

## Central and Eastern Europe

## An excellent investment

Central and Eastern Europe (CEE) represents a market of approximately 350 million people. The CEE region attracted over USD 100 billion foreign direct investment in both 2006 and 2007. Ten of the region's countries are now official members of the European Union, and the number of transactions within the Union and with countries outside the Union has increased significantly.

Besides its attractive business opportunities, the region offers competitive tax regimes and cost-saving planning strategies. In this article we indicate some key tax parameters and highlight attractive features of the tax systems of some CEE countries from an international tax planning and structuring perspective.

### Table 1 : Taxes at a glance

The following table summarizes some important information concerning corporate taxation, indi-

vidual taxation and value added tax. Below you will see commonly applied parameters, however in specific cases there may be exceptions and further data may be available in the country profile. Please note that the reduced VAT rate does not include the 0% rate and the 'VAT-exempt without credit' category.

*The cost of operating a transport company in Central Europe varies greatly from country to country.*



	Corporate income tax	Personal income tax	Social security employer
Albania	10 %	10 %	21.7 %
Armenia	20 %	20 % <sup>2</sup>	15 % - 5 % <sup>3</sup>
Azerbaijan	22 %	14 % / 35 %	22 %
Bosnia Herzegovina	10 %	0 % / 10 % / 15 % <sup>4</sup>	10 % / 42 % <sup>5</sup>
Bulgaria	10 %	10 % <sup>6</sup>	20.04 % - 21.1 %
Croatia	20 %	15 % - 45 %	17.2 %
Czech Republic	21 %	15 % <sup>6</sup>	35 %
Estonia	21/79 <sup>7</sup>	21 % <sup>6</sup>	33.3 %
Georgia	15 %	25 % <sup>6</sup>	-
Hungary	16%+4 %	18 % / 36 % <sup>8</sup>	32 %
Kazakhstan	30 %	10 % <sup>6</sup>	3 %
Latvia	15 %	25 % <sup>6</sup>	24.09 %
Lithuania	15 % / 13 %	15 % / 24 %	30.98 % - 31.7 %
Macedonia	10 %	10 % <sup>6</sup>	-
Moldova	0 %	7 % - 18 %	24 %
Montenegro	9 %	15 % <sup>6</sup>	15 %
Poland	19 %	19 % - 40 %	17.48 % - 20.41 %
Romania	16 %	16 % <sup>6</sup>	27.75 % / 39.85 % <sup>10</sup>
Russia	24 %	13 % <sup>6</sup>	(26 % 2 %) + (0.2 % - 8.5 %)
Serbia	10 %	12 %	17.9 %
Slovakia	19 %	19 %	34.4 % + 0.8 %
Slovenia	22 %	16 % - 41 %	16.1 %
Ukraine	25 %	15 % / 30 % <sup>11</sup>	36.66 % - 49.6 %

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<sup>1</sup> and <sup>2</sup> Source: Taxes at a glance 2008 - PricewaterhouseCoopers

<sup>1</sup> in some cases shorter or longer period may apply / <sup>2</sup> applicable on annual income over AMD 960 000 (EUR 2000) à the rate is AMD 96 000 (EUR 200) + 20% / <sup>3</sup> regressive rate / <sup>4</sup> In Federation rates depend on where a person lives. In Republika Srpska: 0% for lowest annual salary,

10% for average salary, and 15% for salary above average. / <sup>5</sup> 10% is applicable in Federation Bosnia Herzegovina and 42% is applicable in Republika Srpska / <sup>6</sup> flat rate / <sup>7</sup> undistributed profits are tax exempt (21/79 tax applies on the net amount of profit distribution) /

# ment opportunity



**TABLE 2 : INVESTMENT STRUCTURES IN THE CEE – BESTSELLERS**

■ **Hungary – an ideal holding, group financing and IP location**

- No withholding tax on interest, royalties and dividends paid to companies.
- 50% of net interest income from related parties is tax-deductible.
- 50% of gross royalty income is tax-deductible.
- No tax on gains arising from the sale of registered share participations held for more than one year.
- Corporate tax exemption on dividends received.
- Treaty-based exemption from tax on profits of permanent establishments abroad.
- No minimum substance requirements.
- No capital tax.
- Capital and books may be kept in a foreign currency if criteria are met.
- Extensive double tax treaty network, etc.

■ **Poland – Shares Service Centres and Special Economic Zones**

- Poland has the highest population of the CEE Region countries and is an attractive location with a fast developing economy.
- Excellent location for Shared Service Centres (“SSC”); investments in SSC are considered by the Polish government as a priority (various incentives are available).
- Furthermore, Polish legislation provides for investment incentives related to business activities carried out in 14 zones defined as Special Economic Zones. Most of the Special Economic Zones offer income tax exemptions, the maximum equal to 50% of the investment expenditure. If the amount available for deduction exceeds the annual corporate income tax due, the excess can be utilised in the following years.

■ **Slovakia – Cost efficient in manufacturing**

- Flat income tax rate of 19%.
- Flat 19% VAT rate, with a few exemptions where a 10% rate applies.
- Social security contributions capped for employers and employees.
- Calculation of income tax base directly from the IFRS profit for entities reporting under IFRS for Slovak statutory purposes.
- Investment incentives are available in the form of tax credit.

■ **Czech Republic – Business support service centres and technology centres**

- Programmes for the support of business support service centres (e.g. customer contact centres, shared service centres, expert solution centres, software development centres and high-tech repair centres) and for the development of technology centres are focused primarily on investments in human capital, as well as on the training or retraining of skilled staff.
- Both programmes offer identical incentives, but have different qualification requirements.

■ **Romania – Low cost production base**

- The Romanian business environment has become increasingly attractive, especially since EU accession.
- Still low cost production base (comparative to Western Europe or other CEE countries)
- Attractive for relocation of production facilities and set-up of shared service centres
- Various state-aid schemes available, e.g.:
  - investments in industrial parks
  - e-commerce
  - research and development / innovation
  - large investments (>EUR 100m)
  - renewable energy, etc.

Social security employee	VAT general	VAT reduced	Refund period <sup>d</sup>
11.2 %	20 %	-	90 days
3 %	20 %	-	30 days
3 %	18 %	-	5 years
28 %	17 %	-	60 days
13 %	20 %	7 %	4.5 months
20 %	22 %	10 %	30 days
12.5 %	19 %	9 %	30 days
0.6 % - 2.6 %	18 %	5 %	30 days
-	18 %	-	3 months
17 %	20 %	5 %	45 days
13-5 %	13 %	-	60 days <sup>e</sup>
9 %	18 %	5 %	1 year
3 %	18 %	9 %/5 %	90 days
32 %	18 %	5 %	30 days
5 %	20 %	8 %/5 %	45 days
19 %	17 %	7 %	60/30 days
13.71 %	22 %	7 %/3 %	180 days
16.5 % <sup>10</sup>	19 %	9 %	45 days
-	18 %	10 %	-9
17.9 %	18 %	8 %	45/15 days
13.4 %	19 %	10 %	30 days
22.1 %	20 %	8.5 %	60 days
3.5 %	20 %	-	-12

<sup>8</sup> plus 4% solidarity tax on income over HUF 6,748,850 / <sup>9</sup> problematic in practice /  
<sup>10</sup> from December 2008 social security - employer: 25.45%-37.05%; - employee: 15.5% /  
<sup>11</sup> 15% for residents, 30% for non-residents /<sup>12</sup> N/A in the first 12 months of registration


**TABLE 3 : COSTS OF SETTING UP AND OPERATING A TRANSPORT COMPANY**

The conditions of setting up and operating a company may be different country by country. However, this information is essential for a company to decide where and how to invest. In the following table we provide you with some important information concerning the costs and time requirements of

setting up and operating a transport/logistics company in the different CEE countries. We note, however, that these are only general information; in specific cases there may be exceptions and further data may be available in the country profile.

	Typical company forms	Costs of setting up a company <sup>1</sup>		Time requirement of registering a company <sup>1</sup>	Special tax treatment of transport/logistic companies
		Capital requirement	Other expenses of set-up		
Czech Republic	limited-liability company (s.r.o.)	CZK 200,000 (EUR 8,250)	The registration fee is CZK 5,000 (EUR 210).	Approx. 1 month	Monetary grants may be granted to shared service centres if the group decides to locate the centre in the Czech Republic.
	joint-stock company (a.s.)	CZK 2,000,000 (EUR 82,550)	Other fees, for example, payable for issuance of a Trade Certificate from the Trades Licensing Office (each CZK 1,000 [EUR 42]), and for notary services (CZK 5,000 – 15,000 [EUR 210 – 630]).		
	joint-stock company with public stock offer	CZK 20,000,000 (EUR 825,500)			
Estonia	Private Limited Company (osäühing)	EEK 40,000 (EUR 2,560)	EUR 30 (+ EUR 130-200 for licences)	5 working days (in general)	The whole Estonian corporate tax system that provides for an indefinite deferral for taxing corporate profits can be viewed as a tax incentive that promotes re-investment of profits.
	Public Limited Company (aktsiaselts)	EEK 400,000 (EUR 25,600)	EUR 60 (+ EUR 130-200 for licences)	2 hours (electronic registration, for Estonian residents)	
Hungary	Limited Liability Company (Kft)	HUF 500,000 (approx. EUR 1,980)	Stamp duty of max. EUR 400	15 days (in general) or 1 business hour (in a simplified electronic procedure)	Transport/logistic companies may benefit from state aids. Corporate income tax incentive is also available, for example, by creating new jobs (e.g. establishing shared service centres).
	Private Companies Limited by Shares (Rt)	HUF 5 million (approx. EUR 19,800)			
Latvia	Limited liability company (sabiedriba ar ierobežotu atbildību)	LVL 2,000 (approx. EUR 2,850)	LVL 124 (appr. EUR 177) – stamp duty on registration and publication fee upon regular registration procedure and LVL 324 (appr. EUR 461) if urgent registration is required.	3 days (regular registration procedure) or 1 day (urgent registration)	There are special tax incentives for companies operating in Special Economic Zones (in Rezekne and Liepāja cities) and Freeports (in Riga and Ventspils cities) that are mainly used by logistic companies (reduced CIT rate of 5% may be applicable and the real estate tax payable might be reduced by up to 80%). Special licenses might be required (e.g. for transporting the fuel, providing railroad transportation services or operating customs warehouse).
	Public limited company (akciju sabiedriba)	LVL 25,000 (approx. EUR 35,600)	LVL 274 (appr. EUR 390) stamp duty and publication fee upon regular registration procedure. If there is one founder, urgent registration might be performed (within 1 day), while the amount of stamp duty remains the same, i.e. LVL 274.		
Lithuania	Private Limited Liability Company	LTL 10,000 (approx. EUR 2,896)	Notary fee of up to LTL 1,000 (approx. EUR 289) and LTL 200 (approx. EUR 58) for registration	Registration takes up to 5 business days, notary services up to 2 business days	There is a special fixed profit tax for companies involved in international carriage by ships. The profit tax depends on the tonnage of the ship.
	Public Limited Liability Company	LTL 150,000 (approx. EUR 43,443)			
Poland	Limited Liability Company	PLN 50,000 (approx. EUR 11,500)	PLN 1,000-2,000 administrative costs related to official registration (including notary services) stamp duty on registration is 0,5% of the initial capital	In general, about 4-6 weeks from submitting all documents required	Tax on means of transport – imposed on a local level on owners of particular cars, lorries and other means of transport (it is capped, but the actual rate is stated yearly by the district council).
	Joint-stock Company	PLN 500,000 (approx. EUR 115,000)			Environmental fee -payable to local authorities. The fee depends on the kind of car and the volume of fuel consumed by the car.
Romania	Limited Liability Company ("LLC" or SRL in Romanian)	RON 200 (approx. EUR 54)	The approximate costs incurred for setting up a company in Romania would amount between EUR 300 - EUR 500 (this fee, however, does not include the lawyers fee, licenses/ other authorisations required, expenses incurred with the functioning of the registered office).	3 working days after the submission date of the file containing all documents required with the Romanian Trade Registry	Transport/logistic companies may benefit from state aids if eligible under the approved state aid schemes, such as various incentives/grants if the company operates in an industrial park or if it invests in environment and training of personnel.
	Joint Stock Company ("JSC" or SA in Romanian)	RON equivalent of EUR 25,000			

<sup>1</sup> The actual time requirement depends on how fast the company manages to gather required documents that have to be collected prior to the registration