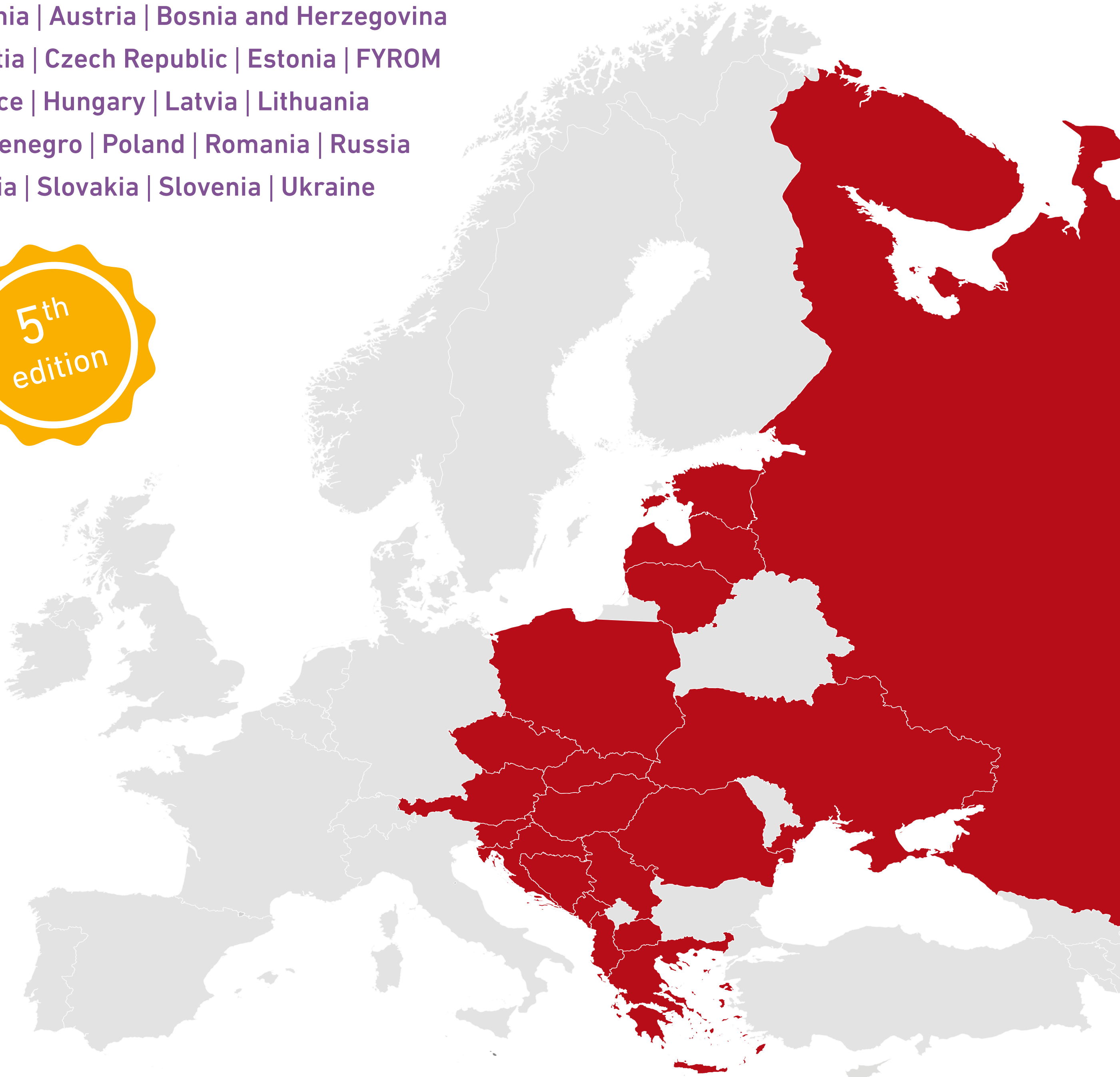
MAZARS CENTRAL EASTERN EUROPEAN TAX GUIDE 2017

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

5th edition



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MAZARS

"Creating shared value"

Welcome to the CEE Tax Guide 2017

Welcome to Mazars' fifth annual Central and Eastern European (CEE) tax guide.

As usual, the purpose of this year's guide is to provide an overview of the tax systems of the CEE region, as well as to highlight the changes introduced from 1th January 2017.

The main findings of our updated summary suggest there has not been any dramatic change in tax strategies. A few countries are attempting to slightly increase their revenues from social and health care contributions. On the other hand, the moderate amount of these changes clearly demonstrates that there is not much room to increase the tax burdens of employers. In addition, some countries attempt to boost competitiveness and stimulate investments by reducing corporate income tax rates. The question is whether it is a key factor in business decisions or not.

The publication aims to help investors understand the complexities of the various CEE tax regimes, as well as in comparison to each other. In this guide the tax systems of 19 countries of the CEE region are presented, based on data provided by the relevant Mazars offices.

As a 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 get in touch with them directly with any questions.

We hope you find this guide useful and we encourage your feedback.

Sándor Szmicsek
Partner
Tax and legal services
Mazars Hungary

2017: THE YEAR IN TAXES

TRACKING TRENDS IN CEE TAX REGIMES

This year's publication summarizes, for the fifth time, the current taxation information of the countries in Central & Eastern Europe. As before, our aim is to provide investors interested in the region with succinct reports on the taxation environment and to enable the comparison of some fundamental factors of competitiveness. The tax brochure was first published in 2013 with information on 15 countries, which has since increased to 19. In addition to the Visegrad countries, we present the tax environment of Greece, Russia, Ukraine, all of the successor states of Yugoslavia, as well as Albania and the Baltic states. This 5th-year anniversary also provides an opportunity to review and evaluate the tendencies over the past half-decade.

> *"Lithuanian tax administration is becoming more digital and smarter with the development of the special Smart Tax Administration System (i.MAS). The main purpose of i.MAS is to reduce the administrative burden for taxpayers, increase accountability of taxpayers'income, tax collection and performance of Tax Administration by installing electronic services and by shifting taxpayers'transactions data collection, processing, management and delivery to an electronic space."*
>
> *Justinas BASALYKAS / Partner / Lithuania*

The tax systems of the countries in the region can be regarded as stable in the previous years. The period of drastic structural changes has ended, while crisis taxes have been discontinued in some cases and integrated into the tax system of the given country elsewhere. In recent years the public fiscal balance improved in most countries and consumption has started to increase, which gave governments some room for manoeuvre and allowed them to turn in new directions also in their general tax policy.

> *"Over the last few years Tax Administration in Albania has made big progress in extending e-services and digitalization. The new law for VAT and the transfer pricing regulation introduced in 2015 are reducing the discrepancies between EU Directives and Albanian legislation. Some recent changes to the Procedural tax administration Law are contributing to an improved business climate. A new law on Income tax is drafted and is expected to be introduced in the near future."*
>
> *Teit GJINI / Managing Partner / Albania*

From the point of view of fiscal revenues, taxes on production and imports (and VAT in particular) have an increasingly important role; their proportion to

GDP is already around 15% in the region, and even reaches 20% in some countries (e.g. in Hungary and Croatia), which is significantly higher than the average of the European Union (source: *Eurostat*).

> *Over the last few years the Polish tax system is becoming stricter in the area of VAT and transfer pricing. Regarding VAT, the purpose of new legislation is to tackle VAT frauds (in particular carousel mechanisms). Conversely, the current trend in transfer pricing is triggered by redrafted rules that require taxpayers to prepare more extensive transfer pricing documentation and additional documents.*
>
> *Kinga BARAN*
> *Head of Tax Advisory Department / Poland*

Value-added tax

In every modern tax system value-added tax is one of the most important forms of revenue for the state budget. The rules are mostly harmonized – definitely so in the Member States of the EU, but a few years ago, for example, Albania also introduced legislation that is compatible with the provisions in the Community. Yet in terms of the tax rates in the individual states, we can find significant differences. Considering the normal rates we can see that in most states it is between 19 and 22%. By comparison, the normal VAT rate of 25% used in Croatia, and especially the 27% rate in Hungary, are regarded as particularly high.

As far as the tendencies of the past five years are considered, we can find examples of a decreased VAT rate (from 24% to 19% in Romania) and also a slight increase (most recently in Greece, from 23 to 24%). It can also be seen that several states try to take innovative steps in the interest of more efficient collection of value-added taxes. In recent years we can witness an increasing number of measures with the clear aim of imposing taxes on transactions that were previously not controlled and taxed, reducing tax fraud, and "whitening" the shadow economy. Having an impact here are the initiatives aimed at the introduction of online cash registers, as well as new measures serving the purpose of monitoring transactions involving the transport of goods (the first of which in the region was the Hungarian EKAER regulation, followed this year by the Polish SENT system).

The domestic summary statements introduced in several countries also fit this pattern. And some states are going even further: in 2017, a new feature will have to be added to invoicing software in Hungary that would automatically send data to the tax authority when an invoice is issued. This automatic and real-time data supply would replace the current subsequent, periodic reporting on invoices issued.

> *While there were few changes in tax rates in the Czech tax system, the improved tax collection was one of the mainstays of the Czech governmental policy in last five years. In this respect a number of tools were implemented in the Czech tax system. The data collected by tax administrators via the new tools resulted in the significant increase of tax audits focusing on the specific areas of related party transactions, potentially VAT risky transactions in distribution chains, and others.*
>
> *Pavel KLEIN / Partner / Czech Republic*

Taxes on employment

In parallel with sales and use taxes gaining ground, the proportion of taxes on incomes and employment decreased to a certain extent. This is apparent especially in the field of corporate income tax, since taxes of this type decreased in several countries from 2017. This same tendency can also be observed in case of social contributions, which is much needed since the level of such contributions payable on wages is an important factor influencing competitiveness. In this latter field there is still room for further decreases: due to the high level of employment-related public charges, the total wage cost of employees in the region is, on average, nearly 160% of the net wage. In other words, the so-called "tax wedge," which is an expression of the total tax and contribution content of the tax cost, is around 37%

on average, but considerably higher in Hungary (46%), despite the significant decrease there in employers' contributions from 2017. The situation is slightly different if we also take into account the family tax allowances available after children, or if we calculate with a salary above the average, since in this case the effect of the higher tax rates used in several countries is already evident.

The numbers nevertheless show that labour is no longer really "cheap" in the CEE region. According to Eurostat's 2016 Q4 analysis, in most Visegrad countries and in the Baltic states, wage costs increased by 5-10% over the course of one year, and especially in jobs requiring the least qualifications.

> *Employing workers remains overly expensive in Hungary, despite the recent reduction of social contributions. The reason is that minimum wages have increased significantly. Another factor is the lack of a skilled workforce, which might pose enormous challenges for the economy in the next few years.*
>
> *Sándor SZMICSEK*
> *Tax and Legal Partner / Hungary*

Corporate income tax

It is still true that the methods of calculating the tax base vary significantly from country to country, and therefore, **corporate income tax** cannot simply be compared on the basis of the applicable tax rates. At the same time, there is now a 20% disparity between the lowest and the highest rates, which reveals a fundamental difference in the approaches used.

In the past five years, several countries (including Croatia, Slovenia, Slovakia and Ukraine) decreased their corporate income tax rates by a few percentage points. No other country saw such a radical decrease as the one introduced in Hungary in 2017, where the 10% and 19% tax rates were replaced by a uniform CIT rate of 9%. Such a tax rate had previously only been available in the region in Montenegro. As a result of the above, the average corporate income tax rate in the CEE region is less than 16% (calculating with the highest rate in case of countries where several rates are used). Greece was the only country where the tax rate was increased: the already highest CT rate of the region was further increased, to 29%.

> *The new Greek Tax Code deals with many modern tax issues and in general has adopted the EU Directives such as Parent Subsidiary Directive and most OECD recommendations such as CFC rules, thin capitalization provisions based on EBITDA, and the definition of the tax residence according to the OECD Model. Additionally Anti Abuse provisions have been incorporated. In general, the taxes imposed on businesses and individuals during the last five years increased significantly as the Greek government attempts to solve the State's fiscal problems.*
>
> *Konstantinos MAKRIS / Partner / Greece*

The tax systems of the CEE countries typically allow losses generated in previous years to be carried forward and used against the positive tax base of subsequent years. However, in recent years there is a clear tendency whereby such losses can only be carried forward and used for the above purpose for a certain period of time, the length of which in most countries is five financial years. There are only a few states that still allow losses to be carried forward without time limitation (Slovenia, Lithuania and Latvia); The carryback of losses is not allowed anywhere.

We can also conclude that the majority of the countries examined used some kind of a thin capitalisation rule, which determines what part of interest paid to corporate loans can be deducted from the income tax base. The scope of the above continued to expand in recent years. Of course, we can find different solutions in this respect. Generally speaking, a company is considered as undercapitalised if it has liabilities exceeding 3 or 4 times its equity (debt-to-equity ratio of 3:1, 4:1). However, in one of the countries in the region (Poland), this proportion was defined as 1:1.

The situation is less uniform if we examine how widespread withholding taxes imposed on capital gains are. More than half of the countries in the region imposes such a tax on incomes from interests, dividends and royalties, generally at a rate of 15%, although we can also find much higher, even 19-20% rates in several countries. Of course, these can only be applied by taking into account the provisions of the relevant tax treaties, since most CEE states have extensive systems in place for the avoidance of double taxation. At the same time, the Baltic states and Hungary still do not impose a withholding tax on capital gains, which means that these countries can be attractive locations for holding structures. It is also worth mentioning that the tax regimes of more than half of the countries surveyed support research and development (R&D) activities in some form. The inclusion of such tax incentives in the regulations has been a clearly perceivable tendency in the past half decade.

“One of the main changes in the Latvian tax system relates to the treatment of offshore jurisdictions for tax purposes, which has changed rapidly due to the recognition of the member states of the OECD Convention on Mutual Administrative Assistance in Tax Matters as non-offshore jurisdictions. As a result, a number of countries previously treated as tax havens are now considered as regular jurisdictions.”

Agris NURZA / Project Manager / Latvia

Transfer Pricing

On the basis of the experiences of the previous five years, an increasing number of countries in the region now recognize that in the interest of keeping tax revenues it is worth concentrating on intra-group or cross-border transactions: accordingly, **transfer price regulations have appeared in the tax systems** of almost all of the countries examined.

“One important thing is that the Croatian tax authority is becoming more digital with the development of special e-tax audit tools, electronical TP reports and partial acceptance of BEPS rules. At the same time, the tax system is becoming more secure due to the acceptance of EU tax directives.”

Andrija GAROFULIĆ / Partner / Croatia

Also a product of the past five years is the BEPS (“base erosion and profit shifting”) action plan of the OECD, which treats transfer pricing and the related documentation obligation as high-priority areas. The fundamental aim of the “country-by-country reporting” (CBCR) required by OECD is to improve transparency by way of providing local tax authorities with the information necessary for assessing tax risks.

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 36,500/year**

* Persons involved in import or export activities and taxpayers who supply professional services must register for VAT regardless of the amount of turnover.
** There is no any change related to VAT registration threshold. The diference shown compared to the last year is due to exchange rate.

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 137	in EUR	in ALL	in EUR	in ALL
	161	**22,000**	**400**	**54,800**
TOTAL WAGE COST	**187**	**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	**160.58**	**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	**143**	**88.80%**	**332**	**82.92%**

*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
Penalty		
lack of documentation	✓	CbCR not provided up to KEUR 50
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:

7/10 increasing

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 27.5%. Dividends paid out from resident companies to the resident shareholder (not individuals) 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% is used for agricultural products and rentals with a residential purpose (in certain cases 13% for entertainment, tourism). 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.

Options	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 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 (2017: EUR 4,980 per month, EUR 9,960 per year for special payments.) Based on the maximum contribution base the social security contribution amounts to 39.60% (18.12% employee and 21.48% 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 (2017: EUR 5,810 per month and EUR 69,720 per year). Based on the maximum contribution base the social security contribution amounts to 26.15%. 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	
	1,677**		2,390**	
TOTAL WAGE COST	2,552	130.44%	3,637	130.44%
Employer's SS and other contributions***	596	30.44%	849	30.44%
GROSS SALARY******	1,957	100.00%	2,788	100.00%
Personal income tax	88	4.48%	284	10.17%
Employee's contributions*****	352	17.98%	501	17.98%
NET SALARY	1,517	77.55%	2,004	71.85%

* 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

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 CIT rate is flat and amounts to 10%. In all tax jurisdictions, 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. In FBiH, interest expenses taken from related parties are tax deductible in debt / equity ratio of 4: 1 (thin cap rule). In RS, interest expenses are not recognized for the amount of net interest expenses exceeding 30% of the tax base (without financial items). In the RS, R&D costs are recognized in line with IAS. In FBiH and BD, R&D costs are recognized.

Transfer pricing in Bosnia Herzegovina		
Arm's length principle	✓	since 1998
Documentation liability	✓	It is necessary. It is prescribed the content of transfer pricing documentation.
APA	**No**	-
Penalty		
lack of documentation	**No**	RS: 10.226,00 EUR-30.678,00 EUR for legal person and 2.556,00 EUR-7.669,00 EUR for responsible person. FBIH: 1.534,00 EUR-51.130,00 EUR for legal person and 1.278,00 EUR-5.113,00 EUR for responsible person.
tax shortage	✓	There is no interest rates defined by Governmental Rulebook
Related parties	**50% (10%) <**	direct or indirect control (25% for FBIH, 25% for RS) or common managing director or significant influence on decisions. One person is connected with another when that person participates directly or indirectly in the management, control or capital of that other person or where the same person or the same persons participate directly or indirectly in the management, control or capital of both persons.
Safe harbours	✓	There is no interest rates defined by Governmental Rulebook

Level of attention paid by Tax Authority:

We believe that the attention of the tax authorities will be increasing, given the new provisions of the Act and Regulations relating to transactions with related parties.

Dividend profit is not included in the calculation of the tax base. In the FBiH, taxpayers investing own resources in production equipment worth more than 50% of the profit of the current tax period, reduces CIT liabilities for 30% of the amount in the year of investment.

If own resources are invested for five consecutive years in amount above 20 million BAM (10,2 million EU), with the first year investment of 4 million BAM (2,04 million EUR), reduces the obligation of the calculated tax by 50% of the investment in years. Double dip is allowable in amount of gross wages paid to newly admitted employees (minimum contract duration of 12 months). Similar incentives apply for RS as well.

Withholdings rate is 10%, for dividends amounts to 5% in FBiH unless DTT applies (currently, around 30 active DTT's). Interests, royalties and technical fees paid by a FBiH company to a foreign company are subject to WHT at the rate of 10%. In RS there is a flat rate WHT (10%) on all payments to foreign legal person in which there is an obligation to pay withholding tax. The group taxation concept is allowed in BiH for a group of resident companies with a minimum of 90% (FBiH). Moreover, mother company and its subsidiaries constitute a group of companies if among them there is direct or indirect control over 50% of the shares or stakes.

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 up to 0,20% of the market value. (decreased rules for production RE applies).

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.

In FBiH, the lowest hourly wage cannot be less than 1,75 BAM (0,895 EUR) net, or 2,96 BAM gross (1,51 EUR). In RS, the lowest salary is determined as a net amount in the amount of 395,00 BAM (201,96 EUR).

BOSNIA AND HERZEGOVINA

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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**	**202**	**394,94**
TOTAL WAGE COST	**298**	**110.50%**	**318**	**100.00%**
Employer's SS and other contributions	28	10.50%	-	0.00%
GROSS SALARY	**267**	**100.00%**	**318**	**100.00%**
Employee's contributions	83	31.00%	105	33.00%
Personal income tax*	3	1.17%	11	3.02%
NET SALARY	**181**	**67.59%**	**202**	**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 for 2016 is 20%. From 2017 onwards, CIT rates are 18% or 12% for enterprises with annual revenues below HRK 3 million for taxable periods which ends after 1.1.2017. The tax base is accounting profit modified by several increasing and decreasing items. Enterprises with annual revenues below HRK 3 million have the option of determining the profit tax base by cash flow principle. 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. In 2016, the tax base can be decreased for reinvested earning benefits, i.e. increase of share capital in amount of investment in tangible and intangible assets.

Transfer pricing in Croatia		
Arm's length principle	✓	since 2004
Documentation liability	Yes	Deliver to Tax Administration upon request. Together with tax return for 2016, taxpayers have to deliver Report on business transactions with related parties (PD-IPO form) (deadline is 30 April)
APA	Yes	APA is available as from January 1, 2017. The application fee will be charged. There is no practice and no practical guidelines on this matter.
Penalty		
lack of documentation	No	Not specifically stated, general rules apply
tax shortage	Yes	Additional tax charged and 100% of that tax is not deductible
Related parties	50% (25%) <	direct or indirect control (25% is commonly used by tax authority and advisors) or joint control functions
Safe harbours	✓	Interest on IC loans is determined by the Minister of Finance, for 2016 5,14% and for 2017 interest is 4,97%

Level of attention paid by Tax Authority: 7/10

A withholding tax of 15% is applied on interest, royalty and business consultancy services paid by a Croatian company to a foreign company while WHT on dividends and profit shares is 12%. 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 for the services not mentioned in Law. The EU Directives on withholding tax apply. Real estate transfer tax (RETT) is applied on the transfer of immovable property at the rate of 4%. The tax base is the selling price of the transferred property and the taxable person is the buyer.

Other taxes include 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, newspapers, specific input for agricultural production, delivery of electrical energy, etc., 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 39,000/year

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

Personal income tax / Social security system

Personal income tax rates are 24% (monthly tax base up to HRK 17,500) and 36% (above HRK 17,500), while 12% rate is withheld from certain types of income, e.g. dividends, capital gains, lease of the real estate etc.. Active incomes fall under the scope of the SSC system: individual pension social contributions equal 20% (employee contribution) and health and unemployment contributions 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 and average wage level in the private sector. Basic personal allowance amounts to HRK 3,800 and surtax is determined by municipality/city and amounts from 0% to 18%.

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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
	431	**3,276**	**1,018**	**7,739**
TOTAL WAGE COST	**505**	**117.20%**	**1,193**	**117.20%**
Employer's contribution	74	17.20%	175	17.20%
GROSS SALARY	**431**	**100.00%**	**1,018**	**100.00%**
Employees' contributions	86	20.00%	204	20.00%
Tax and surtax*	-	0.00%	89	8.75%
NET SALARY	**345**	**80.00%**	**726**	**71.25%**

* 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 a 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

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 (e.g. notebooks and tablets), videogame consoles, real estate (when VAT payer voluntarily applies VAT on the sale which should be generally VAT exempt), gas, electricity supplied to trader, telecommunication services supplied to trader
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
** only when let to VAT payer for perfoming of his economic activity
*** 5 years time test
**** only for Czech based legal entities

For 2017, the standard VAT rate is 21 %, while the reduced rates are 15 % (applicable, for example, on foodstuff, non-alcoholic beverage, heat, cold, public transport, accommodation and selected medical/sanitary goods and food-serving services) and 10 % (applicable, for example, on baby formula and children's food, certain pharmaceuticals, certain printed books, children's picture books, newspapers, magazines, 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), rent of real estate, post services, radio and TV services, education services and medical and social care services.

VAT payers are obliged to submit VAT returns, EC Sales Lists and Control Statements (evidence which reports detail on the selected transactions). All reports may be submitted on monthly or quarterly basis (depends on the subject who submits the report).

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
	407	**11,000**	**1,046**	**28,232**
TOTAL WAGE COST ("SUPER GROSS" SALARY)	**546**	**134.00%**	**1,402**	**134.00%**
Social security contribution - employer	102	25.00%	262	25.00%
Health insurance - employer	37	9.00%	94	9.00%
GROSS SALARY	**407**	**100.00%**	**1,046**	**100.00%**
PIT without standard tax deduction*	82	15.00%	210	15.00%
PIT after standard tax deduction**	6		134	
Employees' contributions	45	11.00%	115	11.00%
NET SALARY	**356**	**87.47%**	**797**	**76.20%**

* 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 × 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
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 underpayment
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 63 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 180 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	**629**	**133.80%**	**1604**	**133.78%**
Employer unemployment insurance	4	0.80%	10	0.80%
Social tax	155	33.00%	396	33.00%
GROSS SALARY	**470**	**100.00%**	**1199**	**100.00%**
Personal income tax	54	20.00%	193	20.00%
Employees' unemployment insurance	8	1.60%	19	1.60%
Employees' pension insurance*	14	3.00%	36	3.00%
Minimum monthly tax deduction *(for tax residents)*	180	-	180	-
NET SALARY	**395**	**83.98%**	**951**	**79.32%**

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

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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 (MKD) 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.

Transfer pricing in FYROM		
Arm's length principle	✓	since 2009
Documentation liability	**No**	Upon request by the Macedonian tax authorities
APA	**No**	The tax legislation does not provide for a binding APA. Companies are entitled to file an application to the tax authority for a ruling with respect to the tax position they intend to take, to which the tax authority is obliged to reply
Penalty		
lack of documentation	✓	~ EUR 2.500-3.000 / missing documents doubled on recurrent basis and tax authorities are entitled to suspend the taxpayer's business activity for 3 to 30 days.
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 - all nonresident legal entities registered in low-tax jurisdictions, irrespective of whether they have control or are of significant influence to the taxpayer
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: 4/10

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).

FYROM applies thin capitalization (3:1). Thin capitalization rules do not apply to loans received from banks and other financial institutions and for newly established companies, within first three years. In the FYROM, there is a withholding tax at the rate of 10% on dividends, interests, royalties and other incomes 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. Taxpayers are obliged to obtain approval from the Macedonian tax authorities prior to applying the tax rates from 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.

VAT and other indirect taxes

Thresholds are as follows:

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**	MKD 1 milion per year

* related parties
** voluntary registration is possible

The general rate is 18%; a reduced rate of 5% applicable to food products, pharmaceuticals, production equipment, computers and public transportation. Exports are zero-rated. 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 personal allowance is MKD 89.472 (EUR 1.453) on an annual basis.

The minimum base for social security contributions equals 50% of the average monthly salary for the current month. The highest base for payment of mandatory social security contributions on a monthly basis is 12 average salaries paid in 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
	195	**12,000**	**558**	**34,374**
TOTAL WAGE COST	**195**	**100.00%**	**558**	**100.00%**
Social contribution on salary	-	0.00%	-	0.00%
GROSS SALARY	**195**	**100.00%**	**558**	**100.00%**
Employees' contributions	53	27.00%	151	27.00%
Personal income tax*	2	1.09%	29	5.13%
NET SALARY	**140**	**71.91%**	**379**	**67.87%**

*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 15% 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), Anti-hybrid 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 and royalties. As regards consulting, technical and administrative services provided to a Greek company by a foreign company in Greece no withholding tax is imposed regardless if the service is provided by the foreign company or its Greek branch. 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 are two basic regulations. 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 0.55%. 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, 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 2m 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 VAT 24%

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 a reduction on the taxable income is granted depending on the income and the children only for employees and pensioners. The tax rate applicable to employees, pensioners, business activities and freelancers consists of four income brackets (EUR 0 to 20,000: 22%; EUR 20,001 to 30,000: 29%; EUR 30,001 to 40,000: 37% income above EUR 40,001: 45% tax rate applies. Employment incomes fall under the scope of the SSC system: individual social contributions equal altogether 16.00%; employer's contribution is altogether 25.06%.

Starting from 2017 a new SSC system (EFKA) is applicable for free lancers, members of the BoD, shareholders etc. The calculation basis of the EFKA contributions is the taxable income and the rate varies to 26,95%-37,95%.

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 has been imposed to income earned by individuals. The rates of such solidarity contributions are as follows: 2,2% for total income from EUR 12,001 to EUR 20,000, 5% for total income from EUR 20,001 to EUR 30,000, 6,5% for total income from EUR 30,001 to EUR 40,000, 7,5% for total income from EUR 40,001 to EUR 65,000, 9% for total income from EUR 65,001 to EUR 220,000 and 10% for income higher than EUR 220,000.

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Wage-related taxes in Greece	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
TOTAL WAGE COST	**733**	**125.06%**	**1,554**	**125.06%**
Employer's social security contribution	147	25.06%	311	25.06%
GROSS SALARY*	**586**	**100%**	**1,243**	**100%**
Personal income tax	-	22%/29%/ 37%/45%	97	22/29%/ 37%/45%
Employees' contributions	94	16.00%	199	16.00%
NET SALARY	**492**	**84.00%**	**947**	**76.22%**

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

CONTACT

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HUNGARY

Corporate taxes and other direct taxes

A new flat corporate income tax rate of 9% was introduced in Hungary as from 2017. 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 carried forward. Loss carryback is only possible in the agricultural sector. Special limitations are applicable in case of M&A transactions.

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 treaties on the avoidance of double taxation.

Transfer pricing in Hungary		
Arm's length principle	✓	since 1996
Documentation liability	✓	since 2003
APA	✓	since 2007
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

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 the second year prior to the tax year). From mid-2014, Hungary introduced a new advertisement tax which is paid on the sales revenue resulting from advertisement services (and also on the costs of self-advertisement). Small companies may benefit from a special multi-component taxation system ("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, internet access service, accommodation services) and 5% (e.g. milk, eggs, journals, books, medicines, certain meat products, new homes 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, handing over of a constructed structure
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, 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. As from mid-2018 taxpayers will be required to use billing software capable of providing the tax authority with real-time data.

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' (levied on unhealthy foods and drinks).

Personal income tax / Social security system

There is a flat rate of PIT since 2013, which has 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.

The amount of the family tax base allowance is HUF 100,000/ month/child up to 2 children (meaning the tax allowance is HUF 15,000 (appr. EUR 48)/child); and HUF 220,000/month/child from 3 children (in which case the tax allowance is HUF 33,000 (EUR 110)/child). 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.

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 has been reduced to 23.5%. 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); 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, or interest).

Benefits-in-kind are taxed at two rates: PIT plus health care tax calculated on a special tax base altogether amounting to 34.22% or 43.66% 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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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
	411	**127,500**	**890**	**276,000**
TOTAL WAGE COST	**508**	**123.50%**	**1,100**	**123.50%**
Vocational training contributon	6	1.50%	13	1.50%
Social contribution tax	90	22.00%	196	22.00%
GROSS SALARY	**411**	**100.00%**	**890**	**100.00%**
Personal income tax	62	15.00%	134	15.00%
Employee's contributions	76	18.50%	165	18.50%
NET SALARY	**274**	**66.50%**	**592**	**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. The taxable income of taxation period can be covered with losses in amount not exceeding 75% of taxable income. 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 60, 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.

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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 1.400 - 4.300/EUR 2.900 - 5.800 (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 May 2017), 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; supply of certain metal scraps and certain timber materials, supply of construction services
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 2% 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	**498**	**131.18%**	**1,041**	**131.18%**
Guarantee fund	1	0.20%	2	0.20%
Social contribution tax	118	30.98%	246	30.98%
GROSS SALARY	**380**	**100.00%**	**793**	**100.00%**
Personal income tax*	11	15.00%	103	15.00%
Employees' contributions	34	9.00%	71	9.00%
NET SALARY	**335**	**88.24%**	**618**	**77.96%**

* Non taxable allowance of EUR 310,0 (minimum wage) and EUR 103,5 (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 engaged in manufacturing in economically underdeveloped municipalities. 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

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 11%. 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 10.7% of the employee's salary. It includes pensions (5.5%), health contributions (4.3%) unemployment (0.5%), contributions to the Labour fund (0.2%)

and Labour union fund (0.2%). Also, local surtax, which is calculated on PIT assesed, is paid by the employer to the municipality of taxpayer's seat. Surtax rates range from 10% to 15%, depending on municipality, with most municipalities having the 13% rate.

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	**322**	**109.80%**	**809**	**109.80%**
Employer's contributions	31	10.70%	77	10.70%
GROSS SALARY	**288**	**100.00%**	**723**	**100.00%**
Employee's contributions	69	24.00%	174	24.00%
Personal income tax	26	9.00%	65	9.01%
Surtax	3	13.00%	8	13.00%
NET SALARY	**193**	**67.00%**	**484**	**66.99%**

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POLAND

Corporate taxes and other direct taxes

Subject to taxation are limited liability and joint stock companies, as well as limited joint-stock partnerships (since 2014) that are Polish residents. Other partnerships are neither CIT nor PIT payers, and income generated by partnerships is directly attributed to shareholders (in proportion to their shares) and – depending on their status (companies or natural persons) – subject to CIT or PIT. CIT in Poland is payable on the income, i.e. on revenues decreased by tax-deductible costs. The standard CIT rate is 19%. Starting from 1 January 2017 there is a new 15% CIT rate for small taxpayers (whose revenue on sales in the previous year did not exceed EUR 1,200,000) and for new taxpayers in the first year of their activities. 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. 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	25% <	direct or indirect control personal, family relations
Safe harbours	No	

Level of attention paid by Tax Authority: 10/10

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

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

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 200,000 /year (approx. EUR 50,000)

The standard VAT rate is 23%. Preferential rates of 8% and5% 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.

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.

MAZARS IN POLAND

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Wage-related taxes in Poland	Minimum wage		Average wage in private sector	
Exchange rate PLN / EUR 4.4	in EUR	in PLN	in EUR	in PLN
	455	**2,000**	**965**	**4,245**
TOTAL WAGE COST	**551**	**121.00%**	**1,168**	**121.00%**
Employer's social security *	74	16.26%	157	16.26%
Other insurance (approx.)	22	4.74%	46	4.74%
GROSS SALARY	**420**	**100.00%**	**934**	**100.00%**
Employee's contributions	62	13.71%	132	13.71%
Healthcare insurance	32	9.00%	75	9.00%
Personal income tax**	22	18.00%	67	18.00%
NET SALARY	**304**	**66.78%**	**660**	**68.36%**

* capped at income of PLN 127 890- 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)

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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 (Law 227/2015)
Documentation liability	✓	since 2003 (Order 222/2008, Order 442/2016)
APA	✓	since 2007 (Order 3735/2015)
Penalty		
		For large and medium tax payers – RON 12,000-14,000 (approx. EUR 2,700-3,100)
lack of documentation	✓	Other tax payers – RON 2,000-3,500 (EUR 450-800) Separately, adjustment of tax base plus late payment interest and penalties may be applicable.
tax shortage	✓	regular tax regime
Related parties	min. of 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 500,000 as follows:

- 1% if the company has at least 1 employees;
- 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

The general rate is 19%. Reduced rates are 9% (e.g. for 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 Options in Romania	Applicable / limits
Distance selling	approx. EUR 26,300/year at the current exchange rate
Call-off stock	✓
VAT group registration	✓
Cash accounting*	EUR 500,000/year
Import VAT deferment	Certificate of payment deferral
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**	approx. EUR 48,890

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

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 (approx. EUR 500,000).

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%. Starting with 1st of February 2017 the cap on the SSC taxable base has been eliminated.

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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
	322	1450*	696	3,131
TOTAL WAGE COST	**396**	**122.75%**	**854**	**122.75%**
Employer contributions	73	22.75%	158	22.75%
GROSS SALARY	**322**	**100.00%**	**696**	**100.00%**
Employees' contributions	53	16.50%	115	16.50%
Personal deduction**	89		0	
Personal income tax***	29	16.00%	93	16.00%
NET SALARY	**240**	**74.55%**	**488**	**70.14%**

* As of 01.05.2016, the minimum gross salary will be of 1,450 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

Federal taxes and levies are those established by the Tax Code, they are payable throughout the Russian Federation. Federal taxes include value-added tax (VAT), excise tax, personal income tax, profits tax, mineral extraction tax, water tax, levies for natural and biological resources consumption, stamp duty.

Regional taxes and levies are those established by the Tax Code and tax laws of the regions of the Russian Federation, being payable in the appropriate regions. Regional taxes include property tax, gambling tax and transport tax. Local taxes and levies are those introduced by the Tax Code and regulations of the municipal authorities, these taxes are payable in the appropriate municipal areas. Local taxes are represented by land tax, personal property tax and trade levy. Profits tax rate is flat and equals to 20%.

The tax base is calculated as income less expenses, which should be economically justified and duly documented. Certain expenses could be deducted for tax purposes within specific limits (e.g., interest, advertising expenses, representation expenses, etc.).

Transfer pricing in Russia		
Arm's length principle	✓	since 1999
Documentation liability	✓	since 2012
APA	✓	since 2012
Penalty		
lack of documentation	✓	~EUR 80 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

Starting 01 January 2017 tax losses could be carried forward without timing limitations. However, for the tax periods from 01 January 2017 to 31 December 2020 it is not allowed to carry forward tax losses exceeding 50% of the taxable profit for the respective tax period. Russia applies thin capitalization (3:1) rules. Starting 01 January 2017, the thin capitalization rules have been significantly amended. In particular, the affiliation criteria has been reviewed in line with the Russian TP rules, the definition of the controlled debt has been extended and will also include the debt payable to foreign "sister" companies.

Starting from 2015, several new anti-tax avoidance concepts were introduced in the Russian tax legislation such as: (1) the concept of beneficial owner of income for application of DTT benefits; (2) CFC rules; (3) the concept of tax residency for companies.

Russia has concluded double tax treaties (DTTs) with more than 80 countries. Withholding income 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%

Income from international freight, including lease of property used in international transportation and lease of sea craft and aircraft vehicles is subject to a 10% withholding income tax rate.

VAT and other indirect taxes

The standard VAT rate is 18%. However, sale of certain food products, goods for children, medical and pharmaceutical products is taxable at a 10% rate. A 0% VAT rate applies to export sales and cross-border services (e.g. international transportation and freight).

According to the Russian tax legislation, Russian VAT is applicable to the provision of services deemed to be supplied in the territory of Russia.

Electronically supplied services ("ESS") are deemed to be supplied in Russia for VAT purposes if the customer (legal entity, private entrepreneurs or individual) is considered to be located in Russia. In case the ESS are rendered to business customers, legal entities and private entrepreneurs registered with the Russian tax authorities, accounting of VAT and payment of VAT is done by those legal entities and private entrepreneurs acting as tax agents.

Private individuals do not act as VAT agents with regard to the ESS. Therefore, if a foreign legal entity is rendering B2C ESS in Russia, it should register for VAT purposes and pay Russian VAT with regard to revenues gained from Russian individuals.

Excise tax applies to companies dealing with excisable goods (ethanol, alcohol beverages, tobacco products, cars, petrol, diesel, nature gas, etc.)

Personal income tax and social security contributions

Russian tax residents are individuals who spent 183 days on more in the Russian territory for the subsequent 12 months (in practice the 183 days period is normally calculated within a calendar year) and are taxable on their worldwide income at the flat rate of 13% on most types of income. Only Russian tax residents may benefit from tax deductions (including notional deduction available when selling movable property and tax exemption of real estate disposal income available starting 01 January 2016).

Individuals that do not meet the above physical stay criteria are non-residents. Non-residents are only taxable on their Russian source income at a 30% PIT rate, unless otherwise provided in the Tax Code. However, individuals holding a work permit of highly qualified specialist (HQS) are subject to a 13% tax with regard to employment income received from the Russian company for which they obtained this migration status. To qualify for HQS status the foreigner should earn monthly gross income under the Russian employment agreement of at least 167 KRUB, i.e. approximately EUR 2,700.

Dividends payable to an individual being non-resident are subject to personal income tax at a 15% rate, unless the lower tax rate applies under the applicable DTT.

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 876 KRUR (~14.1 KEUR), above - 10%	exempt	22% on gross annual remuneration not exceeding 876 KRUR (~14.1 KEUR), above - 10%
Social Security Fund	2.9% (1,8% for foreigners) on gross annual remuneration not exceeding 755 KRUR (~12.2 KEUR), above - 0%	exempt	1.8% on gross annual remuneration not exceeding 755 KRUR (~12.2 KEUR), above - 0%
Medical Fund	5.1% on gross annual remuneration	exempt	exempt

Accident insurance contributions are payable to Social Security Fund in addition to social contributions (including foreign employees both holding the HQS work permit and employed without such permit) at the rate depending on class of professional risk that could vary from 0,2% to 8,5% of the gross annual remuneration payable to employees.

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Wage-related taxes in Russia	Minimum wage		Average wage in private sector	
Exchange rate RUB / EUR 62	in EUR	in RUB	in EUR	in RUB
	278	**17 219**	**578**	**35 843**
TOTAL WAGE COST	**361**	**130%**	**752**	**130%**
Employer's social contribution	83	30%	173	30%
GROSS SALARY	**278**	**100%**	**578**	**100%**
Personal income tax (for tax resident)	36	13%	75	13%
NET SALARY	**242**	**87%**	**503**	**87%**

*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, income from rent of immovable and movable property and income from services used in Serbia. 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**	-
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 65.000 are not subject to TP rules
Level of attention paid by Tax Authority:		**8/10**

Transfer 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/past 12 months

Other 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 25%. 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 123.1179	in EUR	in RSD	in EUR	in RSD
Non-taxable amount	**94**	**11,604**	**94**	**11,604**
	247	**30,463**	**516**	**63,474**
TOTAL WAGE COST	**292**	**117.90%**	**608**	**117.90%**
Social contribution tax	44	17.90%	92	17.90%
GROSS SALARY	**247**	**100.00%**	**516**	**100.00%**
Personal income tax	15	6.19%	42	8.17%
Employee's contributions	49	19.90%	103	19.90%
NET SALARY*	**183**	**73.91%**	**371**	**71.93%**

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

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SLOVAKIA

Corporate taxes and other direct taxes

In Slovakia, the corporate income tax is charged at a flat rate decreased in 2017 from 22% to 21%. The tax base is calculated from an accounting profit or loss modified by certain increasing and decreasing items. The tax losses can be deducted evenly for four years, i.e. a maximum one quarter from the total amount annually. Tax incentives may be provided in cases of starting new production or modernizing existing production, doing research or development. Taxpayers undertaking a research and development project are 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, close relatives or other control aimed purely on circumvention of tax
Safe harbours	✓	Not officially published/accepted - but generally accepted: Low value added services: 5% 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 is calculated as 25% of EBITDA. Taxpayers (legal entities) generating tax losses or tax base below minimal amount are obliged to pay tax licenses ranging from EUR 480 to EUR 2,880, which represent the minimum current tax. As of 2018, the tax licenses should be abolished.

A withholding tax of 19% is applicable to interest, winnings and other income from passbook deposits, income of authors for their articles, etc. A 35% withholding tax rate applies 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. Interests and royalties paid by Slovak tax residents to closely related EU entities are under specific rules exempted from taxation.

With effect from 1 January 2017, dividends and other incomes paid to legal entities being Slovak tax residents by taxpayer from a non-contracting state are subject to taxation within the separate tax base at rate of 35%. Dividends and other income are also subject to taxation if paid to a taxpayer from a non-contracting state by a Slovak legal entity. Introduced taxation does not apply to the dividends paid from the profit from 2004 until 2016, i.e. such dividends shall not be subject to tax even if paid after 1 January 2017.

Starting from 2017, Country-by-Country (CbC) Reporting obligations were implemented in Slovakia. Slovak tax residents being ultimate parent entity, surrogate parent entity or constituent parent entity (under specific conditions) of MNE groups are required to submit the CbC Report to tax authorities if in the preceding tax year its consolidated group revenues reached EUR 750 million. Should the Slovak entity not be obliged to submit CbC Report, it has at least notification obligation on reporting entity.

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 and certain types of services 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).

Starting from 1 January 2016 a special tax voluntary arrangement based on the receipt of payment for goods and services (called "cash accounting") can be applied by certain 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 2017, 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.

Newly, dividends and other income (including shares on liquidation balances of business companies and/or cooperatives) and shares of members of land communities paid out after 01 January 2017 are subject to taxation at rate 7% (capped by DTAT rate) or 35% if recipient or payer of dividend is from a non-contracting state. Further, dividends distributed to employees without participation on the registered capital of the company and/or cooperative are no more exempt from the tax and are classified as employment income taxable by tax advances.

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%). Social security contributions are capped by a maximum assessment base of EUR 6,181. There is no maximum assessment base for health insurance contributions. Low-income employees can apply for health insurance allowance (annually to 4,560 EUR).
The examples below show the cost of employers and employees in case of minimum wage level and the average wage in private sector.

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Wage-related taxes in Slovakia	Minimum wage		Average wage in private sector	
	in EUR		in EUR	
	435		**990**	
TOTAL WAGE COST	**561**	**128.99%**	**1,338**	**135.20%**
Social contribution tax	126	28.99%	348	35.20%
GROSS SALARY	**435**	**100.00%**	**990**	**100.00%**
Personal income tax*	13	19.00%	103	19.00%
Employees' contributions**	47	10.92%	133	13.40%
NET SALARY	**374**	**86.00%**	**755**	**76.23%**

* 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)

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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) and notifies the tax authorities in advance. The tax base for tonnage tax is the sum of the tax bases for each of an entity's ships that are included in the tonnage tax regime.

Transfer pricing in Slovenia		
Arm's length principle	✓	since 2005
Documentation liability	✓	since 2006
APA	✓	Available, but without detailed rules
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

Level of attention paid by Tax Authority: 9/10

In addition, taxpayers whose revenue in the previous year did not exceed EUR 50,000 (or EUR 100 000 if employing at least one full-time person for a minimum of five months) can elect to take a lump sum deduction equivalent to 80% of annual revenue, in lieu of actual expenses. 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. 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, new employments and employments of disabled persons, as well as investment incentives.

A withholding tax of 15% is applied on dividend, interest, royalty and rental income 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

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

The general tax rate is 22%; a reduced rate of 9.5% applies to some goods, e.g. food, books, water 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. 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, other income Income from capital and rental income is taxed at flat rate (dividends at 25%, interest at 25%, capital gains from 0% to 25%, depending on holding period, rental income at 22,5%). 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.

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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 30 December 2016, the President of Ukraine signed the law on tax changes. Respective tax changes are effective from 1 January 2017 and relate to general tax administration issues, CIT, TP, VAT and excise tax.

Corporate taxes and other direct taxes

The corporate income tax ("CIT") in Ukraine is taxed at the flat rate of 18%. Taxable profit is calculated as financial profit before tax (reported in P&L 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). Insurance companies are liable to pay additional 0% or 3% income tax for life insurance and other insurance respectively. Tax law allows deducting prior year losses, while the carry-back of losses is not permitted. Tax law allows deducting prior year losses, while the carry-back of losses is not permitted. If company's annual income for the previous year is below UAH 20 million (approximately EUR 704 thousand as of 1 January 2017), such taxpayer is entitled not to make any adjustments (except for tax losses carry forward).

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	✓	up to 1% of the value of controlled transactions, but not more than UAH 480,000 (app. EUR 17,000)
lack of report		up to 3% of the value of controlled transactions, but not more than UAH 320,000 (app. EUR 11,300)
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 the certain limits of income, as well as entities qualifying as agricultural producers, may apply for a simplified taxation system (paying single tax). Certain types of business (e.g., insurance) are subject to special tax rules.

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% (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 of services provided by a non-resident, the reverse-charge mechanism is applicable.

Ukraine introduced the electronic VAT administration system in 2015. Taxpayer is 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 unified register 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	Applicable to imported services
Option for taxation	
letting of real estate	✓
supply of used real estate	No
VAT registration threshold**	UAH 1 million (app. EUR 35,000)

* 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.

Special VAT regime for agricultural companies, under which such companies could partly accumulate VAT on their special accounts, was cancelled from 1 January 2017.

The other indirect tax in Ukraine is excise tax. The excisable goods are spirits, beer, tobacco, petroleum, cars, trailers, motorcycles, electricity.

Personal income tax / Social security system

Personal income tax ("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 18% PIT, except for dividends distributed by Ukrainian CIT payers, which are subject to 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 ("SSC") with employer's contribution of 22%. Maximum chargeable amount per month is 25 months' costs of living – UAH 40,000 (approximately EUR 1,400 as of 1 January 2017).

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 28,42	in EUR	in UAH	in EUR	in UAH
	113	**3,200**	**317**	**9,000**
TOTAL WAGE COST	**138**	**122.0%**	**387**	**122.0%**
Social contribution tax	25	22.0%	70	22.0%
GROSS SALARY	**113**	**100.0%**	**317**	**100.0%**
Personal income tax	20	18.0%	57	18.0%
Military tax	2	1.5%	5	1.5%
NET SALARY	**91**	**80.5%**	**255**	**80.5%**

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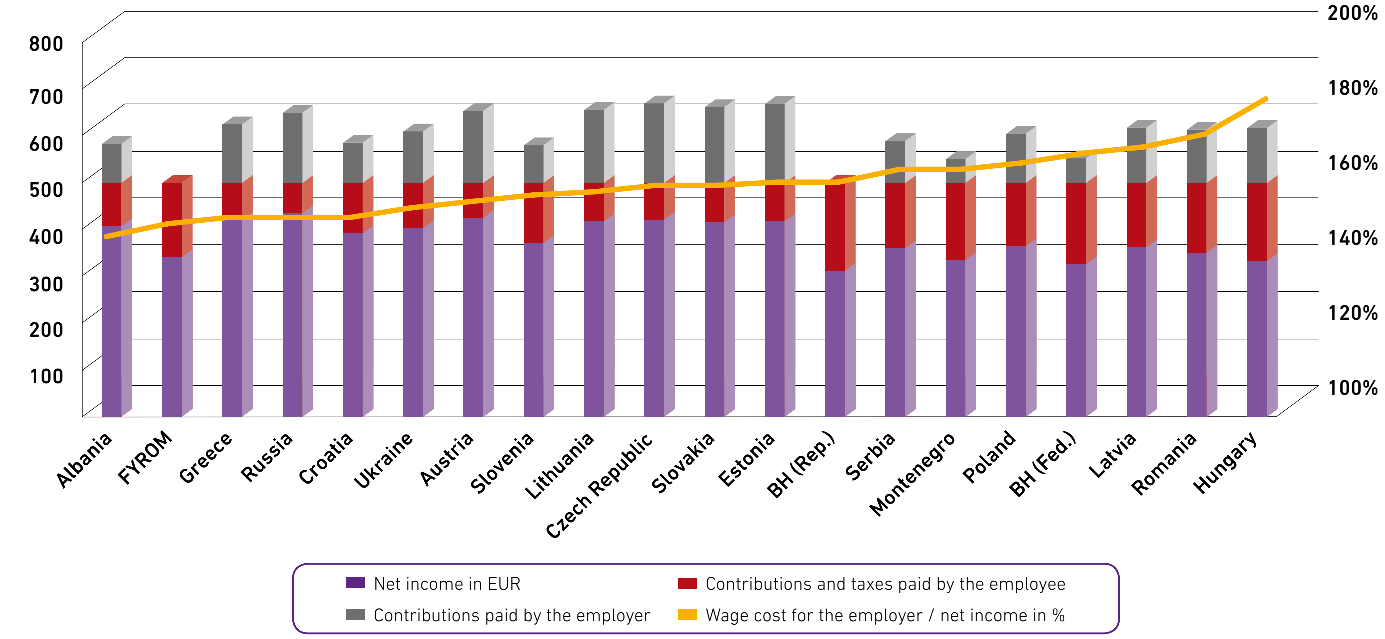
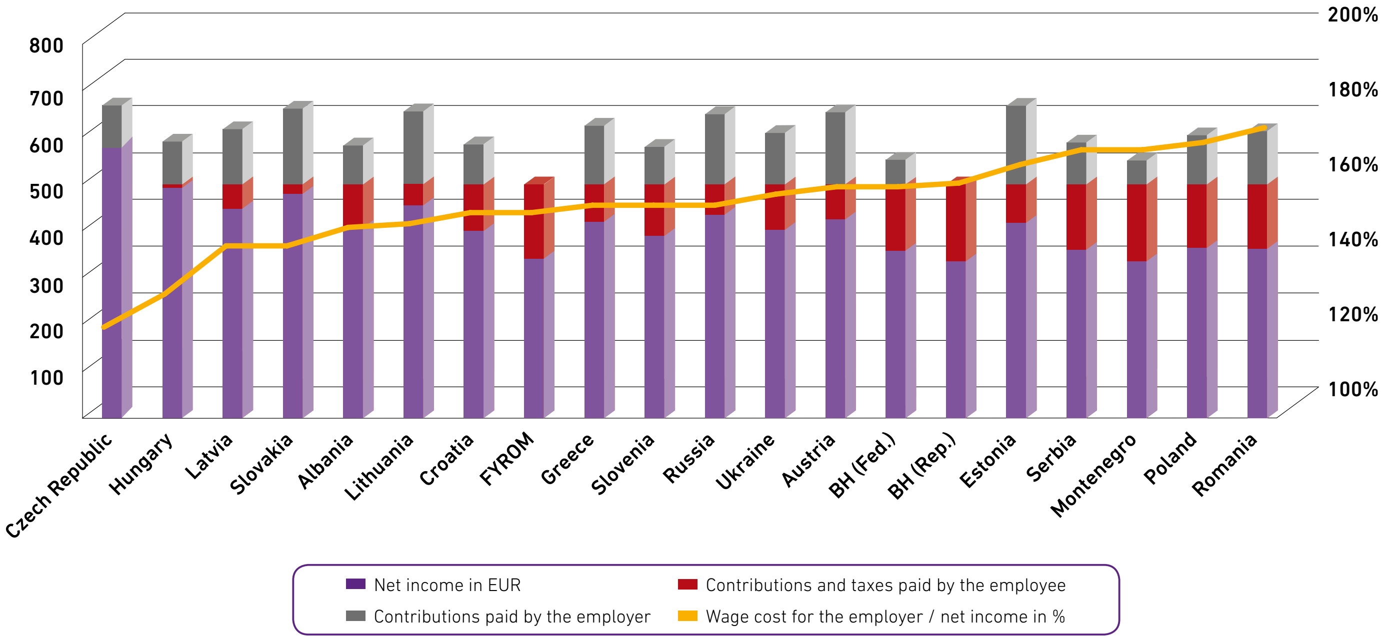
Labour-related tax burdens in the CEE region

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.

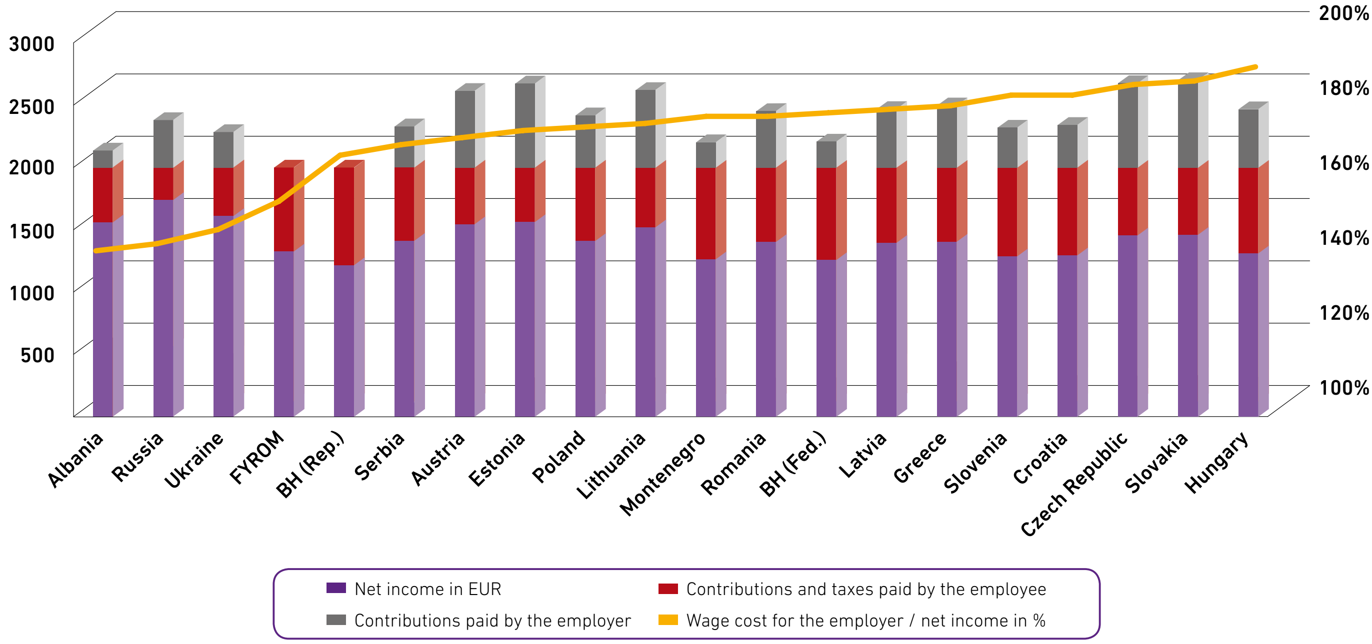
Monthly gross salary of EUR 500 and no family ties



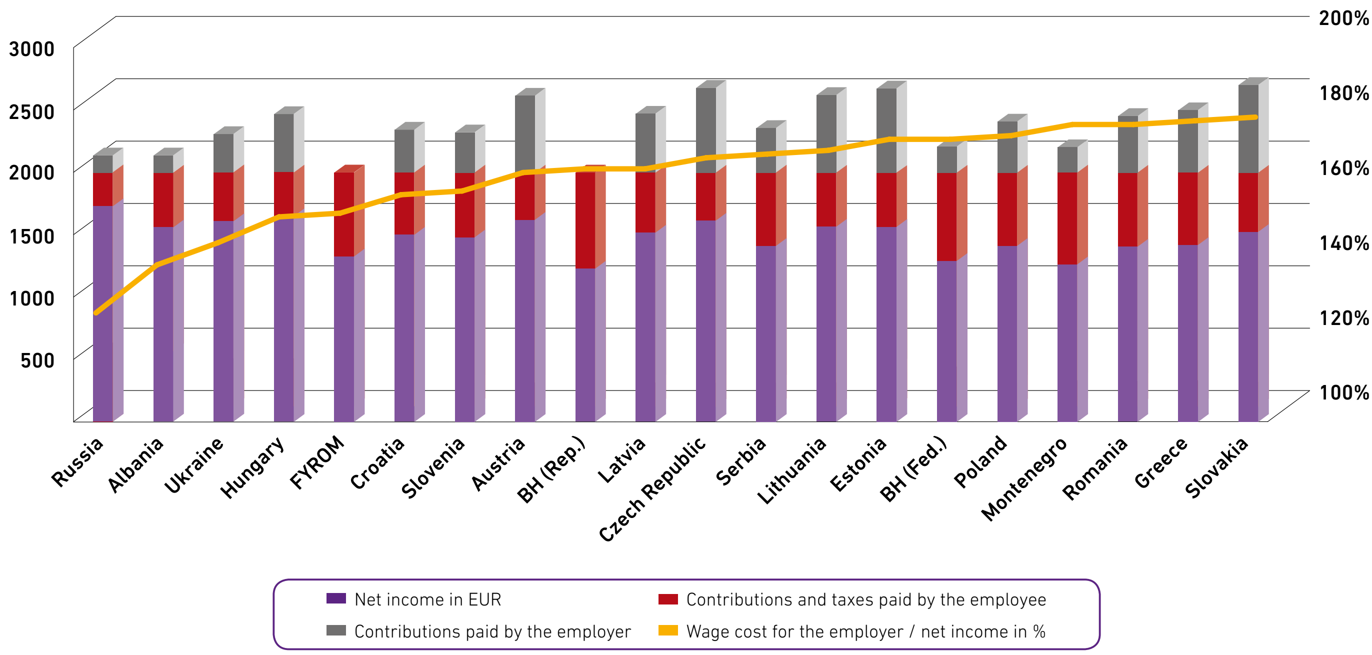
Monthly gross salary of EUR 500 with three children



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.

2017	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%***	✓	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%	33.80%*
FYR Macedonia	18%/5%	10%/0%*/1%**	No	10%	No
Greece	24%/13%/6%	29%	✓	22/29%/37%/45% + 2,2-10,0 additional solidarity tax	25.06%
Hungary	27%/18%/5%	9%	✓	15%	23.5%
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%	15%/19%	✓	18% / 32%	21%*
Romania	19%/9%/5%	16%	✓	16%	22.75%
Russia	18%/15,25%/ 10%/0%	20%	✓	9%/13%/15%/ 30%/35%	30%/10%
Serbia	20%/10%	15%	✓	10%	17.9%
Slovakia	20%/10%	21%	✓	19%/25%	35.2%
Slovenia	22%/9.5%	17%	✓	progressive 16% - 50%	16.1%
Ukraine	20%/7%/0%	18%	✓	18%*	22%

BOSNIA AND HERZEGOVINA * In Federation of BIH; ** In Republika Srpska
CROATIA - * Together with tax return for 2016, taxpayers have to deliver Report on business transactions with related parties (PD-IPO form)
CZECH REPUBLIC * Only on part of the gross income from an employment/tax base from self-employment exceeding CZK 1,355,136 (approx. EUR 50,190) in 2017 ** Applicable on income exceeding CZK 1,355,136 (approx. EUR 50,190) in 2017
ESTONIA * No classical income taxation. 20% is calculated 20/80 from net amount and applicable only for distributed profit and certain costs.
FYR MACEDONIA * companies with a total revenue up to 3 million denars (MKD) ** 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.
MONTENEGRO * in case of monthly salary exceeding a gross amount of EUR 720
POLAND * appoximately
RUSSIA * regressive rate depends on annual amount of remuneration
UKRAINE * Additionally 1.5% temporary military tax should be withheld

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

As of 1st January 2017 , Mazars and its correspondents operate throughout 94 countries. 79 of these countries are part of the Mazars integrated partnership and 15 are Mazars correspondents.

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