LAW FIRM
GENCS VALTERS
RIGA VILNIUS TALLINN

Riga office - Valdemara Center 3rd floor, Kr. Valdemara 21, LV-1010, Riga, Latvia
T: +371 67 24 00 90 F: +371 67 24 00 91
Tallinn office - Foorum Center 2nd floor, Narva mnt 5, 10117 Tallinn, Estonia
T: +372 61 91 000 F: +372 61 91 007
Vilnius office - Europa Center 10th floor, Konstitucijos av.7, LT-09308, Vilnius, Lithuania
T: +370 52 61 10 00 F: +370 52 61 11 00
info@gencs.eu
www.gencs.eu

SUMMER 2012

TAX & LEGAL NEWS FOR THE BALTIC STATES

Chambers Europe has ranked our firm as top tax advisers in Latvia in 2012

Chambers and Partners has released its global firm rankings for 2012. This is a guide to the world's leading law firms and rankings are provided after extensive independent research and analysis. The Chambers Guides list the top lawyers and law firms in 175 countries. Within each practice area, Chambers ranks firms by designating them as "Band 1 – 6," with Band 1 ranking highest.

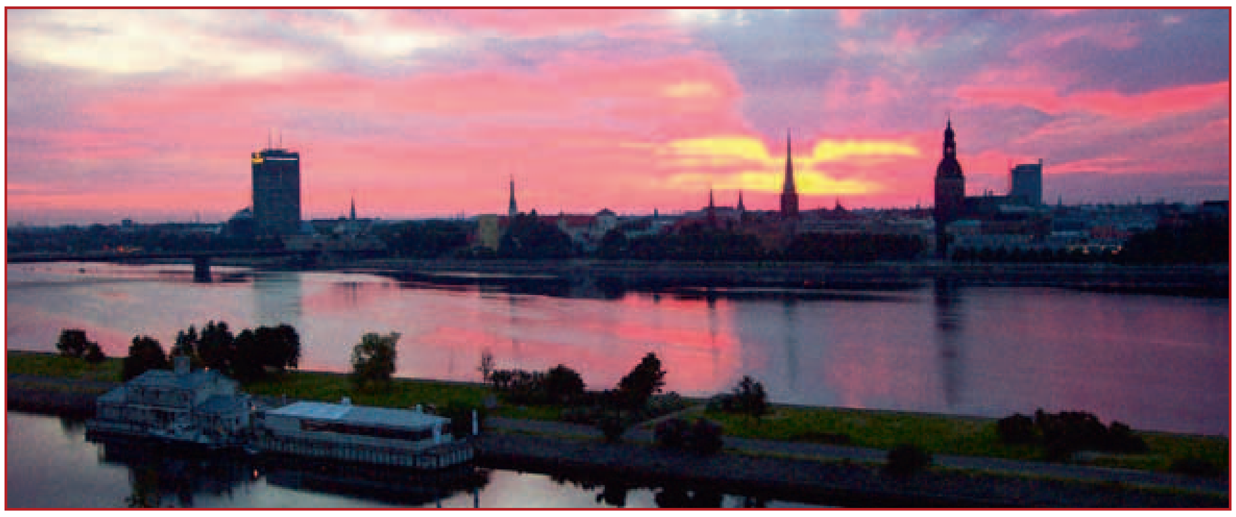
Latvia

Tax (Firm Band 2 / Lawyer Band 1)

THE FIRM Tax forms the core of this prestigious boutique's expertise, and it is active assisting with international and domestic tax planning, tax litigation, cross-border tax issues and market entry strategies. Recently, the firm assisted McDonald's, and its shareholder Malta Premier Capital, with the opening of eight new restaurants in the Baltic states.

Tax specialist Valters Gencs is highly respected by peers. His broad expertise encompasses corporate law, finance, M&A and litigation, and his past experience at an international accounting firm allows him to seamlessly handle matters for foreign investors.

Latvia: The decrease of Personal Income Tax rate in 2013 – 2015



Riga skyline

The Law "On Personal Income Tax" establishes that the tax rate 25% has to be paid from the annual taxable income, income of economic activities and as well as the tax rate has to be paid by the Payer of salary tax from the monthly taxable income.

Parliament of the Republic of Latvia Saeima on May 24, 2012 has adopted and announced on June 6, 2012 the amendments to the Law "On Personal Income Tax", establishing the decrease of the Personal Income Tax rate.

The Personal income Tax rate shall be 20% from January 1, 2015. Until that, from January 1, 2013 – 24%, calculating the Personal Income Tax for the year 2013.

From January 1, 2014 – 22%, calculating the tax for the fiscal year 2014.

If the paid employment income, pension or allowance on the fiscal year 2013., 2014. and 2015 is paid out for the previous years, the pre-existing Personal Income Tax rate shall be imposed to that income.

Lithuanian Corporate Income Tax Changes since September 1st, 2012

Lithuanian Parliament (Seimas) on June 29th, 2012 adopted few changes of the Law on Corporate Income Tax. These changes come into force on 1st September 2012 and are related to the new Lithuanian Law on Small Communities coming into force on the same day. A small community is an absolutely new legal form of a legal person which has been created to facilitate establishment of small and medium business.

As follows, the Law on Corporate Income Tax has been supplemented by provision that amount from which social insurance contributions of a member of the small community are counted and paid, are attributed to allowed deductions. A member's of the small community trip from a permanent work place to perform work tasks or to raise qualification, if properly formalized, is considered as a business trip.

Amendments adopted on June 29th, 2012 and announced on 14th July, 2012.

Changes to immigration and granting residence permits in Estonia

Previously when a person was applying for a residence permit as a member of a board, the permission from the Estonian Unemployment Fund was not necessary, it was also not necessary to meet the salary criterion of an alien.

Starting from 01.07.2012, these requirements only apply if a person is applying as a board member of a legal person governed by public law. If a person is applying as a board member of a legal person governed by private law, the permission from the Estonian Unemployment Fund is still not necessary, but the person must meet the salary criterion that is at least equal to the latest annual average wages in Estonia published by Statistics Estonia, multiplied by the coefficient 1.24. As of right now, the sum is 1050 EUR.

There are new requirements when applying as member of the board of a legal person governed by private law :

1) the legal person governed by private law must have been registered in the Estonian Commercial register at least 5 months previous to filing the application for a residence permit;

2) the legal person governed by private law must have had an actual business in Estonia at least for 5 months previous to filing the application for a residence permit;

3) the settlement of an applicant is significatly important to attainment of the object of the legal person.

Changes to residence permit for business:

1) residence permit may be granted if:

- an alien is holding shares of a company or is acting as a sole proprietor;
- company or sole proprietor is registered in Estonian Commercial register;
- alien has sufficent monetary resources for engaging in business in Estonia.

2) new requirements for sums needed to be invested before applying for a residence permit:

- 65 000 EUR for a company
- 16 000 EUR for a sole proprietor

2.3. equity capital, subordinated liability, the sum of fixed assets are counted in the sum that needs to be invested.

3) extention of residence permit in case of a company: 1 year after receiving residence permit for business the following conditions might be filled instead of requirement of 65 000 EUR:

3.1. company's sales revenue is at least 200 000 EUR per year or

3.2. the paid social tax (33%) is at least 5 times the social tax paid for the avarage salary in Estonia (currently the average salary is 847 EUR before taxes).

4) an alien holding the residence permit for business may work as a member of the board without fee if at least one other legal person governed by private law is meeting the salary requirements of an alien and paying salary to the alien in the sum of at least 1050 EUR per month.

5) application for residence permit for business may be submitted in Estonia, provided that the following conditions are fulfilled:

- the company has been registered in Estonia at least 4 months prior the submission of an application for residence permit;
- the company has conducted business activities in Estonia at least during the last 4 months;
- the person is staying in Estonia legally on the basis of visa-free stay or visa in connection with the activities of the company.
- The description of business plan must be submitted either in Estonian or English language.

Change of taxation regarding common investment funds in Estonia

Ministry of Finance has sent a new draft of changing the Income Tax Act for approval in other ministries. The purpose of the change is to eliminate the unequal treatment of common investment funds established in Estonia and abroad (non-residents). As of now the common investmend fund established in Estonia is not regarded as a tax payer unlike non-residents in some cases. The draft offers a solution for unifying the tax treatment of income on real estate for investment funds. Currently non-resident is charged of income tax on the moment of gains derived from a transfer of property located in Estonia. Common investment fund established in Estonia executing the same transfer is charged of income tax at a later moment when the shareholder has recieved income. According to the draft the transfer of property located in Estonia shall be charged of income tax at the moment of gain for common investment funds established both in Estonia and abroad. Ministry of Economic Affairs and Communications have approved the draft on July 5th, the remaining ministries have yet not made their decision. The changes are planned to enter into force on January 1st, 2013.

Lithuania: Claim to Refund Money Paid for Invalid Shares Emission of Bank "Snoras" Withdrawn

Vilnius Regional Court by the 28th June judgment withdrew a claim of bank's "Snoras" new shares emission buyers, whereby investors asked the court to refund money paid to the bank account with the intention to acquiring shares of the bank "Snoras". Bank "Snoras" intended to increase the authorized capital using also this money by issuing the new 110.079.615 EUR shares emission. However, the Lithuanian Central bank did not give a permission to increase the authorized capital and, moreover, canceled bank's "Snoras" license in November 2011. In December 2011 the bankruptcy case for "Snoras" was started by the Vilnius Regional Court judgment.

Vilnius Regional Court in the 28th June judgment stated that property rights to the money paid by new shares emission buyers passed to the bank "Snoras" since this money appeared in the bank account. The argument that investors paid money and did not acquire shares was not sufficient for the court to satisfy the claim. Notwithstanding, the court suggested investors claiming their money in the "Snoras" bankruptcy case together with the rest of creditors.

This judgment is not final and binding and it can be appealed for the Lithuanian Court of Appeal in 30 days. Investors disappointed by the court judgment are likely to appeal it.

VAT changes in Lithuania in 2012

Since 2012 the company has the obligation to register as a VAT payer in Lithuania if its turnover per year is more than 45.000 EUR (instead of 29.000 EUR, which was before the year 2012). It is expected that this amendment will be the incentive to start the small business. "Turnover per year" means only the turnover received from the selling goods and supplying services in the country's territory (before these changes all the turnover including sales and services outside the country's territory were taken into account).

Moreover, in case the turnover per year of the person / legal person who is not registered as VAT payer exceeds 45.000 EUR, the VAT shall be calculated and paid not only from the part exceeding this amount, but from all the transaction's value which was the reason of exceeding the limit.

For one year the preference VAT rate for the heating as well as for a hot water (9%) and for recoverable pharmaceuticals (5%) was prolonged. General VAT rate in Lithuania remains 21%.

Starting from 2012, general VAT rate of 21 % is again applied for the hotel services and special settlement services (for the period from 1 Jan 2011 to 31 Dec 2011 there was a preferred VAT rate of 9% applied).

Our office in Vilnius is located in Europa Center bulding on 10th floor along with the American Chamber of Commerce.

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Latvia: Amendments on the Law on Corporate Income Tax regarding stocks and dividends

From year 2013 are expected remarkable changes in the field of Corporate Income Tax, what shall affect stocks and taxes, what are imposed with CIT when alienating stocks. These amendments in the Law include rules, what shall be in force from year 2013, and what shall make Latvia attractive for Holding companies.

Therefore from 2013 income from alienating stocks shall not be imposed with CIT, except, if the stocks shall be alienated from Holding companies located in low tax countries.

It is important to note that standarts of Latvia are very liberal comparing to other countries, because there is not established minimuml participation time limit, nor minimum stock holding time limit, nor other restrictions in relation to stocks.

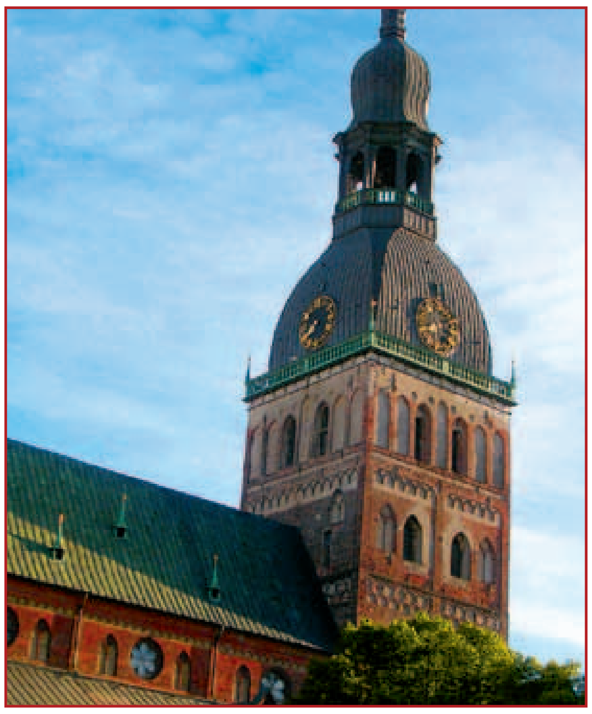
It has to be noted that according to Law, Stocks are also shares and other documents, what give the right to receive dividends.

Under the current Law, CIT is imposed to dividends, what have been received from Latvian Companies and if these companies apply corporate income tax discounts, offshore companies (not including the European Economic Area (EEA) countries) in what Latvian tax payer owns less than 25% of votes and other offshore companies. Starting from year 2012 dividends were imposed with CIT only if they were received from offshore companies.

Currently dividends paid out from European Union (EU) and EEA companies are not imposed with tax, but paying dividends to other countries, tax is imposed exempt either 10% or 5% rate.

Starting from year 2013 tax shall not be imposed on dividends to non-residents, except residents of low tax countries.

Dividends what shall be paid from latvian company to company located in low tax country, shall be imposed 15% tax rate instead of 10%.



From year 2013 shall not be in force the rule, establishing extending and to use later the losses from alienating the securities (except stocks).