



Investment in the Baltic States

A comparative guide to investment
in Estonia, Latvia and Lithuania

KPMG in the Baltics

Preface

Investment in the Baltic States is one of a series of booklets published by KPMG to provide information to those considering investing or doing business in various countries.

This publication has been prepared by KPMG in Estonia, Latvia and Lithuania to assist those contemplating investment or commencing operations in the Baltic states. KPMG in the Baltics provides audit, tax and advisory services for local and multinational companies, government entities and inward investors.

The information in this booklet is of a general nature and should be used only as a guide for preliminary planning purposes. Because of the continually changing legislative environment in the Baltics, the complexity of corporate, tax and social laws and regulations in each country and the steadily evolving nature of the respective economies, comprehensive professional advice and assistance should always be obtained before implementing any plan to invest in or immigrate to the Baltic states.

KPMG with more than 300 staff in the Baltic states can provide such assistance and would be pleased to provide more detailed information on matters discussed in this publication.

Every care has been taken to ensure that the information presented in this edition is correct and accurate as of 1 April 2015.

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Country profile



Country profile

Estonia

General information

Estonia is a forward thinking, ambitious nation with a rich heritage, melding western influences with an eastern hunger for success. Currently, Estonia is very pro-business with one of the most liberal trade and investment policies in Europe. It was the first country in Europe to introduce a flat tax which ushered in an era of prosperity. Since then, many other countries have followed Estonia's lead.

Estonia is an attractive investment location in the Baltic Sea region and has been successful in attracting foreign direct investment (FDI). This development of FDI stock vividly demonstrates the economic potential of Estonia. Countries that are more successful at attracting FDI will achieve more rapid convergence towards the EU's average economic development level. An influx of FDI involves a technological and management know-how transfer into the firms and industries being invested in. In addition, Estonia's status as an EU member state translates into long term stability. As of 1 January 2011, Estonia is a member of the euro area, which will further enhance the country's trade and tourism.

The Estonian economy is highly integrated with the Scandinavian countries. Finland and Sweden have had positive influences on Estonian economic development. Scandinavian countries are well-known for their technological and telecommunication innovations. Due to the integration with Scandinavian countries, Estonia is advanced in terms of the level of telecommunications' infrastructure in Central and Eastern Europe.

Geography and climate

Estonia is located on the eastern coast of the Baltic Sea, sharing borders with Latvia in the south and Russia in the east. Its nearest overseas neighbours are Finland and Sweden.

The territory of Estonia is 45,226 sq km, which is slightly larger than the Netherlands, but with only 10% of the population. There are over 1,500 islands and a comparable number of rivers and lakes. The terrain of Estonia is varied; approximately 40% is

forested and an additional 20% has swamps and bogs. Estonia also possesses some mineral resources.

Estonia lies in the transitional zone between a continental and maritime climate. The proximity of the Baltic Sea influences the weather conditions. The warmest month is July, with an average temperature of 20°C, and the coldest month is January with an average temperature of -6°C.

Population and language

According to *Statistics Estonia*, as of January 2013, the population of Estonia was 1,286,540. Approximately 69% of the population is Estonian, 26% Russian and 6% comprise other nationalities. The non-Estonian population lives predominantly in the country's northeastern industrial towns and mining areas. About 65% of the population live in urban areas.

Major cities include the capital city of Tallinn with a population of over 420,000 and Tartu with 98,000 people.

The official language is Estonian, which belongs to the Balto-Finnic group of the Finno-Ugric languages and is closely related to Finnish and distantly related to Hungarian. The Latin alphabet is used in written Estonian. Russian and English are also widely spoken.

Evangelist Lutheran is the dominant religion in Estonia.

Political system in Estonia

Estonia is a parliamentary democracy with a legislative, executive and judicial branch. The judiciary is based on a civil law system, with no judicial review over legislative acts.

The unicameral Parliament (Riigikogu) holds the most power. Its 101 members are elected every 4 years. The Parliament appoints and confirms the prime minister and elects the president every 5 years.

As a result of the March 2015 general elections in Estonia victory was achieved by the two major ruling parties: Reformierakond and Keskerakond. Reformierakond's incumbent, Prime Minister Taavi Rõivas, formed a new coalition composed of Reformierakond, IRL (Isamaa and Res Publica's union) and Sotsiaaldemokraatlik erakond.

The latest presidential elections in Estonia were held in September 2011. The office of president is currently held by Toomas-Hendrik Ilves, who was born in Stockholm, Sweden to ethnic Estonian parents. President Ilves has previously served as the ambassador of Estonia to the United States, Canada, and Mexico. The office of president, which he currently holds, has a largely ceremonial role. The next presidential elections will be held in September 2016.

Estonia's mid-/long-term government strategy

Foreign direct investments

The Government aims to maintain a favourable business climate in Estonia, including equal treatment of local and foreign capital, easiness of doing business and a low level of corruption.

The main objectives in the field of foreign investments for the period 2012–2014 are:

- concentrating efforts on target countries (Nordic countries, other most developed economies) and successful sectors (machinery and metalworking, electronics, ICT, shared services and logistics) using a professional network of advisors in foreign offices and the head office;
- offering higher value for investors in future growth areas like smart transport and clean-tech;
- preparing efficient support schemes for export-oriented and innovative FDI.

Export promotion

Being a small country with a historically liberal trade regime, Estonia aims to improve its export capacity and the international competitiveness of businesses operating in the country.

The main objectives and activities in the field of exports for the period 2012–2014 include:

- contributing to Estonia's economic growth via promoting export products and services with higher value added;
- increasing further the share of Estonia's export in world trade to 0.100% by 2015;
- a shift to a more holistic and tailor-made support measures to exporting companies whose main focus is on services to increase their capabilities.

Education and innovation

Facilitating innovation and implementing new knowledge and skills is seen as the main source for sustainable development.

Government measures and policy making are aimed at the following objectives.

- The total expenditure on research and development is planned to be increased to 3% of GDP by 2014, of which business sector R&D investments would cover more than a half (1.6% of GDP).
- The proportion of specialists involved in R&D has to increase to eight researchers and engineers per 1,000 employees.
- The productivity of enterprises per employee has to reach to 80% of the average of the European Union 25 member states (EU 25).

Environmentally friendly economy and energy

- Increasing the share of renewable energy in final consumption of energy to 23.6% by 2015 and to 25% by 2020;
- Only a moderate growth of greenhouse gas emissions (Estonia's target by 2020 is +11% compared to 2005);
- Keeping the end consumption of energy at 2010 levels (the target for 2020 is 2818 ktoe).

Sustainable state

- Maintain the structural surplus of the government budget: Estonia's target level for 2015 is 0.7% of GDP;
- By 2015 all Estonian households, enterprises and institutions will have access to the broadband network with a data connection speed of up to 100 Mbit/s.

Overall investment environment

Estonia's economy is stable, its public debt is one of the smallest in Europe, and the leading banks are owned by banks registered in the Nordic countries. The attractiveness of the country is demonstrated by the large number of foreign investors doing business in Estonia and the dominance of world-renowned foreign companies in several of Estonia's economic sectors. Foreign impact is also evident from the fact that export represents more than 100% of Estonian GDP.

In Estonia, foreign investors are treated the same as domestic ones, and European Union subsidies, for instance, are equally available for both foreign and domestic companies. Estonia's advantageous and user-friendly business environment has attracted a great number of foreign investors and large companies of international renown to the country, like Ericsson, Kuehne+Nagel, ABB, Stora Enso, Symantec, Stoneridge, Vopak EOS, Deutsche Post DHL and many others. The fact that Estonian banks are mostly owned by well-known Nordic banks, such as Swedbank and SEB, is also a testament to the reliability of Estonia's business environment.

In the Global Competitiveness Report 2013-2014 by the World Economic Forum, Estonia ranked 32nd among 148 economies. Estonia outpaced many other European countries such as Portugal, Spain, Italy and the Czech Republic. Other Eastern European countries also ranked behind Estonia. Based on World Bank data comprising 185 countries, in 2014 Estonia ranked 22nd in terms of ease of doing business.

Estonia has also one of the most liberal investment and trade policies in Europe. The Wall Street Journal's Index of Economic Freedom for 2014 rates Estonia 11th in the world. The ranking is based on factors like trade and monetary policy, government intervention in the economy, property rights, wages and prices, capital flows and foreign investment. According to this index, Estonia is even ahead of countries like USA, UK, Sweden, Finland, Japan, and Germany.

Taxes

The Estonian tax system is simple and transparent. Everything tax-related is managed through the fully automatic online Tax Board.

In order to encourage companies to invest in the expansion of their businesses, all corporate investments were exempted from corporate income tax from 1 January 2000. The Estonian tax system's stability and independence from short-term political decisions supports the overall business environment.

The income tax rate in Estonia for 2014 is 21% and the VAT is 20%.

Currency

Estonia adopted the euro on 1 January 2011, becoming the 17th member of the euro area.

Export and Import

Export holds a prominent position in the Estonian economy and its growth. The volume of export of goods and services amounts to 100% of the Estonian GDP with export of services constituting about 25% thereof. Also more than two-thirds of the Estonian industrial production is exported.

More than 50% of Estonia's exports go to other countries in the Baltic Sea region. Nordic countries – Finland and Sweden – hold a prominent position among Estonia's export partners.

Estonia imports mainly from Finland, Latvia, Sweden and Germany.

Estonia exports mainly machinery and appliances, mineral products, metals and articles thereof and wood products. The largest import articles are to a large extent the same, plus transport equipment, chemical products and food products.

Labour market

Labour market regulation in Estonia is considered to be relatively flexible by entrepreneurs. Flexible labour market regulation translates as ease in recruiting and dismissal of employees and a level of minimum wage that is encouraging for business activity. Enhancing labour productivity has been a key area, and the recently enacted labour law aims to increase flexibility by reducing layoff costs.

Estonia's labour market is well qualified to deal with markets to the east of the Baltic region. Estonians are highly educated, multi-lingual and possess in-depth business knowledge and experience with Russia and the CIS. They understand the markets and speak the language, making Estonia a good choice for businesses that want to excel in trade and commerce with Russia.

About 59% of the Estonian labour force works in various branches of the services sector, approximately 35% is occupied in industry and the remaining 6% deal with agriculture, fisheries and forestry.

Shared services

Estonia's success in being a world-leading shared service location is supported by its **business friendly environment**, which includes a multi-lingual and productive workforce, advanced IT infrastructure and e-commerce, a growing economy and low country risk. This country possesses an exceptional business environment that has

facilitated highly successful companies like SKYPE, Playtech, Swedbank, Ericsson, Tallink Group, ABB and others to flourish.

Estonia's **strengths are reflected in recent independent research** by AT Kearney and The Sourcing Line, which independently rank Estonia as the world's 11th and 3rd most attractive shared services location, respectively.

Estonia's attractiveness in the field of shared services is supported by the **government's commitment** to the sector through a selective assistance programme, which provides financial assistance towards fixed asset, recruitment and training costs associated with entering the Estonian shared service market or expanding existing operations.

Amongst many others, Rieber, EU, NATO, Statoil Fuel and Retail, Telia Sonera, Finnair as well as Kuehne+Nagel are just some who have recently chosen Estonia as their shared service location.

Today's shared services sector is characterised by activity across all segments, niche expertise in finance and IT and **world-leading organisations deriving** benefits such as improved service, cost savings and performance enhancement.

Key economic indicators

	2014*	2015*	2016*	2017*
GDP at current prices, EUR bn	19.5	20.3	21.4	22.8
Real GDP growth (%)	2.1	2.0	2.9	3.4
GDP deflator (%)	2.1	2.0	2.6	2.9
Consumer price index (%)	-0.1	0.2	2.2	2.7
Employment (15–74 years old, thousands)	624.8	628.8	626.9	624.0
Employment growth (%)	0.6	0.6	-0.3	-0.5
Growth of labour productivity (%)	1.5	1.3	3.1	3.9
Unemployment rate (ILO)	7.4	6.1	5.8	5.5
Average salary (EUR)	1001	1049	1104	1170
Real salary growth (%)	5.6	4.8	5.2	6.0
Current account (% of GDP)	-0.1	-0.8	-1.0	-0.8

*Forecast

Source: Ministry of Finance Spring 2015 forecast

Infrastructure

Due to its favourable economic and geographical position, Estonia has become a transit gateway for east-west as well as north-south trade. Its location is ideal for the creation of efficient transportation links and distribution chains of goods and services for companies in Europe and in other parts of the world.

Estonia has also a highly developed telecommunications and IT infrastructure. A fiber optic backbone network connects all Estonian country centres.

By 2015, all Estonian households, enterprises and institutions will have access to broadband with a data connection speed of up to 100 Mbit/s. The Estonian Broadband Development Foundation's objective is to build a network of fiber optic cables across Estonia to make that possible.

Estonia is completely covered by digital networks providing wireless internet. A network of "Public Access Points" covers most cities and towns.

International membership

Estonia belongs to about 180 international organisations, including: United Nations (1991), Organisation for Security and Co-operation in Europe (1991), World Bank (1992) and EBRD (European Bank for Reconstruction and Development) (1992), International Monetary Fund (1992), World Trade Organisation (1999), European Union (2004) and North Atlantic Treaty Organisation (2004). Participation in these organisations is integral to the stability of Estonia.

This chapter was prepared with the assistance of the Estonian Investment Agency.



www.investinestonia.com

Latvia

General information

The history of Latvia as a crossroads of east and west, Hanseatic and European, has created a society that is cosmopolitan, western-oriented and multi-lingual. Latvians are well-educated and ambitious. Logistically and culturally Latvia is perfectly suitable as a business hub in Northern Europe and a base for east-west trade.

Ultimately, opportunity must be in balance with stability. Recently, Latvia has provided both – diverse business opportunities based on the security of the EU and NATO. Currently, Latvia is rated 23rd in the world for ease of doing business (World Bank Report “Doing Business” 2015). Despite the recent economic challenges, a business-friendly approach is still present, and the government is implementing a stimulus programme designed to encourage business development.

Latvia has an abundance of potential business ventures, largely increased by the great entrepreneurial spirit running through the country. However, it is not just the potential of Latvia that makes investing so appealing; it is also the location of Latvia in the most dynamic regional market in Europe – the Baltic Sea region – with seamless access to 100 million consumers.

Today, many attractive merger and acquisition possibilities are available in a variety of sectors such as renewable energy, woodworking, construction materials, industrial real estate and others. In addition, Latvian companies and research institutions are eager to set up new joint ventures with international partners.

Geography and climate

Latvia is located next to the Baltic Sea and shares borders with Estonia, Lithuania, Russia and Belarus. Its territory covers 64,589 sq km and is composed of low-lying plains, with vast forests. Latvia is renowned for its beautiful landscape and unpolluted environment. There is an abundance of rivers, lakes, and a beautiful coastline that make this land exciting from a recreational perspective.

Latvia is an important centre connecting the Baltic states. Vilnius and Tallinn, the capital cities of Lithuania and Estonia are easily accessible by car, rail or air. The location of Latvia serves as a main transport route connecting Russia with Western Europe. The ports of Riga, Liepaja and Ventspils are active with shipments from throughout the region and remain navigable during the winter.

Latvia has a temperate maritime and continental climate. The average temperature in summer in the capital is about +18°C (about 64°F) and the average temperature in winter is -5°C (about 23°F). The warmest month is July, the coldest – February. The weather in autumn and spring is relatively mild.

Population and language

Currently, the population of Latvia is 2 million, with a population density of about 31 inhabitants per sq km. In Riga, the capital city, there are approximately 643,368 inhabitants, representing 32% of the country's population. Other major cities include Daugavpils, Liepaja, Jelgava, Jurmala and Ventspils.

61.1% of the population are Latvian, 26.2% are Russian and the rest are Belarusian, Ukrainian and other nationalities.

The official language is Latvian though Russian, English and German are widely spoken.

Political system in Latvia

Latvia is an independent democratic republic represented by a parliamentary body, the Saeima, whose members are elected in a 4-year cycle. The Saeima elects the president who holds office for a period of 4 years. The Saeima also has the right to legislate under the provisions stated in the constitution (Satversme). Bills may be submitted to the Saeima by the president, the Cabinet or committees of the Saeima, by not less than five members of the Saeima, or by one-tenth of the electorate.

The most recent elections of the Saeima were held on 4 October 2014 and the next elections will take place on 6 October 2018.

The president represents the State in all international relations, and appoints the prime minister as well as the diplomatic representatives of Latvia. The president promulgates the decisions of the Saeima and has the right to initiate legislation.

The prime minister, who is appointed by the president, nominates ministers to form the government. When the prime minister submits the list of cabinet ministers and the proposed government activity plan to the Saeima and receives a vote of confidence, the appointees become official and can start to fulfil their duties.

The prime minister determines the general direction of the government's activities and manages the activities of the Cabinet of Ministers. The prime minister is responsible for the governmental activities and initiatives of the Cabinet of Ministers to the Saeima.

The final arm of the government is the judiciary. Judicial power in the Republic of Latvia is vested in district (city) courts, regional courts, the Supreme Court and the Constitutional Court, and this power is independent.

Overall investment environment

Latvia has been a member of the EU since 2004 and it has established itself as an agile and open economy. With rapid GDP growth rates between 4-5% from 2011 – 2013, and consistent growth of 2.4% in 2014, Latvia has fully recovered from the economic recession and stagnation has been replaced by business stability and a positive outlook. The economic achievement has come about due to a rapid rise in industrial output and diversification of export markets, as well as products and services, which now make up 58.6% of GDP, and solid inflows of foreign direct investments (FDI), which amounted to EUR 12 billion in 2014. The government of Latvia acknowledges the importance of attracting FDI to sustain economic development. Latvia has consistently pursued liberal trade policies and always welcomed FDI by creating an open and attractive business environment characterized by the following:

- tax rates among the lowest in Europe
- skilled, multi-lingual labour at reasonable costs
- business without borders within the EU under European-wide legislation.

- transparent legal and judicial system
- efficient start-up procedure (company registration in 1 day)
- business experience with Russia and CIS countries
- developed communications infrastructure
- high quality of life
- state support programmes.

Latvia offers a myriad of incentives for potential investors. Many of them come about due to its strategic geographic location, historically strong sectors, and innovative, hardworking citizens. But other advantages are guaranteed by the government, which has set forth the attraction of investment as a national priority, e.g.:

- Tax incentives:
 - four Special Economic Zones providing 80% rebate on real estate tax, CIT and withholding tax
 - corporate income tax rebate for large-scale (>EUR 10 million) investment projects
 - beneficial depreciation ratio for new technological equipment and R&D activities
 - loss carry forward indefinitely
 - holding company regime
- Labour related incentives at different stages of the hiring process:
 - finding relevant personnel
 - pre-hiring training
 - job creation grants
 - raising qualification of employees
- Financial incentives:
 - state and EU rendered loans
 - credit Guarantees
 - venture capital
- Support for innovations and R&D
- Temporary residence permits.

Companies that would like to join in Latvia's success have access to support in setting up their business in the form of a 'one-stop shop' that is the Investment and Development Agency of Latvia (LIAA), which acts as a first point of contact for potential investors. LIAA offers guidance and support throughout the investment process, from preparation and initiation, through implementation, to ongoing follow-up using the POLARIS Process, which is a practical and flexible methodology that enables efficient communication, cooperation and execution of tasks among the broad

range of stakeholders (public and private) involved in investment projects. As LIAA is representative of the Ministry of Economics for working with investors, its services are available free of charge.

Finally, Latvia is also aware that active dialogue between the government and foreign investors is a continuous process. The Foreign Investors Council in Latvia regularly discusses the key investment issues with the government and most foreign companies find that they have easy access to officials and decision makers.

National FDI strategy

After 3 years of research on global economic trends, the capacity of national and local authorities and companies, and the potential of research organisations located in Latvia, an investment strategy called the **POLARIS Process** has been developed to promote investments in Latvia and facilitate growth of the Latvian economy. The research identified the key sectors where Latvia has unique selling points to foreign direct investors.

The key sectors are as follows:

- woodworking
- metalworking, machinery and electronics
- transport and logistics
- information technologies (including Global Business Services)
- healthcare
- life sciences
- green technologies
- food processing.

The strategy is based on the alliance among the public sector including national and local governments, the private sector covering national and international companies, investors willing to invest in Latvia, and, finally, major Latvian academic institutions incorporating the main universities and research institutions.

The prime focus of the strategy is to unify the cooperation among stakeholders and identify particular tasks for the involved parties to ensure an efficient business environment for investors. The process employs a methodology ensuring that whenever an investor wants to invest in Latvia's key sectors, they can easily become an active part of the POLARIS Process and access all the provided benefits.

Although respective services have been provided by the governmental and municipal institutions before the POLARIS Process, never have these services been ensured to such an extent and integrity. The POLARIS Process unites and combines high-level state institutions, municipalities, universities, industrial associations and private companies into a harmonized system.

The long, solid history and existing competence of Latvian universities and research institutions in the target sectors constitute an integral part of the POLARIS Process,

providing a depth of knowledge. This knowledge about the sector combined with alliances with the public, private and academic sectors equals a recipe for essential economic advantage.

The POLARIS Process is a tool to be used by foreign direct investors looking for something beyond a low-cost investment. The alliance and the knowledge provided will assist in selecting a site for the investment, as well as a rapid launch of the investment project. This is an ongoing strategy and it ensures the establishment of long-lasting relationship with investors. The POLARIS Process has been designed to be successfully implemented, allowing all the aforementioned objectives to be achieved.

Taxes

The tax burden in Latvia is one of the lowest in the European Union at 35.

The corporate income tax rate in Latvia is among the lowest in Europe at a flat rate of 15% and dividends. As of 2014 the holding company regime became fully effective in Latvia.

From 1 January 2015, personal income tax was decreased from 24% to 23% and the same rate was applicable to an individuals' business income. Starting from January 2014 the social tax was reduced from 35.09% to 34.09%. As well as the decrease of personal income tax, Latvia has reduced its value added tax rate by 1 percentage point: from 22% to 21% starting from 1 July 2012.

Currency

Until the end of 2013, the national currency of Latvia was the Latvian lat (LVL 1 = 100 santims). On 1 January 2014 Latvia adopted the euro which replaced the lat. Since 1 January 2005, the Latvian lat had been pegged to the euro at a rate of EUR 1 = LVL 0.702804. The same exchange rate was retained when the euro was adapted as the national currency of Latvia. The country's monetary policy is supervised by the Bank of Latvia.

Export and import

According to provisional data from 2014, the key export markets of Latvia were European Union (EU 28) countries with a share of 65.9% followed by export to the CIS countries at 14.4%. Likewise the European Union and the CIS countries are also the main suppliers of Latvia's imports (76.3% and 11.6%). The key trading partners of Latvia are Lithuania (18% of both the total export and the total import trade turnover), Germany (7% and 11%, respectively), Estonia (12% and 8%, respectively), the Russian Federation (11% and 8%, respectively) and Poland (6% and 11%, respectively).

Growth of exports is based on the growth of the manufacturing industry. Volumes have increased in almost all production sectors, but the fastest growing is the production of construction materials, computers, electronic and optical products, electrical equipment as well food and wood products.

Labour market

Today, business is concerned with decreasing costs while maintaining quality standards. The highly educated workforce is rated as one of the most qualified in Europe in terms of university students per capita.

Latvia possesses:

- a highly educated and multi-lingual workforce
- a northern European culture
- in depth business knowledge and experience with Russia and the CIS.

The history of Latvia provides an extensive experience and business knowledge when working with Russia and other CIS countries.

According to Eurostat research (October 2014), Latvians have the highest foreign language skills among the EU countries as two foreign languages are known by 50.8% of working population. The most popular foreign language among the employed is Russian, with 70.6% of survey participants evaluating their knowledge of Russian as proficient. The most popular language among young people under 35 is English, followed by German. Other popular languages in Latvia are French, Italian, and Polish. Because of the interesting Scandinavian labour market, some Scandinavian languages (Swedish and Norwegian) are becoming more and more popular among Latvians. As more and more companies develop their international presence, foreign languages are studied at more advanced levels not just in higher education institutions but also in language courses as business requirements dictate.

Latvian labour prices are very competitive, especially in comparison with those in Western Europe. For example, the level of compensation for unskilled jobs is three to four times lower than in such Western European countries as Germany and France, while in terms of wage adjusted labour productivity Latvia is ahead of most EU member states.

Shared services

Organisations are increasingly using global process owners to drive process efficiency and standardisation across their shared services. Choosing the right country for shared service locations is critical to successful outsourcing and the key factors in selecting the right location are still those related to labour: quality, cost and language skills.

Latvia still qualifies as a cost competitive location compared to other Western and Scandinavian countries. Riga itself is the largest city in the Baltic States and Northern Europe with a population of 643,368 inhabitants. This makes it only slightly smaller than Stockholm as with outlying suburbs Riga's population increases to 1.03 million. Riga is not only the transport and logistics hub of the Baltics, but it is also the heart of financial services in the region. It also boasts a centre for education and knowledge-based industries including a large number of accounting, HR and economics specialists with proficiency in English, German, Russian, Scandinavian and other languages. These attributes have turned Riga into an excellent location for global business service operations in the fields of finance, customer care, HR, logistics, and procurement.

Global Business Service Centres are one of the many rapidly growing business sectors in Latvia. There have been over 35 shared service and business process outsourcing centres established in Latvia in recent years, which employ more than 5,500 staff. The sector is not saturated; therefore new players in the market are welcome without significant impact on the existing ones. Existing centres are known as desirable

employers with high requirements and good working conditions. In turn, this positive industry image helps to attract an educated, multi-lingual and solution-driven workforce, which not only executes given tasks but adds significant value to the company.

Companies such as SEB Group (Sweden), Cytec, Cabot Corporation (both USA), Statoil Fuel and Retail (Canada/ Norway), Atea and DNB (Norway) have chosen to locate their multi-functional SSCs in Riga to support their core operations across the globe allowing businesses to focus on business.

The key reasons for opening a shared service centre are a good business climate, an educated, competitive and efficient workforce, including low labour costs, Nordic working culture, geographical location and developed IT and transportation infrastructure.

Key economic indicators

In 2014, the GDP growth was 2.4% and Latvia's GDP per capita reached EUR 12,051.

	2008	2009	2010	2011	2012	2013	2014*
GDP at current prices, EUR bn	22.9	18.6	18.2	20.3	22.1	23.3	24.06
Real GDP growth, %	-3.3	-17.7	-0.9	5.5	5.2	4.1	2.4
GDP per capita, EUR	10,509	8,682	8,674	9,873	10,859	11,575	12,051
Inflation, CPI	15.4	3.5	-1.1	4.4	2.3	0.0	0.6
Unemployment rate, %	7.5	16.9	18.7	16.2	15.0	11.9	10.8
Gross average salary, EUR	682	656	633	660	685	716	765
Salary growth, %	20.4	-3.8	-3.5	4.3	3.7	4.6	6.8

* indicative data

Source: Central Statistical Bureau, March 2015

Infrastructure

Gateway to the EU and Russia/CIS

As home to the largest city in the Baltics, and one of only four EU countries sharing a border with Russia, Latvia is an ideal base for east-west trade. The transport system provides an appropriate infrastructure base to facilitate the trade flows between the EU and Russia and the CIS. To meet the needs of local export/import operators, Latvia offers:

- free ports in Ventspils, Riga and Liepaja that remain ice free and active throughout the winter
- pipeline systems for Russian oil/natural gas transit and distribution

- an extensive and functional road network, connecting both European and CIS road networks, as well as ports of Latvia
- the railway connecting Riga to Moscow by the shortest and most direct route, and there are other specialized, high-capacity railway corridors linking Latvian ports with Russia and the Far East.

Seaports

The Latvian ports of Ventspils, Riga, and Liepaja play a key role in the transit trade. They are important gateways for Russian and other CIS countries' imports and exports. The strategic location of Riga as an important industrial and consumption area in the Baltic states, and the ice-free ports of Riga, Ventspils and Liepaja offer good conditions for the development of transit and transport services.

Connections to all other transport infrastructure elements, along with attractive tax-free zone incentives, have resulted in the ports becoming regional centres of industrial activity. Latvian ports are highly export-oriented, with the proportion of loaded-on cargo being about 88% of all cargo throughput, mostly shipping cargo for transit and export from Latvia. The leading port in terms of unloaded cargo volume is Riga. RO-PAX transport connections with Germany and Sweden are important logistics services available at all three free ports.

Roads

The Latvian road system provides direct access to destinations in the east (Russia/ CIS), the southwest (central/western Europe) and is well connected to Northern Europe via other countries and RO-PAX capable ports. Generally, all roads are fully public and toll-free as funds for maintenance are collected from an excise tax on fuel and vehicle registration fees. With financial support from the EU, Latvia has embarked upon a major road infrastructure development project; the upgrading of the Latvian section of the Via Baltica, the first pan-European transport corridor, connecting Finland and the Baltic States to Poland and western Europe.

Railways

Latvia possesses a dense railway network connecting the country to destinations as distant as the Russian Far East. Russia and Latvia share a common railway gauge, easing rail transportation. Currently, Latvian railways mostly serve as a transit trunk line with as much as 82% of total freight volumes being transit connected to Latvian ports and more than 41% of freight rolling-stock being tanker-wagons transporting oil and various chemical products (Q3 2014). In 2014, there was also an extensive 100 million worth investment project carried out in order to increase the speed and the throughput of the eastern rail corridor.

To facilitate trade flows in the north-south direction, a pan-Baltic railway route with Estonia and Lithuania, connecting Finland to Central Europe is planned. This project would also serve as the first step in Latvia's transition to the European railway gauge technical standards.

Air transport

There are three operating airports in Latvia: Riga International Airport, Ventspils Airport and Jurmala Airport. The airport in Daugavpils (southern part of Latvia) and Liepaja International Airport (south west) are currently in the development stage.

Currently, nearly 99% of all air passenger and freight transport in Latvia moves through Riga International Airport while the smaller airports serve charter flights. Riga International Airport is the leading air transport and transit centre in the Baltic states. The airport currently serves 19 airlines, including Latvian national airline airBaltic, low-fare carrier Ryanair, and European leaders like Lufthansa, Czech Airlines, and Finnair.

In 2014, airBaltic received the OAG Most Punctual Airline in the World award with approximately 94.9% of company's flights being on-time. The above companies and others ensure fast and reliable direct travel from Riga International

Airport to more than 80 destinations during the summer and around 60 during the winter. Destinations include Asia and Europe, namely Helsinki, Stockholm, Copenhagen, Berlin, Frankfurt, Paris, Rome, and London, all of which provide further connections to transcontinental air routes.

The number of flights annually has increased from 273 thousand in 2004 to 65.8 thousand in 2014. This makes Riga International Airport the most rapidly developing airport hub in all of Europe. The number of passengers using the airport in 2013 reached 4.81 million. Riga International Airport is planning the construction of new terminals to continue its current growth and increase passenger-handling capacity, although it already serves little less than half (45.4%) of all Baltic airports passengers. In comparison in 2014 Tallinn (Estonia) served 18.9% of total passengers, Vilnius (Lithuania) served 27.7%, Kaunas (Lithuania) served 6.8%, and Palanga (Lithuania) served 1.2%.

International membership

Latvia is a member of many prestigious and most prominent international organisations including the United Nations (UN), the Organisation for Security and Cooperation in Europe (OSCE), the World Trade Organisation (WTO) and the North Atlantic Treaty Organisation (NATO).

On 1 May 2004, Latvia became a member country of the European Union, in 2007 Latvia became a member of Schengen Area, with all associated benefits and duties. Additionally Latvia is planning to join OECD in 2016. Participation in these organisations is integral to the stability of Latvia.

This chapter was prepared with the assistance of the Investment and Development Agency of Latvia.



www.liaa.gov.lv

Lithuania

General information

Lithuania is once again one of the European Union's fastest growing economies. Last year, the economy expanded by 3.4% – following a near 3.7% growth in 2012. GDP is poised to grow again by 3.5% this year. Such growth is bolstering foreign investor sentiment in the country.

Despite its size, Lithuania has some of the best business infrastructure on the continent, including one of the fastest Internet connections; one of the Europe's best educated and most multilingual workforce; and easy access to millions of people with rail links through to Russia and the CIS states. The country's strategic location, in the centre of the EU, with well-established cultural and business ties to Europe – and flight times under two hours to most European capitals – makes it a convenient FDI location. Investors are finding opportunities in advanced technology-based manufacturing; specialised business services centres; information and communication technology; and research and product development centres.

Geography and climate

Lithuania is located in the geographic heart of Europe and shares borders with Latvia, Belarus, Poland and Russia. Encompassing over 65,000 sq km, Lithuania is larger than Belgium, Denmark, the Netherlands or Switzerland. Seventy per cent of its lowland plains and hilly uplands are arable land and the remaining lands are forested. Lithuania's 22,000 rivers and rivulets, 2,800 lakes and 99 kilometers of the Baltic Sea coastline provide a recreational wonderland with an emphasis on the preservation of nature.

Major cities include Vilnius with a population of 554,000, Kaunas with 337,000 people and Klaipeda with 178,000. Šiauliai and Panevėžys are also important cities of commerce.

The climate is midway between maritime and continental, with an average daytime temperature of -5°C in January and 20°C in July.

Population and language

People with 115 different ethnic backgrounds live in Lithuania. While the population is mostly Lithuanian, 6.7% are Polish, 6.3% Russian and 3.6% other (Belarusians, Ukrainians, Latvians, etc.).

Most of the population are Roman Catholic, but there are also Russian Orthodox, Evangelical Lutherans, Evangelical Reformers, Old Believers, Jews, Sunni Muslims, and Karaites.

The official state language is Lithuanian, which is the most archaic living Indo-European language and is closely related to Sanskrit. It is possible to compare Lithuanian and Sanskrit in such a way that even those who have not studied linguistics may observe the similarities. The 32-letter Lithuanian alphabet is Latin based. English and Russian are widely spoken.

Political system in Lithuania

The Republic of Lithuania is an independent democratic parliamentary republic. The foundations of the social system are enforced by the Constitution of the Republic of Lithuania which was adopted in 1992. Under the law, sovereign state power is vested in the people of Lithuania and is exercised by the president, the Seimas (parliament), the government and the judiciary.

The president of Lithuania is the head of state, elected directly for a 5-year term and can be in office for a maximum of two terms consecutively. The president, with the approval of the Seimas, is responsible for appointing the prime minister. Upon the prime minister's nomination, the president also appoints, under the recommendation of the prime minister, the Council of Ministers, as well as a number of other top civil servants and the judges for all of the courts. In May, the European Union's budget chief, Ms. Dalia Grybauskaitė, was the first woman selected to be president of the Republic of Lithuania for a term of 5 years.

The Seimas is a one-chamber parliament that deliberates on and enacts law and amendments to the Constitution. The Seimas also calls presidential elections, approves or rejects the candidacy of the prime minister and other council members and reviews the programme of the Government submitted by the prime minister. The Seimas is composed of 141 members elected for a 4-year term. Out of these, 71 are directly elected by the people while 70 are elected by proportional vote.

The Government is the highest authority of executive power. It comprises the prime minister and ministers. The prime minister is appointed or dismissed by the president of the Republic, with the approval of the Seimas. Ministers are appointed by the president of the Republic on the nomination of the prime minister.

The Government administers the affairs of the country, protects the inviolability of the territory of the Republic of Lithuania, and implements the laws and resolutions of the Seimas. The Government is also responsible for the preparation and execution of the budget and discharges other duties prescribed to it by the constitution and other laws.

Justice is exercised exclusively by the courts. The court system in Lithuania comprises the Constitutional Court, the Supreme Court, the Court of Appeal, circuit courts and district courts consisting of elected judges and assessors. Judges of these courts and of the Supreme Court are elected by the Seimas for a term of 5 years.

Governmental strategy for economic development

The national government has set two strategic economic goals for Lithuania: to become the Northern Europe Service Hub by 2015 and Northern Europe Innovation Centre by 2020.

Lithuania is involved in the development of high quality technology services and leads Europe and the world in a number of ICT infrastructure categories, such as the fastest upload Internet, 4G mobile WiMAX technologies and one of the best-developed fibre broadband.

By 2015, Lithuania expects the share of exports of services will comprise approximately one-third of the country's total exports.

The Government is actively working on service clusters - IT engineering, accountancy and financial operations, HR management, education, research and development in biotech, biopharma, nanotechnologies, alternative energy technologies, transport and logistics - development programmes, services exports promotion strategies as well as investor support tools.

Global services players which are already operating in Lithuania attest that the market has sufficient resources. FDI is strongly supported by the Government, which is applying individual support programmes for each service's business development project. They also still have the potential to welcome other developers in establishing global operations centres to act regionally as well as worldwide.

Overall investment environment

Fostering a stable business environment

Following the country's economic contraction in 2008, the government strengthened its resolve to macroeconomic stability and to provide a conducive regulatory environment. As the country aims to enter the eurozone in 2015, authorities are consolidating its fiscal position and maintaining steady monetary policy.

The Government is also committed to continual improvement in the country's investment environment. It plans on further easing regulatory requirements by coordinating government policy implementation and reducing administrative procedures and redundant regulations. Specifically, it has submitted legislation to further streamline the operations of regulatory authorities, accelerating the speed of special planning and other permitting processes.

Despite fiscal challenges stemming from the global financial crisis, the Government has kept tax on corporate income low at 15%, the fourth lowest in the EU and well below the EU average of 23.2%. In order to attract businesses to regions outside the capital, the Government has set up Free Economic Zones, offering a relief from corporate income tax for 6 years, and a 50% discount for the next 10 years. Several other tax incentives are also established for companies. The country also has the fifth lowest total tax burden in the EU (30.3% of GDP compared to the EU average of 37%).

Investors have responded as foreign investment in Lithuania is growing. Despite stagnating global trends, FDI jumped by 21% in 2012 according to www.fDiMarkets.com, while global greenfield investments fell by more than 20%. Lithuania also ranked 5th globally in terms of FDI growth in 2012, 3rd in Europe, and 1st among the Baltic states.

Taxes

Tax	%
Corporate income tax	15 (reduced rate 5%)
Dividends	0 (15%)*
Interest, royalties	0 (10%)**
VAT	21 (reduced rates 9.5%)
Personal income tax	15
Social security contributions for employee	9
Social security contributions for employer	30.98
Contributions to the Guarantee fund for employer	0.2

*Dividends paid to a company holding not less than 10% of the shares granting the same percentage of votes for at least 12 months are tax exempt, except for dividends paid to tax haven countries.

**Interest paid to an EEA company or a company registered in the country with which Lithuania has a double tax treaty is tax exempt. Royalties paid to associated EU companies are exempt from withholding tax.

Tax incentives applied to businesses established in Lithuania include:

- investment incentive for certain groups of fixed assets
- incentive for research and development (R&D)
- tax “holidays” in free economic zones (FEZ)
- double tax incentive for movie making supporters
- tax losses carried forward and grouping tax losses
- tax exempt capital gains.

Currency

Lithuania’s currency is the litas (LTL), equal to 100 Lithuanian cents. Under a currency board system, the litas is presently pegged to the euro at a rate of 3.4528:1 and has been since 2002. Lithuania expects to introduce the euro as its currency by joining the euro zone in 2015.

An inexpensive and educated workforce with cultural similarities to Scandinavia

Lithuanian labour costs are four times lower than the EU average. Despite the less expensive workforce, education levels are high. Over 50% of the population speaks more than two languages and 93% has a secondary or higher education, 20% more than the EU average. In addition, nearly half of all people aged 24-29 have a university degree, the most in the EU. It also helps investors’ long-term prospects that employees are not just qualified, they are loyal. Employee turnover in Lithuania is less than 2% for international manufacturing firms and 8% for those in services.

Due to similar cultures and business practices, Scandinavians are major investors and have used investment in Lithuania to extend their home market. Likewise, investors from Germany, the UK and the US – especially those in the manufacturing, transport, finance, and IT sectors – have used FDI in Lithuania to extend markets as well as place mission-critical architecture.

Supportive IT infrastructure bolsters investment in the tech and shared service sectors

Lithuania ranks 4th worldwide for internet upload speed and 10th for download speed. Lithuania also ranks 1st for the density of public internet access points. Its citizens are some of the most sophisticated and connected world-wide. In 2013, the country had almost 5 million mobile phone subscribers, 2 million more than the total population. Due to this connectivity, Lithuania was the first country in the EU to implement mobile signature solutions for online bank accounts. Consequently, 93% of financial operations are performed via e-banking.

Since 2009, when Barclays opened a technical support centre in Vilnius, other foreign investors have followed, from the main Scandinavian banks to leaders in global payment services. Barclays came to Vilnius with modest plans: hire up to 250 specialists for its Technical Support Centre during its first 3 years of operations. Within that time, the firm employed over 1,100 professionals, supporting retail operations globally.

In May 2010, Western Union opened its European Regional Operations Centre (EUROC) in Lithuania. The main reasons for choosing Lithuania were Lithuania's highly-skilled, well-educated and multilingual professionals, the country's stable political environment, a supportive economic environment and world-class infrastructure. Western Union now has more than 950 employees.

Lithuania has since developed into a first-rate shared services cluster, employing over 7,000 and exceeding investor expectations. Foreign companies are the most desirable employers in Lithuania. In 2012, as many as 19 of the 20 most desirable employers in Lithuania had foreign capital.

Lithuania is developing its own brands

Lithuania has also become home to some of the best-known apps in the world. GetJar, with offices in Vilnius, is now the world's 2nd largest mobile application store with over 2 billion downloads to date. Likewise, Pixelmator – currently the fourth best-selling mobile application on the Mac App Store, trailing only Apple applications – calls Lithuania home. Over 22,000 IT professionals now work in nearly 1,000 firms. And with over 4,500 students studying IT and the top 16 university and colleges minting new IT graduates annually, the number will continue to increase.

Key economic indicators

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP at current prices, EUR bn	20.1	24.1	28.7	32.4	26.7	27.7	31.0	32.9	35.0	36.3
GDP growth (annual), %	7.8	7.8	9.8	2.9	-14.8	1.6	6.0	3.7	3.3	2.9
Annual inflation, %	3.0	3.8	5.8	11.1	4.2	1.2	4.1	3.2	1.2	0.2
FDI inward stock, EUR bn	6.9	8.4	10.3	9.2	9.2	10.0	11.9	11.9	12.7	12.1
Exports, EUR bn	9.5	11.3	12.5	16.1	11.7	15.7	20.2	18.0	24.5	24.4
Imports, EUR bn	12.4	15.4	17.8	21.1	13.1	17.7	22.8	22.3	26.2	25.9
Unemployment rate, %	8.3	5.6	4.3	5.8	13.7	17.8	15.4	13.4	11.8	10.7

Sources: Eurostat; Bank of Lithuania

Infrastructure

Transport and manufacturing – taking advantage of Lithuania’s centrality and transport network

Lithuania’s air, sea and rail network and open borders with the EU have made the country a prime logistics centre. The transportation sector now contributes nearly 13% to the country’s GDP. International companies see Lithuania’s location as an opportunity not just to connect Scandinavian and other EU markets, but as a springboard to enter the markets of the Russia-Kazakhstan-Belarus Customs Union and other CIS countries, an increasingly important focus now that Russia has entered the World Trade Organisation. Even China is connected at the end of the rail network.

Over the past two decades Lithuania has transformed its manufacturing base. Once limited and manual, specialised high-tech and innovative engineered production lines now represent the largest sector of manufacturing. The country also has a nascent biotech and pharmaceutical research sector with 2,000 employees. Last year the sector expanded by 22%.

Seaport

Klaipėda State Seaport is the biggest port of Lithuania. It is an ice-free port located in the western part of Lithuania and is a regional transport hub connecting sea, land and railway routes from east to west.

Klaipėda State Seaport handles roughly 7,000 ships and 30 million tonnes of cargo every year, and accepts large tonnage vessels: dry-cargo vessels up to 80,000 DWT, tankers

up to 150,000 DWT and cruise ships up to 270 metres' length. The ice-free seaport of Klaipėda is able to receive PANAMAX-type vessels.

The draught of the entrance channel is 15 metres and the draught of the port navigation channel is 13-14.5 metres. Increasing the water depth in the northern part of the port to up to 17.5 metres is planned.

Best Baltic roads

Though small in size, Lithuania has a 21,000 kilometre road system, two-thirds of which is paved with asphalt concrete. Roads in Lithuania are known to be the best in the region. Lithuania is committed to investing EUR 145 million into the Via Baltica international highway, and around EUR 100 million into three public logistic centres, which will make up a total area of nearly 970 hectares located in Lithuania's three largest cities.

Rail network

Lithuania has a well-developed railway network running a total of 1,750 kilometres. The track is broad gauge, and provides direct connections to Latvia, Poland, Belarus, and Russia (the Kaliningrad Region) as well as a link to Poland. Lithuania is also connected to Asia and China via rail. Railways in Lithuania carry approximately 50 million tonnes of cargo and 7 million passengers per annum.

Air transport

Lithuania has an efficient air traffic infrastructure. Direct flights to the major European cities are available from Lithuania's international airports in Vilnius, Kaunas and Palanga. The number of passengers arriving at the Lithuanian international airports is constantly growing due to Lithuania's integration into the EU, the expansion of economic relations, and active tourism as well as its favourable geographic location.

Logistics centres

There are around 850,000 sq m of logistics and warehousing facilities in Lithuania. The biggest supply of new, modern warehousing facilities is in the capital city Vilnius (around 300,000 sq m, growth – 7%), Kaunas is in 2nd place (around 200,000 sq m, growth – 77%), and Klaipėda in 3rd (85,000 sq m, growth – 49%). Lithuania's northern, western, south-eastern and north-eastern regions are undergoing further construction of logistic centres.

This chapter was prepared with the assistance of the Invest Lithuania agency.





2

Business law

2 Business law

Estonia

How to invest

Having an open and flexible economy with solid policies and non-governmental influences, Estonia ranks in the top 8 in the 2015 Index of Economic Freedom and sits at the top of this ranking within Europe.

Investment in Estonia takes various forms, including real estate and other property rights, shares in companies, loans, claims, intellectual property rights, etc.

Most of the foreign direct investment inflow has taken the form of acquisition of real estate, establishing a company in Estonia, acquisition of shareholding in an Estonian company, joint venture or merger with an Estonian company.

Due diligence services are widely used in the event of an acquisition of existing companies and real estate to manage the risk of investment.

Since 9 December 2010, Estonia has been a full member of the OECD. Since 1 January 2011 the currency in Estonia has been the euro instead of the kroon, which had been Estonia's currency since 1992.

Corporate legal entities

Business activities in Estonia are regulated by the Commercial Code, which is based on EU legislation and entered into force on 1 September 1995. The Code provides for various types of business entities (including limited companies, general and limited partnerships, commercial associations and sole proprietorships).

The two types of limited companies which have been mainly chosen for entrepreneurship in Estonia are the following:

- private limited company (osaühing – OÜ)
- public limited company (aktsiaselts – AS).

Generally, for a medium-sized enterprise it is easier to conduct business activities through the form of a private limited company as the regulation provides this form of

company with more flexibility to shape shareholder relations. For an enterprise with a considerable list of owners who wish to issue listed securities on the Exchange, the formation of a public limited company is necessary.

The Commercial Code also provides for the possibility of a foreign company to undertake business activities in Estonia via a branch office (filiaal).

Since December 2004 it has also been possible to register a European Company (Societas Europea, SE) in Estonia.

Incorporation and capital requirements

A limited company may be founded by one or more natural or legal persons.

For incorporation purposes, founders must conclude a memorandum of association. The founders must also approve the articles of association of the company to be annexed to the Memorandum of Association. If a limited company has one founder, the Memorandum must be substituted by a foundation resolution.

A number of documents to be submitted to the Commercial Register have to be attested by a notary public in Estonia, such as the Memorandums of Association or foundation resolutions of limited companies together with the Articles of Association to be approved as annexes. The notarisation procedure entails a side obligation to submit to a notary public the corporate documents of a founder if the founder is a legal person, verified with an apostille unless the treaties prescribe otherwise.

However, full attestation by a notary public is not required for application to the Commercial Register to amend the existing data of a company in the Commercial Register. On the application, signatures need to be certified by a notary public and in this case, notarisation may be replaced by certification of the signatures on the application as well as by an official of a foreign state who has the right to attest the identity of persons, if the authorisation of the official has been confirmed by an apostille.

It is also possible to present the documents to the Commercial Register and even to start up a private limited company via the Internet without the involvement of a notary public. Until recently, this fully electronic service was only available in cases where the legal representatives of a company possess an Estonian, Portuguese, Lithuanian, Finnish, or Belgian ID card. At the end of 2014, Estonia launched digital residency or e-residency for non-residents. E-residency is a state-issued secure digital identity for non-residents that allows digital identification and the digital signing of documents. E-resident's digital ID can be used in the electronic environment, allowing to identify oneself and give signatures notwithstanding the physical residence of the person. The services available for e-residents include, inter alia, registration of a company online.

The founders must pay for the shares in full before submitting an application to enter the company in the Commercial Register.

Natural persons may set up a private limited company whose share capital does not exceed EUR 25,000 without making contributions upon the foundation of the company. The term for payment of the contribution is not stipulated by the law: the founders may agree on the term in the Memorandum of Association or they may choose not to specify the term for payment. In effect, this means a so-called private limited company

with liability based capital. The shareholders are liable to the private limited company in the amount of the outstanding contribution. The fact that a private limited company has been set up without making contributions is recorded in the registry card information of part B of the card register. The shares of public limited companies must be registered with the Estonian Central Register of Securities. For private limited companies the registration is optional. The Estonian Central Register of Securities is kept by Estonian CSD (ECSD), a company owned by the Tallinn Stock Exchange. Both belong to OMX group.

There are no requirements for a contract form upon the transfer of shares of a public limited company. Procedures to account for changes in the Estonian Central Register of Securities are handled by banks acting as the securities' account managers upon the request of the account holder. Share transfer contracts of a private limited company must be attested by an Estonian notary public. The requirement does not apply if the shares of a company are registered with the Estonian Central Register of Securities.

According to the Commercial Code, a company is considered to be founded after its registration in the Commercial Register.

The minimum share capital is EUR 2,500 for a private limited company and EUR 25,000 for a public limited company.

The Estonian Commercial Code prescribes the minimum nominal value of a share: EUR 1 for a private limited company and EUR 0.10 for a public limited company. Each shareholder of a private limited company may have one share, the amount of the latter equal to the shareholding in the private limited company.

If the net assets of a limited company are less than one half of the share capital, or less than the minimum amount of share capital provided by law, the shareholders must decide on:

- a reduction or increase of share capital on the condition that the net assets would thereby form at least the above indicated amounts, or
- the implementation of other measures as a result of which the net assets of the limited company would meet the requirements provided by law, or
- dissolution, merger, division or transformation of the limited company, or
- submission of a bankruptcy petition.

Management

The law prescribes a 3-tier management system for a public limited company, i.e.:

- a shareholders' meeting as the highest corporate body deciding on fundamental corporate events (such as changes in the articles of association, changes in share capital, dividend distribution etc.);
- a supervisory board responsible for the strategic business decisions of the company and supervision of the company's management; and
- a management board that is responsible for the daily management and the accounting of the company.

For a private limited company, the management system is simpler, composed only of the shareholders and the management of a company, unless prescribed otherwise in the articles of association of the private limited company. According to the law, members of a private limited company's management board are presumed to be elected for an unspecified term.

There are no restrictions on the residence of a private or public limited company's shareholders or members of the supervisory and management boards.

Branch of a foreign company

If a foreign company wishes to permanently offer goods or services in its own name in Estonia, it may enter a branch into the Commercial Register. A branch is not a legal person. The company is liable for the obligations arising from the activities of the branch. In the cases provided by law, a company, such as a credit bank, must obtain a license in order to found a branch in Estonia.

A foreign company must appoint a director or directors for the branch. A director must be a natural person with active legal capacity. A director directs and represents the branch and organises the accounting of the branch.

A foreign company must maintain separate accounts concerning the branch. Accounts concerning the branch must be maintained following the requirements of the Accounting Act. If the foreign company must publish an annual report, the director of the branch must submit a copy of the audited and approved annual report of the company not later than 1 month after approval of the annual report and 7 months after the end of the financial year. If the founder of the branch is a subsidiary in the home country, the founder may submit the consolidated accounts of the parent company instead of an annual report if a statement is submitted concurrently, signed by the directing body of the parent company, stating that the subsidiary need not prepare an annual report, and the balance sheet and profit of the company are reflected in the consolidated accounts of the parent company.

The rules required for the implementation of EU rules on cross-border provision of services in the internal market have been put effect in Estonia. Cross-border service provision of financial institutions is supervised by the Financial Supervision Authority.

Credit institutions may, on the basis of the activity license issued in the home state, conduct the same transactions and perform the same acts in Estonia by establishing branches or providing cross-border services in Estonia. When providing financial services in Estonia, foreign credit institutions must adhere to the requirements established for credit institutions by the Estonian Credit Institutions Act as well as to other requirements arising from Estonian legislation established for operation in Estonia.

Eligible foreign insurance companies who wish to engage in cross-border insurance activities in Estonia must notify the Financial Supervision Authority through the financial supervision authority of their own country.

Representative offices

Estonian company law does not recognise the concept of a representative office. A foreign corporation may establish an office to represent it in Estonia but it does not qualify as a legal entity, or, bear particular status.

Mergers

Mergers are regulated in the Commercial Code. According to the Commercial Code, the following methods of merging are acceptable.

- A company (company being acquired) may merge with another company (acquiring company). The company being acquired shall be deemed to be dissolved following the entry of the merger in the Commercial Register.
- Companies may also merge by establishing a new company. In this case, both merging companies shall be deemed dissolved following the entry of the merger in the Commercial Register.

The following are the main legal effects of a merger entry in the Commercial Register.

- The assets and liabilities of the company being acquired shall transfer to the acquiring company.
- The shareholders of the company being acquired shall become the shareholders of the acquiring company following the ratio set forth in the merger agreement.

Cross-border mergers

The cross-border merger directive (2005/56/EU) has been implemented in Estonian legislation. Regulation of a cross-border merger as set forth in the Commercial Code is similar to a national merger although it is more restrictive in the details.

The transfer of assets and liabilities (an enterprise) is regulated in the Law of Obligations Act. Dependent on the composition of assets and liabilities, the formalities applicable to the transaction documents vary.

By taking over the assets and rights, the transferee takes over all of the transferor's obligations related to the enterprise (including obligations arising from employment contracts).

Transferor and transferee shall be jointly liable to the creditors for obligations which have arisen before the transaction and which, by the time of transaction, have fallen due or will fall due within 5 years of the transfer. Agreements derogating from the joint liability principle have no effect against third parties unless the third party has given prior written consent.

Going public

NASDAQ OMX Tallinn and Estonian CSD are the leading securities market infrastructure operators in Estonia. Both belong to NASDAQ OMX Group. Despite the Baltic stock exchanges having a common presentation of all listed Baltic companies on a common list, the companies are still listed on their home market, i.e. the exchanges in Vilnius, Riga or Tallinn, and supervised by the local financial supervisory authority.

For an Estonian company which wants to list its shares on the exchange, the public limited company form (AS) is required.

The main steps towards becoming listed are the following: shareholders' decision to list the shares; preparation and registration of issue prospectus with the Estonian Financial Supervision Authority which will issue the issue certificate; agreement with

the Estonian Central Registry of Securities, listing application to NASDAQ OMX Tallinn stock exchange.

Insolvency proceedings

The currently effective Bankruptcy Act of 2004, last amended in 2014, regulates insolvency of natural and legal persons.

Bankruptcy proceedings

A bankruptcy petition may be filed at the court by a debtor itself or a creditor.

According to Estonian law, members of the management board are obliged to submit a bankruptcy petition if a legal person is clearly permanently insolvent. A legal person is considered insolvent if they are unable to satisfy the claims of the creditors and such inability, due to the debtor's financial situation, is not temporary. A legal person is also considered insolvent if the assets of the debtor are insufficient for covering the obligations thereof and, due to the debtor's financial situation, such insufficiency is not temporary.

The court must decide whether to commence bankruptcy proceedings. Upon commencement of the bankruptcy proceedings, the court must appoint an interim bankruptcy trustee.

The interim bankruptcy trustee performs duties set forth in the law or assigned by the court to prepare the case for the hearing of the bankruptcy petition. At the hearing, the court shall make a judgment to declare the debtor bankrupt, dismiss the petition or make a ruling whereby the bankruptcy proceedings shall be terminated by abatement.

The consequences of a bankruptcy declaration include the transition of the debtor's assets into the bankruptcy estate, the right to administer the debtor's assets transfers to the bankruptcy trustee and the debtor is deprived of the right to enter into any transactions.

Settlement with creditors

The Bankruptcy Act sets forth strict regulations and a time-schedule for notification, proof and defense of claims. Failure to meet the requirements may cause non-acceptability, an unfavourable ranking or the extinguishment of a claim.

Before satisfaction of the claims of the creditors, payments related to the bankruptcy proceedings, such as claims arising from the consequences of exclusion or recovery of assets, consolidated obligations and the costs of bankruptcy proceedings, shall be made.

The claims of the creditors are satisfied in the following order:

- accepted claims secured by pledge, to the extent set forth in the law;
- other accepted claims which were filed within the specified term;
- claims which were not filed within the specified term but were accepted.

Rehabilitation and compromise

The effective Bankruptcy Act also recognises rehabilitation and compromise.

Rehabilitation of an enterprise consists of the application of measures which enable satisfaction of the claims of the creditors through continuation of the business activities of the enterprise. Rehabilitation proceedings are regulated by the Reorganisation Act.

Compromise is an agreement between a debtor and the creditors concerning payment of debts and involves reduction of the debts or extension of their terms of payment. A compromise decision shall be made by a general meeting of creditors. The approval of the compromise shall be decided by the court.

Reorganisation

The Reorganisation Act was introduced into Estonian law in 2008; however, it has not found widespread use among the enterprises.

The Reorganisation Act regulates the reorganisation proceedings of enterprises with the goal of taking account of the interests and protecting the rights of undertakings, obligees and third parties in the course of the reorganisation of the enterprises. The reorganisation of an enterprise means the application of a set of measures in order for an enterprise to overcome economic difficulties, to restore its liquidity, improve its profitability and ensure its sustainable management. A reorganisation is applied only with regard to legal persons in private law.

A reorganisation is reasonable if it is more beneficial for all parties (owners, creditors, employees) than bankruptcy. A reorganisation represents a commitment to reach agreement with creditors without the assistance of the court. A successful reorganisation requires that the company's business is profitable or it is likely to become a profitable business after the reorganisation.

The Reorganisation Act does not apply to credit institutions, electronic money institutions, insurers, investment firms, management companies, investment funds founded as public limited companies, the registrar of the Estonian Central Register of Securities, operators of a securities settlement system and administrators of a payment system.

Latvia

How to invest

There are various ways of launching a business in Latvia. An investor may incorporate a new Latvian registered corporate legal entity or purchase an existing enterprise. Among investors, the purchase of an existing company has been recognised as a common method of investment to further develop business activities in Latvia. For example, the purchase of shares of a company owning real estate may entail lower administrative costs than the purchase of real estate itself.

The transfer of shares of a limited liability company may be easily registered in the Commercial Register, for a registration fee of EUR 14.23. From the moment of the share purchase the new owner controls the company and all the assets owned by it, including the real estate. The records of the shareholders of limited liability companies are publicly available from the Commercial Register. The shareholder register of a joint stock company is kept by the company's management board. This task can be delegated to the Latvian Central Depository or a commercial bank if it offers such services. Only a listed joint stock company's shareholder register is public.

Due diligence services are used in the event of an acquisition of existing companies or real estate to ensure the safety of investment.

Corporate legal entities

The overwhelming majority of Latvian businesses are launched as limited liability companies and foreigners who are considering commencing business in Latvia also frequently prefer this legal form of entrepreneurial activity. There are no restrictions on the ownership of Latvian companies by foreigners and Latvian law is in line with the freedom of establishment principles of EU law.

In some cases, the decision to expand into Latvia may be realised without actually having a foreign business entity carry out business in Latvia. The granting of a franchise or the entering into a distribution contract or agency agreement in Latvia does not, in and of itself, constitute carrying on business in Latvia. Therefore, it is often appropriate for a foreign entity to consider the use of a Latvian agent, distributor, or franchise arrangement in order to expand its business.

It is possible to register the European Society (Societas Europaea - SE) form of enterprise with the Latvian Commercial register. The specific nature of this type of company is that the domicile of the company can be changed from one EU country to another EU country, as well as to Iceland, Norway or Lichtenstein without liquidating or establishing a new legal entity.

An SE may be established in the following way:

- through the merger of joint stock companies from different countries to establish an SE;
- through the merger of joint stock companies with limited liability companies from different countries to establish an SE;
- companies and other legal entities may found an SE as a subsidiary;
- reorganisation of an existing joint stock company into an SE if the existing company has a subsidiary in another EU country.

The specific conditions for an SE are provided by EU regulation No 2157/2001, issued on 8 October 2001.

Incorporation and capital requirements

A company is formed by filing certain prescribed documents with the Commercial Register. The registration procedure is normally carried out on behalf of the foreign investor by lawyers or other professional advisers.

The cost of establishing a Latvian company is relatively modest. Registration fees payable to the government upon registration are:

	State Fee (EUR)	Publication in the official gazette "Latvijas Vestnesis" (EUR)
Limited liability company (SIA)	142.29 (within 3 working days) 426.87 (within 1 working day)	27.03
Limited liability company (SIA) with reduced share capital	21.34 (within 3 working days) 64.02 (within 1 working day)	14.23 14.23
Joint Stock company (AS)	355.72 (within 3 working days)	27.03
Branch	28.46 (within 3 working days) 85.38 (within 1 working day)	18.50
Representative office	28.46 (within 12 working days) 56.91 (within 4 working days) 85.37 (within 1 working day)	N/A
SE	355.72 (within 3 working days)	27.03

Source: *Webpage of Enterprise Register of Latvia, March 2015*

Legal fees vary depending upon the complexity of the company's structure. The incorporation of a routine Latvian limited liability company can be accomplished very quickly. The company comes into existence on the date of issuance of the certificate of incorporation by the registrar. Simultaneously, the company is registered as a taxpayer with the State Revenue Service. A separate registration with the VAT taxable persons' register is required where necessary.

Generally, when choosing the name of the company or branch there are no strict limitations, only simple guidelines that must be followed, e.g. the company name cannot be misleading or contain some specific phrases such as "The Republic of Latvia", names of state institutions, etc. There is a screening process and it is possible to receive pre-approval for a name prior to an application for incorporation.

Generally, an application for registration must be submitted to the Register within 2 weeks of the foundation meeting.

All documents should be filed with the Register in the Latvian language. Documents in other languages must be translated and verified by a notary public. Public documents issued abroad must be rendered legal. Since 24 November 2010, documents issued in the European Union and European Economic zone member states, as well as Switzerland, are legally valid in Latvia. This includes documents issued in: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Republic of Ireland, Romania, Slovakia, Slovenia, Spain, Sweden, the United Kingdom, as well as Iceland, Lichtenstein, Norway and Switzerland. Additionally

under bilateral legal assistance treaties, documents executed in Belarus, Kyrgyzstan, Russia, Moldova, Ukraine and Uzbekistan are also legally valid.

All company documents filed with the Registrar are open to public inspection at a nominal charge. Copies of the relevant company files may be inspected personally at the Commercial Register's office.

Both limited liability and joint stock companies are vested with the status of a legal entity, distinct from the personality of their shareholders. Shares in a company represent a portion of corporate capital and entitle the holder to a proportional right to corporate assets on dissolution. There is no minimum or maximum number of shares that a company is allowed to issue, unless otherwise specified in the incorporating documents. "One shareholder" companies are permissible under Latvian law. Joint stock companies may issue both registered and bearer shares as well as bonds while a limited liability company may only issue registered shares. The statutes of the joint stock company may provide for the conversion of registered shares into bearer shares and vice versa. A joint stock company is generally entitled to issue different classes of shares which may confer on their holders different rights, such as voting rights, rights to fixed dividends, and a right of priority on winding up, etc.

Joint stock companies are entitled to issue non-voting preference shares subject to the provisions of the statutes.

Joint stock companies are entitled to issue employees shares, which should be paid for out of the retained profit of the company. The total value of issued employee shares may not exceed 10% of a company's subscribed share capital. Employee shares are not transferable and cannot be inherited.

The minimum requirements for the registered share capital of limited liability and joint stock companies are set at EUR 2,800 and EUR 35,000 respectively. As of 2010, it is possible to register limited liability companies with reduced share capital starting from EUR 1. In such cases several special provisions are applicable, e.g. the maximum number of shareholders for such companies is five and only these shareholders can be members of the management board. Each shareholder can own only one company with reduced share capital.

The minimum share capital for an SE is EUR 120,000. Higher capital requirements apply in the case of joint stock companies operating in banking and insurance. Shares in any company may be paid up in money or in-kind contributions (including intellectual property). Independent experts should confirm the value of investments in kind in most cases.

Management

Latvian company law calls for the creation of a 3-tier governing structure: the shareholders' meeting, the management board and the supervisory board. The latter tier, however, is optional for limited liability companies. The law sets out the powers vested to the shareholders' meeting and transfers all other powers to the management board. The supervisory board represents shareholders between the shareholders' meetings and controls the management board. The law does not provide any restriction on the domicile of members of the management board. The right of representation of board members - the authority to represent the company solely, jointly or in multiples - must be explicitly stated in the statutes.

Every manager of a company is required to act honestly and in good faith with a view to the best interests of the company when exercising his duties. In addition, every manager must utilise the care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. Managers are also required to comply with the legislation, the company's statutes and shareholders' resolutions. In certain circumstances, managers may incur personal liability for their actions.

A company can also authorise procurists and commercial agents to deal with the company's business activities. A procura empowers a procurist to undertake all manners of transactions related to the management of a business. It is normally granted to a trusted person who need not be an officer or employee. A procura may be granted by a sole trader or the management of a company and is not transferable, but is revocable at any time. Both grant and revocation of a procura must be registered with the commercial register, and will be a matter of public record. Commercial agents prepare and conclude transactions with third persons in the name of and for the company for remuneration. An agent can act only based on an agreement with the company.

Branch of a foreign company

Branches of foreign companies in Latvia have no legal personality. However, for tax purposes a branch of a non-resident company is treated as a separate Latvian taxpayer subject to almost the same tax reporting requirements as are applied to local companies.

The profits of the Latvian branch of a non-resident company are taxed on a normal assessment basis at the same rate as the profits of a resident company. There is no withholding tax on the remittance of taxed branch profits to the head office. This structure can be useful for a new business where start-up losses are expected, provided that these losses can be set off for tax purposes against profits arising in the country of residence of the head office.

The taxable base of a branch is determined when a deduction has been made for allowable expenses under specific regulations. The branch is not allowed to deduct interest payments, lease management and consulting fees and royalties paid to the head office.

Representative offices

Foreign corporations may establish their representative offices in Latvia. Such representative offices are not legal entities and they do not have the right to act in business dealings.

Commercial transactions

A new chapter in the Commercial law has been introduced in 2010, regulating and defining in more detail various commercial transactions, e.g. commercial purchase agreement, logistic agreement, leasing agreement, franchise agreement, etc.

Mergers

Reorganisation of business entities may be used to facilitate the accession into new markets and to increase effectiveness of business operations. A commercial entity

in Latvia whether a partnership or a limited liability company or a joint stock company may be reorganised by merging, dividing or restructuring. Companies involved in the reorganisation process may be companies of the same or various types. In the case of two or more already existing companies involved in the reorganisation process, a reorganisation agreement must be prepared in writing.

As a general rule, the majority of companies involved in the reorganisation process appoint an auditor from an approved list of the Commercial Register Office, which examines the draft agreement between the companies involved. In addition to other activities, the task of the approved auditor is to report on whether the share exchange ratio and share premium are fair and reasonable. There are exceptions when companies involved in the reorganisation need not appoint the auditor - when all shareholders agree or when all the capital shares of the acquired or dividing company are owned by the acquiring company.

The companies involved in the reorganisation process, jointly or separately, should prepare a written reorganisation prospectus unless the law provides for otherwise. In addition, the companies are obliged to publish a notice in the official gazette *Latvijas Vēstnesis* on the reorganisation.

Each of the companies involved in the reorganisation process should, not earlier than 3 months after the day when the notice is published, submit an application to the Commercial Register so that the registration of the reorganisation can be made in the Commercial Register. It is anticipated that the duration of a reorganisation can take from 4 months to a year.

Cross-border mergers

Latvia has implemented Directive 2005/56/EC on cross-border mergers of limited liability companies and joint stock companies. Implementation ensures freedom of establishment and free movement of capital within the EU regarding undertakings registered in Latvia or those companies from other Member States willing to merge with the Latvian undertakings. Commercial law has been amended and now lays down provisions for Latvian registered limited liability companies and joint stock companies engaging in a cross-border merger.

A company taking part in a cross-border merger shall process the merger complying with the provisions and formalities of the national law to which it is subject. These provisions and formalities include the provisions concerning decision making processes relating to the merger and the protection of creditors of the merging companies as well as of employees.

Prior to approval of the merger by the general meeting, the management or administrative structure of each of the merging companies must draw up a reorganisation prospectus explaining and justifying the legal and economic aspects of the cross-border merger and explaining the implications of the cross-border merger for members, creditors and employees. The reorganisation prospectus must be made available to the members and to the employees.

The Latvian competent authority to issue the pre-merger certificate and to register the cross-border merger is the Commercial Register. The approximate duration of a cross-border merger is 5 months or longer, depending on the circumstances of the case.

Going public

Joint stock companies (JSCs) enjoy the right of going public in Latvia, granting an opportunity to acquire additional shareholder investment to improve the liquidity of the company. The procedure involves the shareholders of the JSC deciding whether they will be offering the shares of the company publicly. The shareholders decide on how many shares, for what price and when they will be offering the shares. The JSC that is going public does so in accordance with the prospectus of the issue of shares and the state authority approved certificate to issue shares. The company must agree to a contract with the Latvian Central Depository on the issuance before submitting the application form to the Riga Stock Exchange, which offers various types of lists. Depending on the list, fees payable may differ. JSCs that are going public are under special rules regarding standards. Going public gives the opportunity to improve the liquidity of a company. The stock exchange is regulated by the provisions of European Union directives.

Insolvency proceedings

The Insolvency Law provides regulations for insolvency proceedings of legal entities and private persons and lays down rules for legal protection proceedings. The Law also supplements the provisions given by the Council Regulation No. 1346/2000 on insolvency proceedings and contains regulation on cross-border insolvency proceedings.

With respect to legal entities, applications for insolvency proceedings may be submitted to the court by creditors, the legal entity itself, an administrator in the insolvency proceedings opened in another Member State or the administrator in legal protection proceedings. The minimum amount of debts for submission of an insolvency application against a legal entity is EUR 2,134.

The insolvency proceedings are declared by the court and the court appoints an administrator to perform the debt administration. After the declaration of the insolvency proceedings, the increase of the interest and delay amounts and the implementation of the court judgments regarding debt recovery are suspended.

In the case of the insolvency of a legal entity when it has no property, the employees' claims are satisfied from the resources of the Employee Claims Guarantee Fund. This fund is maintained by annual risk duty payments, which are paid by every legal entity which might be subject to insolvency proceedings.

Insolvency proceedings entail the following:

- Completion of insolvency proceedings (bankruptcy) - the purpose of completing the insolvency proceedings (bankruptcy) is to seek to satisfy the claims of creditors. The insolvency proceedings can be completed by court decision when claims of creditors are duly satisfied according to the plan. Creditor's claims must be settled taking into account their priority status. First, the funds are used to cover administrative expenses of the insolvency proceedings and to satisfy the claims of priority creditors: claims of employees and tax debts in the amount of principal debt. If a debtor's funds fail to fully satisfy all the non-priority creditors' claims, the claims are to be satisfied in proportion to the amount due to each creditor. In such cases the debtor is liquidated.

It is possible to continue the operation of the debtor if all claims of creditors are satisfied and the company still has property;

- Switching to legal protection proceedings by the court decision (see below).

Legal protection proceedings

Legal protection proceedings is a legal tool available for companies and may be initiated in the case of a company having temporary solvency problems. The aim of the legal protection proceedings is to help the company to renew its paying capacity and to avoid the immediate initiation of the insolvency proceedings.

Only the company itself may submit an application to the court for initiation of the legal protection proceedings, except when switching from insolvency proceedings to legal protection proceedings – in this event, creditors, the administrator or an administrator in the insolvency proceedings opened in another Member State may also submit an application for legal protection proceedings.

The company willing to implement the legal protection proceedings must draft a plan of measures for legal protection proceedings and must receive an acceptance of this plan from the priority creditors whose claims, in general, form two-thirds of the amount for which the due date has been reached and a simple majority of unsecured creditors. An administrator appointed by the court shall report to the court on the plan of measures. The company may choose an administrator by itself if this matter is coordinated with the majority of creditors. The legal protection process is implemented if the court approves the plan of measures.

The legal protection proceedings may not continue longer than 2 years, which may be extended by another 2 years if accepted by the majority of creditors. An administrator shall supervise the process. During the legal protection process, the enforcement of court judgments, the increase of contractual penalties and interest, which exceeds the interest rate set by law, as well as the increase of the delay amount, are suspended.

It is possible to have out-of-court legal protection proceedings (OCLPP) in the event that the company can agree with the majority of its creditors on an OCLPP plan, as well as the administrator, who then gives his resolution on the plan. The decision on OCLPP is made by the court and is binding on all the creditors, including ones who were against the OCLPP. As the company tries to satisfy their creditors' claims during the OCLPP, it is not possible to start an insolvency process against the company. In addition, the enforcement of court judgments the increase of contractual penalties and interest which exceeds the interest rate set by law, as well as the increase of the delay amount, are also suspended.

Insolvency proceedings of a private individual

Insolvency proceedings of a private individual may be initiated upon an application of that person or by an administrator of the insolvency proceedings initiated against that person in another Member State, if that person is not able to settle his/her debt commitment, which exceeds EUR 5,000 . The person satisfies his debts according to the plan approved by the court. After the person executes the plan, the court decides on releasing the person from the remaining debts and renewing the person's solvency.

Lithuania

How to invest

The most common investment methods in Lithuania are:

- By setting up an entity, acquiring the capital of existing entity or a share therein;
- By establishing a branch or a representative office;
- By acquiring securities;
- By creating or acquiring fixed assets such as real estate and movable property;
- Providing cross-border services.
- Usually, due diligence is exercised in the case of the acquisition of already existing undertakings and/or real estate units to ensure the safety of the investment.

Corporate legal entities

Currently, foreign investors are available to carry out business in Lithuania through the following major corporate legal entities:

- private limited liability company (uždaroji akcinė bendrovė - UAB)
- public limited liability company (akcinė bendrovė - AB)
- sole proprietorship
- general partnership
- limited partnership
- investment company
- agricultural company
- cooperative company
- small partnership

A European Company (Societas Europaea), a European Cooperative Society (Societas Cooperativa) and a European Economic Interest Grouping are also available as types of business formations in Lithuania.

Foreigners may choose to carry out business through a branch or a representative office that would represent the business interests of the founder; however, the representative office may be engaged in business activities limited to the representation of the foreign founder only.

The most popular types of business entities used by foreigners conducting their business in Lithuania are:

- private limited liability company (uždaroji akcinė bendrovė - UAB)
- public limited liability company (akcinė bendrovė - AB).

Both are separate legal entities with liability of the shareholders restricted to the value of the company's assets. UAB is the most common form of a business entity which is ideally suited for small-sized businesses. It allows business to operate as legal entity with a simple management structure and without the necessity to invest large amounts of capital. However, the shares of a UAB may not be circulated or traded in publicly.

AB is a means of foreign investment generally chosen by larger corporations and the principal advantage thereof is that shares of an AB may be relatively easily transferred and can be listed on a stock exchange.

As of 1 September 2012, a new limited civil liability legal entity – a small partnership – may be established. The incorporators can only be individuals, and not more than ten. A requirement of the minimum capital is not established for a small partnership.

Shareholders of ABs and UABs, also partners of small partnerships are liable under the company's obligations only within the amount which they must pay for the shares.

In addition to the Lithuanian Civil Code, incorporation and management of UABs and ABs are regulated under a special Lithuanian Company Law.

Incorporation and capital requirements

A private limited company may be founded by one or more persons that may be individuals or legal entities (local or/and foreign).

The founders must execute an agreement on establishment or an establishment act (in the case of the sole founder). The founders must also approve the articles of association of the company

(where its goals, management structure, representation rules and other relevant provisions must be defined) as well as fill in standard application forms to be provided to the Register of Legal Entities where all companies are registered. All the above documents must be duly approved by a Lithuanian notary public and afterwards provided to the Register of Legal Entities. When a private limited liability company (as well as sole proprietorship) is founded by a single person, all necessary documents may be submitted to the Register of Legal Entities electronically without any notary approvals if certain requirements are met (e.g. standard articles of association, legal seat owned by the founder). A foreign legal entity (founder) must also provide its registration certificate, its articles of association and the decision to establish a company in Lithuania. These documents must be legalised by the competent authorities in the foreign country.

Registration of a company takes three working days after all the necessary documents are duly executed and submitted to the Register of Legal Entities and stamp duties are paid. The company is considered to be established when it is registered at with the Register of Legal Entities.

There is also a simplified procedure of establishment which may be performed using the self-service system of the Register of Legal Entities. This procedure shall be carried out if the founder meets certain conditions: 1) uses model establishment documents; 2) the statutory capital is being paid only by monetary contributions; 3) the premises of the registered office are not seized; 4) there is only one founder; 5) the founder owns a certified electronic signature. This procedure comparing to the regular one is cheaper. However, it is applicable only for establishment of the private limited liability company (UAB).

UABs must have at least one and less than 250 shareholders. There are no restrictions in respect of the number of shareholders in an ABs. The shareholders may be resident or non-resident legal entities or individuals.

The minimum authorised (share) capital for UABs is EUR 2,500 and EUR 40,000 for ABs. One fourth of the authorised (share) capital must be monetary contributions; however, such monetary contributions may not be less than the minimum of EUR 2,500 for UABs and EUR 40,000 for ABs. The remaining part of the contribution may be either monetary contribution or contribution in kind. Contributions in kind must be valued by a certified asset appraiser before registration of the company.

Share capital may be increased or reduced by a decision of at least two-thirds of the votes at a general shareholders' meeting. Reduction of the authorised (share) capital with the purpose to pay out funds to the shareholders can be decided at the annual general shareholders' meeting only and the funds must be paid out to the shareholders in cash within a period of one month after the registration of amended articles of association in the Register of Legal Entities subject to certain conditions.

The company's equity must not be less than 50% of its authorised (share) capital.

Management

The Lithuanian Company Law calls for the creation of a three-tier management structure, including the shareholders' meeting, the management board and the supervisory board. According to the legislation, both private and public limited liability companies must have two mandatory management bodies – the general meeting of shareholders and the head of the company. The management board and the supervisory board are optional for limited liability companies, however, as of 1 July 2015, public limited liability companies must have at least one collegial management body – either the management board or the supervisory board. The management board is a mandatory body for insurance companies, while banks must have both supervisory and management boards. According to the Corporate Governance Code for the Companies Listed on NASDAQ OMX Vilnius, it is advisable for these companies to have supervisory and management boards.

There are no requirements regarding the residency of members of managing bodies.

The shareholders' meeting is the supreme corporate body having exclusive powers to make decisions such as amending the articles of association, increasing or reducing the share capital, approving the annual financial statements, liquidation, reorganisation, etc. Decisions at the shareholders' meeting are made by a simple majority of votes present (i.e. 50% plus one vote), except for the most important decisions, e.g. increasing/reducing the share capital, approving the financial accounts, profit allocation, etc., which must be made by a qualified majority of votes of at least two-thirds, three-quarters or higher.

The company is managed and represented by the head of the company (managing director, president, CEO, etc.). Quantitative representation may also be established in the company. An employment contract must be concluded with the head of the company.

Branch of a foreign company

A branch of a foreign company is a structural unit of a company which has its own registered office and performs all or part of entity's functions. It does not have the status of an entity, but it must be registered in the Register of Legal Entities.

The foreign company is fully liable for the obligations of its branch. The branch may carry out business activities, enter into contracts and assume obligations within the scope of the powers granted by the foreign company.

At least one of the persons representing the branch (e.g. branch manager) must reside in Lithuania. This requirement is not applied to branches of the EU and EEA entities and other organizations, established in Lithuania.

The branch, as a form of the foreign entity's activity, shall be treated as a permanent establishment and therefore it must register for corporate income tax purposes in Lithuania.

Banking and insurance services may also be rendered through branches opened in Lithuania. Foreign banks may open branch or representative offices in Lithuania. Banks incorporated in other EU member states are entitled to carry out financial activities based on the freedom of services if they have been granted an appropriate permission to carry out such activity in the country where they are established.

Domestic insurance companies must have activity licenses issued by the insurance supervisory authority (i.e. the Lithuanian Central Bank) for an unlimited period of time. A license for insurance activity is effective in all other EU member states, providing the insurance activities are carried out through exercising the right of establishment and/or the right to provide services.

In order to carry out insurance activities in Lithuania, foreign insurance companies must have licenses issued in their home countries as well as permissions from the competent authorities of these foreign countries to carry out their activities in Lithuania.

Representative offices

Foreign companies may establish a representative office for representational and promotional purposes.

A representative office is a subdivision of a legal entity having its legal seat in Lithuania. A representative office is entitled to perform limited business activity only. The representative office does not have the status of an entity, but it must be registered in the Register of Legal Entities. The foreign company is fully liable for the obligations of its representative office.

If the activities performed by the representative office meet the criteria of a permanent establishment, they will become subject to corporate income tax in Lithuania.

At least one person acting on behalf of the representative office (e.g. manager of the representative office) must reside in Lithuania. This requirement is not applied to representative offices of the EU and EEA entities and other organizations, established in Lithuania. Representative offices are to be registered with the Register of Legal Entities.

Mergers

Legal entities may be reorganised by way of merger and division, which are regulated under the Lithuanian Civil Code. The Company Law also establishes mandatory requirements for reorganisation of ABs and UABs.

A merger can be performed in two different ways:

- One (or more) existing company is merged (joined) with another existing company so that all rights and obligations of one company are transferred to another and the

company ceasing to exist is deregistered from the Register of Legal Entities without liquidation procedures;

- Two (or more) existing companies are merged (consolidated) into a new legal entity so that all rights and obligations of the companies participating in the merger are transferred to the newly established legal entity and those existing companies are de-registered from the Register of Legal Entities without liquidation procedures. This type of merger includes formation of a new company.

Companies can be divided in the following ways:

- One (or more) existing company is parcelled out so that all rights and obligations of the company are transferred to two or more existing companies and the company ceasing to exist is deregistered from the Register of Legal Entities;
- One existing company is divided into two or more new companies so that all rights and obligations of the company are transferred to the newly established legal entities and the existing company is de-registered from the Register of Legal Entities without liquidation procedures. This type of merger includes formation of new companies.

A company may participate in a reorganisation only after its statutory capital has been fully paid up. The decision on a merger must be adopted by the General Meetings at least 30 days after the public announcement on the prepared merger terms.

Companies in a merger must publicly announce the merger conditions three times with at least 30-day intervals or provide an announcement once and notify all the companies' creditors in writing.

The assets, rights and obligations of the companies in a merger are assigned in accordance with the merger terms approved by the general shareholders' meetings of all companies participating in the merger.

Cross-border mergers

Cross-border mergers may also be implemented in Lithuania. Lithuania has fully implemented the Directive of the European Parliament and of the Council of 26 October 2005 (2005/56/EC) on cross-border mergers of limited liability companies. A cross-border merger may be an option when considering the minimisation of administration costs and the scope of reporting requirements mandated in each country where group business activity is carried out.

In order to facilitate cross-border merger operations, each company participating in a cross-border merger remains subject to the provisions and formalities of the national law which are applicable in case of national merger.

Only limited liability companies of the same legal type can participate in a cross-border merger.

Common draft terms must be drawn up for all companies participating in a cross-border merger. These terms must be publicised for each merging company through an entry in the appropriate public register.

The employees of the merging companies are vested with certain participation rights which are subject to regulations set in the national laws.

Going public

Only public limited liability companies (AB's) enjoy the opportunities to go public in Lithuania.

NASDAQ OMX Vilnius (formerly Vilnius stock exchange) is the sole operator of the regulated market in Lithuania. NASDAQ OMX stock exchanges in Vilnius, Tallinn and Riga, in order to reduce the differences between the Lithuanian, Latvian and Estonian securities market and to facilitate the trading of securities, formed a joint Baltic market.

NASDAQ OMX Vilnius organises trading in financial instruments on the following lists: the Official list, Secondary list, Debt Securities list and Fund list. The financial instruments to be admitted to the trading lists must have no restrictions to their transfer, must be freely negotiable, entitling equal rights and fully paid up. A prospectus of the financial instruments must be approved and published.

Prior to admission to the Official list a sufficient portion of free float must be public after distribution in Lithuania and/or one of the other EU member states.

An issuer seeking admission of its financial instruments to a list must file an application with the NASDAQ OMX Vilnius. The Management Board of the stock exchange must pass a decision concerning admission to the Official list within six months from the date of receipt of the application. The term for other lists is three months.

Decisions on admission to the list are passed provided the financial instrument and their issuers satisfy the requirements set by the applicable laws. The stock exchange regulations are based on the provisions of the EU legislation.

Insolvency proceedings

A company is considered to be insolvent if it fails to settle with creditors (e.g. does not pay its debts, fails to perform work which has been paid up in advance, etc.), and the overdue obligations/debts exceed half of the value of the company's assets recorded in the balance sheet. Bankruptcy proceedings of companies may be initiated by the creditors, owners or the management of the company. The bankruptcy proceedings may be carried out as a judicial proceeding (commonly) as well as a non-judicial (extrajudicial) proceeding if certain requirements are met.

A petition for bankruptcy may be filed with the court if at least one of the following conditions occurs:

- a company fails to pay remuneration and other employment-related amounts when due;
- a company fails to pay for goods received, works performed, services rendered, or defaults in the repayment of loans, or does not fulfil other contractual obligations;
- a company fails to pay due taxes or other compulsory contributions prescribed by law;
- a company has made a public announcement or notified its creditors in any other manner of its inability or lack of intent to discharge its obligations;
- a company has no assets or income to settle its debts and therefore a court bailiff has returned the writs of execution to a creditor.

The court is entitled to call current and previous management and accountants of the company to give their explanations and documents related to the bankruptcy case.

Ex- management and bookkeeping personnel can be called if their employment with the company terminated less than 12 months prior to the initiation of the bankruptcy proceeding.

The court has a right to restrict a person's right to become manager of a public and/or private entity for 3-5 years if the person has breached obligations mandated according to the regulations set in bankruptcy laws.

A simplified judicial proceeding can be arranged in case a company has no assets or the value of the assets is insufficient to settle the costs for the court proceedings and bankruptcy administration.

Creditors intending to file a bankruptcy petition to the court must give a prior written notification to the company concerned about their intention. Among other conditions the creditors must grant the company a period which cannot be shorter than 30 days in which the company may settle with creditors. Upon expiry of this period, the creditors can apply to the court if the company fails to settle.

Non-judicial bankruptcy proceedings can be initiated if there are no proprietary claims filed with courts, including those related to labour relations, and if no compulsory collection of debts is applied to the company. Creditors' meeting shall be convened in order to obtain consent to start non-judicial bankruptcy proceedings. Decision to start non-judicial bankruptcy proceedings may be adopted if the creditors having claims equal to at least three-fourths of the company's total liabilities vote for it.

The court or the creditors appoint an administrator, who is in charge of performing the bankruptcy procedures: organizes the sale of the assets of the company, convenes creditors' meetings, satisfies the allowed creditors' claims, etc.

Specific features of the bankruptcy process of banks, credit unions, insurance companies, agricultural enterprises, intermediaries of public trading in securities and other enterprises may be established by other laws regulating the activities of the said enterprises and public agencies.

The Register of Legal Entities may also initiate a procedure of liquidation generally in cases where a company is considered as inactive. As of 1 January 2015, certain conditions were defined, when the liquidation of a company can be initiated, e.g. if a company has not updated its records for five years in the Register of Legal Entities, if the management bodies of the company have not been formed for six months and because of this the company is unable to make any decisions. In such cases, the procedure may be carried out without applying to the court.

The Lithuanian Criminal Code establishes criminal liability to a person, whose wilful wrong management of the company caused bankruptcy and this resulted in major material damage to the creditors. Imprisonment may be imposed on the liable person.

As of 1 March 2013, the Law on Bankruptcy of Natural Persons came into effect. This law regulates the process of bankruptcy of natural persons which could be initiated only by an individual. A natural person may initiate a bankruptcy procedure when he/she cannot settle his debt liabilities, the maturity of which has already expired and the amount of which exceeds 25 minimal monthly salaries (as of July 2015 the minimum monthly salary is EUR 325). A repeated bankruptcy of a natural person may be initiated not earlier than after 10 years.



3

Business taxation



Business taxation

Estonia

Tax residency

A legal person is considered an Estonian resident if residency is established under Estonian law. European public limited companies (SE) and European associations (SCE) whose seats are registered in Estonia are also residents.

Corporate income tax

Tax rates

The profits earned and retained in a company are not subject to taxation. The income tax rate on gross dividends is 20% (in 2015), although the tax is calculated on the net amount of dividends by applying a tax rate of 20/80%. Thus a company not distributing profit is not obliged to pay income tax. Taxable expenses are taxed at the rate of 20/80% as well.

Taxable persons

The principles for taxation of income for resident companies and incorporated companies have remained the same since the year 2000.

Branch offices and permanent establishments are subject to tax on the transfer of income earned in Estonia. Income tax is imposed on profit attributed to a permanent establishment which has been taken out of the permanent establishment during a period of taxation in monetary or non-monetary form.

Tax base

Compared to the classical income tax system a conceptual difference exists in that, instead of taxing the profit of resident legal persons and registered permanent establishments, the distribution of profits (as well as transactions that can be treated as hidden distribution of profits) is taxed. Income taxation has shifted from earning profits to the distribution of profits. The term "distribution" is treated more broadly than just direct dividend payment. It also includes hidden profit distributions and

certain expenses, which can be considered profit allocation, e.g. fringe benefits, gifts, donations, and expenses and payments unrelated to business.

The tax base of a resident company also includes payments made upon the reduction of share capital or contributions, or the redemption or return of shares or contributions, as well as upon other payments made from equity or upon payment of liquidation proceeds. In such cases, a resident company will pay corporate income tax on the amount in which the abovementioned payments exceed monetary and non-monetary contributions made to the company's equity.

Inter-company dividends

Since 2004, income tax must be paid on profit distributions regardless of the recipient.

Dividends received from abroad, if the same dividends were redistributed by an Estonian company. In 2005 the credit method was replaced with the exemption method. The dividends received by an Estonian company from abroad are not taxable in Estonia in the case of redistribution of these profit if the dividend was received from an EEA or Swiss resident company or if income tax was paid or withheld on these dividends abroad (except from a low tax territory) and the Estonian company owned, at the time of receiving the dividends, at least 10% (20% from 2005-2006, 15% from 2007-2008) of the shares or votes in the subsidiary.

As of 2009, the tax base has been broadened. For that reason, the tax exemption on dividends is now applied also to dividends the basis of which is a payment that was received upon reduction of the share capital. And not only contributions or redemption or return of shares or contributions, but also upon other payments received from equity or upon receipt of liquidation proceeds if the payment or the share of profit that serves as the basis of the payment has been subject to taxation and the Estonian company owned at least a 10% holding in the subsidiary.

The exemption is also applied to payments made from the equity of a company or upon payment of liquidation proceeds if the basis of the payment is a dividend, payment from equity or liquidation proceeds that correspond to the same conditions as in the case of dividends that are exempt from further taxation.

If the conditions for the application of an exemption method are not fulfilled, the credit method is generally applied.

Gifts, donations and representation costs

A resident company pays income tax on gifts and donations made to natural persons and non-residents, non-profit organisations not included in the list approved by the government and resident business undertakings.

Payments made for expenses incurred while receiving guests and business partners (accommodation, catering, transportation and cultural expenses) are also taxable if they exceed the limits which are dependent on the payroll.

Fringe benefits

Fringe benefits are taxable at the level of an employer with income tax at the rate of 20/80% and social tax at the rate of 33% (the income tax amount is also subject to the social tax). All benefits granted to employees, including the members of management and supervisory boards, the self-employed who have been providing services or selling goods to the employer, or the individual having another contractual relationship with the company, as well as to the husband, parent or child of the employee, are taxed as fringe benefits.

Reserves and provisions

Companies may establish reserves without tax consequences.

Tax losses

Losses have no effect on corporate taxation.

Taxation of director's fees

Director's fees paid to non-resident board members of Estonian companies are taxable in Estonia at a rate of 20 percent. Fees are taxable even if the payer is not a resident legal entity or has a permanent establishment (PE) in Estonia. The scope of this taxation concerns the fees paid for carrying out directors' duties for an Estonian company or PE, irrespective of where the duties are performed.

Capital gains

Capital gains are not taxed separately, but are included in profits subject to corporate income tax upon distribution. Thus, the capital gains received by an Estonian company are not taxable as income, but become subject to taxation upon distribution.

Groups of companies

Companies forming a corporate group are treated as individual companies for tax purposes. Thus, there is no fiscal unity or similar concept in Estonian income tax legislation.

Thin capitalisation

There are currently no thin capitalisation regulations in Estonia.

Transfer pricing

If the value of a transaction conducted between associated persons (including transactions carried out between a permanent establishment and its head office) differs from the value of a similar transaction conducted between independent persons, the tax administrator may, upon making an assessment of income tax, apply the value of transactions used by independent persons under similar conditions. As of 1 January 2007, the transfer pricing regulation is applied to the transactions carried out between

related resident companies in the same way as it was applied before to transactions carried out between related non-residents or an individual.

In 2007, the new wording of the Income Tax Act imposed on companies the obligation of documenting their transactions with associated parties.

Tax collection

A legal person has the obligation to file an income tax return for the period of taxation (calendar month) by the 10th day of the month following the taxation period. VAT-registered taxpayers must submit a tax return regardless of whether any events resulting in tax obligations have occurred. Income tax is to be transferred to the tax authorities by the same date.

Foreign branches and permanent establishments must file an annual report with the tax administrator no later than 6 months after the end of the financial period if the annual report does not have to be submitted to the Commercial Register.

Withholding taxes

Domestic withholding income tax rates for payments to non-residents (both entities and individuals) are as follows:

- payments from services provided in Estonia – 10%
- royalties – 0% or 10%; the 0% rate is applied if royalties are paid at the market price between associated companies established in the European Union. In all other cases – 10% is applied
- interest – 0%, however, 20% income tax is withheld from the portion of interest that significantly exceeds the market value
- rental payments – 20%.

There is no withholding tax on dividends.

Value added tax

Tax base

Taxable transactions comprise the supply of goods and provision of services, if made in Estonia. The tax base also includes certain actions carried out for no consideration, e.g. the giving of business gifts and the private use of business assets.

VAT payers

If an Estonian entity (including the permanent establishment of a foreign person) makes taxable supplies in Estonia over the VAT registration threshold (EUR 16,000), it is required to register and account for Estonian VAT. Taxpayers with annual sales less than EUR 16,000 are not liable for VAT. If an entity trades below the registration threshold it can still choose to register voluntarily for VAT. However, no registration is required if the taxable supplies consist of only zero-rated supplies, except the intra-Community supply of goods.

When a trader, without fixed establishment in Estonia and liable for taxation in another country, makes a taxable supply in Estonia that is not taxed by the Estonian taxable person upon acquiring goods or services, then that foreign trader must register for VAT from the date the taxable supply was made. It follows that no registration threshold applies for such traders. Different rules apply in the case of distance sales and e-commerce.

If a business is not registered for VAT in Estonia but sells and delivers goods from another EU Member State to customers in Estonia who are not VAT registered ("distance sales"), where the value of those sales exceeds a threshold of EUR 35,000, a business is required to register and account for VAT in Estonia.

VAT rates

The standard rate of VAT is 20%.

There is a reduced rate of 9% for certain goods and services, including:

- books and most periodicals
- medicines
- medical equipment for the personal use of the disabled
- accommodation services.

There is an extensive list of zero-rate supplies, including:

- export of goods and intra-Community supplies
- cross-border business to business services
- goods placed into free zones or free warehouses, or certain goods listed in Annex V of Council Directive 2006/112/EC that are placed into a VAT warehouse
- export and import related transport services, international passenger services
- supply of aircraft used by an air carrier operating mostly on international routes
- supply of sea-going vessels for navigation on high seas
- provision of services on board vessels or aircraft during international transport
- supplies of goods under diplomatic and consular arrangements.

Exemptions

The list of exemptions includes:

- immovable property or parts thereof (there is an option to tax the sale of immovable property if the tax authorities are informed beforehand)
- the leasing or letting of or establishment of a usufruct on immovable property or parts thereof (an option to tax)
- transactions involving securities and financial services (an option to tax domestically)

- insurance transactions, lotteries and gambling
- certain education services
- health and welfare services
- universal postal services
- investment gold.

Limitations to input VAT

There are certain items that a person cannot recover VAT on. For example:

- exempt supplies where VAT relates to both taxable and exempt supplies, an apportionment is required;
- non-business (including private) activities where VAT relates to both business and non-business activities, an apportionment is required;
- business entertainment and payment for goods or services relating to the provision of meals or accommodation for employees or guests – however, VAT can be recovered on the accommodation during a business trip;
- purchases falling within the “Tour Operators’ Margin Scheme” – the VAT on goods and services which fall under this scheme cannot be reclaimed;
- goods sold under one of the margin schemes for second hand goods, all other similar schemes that provide for VAT to be accounted for on the goods’ sales margin, but do not allow VAT recovery on the purchase of those goods.

Irregularities

According to the Estonian VAT Act, a reverse charge is applied in the case of acquisition of goods or receipt of services from a foreign taxable person who is not registered as a taxable person in Estonia. Therefore, if a foreign trader supplies goods or services to an Estonian taxable person, then a VAT registration is not mandatory in Estonia, provided the Estonian person applies a reverse charge on acquired goods or services.

Excise duties

The Estonian excise legislation is based on the excise legislation of the European Union. The excise is imposed on:

- alcohol
- tobacco
- fuel
- electricity
- packaging
- natural gas
- oil shale.

Excise duty is charged on fuel that is produced in Estonia, which has been brought into Estonia from another member state and on fuel that is declared for free circulation in Estonia. Estonia obtained permission from the EU to exempt bio fuels from excise from 27 July 2005 and the exemption was applicable for a period of 6 years (until 27 July 2011).

Excise duty is imposed on tobacco products (smoking tobacco, cigarettes, cigars, cigarillos, chewing tobacco) produced in Estonia or brought into Estonia. Distribution of tobacco products without tax stamps is prohibited.

Excise duty is imposed on wine, beer, fermented beverages, intermediate products and other alcohol produced in Estonia or brought into Estonia. Alcoholic beverages with ethanol content above 22% volume, whose packaging containers hold more than 0.05 litres, must be revenue stamped.

Excise duty on packaging is imposed on packaging filled in Estonia, acquired from another Member State or imported to Estonia. The payers of the excise duty who do not meet the recovery rates of packaging should pay the excise duty for the quantity of the packaging unused. Excise duty is paid by the importer of the packages, by the user of the packages or by the person who acquired the packaging from another Member State upon the sale, exchange, free transfer or use for self-consumption of the packaging.

The obligation to pay excise duty on electricity applies to network operators who are engaged in the provision of network services through a network. Excisable goods can be received from another Member State under the excise duty suspension arrangement if the recipient is an excise warehouse keeper or a registered trader. Excise duty is administered by the Estonian Tax and Customs Board.

Real estate tax, land tax

The only property tax imposed in Estonia is a land tax. In general, the annual tax rate is between 0.1% and 2.5% of the taxable value of the land, which is determined according to the provisions of the Law on Land Value. The owner of the land is obliged to pay the tax. However, land under the home is tax exempted.

Other

Tax on trucks heavier than 12 tonnes has been in effect since the beginning of 2004.

Local taxes

Local municipalities are entitled to establish their own taxes based on the Law on Local Taxes. Commonly established local taxes include advertising tax, tax on the closing of streets and roads, and parking tax.

Latvia

Tax residency

The criteria for establishing a company's residence for tax purposes is its incorporation in Latvia or that it legally should have been registered as a tax payer in Latvia, as in the case of a non-resident entity carrying out business in Latvia through a permanent establishment. Latvia does not have an effective place of management test of residence.

Taxable entities are resident companies (but not partnerships) and non-resident entities as well as permanent establishments of non-resident entities which derive income from a Latvian source.

Corporate income tax

Tax rates

The Latvian corporate income tax is charged at a rate of 15%. Companies registered in special economic zones can apply an 80% discount to the corporate income tax amount.

Taxable persons

Latvia has a self-assessment taxation system. The taxpayer calculates the amount of tax payable and reports this amount in a declaration. The tax authorities may audit the declaration within a period of 3 years after the due date for paying the tax for the tax period in question. A transfer pricing audit for cross-border transactions may be carried out within five years after the payment due date.

Taxable base

The taxable base of resident companies is their worldwide income and capital gains. A permanent establishment (branch) of a non-resident company is taxed on income gained in Latvia and is treated as a separate Latvian taxpayer. The profits of a Latvian permanent establishment of a non-resident company are taxed on a normal basis at the same rate as the profits of a resident company. However, internal charges between the permanent establishment and its Head Office such as interest, management fees, etc. are not deductible under local tax rules. Head office costs attributable or allocable to the branch may be deducted.

Companies registered in Latvia that operate ships internationally have the option of paying corporate income tax based on the tonnage of the individual vessels used in their operations. Once this option is chosen it must be continued for 10 years.

Inter-company dividends

Regardless of the level of ownership, dividends received from Latvian or non-resident companies are tax exempt except for dividends paid by a non-resident company established in a jurisdiction with low or no taxes.

Fringe benefits

All benefits provided to employees, including the members of management and supervisory boards, self employed individuals who have been providing services or

selling goods to the employer or an individual having other contractual relationships with the company, as well as to the husband, parent or child of the employee, are taxed as fringe benefits.

Fringe benefits are taxable according to the same principles as salary paid to employees with a personal income tax of 24%, employee social tax of 10.5% and employer's social tax of 23.59% in addition to the gross salary.

Reserves and provisions

Reserves and provisions are not deductible, except for bad debt provisions for banks and insurance companies in specific circumstances.

Tax losses

Tax losses incurred from 2008 onwards may be carried forward indefinitely. Earlier losses expire after 8 years.

Where a change in the "control" of a company occurs, the right to carry forward accumulated tax losses is lost unless the company continues to undertake for the next 5 years the same principal business activity that it undertook during the previous 2 years. Companies are not allowed to carry losses back.

Capital gains

Capital gains are not taxed separately, but are included in profit subject to corporate income tax.

Participation exemption

Gains on disposal of shares are not taxed, except the disposal of shares in a non-resident company established in a jurisdiction with low or no taxes. Capital losses realised from the disposal of shares are non-deductible.

Thin capitalisation

According to the thin capitalisation rules, two calculations for determining the deductible amount of interest must be made on an annual basis. For loans that are received from supervised financial institution that provides crediting and financial leasing and is a resident of Latvia, EU, EEA or of a country with which Latvia has concluded a double tax treaty, only the first calculation has to be applied.

Interest payments may be deducted from the company's taxable income; however, the deductible amount is restricted (does not apply for credit institution or an insurance company). There are no deduction restrictions if the interest is paid to a credit institution that is a resident of Latvia, EU, EEA or of a country with which Latvia has concluded a double tax treaty.

Under the first calculation, the amount of principal upon which interest was paid during the year is multiplied by 1.57 times the average short-term interest rate for the tax year as published by the Bank of Latvia.

Under the second calculation, the amount of interest paid is disallowed proportionally to the amount by which the average amount of the principal outstanding during the year

exceeds a multiple of four times the company's equity as stated in its annual accounts at the beginning of the year. The equity is reduced by any amounts that are long-term investment revaluation reserves or other reserves that have not been reflected in the profit and loss statement.

If the interest payment for the tax year exceeds this amount the excess is not deductible for taxation purposes. The higher disallowance is applied.

Non-deducted interest payments cannot be carried forward for deduction in future taxation years.

Increase of asset value for depreciation for tax purposes

Tax depreciation for new technological equipment acquired between 2009 and 2020 is calculated by multiplying the asset value by a ratio of 1.5.

Transfer pricing

Latvian companies and permanent establishments of non-resident companies are required to apply an arm's length price in transactions with the following parties:

- related foreign entities
- related entities that form with the taxpayer a company group
- entities exempt from CIT or using CIT discounts in Latvia
- related individuals
- entities or persons from low or no tax countries, or offshore territories.

As of 1 January 2013 taxpayers having annual turnover exceeding EUR 1.4 million are required to prepare a documentation file to justify the arm's length nature of the transactions with the above parties exceeding EUR 14.3 thousand per annum.

Tax collection

The tax period is the same as the fiscal year and may be different from a calendar year. An annual tax return must be filed within 4 months of the end of the tax period to which it relates. Large companies are allowed to extend this deadline up to 7 months. Monthly advance payments of tax are required.

Withholding taxes

Domestic rates of withholding tax on payments to non-resident legal entities are as follows:

- management and consulting fees: 10%
- payments for the use of fixed or movable property in Latvia (including leasing): 5% (payments for the lease of aircrafts used in international transportation, as well as payments for the use of manufacturing, commercial or scientific equipment)
- payment for the sale of real estate located in Latvia or shares of a Latvian real estate company: 2% of the total proceeds. After non-resident submits tax return, the tax can be reduced to 15% of the profits.

Corporate income tax of 15% must be withheld at source on any payments made to entities registered in or located in one of the low or no tax countries and territories designated by the Latvian government. Payments for acquisition of goods or EU / EEA public securities are exempt from this requirement if the price is arm's length.

The following payments to entities or persons located in low or no tax countries and territories suffer special withholding tax rates:

- interest payments made by Latvian commercial banks: 5%
- interim dividends: 30%.

Foreign tax relief

Under local tax laws a tax credit may be granted for taxes paid abroad but not exceeding the amount of Latvian tax payable on that income (i.e. ordinary credit) on a source-by-source basis. If a tax treaty provides an exemption method for double tax relief, the provisions of the treaty are applicable.

Tax incentives and concessions

The following are other corporate income tax reliefs or concessions that are available:

- tax relief for tax paid in foreign countries;
- tax relief for enterprises engaged in agricultural activity;
- tax relief for charitable donations. A resident company may not receive corporate income tax deductions for gifts and donations made to individuals and non-residents, non-profit organisations and resident business undertakings. However, a company may receive a tax credit of 85% of the amount of donation made to public benefit organisations that are registered with the Ministry of Finance or to non-governmental organisations (if they operate by conditions that can be likened to operation conditions of Latvian public benefit organisations) registered in the EU or an EEA country with which Latvia has concluded a double tax treaty. The tax credit cannot exceed 20% of the total tax amount;
- tax relief on initial long-term investments in supported investment projects. Large investment project relief. A taxpayer operating in certain industries can obtain tax relief amounting to 25% from investments up to EUR 50 million and 15% from investment amounts in excess of EUR 50 million. To qualify for the tax relief the investment has to be at least EUR 10 million which has to be invested within 5 years after the project is approved by the Cabinet of Ministers. The tax relief can be carried forward for not more than 16 years;
- R&D relief. Latvian corporate tax payers can deduct three times actually incurred R&D expenses. The qualifying R&D costs include employment costs of scientists, research service costs or costs of certification, testing and calibration of new product. To qualify for R&D relief, a taxpayer cannot dispose of the output of the R&D activities for 3 tax periods.

A company registered and operating in a special economic zone enjoys higher rates of tax depreciation. Companies registered and operating in a special economic zone or a

free port may qualify for both immovable property tax relief of up to 100% and corporate income tax relief of 80%. Granted relief is subject to certain limits.

Micro-enterprise tax

A micro-enterprise pays 9% tax on turnover from business activity. This tax covers personal income tax, social security contributions, business risk duty and corporate income tax. In 2015 some changes in micro-enterprise tax regime are expected.

Value added tax

Tax base

Taxable transactions are the supply of goods or services within Latvia, self-consumption, the import of goods and export of goods and services. Persons whose taxable transactions exceed EUR 50,000) in a 12-month period must register as a VAT payers.

VAT payers

VAT payers are individuals or legal entities that in the course of a trade or profession perform taxable transactions within Latvia.

VAT rates

The standard VAT rate is 21%.

The following are examples of transactions subject to a VAT rate of zero (0):

- export of goods and intra community supplies
- transportation of export, import and transit goods
- services that are directly related to goods that are imported from third countries and are not released for free circulation within the EU that are rendered within a free zone territory or customs warehouse
- supplies of goods and services connected with international transport and rescue ships
- international passenger traffic
- supplies of goods and services under diplomatic and consular arrangements.

The following are examples of transactions subject to a VAT rate of 12%:

- supply of listed medicines, medical goods and equipment
- supply of listed infant products
- supply of mass media products
- public transport services within Latvia
- supply of heating to inhabitants
- supply of educational literature and original literature
- hotel services.

Exemptions

The following are examples of VAT exempt transactions:

- transactions in shares and other securities
- banking and financial services excluding hire of safes and encashment
- insurance transactions
- services related to welfare and social security work
- provision of medical care, dental services
- education services
- sale of real estate excluding the sale of unused buildings and building land
- rental of domestic apartments to individuals
- betting, lotteries and other forms of gambling.

Limitations to input VAT

There are certain items on which a person cannot recover VAT. For example:

- exempt supplies: where VAT relates to both taxable and exempt supplies, separate accounting or an apportionment is required;
- non-business (including private) activities; where VAT relates to both business and non-business activities, separate accounting or an apportionment is required;
- business entertainment and payment for goods or services relating to the provision of meals or accommodation for employees; however, VAT can be recovered on accommodation during business trips;
- expenses of a representative nature; 60% of the VAT is not recoverable;
- 20% from input tax paid for acquired/leased passenger car and expenditures related to this car
- no input tax is deductible for “representative” cars - those whose value exceeds EUR 50,000 excluding VAT.

Input VAT cannot be claimed in respect of exempt transactions and input VAT can only be claimed in respect of transactions that are directly related to the income generation of the individual or entity.

Latvian VAT legislation is in compliance with the Council Directive 2006/112/EC.

Excise duties

Excise duties are payable by producers or importers of:

- spirits and alcohol
- beer with an alcohol content exceeding 0.5% by volume
- certain tobacco products
- petroleum products and gas
- soft drinks and coffee.

Real estate tax, land tax

Tax on immovable property (land and buildings) is paid by individuals and legal entities that own or have legal control over real estate.

Municipalities have the right to set the rate of property tax within 0.2% to 3% of the cadastral value of property. A tax rate of more than 1.5% of the cadastral value of property may be set only in cases when the property is not managed properly. Unless the municipality has published binding regulations on property tax rates by 1 November of the previous taxation year, the following rates are applicable:

- for property and land used in business activities and also for engineering technical buildings - 1.5% from the cadastral value of the property
- for land not used in agriculture - 3% of the cadastral value
- for buildings that degrade the environment and endanger human lives - up to 3% of the cadastral value (if certain criteria are met)
- for houses, apartments for inhabitants and additional premises (garages, storage rooms, etc.) not used in business activities
- 0.2% of the cadastral value not exceeding EUR 56,915
- 0.4% of the cadastral value from EUR 56,915 to EUR 106,715
- 0.6% of the cadastral value exceeding EUR 106,715.

The minimal tax payment for each tax payer in a particular municipality is EUR 7.

As of 1 January 2013, families with more than three children are eligible for a 50% reduction of property tax but not in excess of EUR 427.

Other (natural resource tax)

Natural resource tax

The natural resource tax is imposed on:

- natural resources extracted over a licensed amount
- burial of waste
- environmental pollution that exceeds a set limit
- goods injurious to the environment
- the packaging of imported and domestically produced goods.
- radioactive products
- specified vehicles
- coal, coke and lignite gas.

Lithuania

Tax residency

All types of legal entities incorporated under Lithuanian law are considered to be resident entities in Lithuania. Lithuania does not have an effective place of management test of residence.

Corporate income tax

Taxable persons

Lithuanian and foreign taxable entities are considered as taxable entities in Lithuania.

All types of commercial enterprises and legal entities, including branches of foreign companies, sole proprietorships and partnerships, registered under Lithuanian law are deemed to be legal entities subject to corporate income tax.

In respect of foreign taxpayers, it is not required that the entity has the qualification of a legal entity. They qualify as taxpayers in Lithuania if they are foreign organizations that have their seat abroad and are established or organized under foreign law (certain exemptions apply to Lithuanian or foreign pension and investment funds).

Tax base

Lithuanian entities are taxed on worldwide income; the tax liability of foreign entities is limited to income sourced in Lithuania, including income earned through permanent establishments.

Companies registered in Lithuania that operate ships internationally have an option of paying corporate income tax based on the tonnage of the individual vessels used in the operations.

Taxable profits are arrived at deducting exempt income, allowable and partly allowable expenses from taxable income.

Deductions allowed are all expenses actually incurred in the ordinary course of business that are necessary for earning income or in order to receive economic benefit.

Partly allowable expenses include: depreciation and amortisation of fixed assets, business trips, advertising and entertainment, ordinary loss of inventories, taxes, bad debts, payments for the benefit of employees, granted support, membership fees, etc.

The main types of non-deductible expenses are: penalties and default interest, compensation for damages, payments to tax haven entities (if not verified this relates to the ordinary activities of tax haven entities), other payments not related to the ordinary business of a tax payer, etc.

Tax rates

The standard (flat) rate of corporate income tax is 15%. The reduced 5% corporate income tax rate applies for:

- agricultural companies if more than 50% of income is derived from agricultural activities;

- small companies if their average number of employees does not exceed 10 and their taxable income during the taxable year is less than EUR 300,000.

A 0% rate applies for:

- social companies with not less than 40% of their employees being disabled, long-term unemployed, and other supported social groups;
- production companies with more than 50% of their employees with limited working ability. If the fraction of employees with the limited working ability is lower, then the company is subject to partial deduction of corporate income tax (additional requirements apply).

Foreign income

If a Lithuanian company has a PE/branch in a foreign jurisdiction (EU and DTT countries), the profits of the foreign PE/branches are exempt from taxation in Lithuania (i.e. the tax exemption method is applied in Lithuania).

In other cases, Lithuanian entities are entitled to deduct corporate income tax or similar taxes paid abroad from the corporate income tax payable in Lithuania. The deducted amount, however, may not exceed the amount of income tax payable in Lithuania on that type of income.

Special rules apply with respect to the income of controlled foreign companies, which is attributed to the taxable base of a Lithuanian entity.

Inter-company dividends

Dividends paid by a Lithuanian company to other Lithuanian company are tax exempt if a company receiving dividends holds not less than 10% of the shares granting the same percentage of votes for not less than 12 months. In other cases, dividends are subject to 15% withholding tax. Similar rules apply to dividends paid to foreign entities (please see section Withholding taxes).

It is possible to pay interim dividends in Lithuania.

Dividends received from EEA companies, which are subject to corporate income tax or equivalent tax, are tax exempt. Dividends received from other than EEA foreign companies are tax exempt if they qualify for participation exemption (not less than 10% of shares held for not less than 12 months), except for dividends received from tax havens. In other cases, dividends are subject to 15% corporate income tax.

Capital gains

Capital gains are not taxed separately and are included in the taxable income of an entity.

Capital gains are non-taxable if they are derived from the transfer of shares of an entity that is registered in Lithuania or another EEA country, or in a country with which Lithuania has a double tax treaty and is subject to corporate income tax or equivalent tax (participation requirement: more than 25% of shares held continuously for at least 2 years). If the transfer of shares takes place in the course of reorganisation, the minimum holding period is 3 years.

Tax losses

Ordinary tax losses can be carried forward indefinitely if a taxpayer continues to perform business activities from which such losses occurred. As of the taxable year 2014, ordinary tax losses carried forward can only be set off against up to 70% of the calculated taxable profits of the taxable period. This restriction is not applicable to the small companies, which profit is subject to the reduced corporate income tax rate of 5%.

Capital losses from the disposal of securities or financial derivatives can be carried forward for 5 years and exclusively to set off gains from the disposal of securities or financial derivatives (except for financial institutions).

Companies are not allowed to carry losses back.

Grouping

Tax losses of a company incurred for the taxable period may be set off against respective profits of another company forming a group provided the following criteria are met: the parent company directly or indirectly owns at least 2/3 of shares in subsidiaries; and the transfer of losses is performed between the companies that have continuously been members of the group for at least 2 years or if the participants of the transfer have been a part of the group as of their incorporation and will be part of the group for at least 2 years.

Grouping with foreign losses is possible where the foreign entity transferring losses is a tax resident in the EU and there is no possibility to carry forward respective losses in that foreign country, also such losses have to be calculated according to the rules of the Lithuanian Law on Corporate Income Tax.

However, it is not allowed for a company to transfer losses if the company would not pay corporate income tax or equivalent tax due to tax reliefs applicable to it (taxable profits would have been taxed at a rate of 0% or the entity would have been exempt from paying tax).

Withholding taxes

Domestic rates of withholding tax on payments to non-resident legal entities are as follows:

Dividends	0%*, 15%	*Dividends paid to any non-resident company are tax exempt (with a participation requirement of not less than 10% of shares held continuously for at least 12 months), except for dividends paid to tax haven countries. In other cases, a 15% rate is applied.
Interest	0%** , 10%	**Interest paid to companies established in EEA countries or in countries with which Lithuania has a double tax treaty is tax exempt. In other cases – 10% rate is applied.
Royalties	0%***, 10%	***Royalties paid to associated EU or Swiss companies are tax exempt. Two companies are deemed to be associated companies if one of them holds directly at least 25% of the capital of the other, or a third EU or Swiss company holds directly at least 25% of the capital of these two companies. A minimum holding period of 2 years is required. In other cases – a 10% rate is applied.
Real Estate	15%	Non-resident companies are subject to a 15% withholding tax rate on income from sale, transfer or rent of real estate situated in Lithuania. Non-resident companies may also apply to the tax authorities to recalculate the tax withheld in order to be taxed on the net capital gains instead of the whole proceeds of the transfer of the real estate.
Supervisory Board members	15%	As of 2014 any payments to members of the Supervisory Board are subject to 15% withholding tax (prior to the change, only annual payments were subject to tax).
Sports and performance activities	15%	Income from performing activities and sports activities carried out in Lithuania is subject to 15% withholding tax

Withholding tax may be reduced under applicable tax treaties.

Tax collection

The taxable period is generally the calendar year. Upon request, the tax authorities may allow a taxpayer to use a different 12 months period as a taxable period. The taxable

period can only be changed due to objective reasons, e.g. a different taxable year of the parent company, seasonal activities.

Annual corporate income tax returns must be filed within 5 months after the end of taxable period, i.e. by 1st day of the sixth month of the following taxable period. As of 2014, for the taxable year 2014 and for successive years the final corporate income tax payment has to be made on the same date as the annual corporate income tax return is due, i.e. 1 June if the taxable period is a calendar year.

Quarterly advance payments of tax are required. Newly registered companies are exempt from advance payments for their first year of operation. Advanced corporate income tax must be paid only if the taxable income of the previous taxable period exceeded EUR 300,000.

Group consolidation for corporate income tax purposes is not possible.

Dividends paid or received shall be declared and tax must be paid by the 10th day of the following month (special tax return is established). Special form is also established for declaring other payments to foreign entities (e.g. interest, royalties) which shall be submitted and tax must be paid by the 15th day of the following month.

Thin capitalisation

A certain part of interest paid to a controlling lender may not be deductible for CIT purposes. Under the thin capitalisation rules, the non-deductible part of interest expenses is calculated based on a debt/equity ratio of 4:1. However, the thin capitalisation rules may be mitigated when a Lithuanian taxpayer proves that the same loan under the same terms would be available between independent persons.

Transfer pricing

The arm's length principle is explicitly incorporated in Lithuanian tax law. Detailed transfer pricing regulations have been published.

The tax authorities are entitled to make transfer pricing adjustments in respect of transactions between associated persons. Qualifying companies must document their transactions if at least one of the following criteria is met: sales income generated in the year before the transaction exceeded EUR 2,896,200; the enterprises in question are financial companies, credit institutions or insurance companies; also foreign entities engaged in business operations through permanent establishments, if the income attributed to such permanent establishments exceeds the above mentioned threshold. Transfer pricing documentation must be filed with the tax administrator within 30 days after the request.

The following five transfer pricing methods can be used in order to be in compliance with the arm's length principle:

- Comparable uncontrolled price method
- Resale price method

- Cost plus method
- Profit split method
- Transactional net margin method

The comparable uncontrolled price method must be used first. When the data available is not sufficient, the resale price or cost plus methods should be used. The profit split and transactional net margin methods have the lowest priority and can be used provided that the data is not sufficient to apply the first three methods.

Taxpayers that wish to have advance comfort as regards their transfer pricing may apply for an Advance pricing agreement (APA). An APA may be obtained for a maximum five year period. The issuance of the ruling is free of charge.

Binding ruling

Binding ruling can be applied for future transactions and transfer pricing (APA).

Tax payers are able to obtain a binding ruling by providing all relevant information, description of the conditions and expected tax implications of their planned transactions to the tax authorities. The rulings are only binding to the tax authorities for a prescribed period, but not more than the current year and 5 calendar years from the date of the ruling.

Tax treaties

In 2015 Lithuania has concluded tax treaties with 53 countries:

Armenia	Hungary	Portugal
Azerbaijan	Iceland	Romania
Austria	India	Russia
Belarus	Ireland	Serbia
Belgium	Israel	Singapore
Bulgaria	Italy	Slovak Rep.
Canada	Kazakhstan	Slovenia
Czech Rep.	Korea	Spain
China	Kyrgyzstan	Sweden
Croatia	Latvia	Switzerland
Cyprus**	Luxembourg	Turkey
Denmark	Macedonia	Turkmenistan**
Estonia	Malta	UAE**
Finland	Mexico	Ukraine
France	Moldova	United Kingdom
Georgia	Netherlands	USA
Germany	Norway	Uzbekistan
Greece	Poland	

* *Treaties with Kuwait, Morocco have not been ratified yet.*

** *Applicable as of 2015.*

Tax incentives and concessions

In Lithuania there are several tax incentives established for companies. Tax reliefs are available for small companies, agricultural companies, free economic zone companies, production companies employing people with disabilities, social companies and cooperatives.

Additionally, the income of investment companies with variable capital, closed-end investment companies and certain other investment companies, as well as certain investment income of insurance companies (except for dividends) are exempt from corporate income tax. Besides tax reliefs are applied for sponsorship/charity donations, support for film production.

Investment incentive for certain groups of fixed assets (applicable 2009-2018)

Companies may reduce their taxable profits up to 50% by the amount of expenses incurred for investment in certain fixed assets, machinery and equipment, computer hardware and software, communication equipment, acquired rights. As of 2014 the incentive also applies to acquired trucks, trailers and semitrailers. Part of the acquisition costs of fixed assets, which has not been utilised during the taxable year, may be carried forward, but not more than 4 years. The tax authorities should be notified that the company is performing an investment project.

Incentive for research and development (R&D)

Expenses incurred for scientific research and experimental development purposes may be deducted 3 times in the tax period when they are incurred, provided that the research and development works are related to usual business activities.

Double tax incentive for movie making supporters (applicable 2014-2018)

An entity may deduct up to 75% of the funds provided for production of a film or its part in Lithuania from its taxable profit. Furthermore, the payable corporate income tax may be reduced up to 75% by the amount provided for film production. If the amount of funds exceeds 75% of corporate income tax payable, the exceeding amount may be carried forward to reduce profits of the other two subsequent taxable periods.

Free economic zones (FEZ)

Companies with investments of EUR 1 million or more operating in a FEZ are exempt from corporate income tax for 6 taxable years and are subject to a 50% reduced corporate income tax rate for 10 successive years. Such relief is applicable for FEZ companies if at least 75% of the income in the tax year is derived from production, manufacturing, processing or warehousing activities performed within a FEZ, wholesale trade in goods stored within a FEZ, as well as services related to the above mentioned activities. IT services (e.g. programming, computer consultancy, data processing, services of web servers etc.), aircraft and spacecraft maintenance services are also included in the list. There is no real estate tax applicable in an FEZ territory.

Currently, there are 7 free economic zones established in Lithuania: in Kaunas, Klaipėda, Šiauliai, Panevėžys, Marijampolė, Kėdainiai and Akmenė.

Value added tax

The Lithuanian VAT system is compliant with the VAT directive (2006/112/EC). The EU law provisions regarding VAT on intra-Community trade, triangulation and distance selling are implemented into national legislation.

Tax base

VAT is applied to supply of goods and services for consideration by taxable persons if such goods are supplied or services are rendered in Lithuania, as well as to goods imported into Lithuania or acquisition of goods from another EU member state. The concept of taxable persons also includes foreign persons engaged in business activities in Lithuania.

When services are rendered to taxable persons that are VAT payers, the place of supply is deemed to be the place where the buyer is established (B2B rule). The supply of services is subject to Lithuanian VAT if the services are rendered by a Lithuanian taxable person to individuals who are non-taxable persons (B2C rule). As of 2015, new VAT tax treatment of telecommunications, broadcasting and (or) electronically supplied services came into force, implementing new EU-wide rules for the determination of the place of supply of the mentioned services.

Special rules are applied to services related to immovable property, catering, transportation and other services.

VAT payers

Lithuanian persons with the local income exceeding EUR 45,000 in the last 12 consecutive months have to register as VAT payers. If the entity performs VAT exempt activities, it may be exempt from VAT registration obligation.

Foreign persons should register in Lithuania for VAT purposes if their activities in Lithuania are subject to VAT (except for cases where the obligation to account for VAT transfers to the purchaser or where the 0% VAT rate applies). The threshold of EUR 45,000 is not applicable to foreign persons.

If a Lithuanian or foreign person does not have the obligation to register as a VAT payer due to above mentioned conditions, but it performs intra-Community acquisition of goods exceeding annual value of EUR 14,000, then it has to register for VAT purposes.

Foreign persons must register for VAT purposes in Lithuania through a fiscal agent unless they are incorporated in an EU member state - such persons can be registered as Lithuanian VAT payers directly.

VAT rates

The standard VAT rate is 21%.

There is a compensation rate of 6% for supplies of goods and services provided by farmers.

A reduced 9% VAT rate is applied to:

- certain periodicals (e.g. newspapers) and non-periodicals (e.g. books)
- certain regular passenger transportation and related baggage handling services
- the supply of heating for dwellings and the supply of hot water (until 31 December 2016)
- certain accommodation services, e.g. hotels (as of 2015).

A reduced 5% VAT rate is applied to:

- compensable pharmaceuticals and medical aids
- technical aids for disabled and their repairs.

The following are examples of transactions subject to a 0% VAT rate:

- export and intra community supplies of goods
- passenger transportation on international routes
- transport services related to import or export of goods
- supply of aircrafts operating on international routes, their maintenance and supply of goods for the fuelling and provision of such aircrafts
- supply of vessels operating in high seas, their maintenance and supply of goods for the fuelling and provision of such vessels
- supplies of goods and services under diplomatic and consular arrangements.

Exemptions

Goods and services related to health care, social and cultural services and sport, if they are produced/rendered by non-profit entities, as well as other services, including the supply of goods and the rendering of services for charity and support purposes, postal services, insurance services, financial services, leasing of dwelling and other immovable property, etc., are exempt from VAT (without a right for deduction of input VAT).

Limitations to input VAT

A VAT payer should have the right to deduct input (or import) VAT on goods/services acquired, provided that the goods/services are intended for use in the following activities of the VAT payer:

- VAT taxable supply of goods/services, or
- supply of goods/services outside the territory of Lithuania where such supply of goods/services would not be exempt from VAT if effected within the territory of Lithuania;

A VAT payer has a right to deduct input VAT on the goods/services acquired (or imported) prior to the day of its registration as a VAT payer, provided that they are to be used for VAT taxable activities and subject to particular conditions.

Input VAT should be deducted only in the case where a VAT payer holds an appropriate invoice, and the VAT payer must be indicated as the purchaser of the goods/services.

Lithuanian VAT payers do not have to pay import VAT to Lithuanian customs' account for the goods released into free circulation if certain conditions are met. The local VAT reverse charge has to be applied on such imports and is controlled by the tax authorities. Furthermore, the guarantee for such deductible import VAT is not required to be provided when formalizing import procedure at the customs.

Excise duties

Excise duties are levied on production in, or import into Lithuania of the following items:

- ethyl alcohol and alcoholic beverages
- tobacco products
- fuel
- electricity.

Importers and producers are liable to pay excise duties to the state budget.

Real estate tax

Real estate located in Lithuania is subject to real estate tax. Land is not subject to real estate tax, but is subject to specific land tax.

The real estate tax should be paid by Lithuanian and foreign legal entities and organisations, as well as by Lithuanian and foreign individuals owning real estate in Lithuania.

The annual tax rate for legal entities (also applicable to individuals holding commercial property) ranges from 0.3% to 3% of the taxable value of real estate. The particular rate is established by the local municipalities.

As of 2015 Lithuanian and foreign individuals owning real estate in Lithuania have to pay 0.5% real estate tax on the taxable value exceeding EUR 220,000 of the whole real estate owned (see chapter 4 for more details).

Land tax

The land tax is paid by the owners of private land. The land tax rate ranges from 0.01% to 4% of the taxable value. The particular rate is established by local municipalities.

The taxable value is established based on the mass valuation which is intended to reflect the market price of the land. The new method is applicable since 2013 and resulted in significant increase of taxable values. Special rules to reduce the impact of new taxable values apply in this period up to 2017 inclusive.

Land lease tax

Legal entities and individuals leasing state or municipality owned land must pay a land lease tax, which is not less than 0.1 % and not higher than 4% of the land value. A precise rate for a land lease tax is established by the local municipality in each individual case.

Other (local taxes)

Environmental taxes are applicable in Lithuania:

- pollution tax is imposed on individuals and legal entities polluting the environment from stationary (factories, farms) and mobile (vehicles) sources used for commercial purposes, and
- tax on environmentally harmful goods (accumulators, tyres, automotive filters, etc.) which is paid by the importers and Lithuanian producers of such goods, and
- packaging tax, which should be paid by the importers of packaged goods in Lithuania or by Lithuanian manufacturers of packaged goods.

Natural resource tax is imposed on:

- petroleum and natural gas extracted in the territory of Lithuania and its economic zone in the Baltic Sea;
- extracted minerals, water and constructional soil.

Lottery and gaming tax

- The organisers of lotteries and the organisers of bingo, totalizator and betting shall pay lottery and gaming tax.



4

Individual taxation



Individual taxation

Estonia

Tax residency

An individual who has a permanent place of residence in Estonia or who stays in Estonia for at least 183 days over a period of 12 consecutive calendar months, and Estonian state public servants who are in the Foreign Service, are considered resident for tax purposes.

Personal income tax

Taxpayers

Resident taxpayers are subject to income tax on their worldwide income, while non-residents are subject to income tax only on their Estonian source income.

Taxable income

Individuals are subject to general income tax at the rate of 20% on income derived in the calendar year from:

- employment (monetary payments);
- business (self-employed income);
- property/investment (rental income, interest on deposits and loans, royalties, capital gains on disposal of business, movable and immovable property);
- other sources (certain pensions, scholarships, grants, awards, lottery prizes, insurance indemnities and payments from pension funds).

Income tax at the rate of 10% must be withheld by a resident legal person on royalties, payments to artists and sportsmen/women for activities conducted in Estonia or on payments for services provided in Estonia when payments are made to non-residents.

An income tax at the rate of 10% is applied to amounts paid out under a contract of pension insurance with income tax incentives to a policyholder as well as to payments from pension funds to unit holders where:

- the policy or unit holder has turned 55 years of age but not before 5 years have passed since they entered into the contract or the initial acquisition of units;
- the policy or unit holder has become permanently and completely unable to work;
- after liquidation of the pension fund, or
- upon the death of the policy or unit holder, payments are made to the successor.

The annual taxable income of resident individuals is reduced by a basic personal allowance of EUR 1,848. An additional allowance up to EUR 1,848 is granted to a parent for each child aged 17 or less (starting from the second child).

Tax rates

Personal income tax is levied at a 20% flat rate.

Tax-exempt income

Tax-exempt income includes the following:

- dividends received from Estonian companies, or if income tax has been paid on the share of profit, or income tax has been withheld on the dividend in a foreign state;
- capital gains from the sale of immovable assets, the essential part of which is a dwelling which was used by the taxpayer as his or her permanent or primary place of residence until transfer (this exemption only applies for one sale of immovable assets in every 2 years);
- gains from the sale of movable assets for personal use;
- certain child allowances and other social security subsidies;
- state pensions up to EUR 2,640 in a calendar year;
- certain scholarships and grants unless paid in connection with business or employment;
- international and state cultural and scientific awards and sport awards complying with the conditions in Income Tax Act and order established by the government;
- fringe benefits (tax is payable by employer);
- inheritance received (only the receipt of the inheritance is tax exempt, not the sale henceforth);
- gifts and donations received from natural persons, a state or local government authority, a resident legal person or from a non-resident through or on account of its permanent establishment registered in Estonia;
- indemnification paid to an employee for work accidents up to EUR 768 in a calendar year;

- certain benefits received from insurance contracts;
- pensions paid to a policyholder on a regular basis after the policyholder has attained 55 years of age or after his or her total and permanent incapacity for work has been verified on the condition that the payments are made in equal or increasing amounts at least once every 3 months;
- compensation for business trip expenses and daily allowances within the specified limits;
- compensation for business use of a private car in accordance with certain regulations;
- lottery prizes organised on the basis of an operating permit;
- income derived from the first sale of land restituted in the course of the property reform;
- interest paid by an EEA resident credit institution.

Deductions

The following items are allowed as deductions for personal income tax purposes:

- interest on housing loans and capital leases, which is paid to the EU member state's resident banks;
- training expenses (subject to conditions and limits set by the government);
- gifts and donations to specified persons and trade union entrance and membership fees up to certain limits (in total not more than 5% of the income of the period of taxation);
- contribution to certain pension funds with income tax relief (up to 15% of the income of the period of taxation);
- social security payments mandatory in a foreign state.

The total amount of deductions may not exceed EUR 1,920 per taxpayer per year and not more than 50% of the taxpayer's taxable income.

Foreign tax credit

A credit method is applied in order to avoid double taxation. Credit granted for foreign taxes paid is limited to the amount of Estonian tax payable on that income (ordinary credit) on a source-by-source basis. Taxpayers are required to submit a document certifying the payment of income tax. An exemption method is applied if the taxpayer has received remuneration for working abroad, has stayed in the foreign country for at least 183 days in any consecutive 12-month period, the remuneration was subject to taxation in this foreign country and the latter is certified.

Tax collection

The period of taxation is a calendar year. The income tax return is filed with the tax authorities no later than 31 March of the following year. Income tax returns are prepared

on a self-assessment basis and may be audited by the tax authorities for up to 3 years. Under certain cases, tax audits may occur up to 5 years after filing.

Married couples may file tax returns jointly (also in the case of a non-resident husband/wife). Additional amounts of tax due must be paid to the Tax and Customs Board not later than 1 July. Additional tax on business income or gains from transfer of property is payable by 1 October.

Social security tax

Social security tax is paid by employers. Social tax at the rate of 33% is payable on wages and other monetary remuneration paid to employees. The tax is payable on a monthly basis.

Self-employed persons are liable to pay tax on their business income at a rate of 33%. During a calendar year, advance payments of at least EUR 351.45 (in 2015) per quarter are made. The maximum social tax obligation for self-employed individuals is limited to the amount calculated at 15 times the minimum wage.

Unemployment insurance

Unemployment insurance payments are shared between the employer and employee. Employers pay tax at a rate of 0.8% on gross payroll payments and an additional 1.6% is withheld from payments made to employees.

Pension insurance

Unemployment and pension insurance payments that are made at the employee level are deductible from taxable income. Funded pension contributions at the rate of 2% are withheld on gross salary payments to residents if the employee has joined the funded pension system. It is obligatory for an Estonian tax resident born after 1 January 1983 to join the mandatory funded pension system. The state adds its contribution of 4%. If the employee has submitted an application in 2013 for contributing 3% from 2014 to 2017 to the pension fund, then funded pension contributions are withheld at the rate 3%. In this case, the state adds its contribution of 6%.

Capital taxes

There is no net wealth/capital tax in Estonia.

Inheritance and gift tax

There is no inheritance or gift tax in Estonia, but if an individual sells inherited property and the gain from sale of such type of property is subject to income tax, the full sales price will be subject to income tax.

Tax calculation example

The following example illustrates the calculation of taxes due on employment income paid to an Estonian resident.

1. Gross salary per month in EUR	1,000
2. Less unemployment insurance premium (1.6%)	16
3. Less mandatory pension insurance contributions (2%)*	20
4. Less monthly taxable income**	154
5. Monthly taxable income (1-2-3-4)	190
6. Personal income tax (810.00 x 20%)	162
7. Net monthly income (1000-154-16-20-162)	648
8. Total employment cost for the employer	1,338

*** Gross salary cost for employer is 133,8% (1000+330+8)

* In case the employee applied for temporary rise of payments during 2014-2017, the pension insurance rate would be 3%

** Non taxable income is EUR 1,848 in a year or EUR 154 in a month

*** Social security contributions to be funded and paid by the employer are EUR 338:33% of social tax (EUR 330) and 0,8% of unemployment insurance premium (EUR 8 of EUR 1,000 gross salary).

Latvia

Tax residency

Individuals are tax resident in Latvia when:

- they have their permanent residence in Latvia
- they are present in Latvia for more than 183 days in a 12-month period
- they are Latvian citizens employed overseas by the Latvian government.

There are no special procedures for terminating residence in Latvia. However, the Law on Taxes and Duties provides that an individual who will not be considered a tax resident in the following year, will no longer be a tax resident from the date they leave Latvia if they can show they have greater ties outside Latvia than within Latvia.

Personal income tax

Taxpayers

Resident taxpayers are taxed on their worldwide income. Non-resident taxpayers are taxed on specific Latvian sources of income.

Taxable income

Typical taxable cash and non-cash benefits of a compensation package are:

- salary
- reimbursements of foreign and/or home country taxes

- reimbursement of school tuition fees
- home leave reimbursements
- cost of living allowances
- expatriation premiums
- housing allowances/reimbursements
- company car
- medical insurance premiums paid by an employer (exceeding limit)
- incentive compensation.

Non-residents are liable for Latvian tax only in respect of Latvian source income including:

- employment income for duties performed within Latvia in favour of a Latvian or foreign employer, or performed outside Latvia for a Latvian employer;
- income from independent professional services rendered to Latvian residents or registered permanent establishments within and outside Latvia;
- income from professional services such as an artist, sportsman or trainer performed in Latvia;
- income from performing duties as the member of a board or supervisory body of a Latvian company;
- income from a Latvian registered partnership;
- income from the use of immovable property located in Latvia;
- income from the sale of immovable property (also from the sale capital, shares of the company whose assets consists of at least 50% real estate) or other capital assets, except sale of financial instruments or sale of securities of Latvian, EU, or an EEA state or municipality;
- income from the use of movable property in Latvia;
- income from agricultural production from "individual" farms;
- income from the sale of wood for cutting and from the sale of wood materials gained as well as income from the support for limitation of economic activity for wood owners for whom the managing of wood is not economic activity;
- income from the sale of scrap metal;
- dividends or income that can be considered as dividends;
- interest income except interest income from securities of Latvian, EU, or EEA state or municipality;
- income from intellectual property (royalties);
- insurance payments, if the agreement is concluded by an employer and it is paid out at the end of the period or terminated before a specified period;

- pensions paid according to Latvian legislation;
- additional pension capital that has been accumulated from employer's contributions in private pension funds;
- increase of value of real estate or increase in value that is gained when lease agreement ends and is due to improvements made by the lessee and that have not been compensated to the lessee;
- residual part received by a participant of a cooperative that provides agricultural and wood management services accordingly to the extent of his usage of cooperative's services;
- income from allocated profit of cooperative societies (cooperative societies of the owners of flats, car garages, garages of boats, and gardening cooperative societies);
- income from investment in private pension funds;
- income of hired out personnel or income considered as such, without reference of who receives this income on behalf of the individual;
- income from accumulating life insurance.

Tax rates

Latvian personal income tax is levied at a rate of 24%. As of 1 January 2015 the tax rate will be decreased to 23% and starting from 2016 the applicable tax rate will be 22%. The tax year for individuals is the calendar year. Individuals are classified either as resident or non-resident taxpayers.

Special tax rates for particular types of income are the following:

- capital gains – 15%
- dividends, interest and similar income – 10%
- income from private pension funds – 10%
- income from accumulating life insurance – 10%
- income from financial instruments – 10%.

Tax exempt income

Examples of some exempt income items are:

- income from State securities (Latvia, EU and EEA countries and municipal securities)
- alimony payments
- some types of scholarships
- income from the sale of personal property (real estate must have been held for 60 months and for at least 12 months it should be the declared place of residence to be exempt)

- winnings from lotteries and gambling
- income from exercising share purchase right if all the requirements are fulfilled.

The majority of exemptions do not apply to non-residents. However, if a resident of another EU or EEA country receives more than 75% of his annual income in Latvia, then the exemptions also apply.

Deductions

There are limited deductions under Latvian Law. Deductible items are:

- mandatory social security contributions
- allowances for the support of close relatives or dependants (limited)
- medical expenses, expenses on education, health insurance (limited)
- donations to charitable organisations (limited)
- expenses related to the production of scientific, literary and artistic works (limited)
- contributions to private pension schemes and payments for accumulating life insurance (limited).

Non-resident taxpayers and individuals who are resident for less than 6 months in a tax year are only entitled to the standard deductions like social security contributions; special rules apply to the calculation of the income of a self-employed individual. If a resident of another EU or EEA country receives more than 75% of his annual income in Latvia, then all the deductions also apply.

Foreign income non-taxable in Latvia

Foreign employment income of a Latvian resident is non-taxable in Latvia if the following conditions have been met at the same time:

- 1) Employment income is gained for work performed in another EU or EEA country with which Latvia has an effective double tax treaty, and
- 2) The foreign employment income is subject to PIT or similar tax in the foreign country, and
- 3) The taxpayer is not the personnel that is rented by the personnel lessor to the personnel lessee, who is a Latvian resident or non-resident's permanent establishment in Latvia.

If the employer of the Latvian resident working abroad is also a Latvian resident then the exemption is applicable if the employer, prior to sending the employee to work abroad, submits to the State Revenue Service a written confirmation that the employee's income is subject to foreign tax withholding. The application should state the name of the foreign country, the employed individual and employment period.

Foreign tax credit

Where foreign taxes have been paid on income taxable in Latvia, a credit will be given. The credit is limited to the amount of Latvian tax that would otherwise have been payable on the amount. Proof that the tax has been paid is required.

Double tax treaty relief may also be available.

Tax collection

Annual declarations must be filed by 1 June of the following year. Declarations are prepared on a self-assessment basis and may be audited up to 3 years after the tax became payable. If the tax liability assessed exceeds EUR 640, the tax can be paid over 3 months in equal instalments.

Personal income tax in respect of employment income is usually withheld from salary payments (payroll tax). All employers in Latvia, including foreign companies operating through a branch, must deduct payroll tax from remuneration paid to all employees and remit this tax to the tax authorities on a monthly basis on the salary payment date.

Foreigners working in Latvia for a non-Latvian employer must register with the tax authorities and either the employer or the foreigner must, on a monthly basis, pay personal income tax based on their monthly salary.

Social security tax

Mandatory social security contributions are payable in respect of gross employment income.

For individuals employed by a Latvian resident employer, the social security contribution rates in 2014 are:

- employer's rate – 23.59%
- employee's rate – 10.5%.

If individuals are employed in Latvia by an employer which is resident in another EU or EEA member state, then contribution rates are the same as above.

If the employer is not resident in the EU or EEA, then the social contributions are:

- for Latvian citizens working in Latvia – 34.09%
- for non-Latvian citizens who are in Latvia for more than 183 days – 32%.

Foreigners who will be working in Latvia for less than 12 months may be exempted from Latvian social security contributions provided that social security contributions are paid in their country of residence.

There are some exemptions for EU and EEA citizens on short-term assignments.

Unemployment insurance

Unemployment insurance payments are included in the monthly social security contributions.

Capital taxes

There is no net wealth/capital tax in Latvia.

Inheritance and gift tax

There are no inheritance or gift taxes in Latvia.

Tax calculation example

Assume a resident in Latvia with one dependant person (for example, a child or a spouse who is not employed), and a monthly gross salary of EUR 1,000 as follows:

1. Gross salary per month in EUR	1,000
2. Less social security contribution (10.5%)	105
3. Less monthly non-taxable income	75*
4. Less allowance for dependant	165**
5. Monthly taxable income (1-2-3-4)	665
6. Personal income tax (665 x 24%)	157.20
7. Net monthly income (1,000-105-157.20)	737.80
8. Total employment cost for the employer	1,235.90***

* Non taxable income is EUR 900 in a year or EUR 75 in a month

** Allowance for dependant is EUR 1,980 in a year or EUR 165 in a month.

*** Social security contributions to be funded and paid by the employer are EUR 235.90:23.59% of EUR 1,000 gross salary

Lithuania

Personal income tax

Tax payers

For the purposes of the Lithuanian individual income tax, a distinction between taxable persons is made according to their residence.

The tax residence of an individual is determined by:

- his permanent place of residence (home) or his abode in Lithuania;
- his place of personal, social and economic interest in Lithuania;

- his continuous or intermittent physical presence in Lithuania for more than 183 days in a tax year, or for more than 280 days during consecutive tax years whereby his stay in Lithuania during one of those periods is at least 90 days;
- employment of a Lithuanian citizen abroad by the Lithuanian government.

Taxable income

Resident taxpayers are subject to income tax on their world-wide income, whilst non-residents are taxed on their Lithuanian sourced income. The source of income (domestic or foreign) is determined according to (i) the place of the payer of the income, (ii) the place of activity generating the income, or (iii) the location of property giving rise to the income.

Residents

Typically taxable income of resident individuals includes the following:

- employment income;
- property/investment income: dividends, rental income, royalties, interest on deposits and loans, capital gains on securities, sale/rent of movable property and real estate (certain exceptions apply);
- income from other activities (individual activities, sports activities, performer's activities, etc.).

Non-residents

Non-residents are liable for Lithuanian tax only in respect of Lithuanian source income including:

- employment income for the work performed in Lithuania;
- interest and royalties;
- income from distributed profits;
- payments to Management Board and Supervisory Board members (before 2014, only annual payments were subject to personal income tax in Lithuania);
- income from sport and performers' activities;
- income from the sale or renting of real estate located in Lithuania or sale of movable property which is registered in Lithuania;
- compensations for the violation of copyrights or similar rights.

Benefits in kind

Benefits in kind are defined as any benefits received by an individual (either in cash, or in kind, or at a lower than the fair market price) from other individuals or legal entities due to certain interests or transactions (e.g. employment relations). Specific benefits (e.g. gifts and prizes up to EUR 100), except those, received from employer; certain study costs; work equipment) are not treated as benefit in kind.

Benefits in kind received from employers are taxed in the same way as employment income. The value of property received or enjoyed, or services received, is usually determined according to their fair market price. The value of free entertainment, leisure, tourism, health treatment etc. is determined on the basis of the cost to the employer.

Specific tax calculation rules can be applied for company car benefits. If an employee uses a company car also for his private needs, the monthly taxable value of company car benefit is calculated either based on the market rent price of the car, or at a rate of 0.75% of the market value of the car (0.70% rate is applied if the company car benefit does not include the compensation of fuel expenses).

Tax rates

The general flat rate of personal income tax is 15%. As of 1 January 2014 income from distributed profit is subject to 15% income tax rate (prior to the change 20% rate applied).

Income from individual activities is subject to a reduced 5% income tax rate. The 15% rate is applied to individuals performing certain types of individual activities, i.e. freelancers providing intellectual services, such as lawyers, consultants, auditors, accountants etc.

A fixed personal income tax prescribed by municipalities is imposed on income earned by individuals who are carrying out individual activities holding business certificates.

Tax exempt income

Tax exempt income includes the following:

- non-life insurance benefits and certain life insurance benefits;
- interest from deposits in EEA banks and other credit institutions if the agreements were concluded before 1 January 2014;
- interest from government securities of EEA countries, which were acquired before 1 January 2014;
- interest from non equity securities acquired before 1 January 2014, if the securities are redeemed not earlier than after 366 days;
- interest amount not exceeding EUR 3,000 received from non equity securities, non equity securities of the Lithuanian Government and governments of foreign countries, also interest from deposits in Lithuanian or foreign banks and other credit institutions, provided that securities were acquired or the agreements concluded as of 1 January 2014;
- capital gains from securities not exceeding EUR 3,000 irrespective of the fact when they were acquired;
- income from the sale of movable property that is legally registered in the Republic of Lithuania, if the property was acquired more than 3 years prior to its sale;

- income from the sale of real estate that is located in an EEA country, if the property was acquired more than 5 years prior to its sale (for property acquired before 2011 – 3 years);
- income from the sale of real estate (including land), if two years prior to the sale there was a place of residence of the individual declared, or if income from the sale of the real estate (including land) was used within one year for acquisition of a new real estate, located in the EEA country, where the individual declares his new place of residence;
- income received as a prize or a gift in certain situations;
- certain types of pensions, rents, allowances, scholarships, premiums received from the state or municipality budget;
- certain income from agriculture activities if a person who receives income is not registered as a VAT payer;
- income from mariners from work on board vessels.

Certain exemptions are denied in respect of income received from tax havens.

Tax-exempt amount

Certain amounts of employment related income are exempt from tax:

- Basic tax exemption per month is calculated based on the formula: $166 - 0.26 \times (\text{gross monthly income} - 290)$, meaning that if gross income is approx. EUR 929 per month or higher – no tax exempt amount applies.
- Annual tax exempt amount is calculated based on the formula: $1,992 - 0.26 \times (\text{gross annual income} - 3,480)$. If gross annual employment income is approx. EUR 11,142 or higher – no annual tax exempt amount applies.
- An additional tax-exempt monthly amount is granted to parents raising children up to 18 years or older if the child attends secondary school. For each child the exempt amount is EUR 60.

Deductions

The following expenses incurred by individuals can be deducted from their taxable income:

- housing loan interest if the credit was granted before 2009;
- fees for initial higher education or vocational training
- life insurance premiums
- pension contributions.

However, the limit for such deductions is set at 25% of the total income, which is subject to a 15% income tax rate.

Foreign tax credit

Tax exemption method is applied for employment and other income (except dividends, interest and royalties), earned and taxed in EU member countries or the countries with which Lithuania has a double tax treaty. Tax credit method is applied for dividends, interest and royalties received from the said countries.

Income tax paid abroad on income received from other foreign countries (non EU members and countries with which Lithuania does not have double tax treaties) may be credited against the Lithuanian tax liability, limited to the amount of income tax actually paid in the foreign country. A proof, i.e. an official certificate issued abroad, justifying that the tax has been paid indicating the amount thereof is required.

Income from individual activities

The tax base for individuals carrying out individual activities is calculated considering relevant business expenses incurred. An individual may choose to deduct all the properly documented expenses from his annual income (subject to certain limitations) or he may deduct 30% of his income without having an obligation to collect all the justifying documents.

The annual personal income tax return must be submitted and the tax must be calculated and transferred by an individual performing individual activities by 1 May of the following year.

Individuals may obtain a business certificate for certain types of individual activities. The business income earned holding a business certificate is subject to a lump-sum tax, the amount of which depends on the type of the activity. The exact tax amounts are prescribed by the local municipalities and are paid when acquiring the business certificate.

Tax collection

The taxable period is the calendar year. The annual tax return should be filed by individuals with the tax authorities by 1 May of the following year.

Income of individuals is divided into Class A (declared and taxes paid by the payer of the income) and Class B (declared and taxes paid by the recipient), for tax assessment and administration purposes. Class A income includes employment income, income from sports and entertainment activities, dividends and royalties when all these are received from Lithuanian entities or individuals. Income that does not belong to Class A is deemed to belong to Class B (e.g. income from individual activities, income from foreign entities).

In respect of Class A income, the entity/individual withholding individual income tax must file monthly tax returns for the amounts paid out in respective months. Furthermore, such entity/individual must file an annual tax return for the amounts paid during the taxable year.

Personal income tax on the income attributed to Class B must be self-assessed, declared and paid by the recipient by submitting the annual personal income tax return.

Social security and Health insurance contributions

Social security and mandatory health insurance contributions are payable in respect of gross employment income by the employer and employee. There is no income cap for social security contributions on earnings from employment relations.

For employees working in Lithuania, the social security and health insurance contribution rates payable in 2015 are as follows:

- Employer's rate: 30.98%
- Employee's rate: 9% (3% social insurance and 6% health insurance, withheld by the employer).

As of 2014, additionally 1% is withheld from the gross employment income of an employee participating in certain pension accumulation plans.

As of 2016, additionally 2% will be withheld from the gross employment income of an employee participating in certain pension accumulation plans.

Specific rules are established for persons performing individual activities with a cap for contributions applied. Individuals performing individual activities are subject to 28.5% social security contributions and 9% mandatory health insurance contributions. Tax base for social security and health insurance contributions is 50% of the total annual taxable income (i.e. total income minus deductible expenses) from individual activities but not more than EUR 20,760 (applicable for 2015).

EU Regulation (EEC) No. 1408/71, dated 14 June 1971, EU Regulation (EEC) No. 883/2004, dated 1 May 2010 and EU Regulation (EU) No. 465/2012 dated 22 May 2012 are applicable in Lithuania. According to this legislation an individual is subject to mandatory social security in the country where the work is performed, i.e. in the EU, or EEA member state, or Switzerland, at the location of the work functions. Therefore, foreigners fall under the requirement to pay social insurance contributions in Lithuania if their work functions are performed in Lithuania, except if A1 certificate (former E101 form), confirming that social security contributions are paid in the foreign country, is obtained.

Payments to Guarantee Fund

The funds of the Guarantee Fund are used for compensations to employees of bankrupt companies. Contributions to Guarantee Fund are paid by Lithuanian private legal entities, also branches and representative offices of foreign legal entities, as well as individuals acting as employers.

The contributions amount to 0.2% of the gross salary of employees. The contributions are calculated monthly, but the payment order depends on the total annual amounts payable.

Capital taxes

Real estate tax

Lithuanian and foreign individuals owning real estate in Lithuania have to pay 0.5% real estate tax on the taxable value exceeding EUR 220,000 of the whole real estate owned (added together with the real estate owned by family members) which is included in the list of taxable purposes of real estate (e.g. residential premises, gardens, garages, homesteads, science, places of worship). The non-taxable real estate value is increased by 30% for families raising 3 or more children and families raising disabled children. However, commercial property (for purposes other than those subject to the above taxation) owned by individuals is taxed in the same way as real estate owned by legal entities (see chapter 3 – business taxation).

Individuals paying 0.5% real estate tax must file the annual tax return and pay the tax by 15 December of the current year.

Land tax

The land tax is paid by the owners of private land. The land tax rate ranges from 0.01% to 4% of the taxable value. The particular rate is established by local municipalities.

The taxable value is established based on the mass valuation which is intended to reflect the market price of the land. The new method is applicable since 2013 and resulted in significant increase of taxable values. Special rules to reduce the impact of new taxable values apply in this period up to 2017 inclusive.

Inheritance tax

The taxpayers of inheritance tax are individuals who receive inherited property in Lithuania. Taxable property includes movable assets that have to be legally registered and real estate located in the Republic of Lithuania, also shares and money. The tax is collected for municipal budgets.

Tax is not levied on the property inherited from close relatives or when the value of the inherited property does not exceed EUR 3,000.

The rates of inheritance tax are as follows:

- 5% on inherited property, if the taxable value does not exceed EUR 150,000;
- 10% on inherited property, if the taxable value exceeds EUR 150,000.

Tax calculation example

The following example illustrates the calculation of taxes on employment income EUR 1,000 received by a married Lithuanian resident raising one child for 2014:

	EUR
1. Gross monthly salary (in EUR)	1,000
2. Main tax-exempt amount ¹	0
3. One half additional tax-exempt minimum for one child ²	60
4. 15% income tax on EUR 940 (15% of 1-2-3)	141
5. 9% ³ health insurance (6%) and social security (3%) contributions paid by the employee (withheld from salary; 9% of 1)	90
6. Net salary (1-4-5)	769
7. 30.98% social insurance contribution paid by the employer (paid from company funds; 30.98% of 1)	309.8
8. 0.2% payment to Guarantee Fund (0.2% of 1)	2
9. Total employment cost for the employer (1+7+8)	1,311.8
10. Total tax burden for the employee (4+5)	231

1 Main tax-exempt amount is calculated based on the formula: $166 - 0.26 \times (\text{gross monthly income} - 290)$. If gross income is EUR 929 per month or higher – no tax exempt amount applies;

2 As of 2014 tax exempt amount for each child is EUR 60;

3 Assumption is made that the employee has not chosen to participate in certain pension plan and therefore does not contribute additional 1% of pension contributions (2% as of 2016).



5

Accounting and auditing



5

Accounting and auditing

Estonia

Accounting

Since 1995, the Estonian accounting principles have been based on IFRSs. Starting from 2013 Estonian Accounting Standards (RTJ) are linked to IFRS for SMEs instead of IFRS. The current Accounting Act has been in force since 2003 with certain amendments made during recent years to reflect the corresponding changes in IFRSs and the new IFRS for SMEs based approach. According to the Act, commercial undertakings may choose whether to prepare their annual financial statements according to Estonian Accounting Standards (RTJ) or IFRSs as adopted by the European Union (IFRS EU). Listed companies, credit institutions and insurance companies are required to follow IFRS EU.

The Estonian Accounting Standards (RTJs) are issued by the Estonian Accounting Standards Board which acts under the supervision of the Ministry of Finance. RTJs can be regarded as summarised and simplified versions of the corresponding IFRS for SMEs. When a RTJ does not cover a specific area, preparers of annual financial statements are encouraged to seek comprehensive or more detailed guidance from IFRS for SMEs. As at the end of 2013 nineteen standards were effective.

The following are the most significant individual deviations from the principles of IFRS for SMEs.

- Formats of the balance sheet and income statement and composition of different items are prescribed in the Accounting Act in more detail than in IFRS for SMEs.
- Recognition of publicly traded securities: recognition at either fair value or amortised cost is allowed under RTJ 3, under IFRS for SMEs, amortised cost is required.
- Recognition of subsidiaries and associates in the unconsolidated reports of companies who do not have to prepare consolidated reports in accordance with the Accounting Act: recognition under the fair value or cost or equity methods is allowed under RTJ 11, under IFRS for SMEs, the latter method is not allowed.

- Recognition of development expenditure: under RTJ 5, development expenditure can be either recognised as an expense or capitalised, under IFRS for SMEs, only recognition as an expense is allowed.
- Government grants related to assets: under RTJ 12, the net method is also allowed, whereas under IFRS for SMEs the net method is not allowed.

As a general principle, groups of companies must prepare consolidated accounts. However, a number of exemptions are available. Groups are not required to prepare consolidated annual financial statements if their consolidated parameters at the balance sheet date are less than required for a statutory review in the Auditing Act. Exemptions are also available for subgroups if the parent with more than 90% of the voting power files consolidated annual financial statements either in Estonia or in another EU member state and in certain other less frequent cases.

From technical and administrative points of view, the following requirements of the Accounting Act should be emphasised.

- The Accounting Act sets a number of formal requirements for accounting source documents.
- Each entity has to prepare its internal regulations on accounting and the chart of accounts.
- Accounting registers can be maintained either as hard copies or in electronic form.
- As a general principle, accounting and related documents should be maintained for at least 7 years.
- Annual financial statements should be prepared in the Estonian language. However, the act does not specifically limit the language in which everyday book-keeping should be arranged.
- An annual report must include the activity report. For listed companies, the activity report must also include a Corporate Governance report.
- Annual financial statements must be filed with the Commercial Register within 6 months from the end of the financial year at the latest.

Starting 1 January 2010, all annual financial statements, except consolidated financial statements, those of financial institutions and IFRS EU financial statements, must be compiled and filed using web-based taxonomy. The taxonomy includes standardised reporting forms established by the Ministry of Finance, which are in compliance with Estonian GAAP. A management board member must sign the annual financial statements digitally using an ID card and file the statements with the Commercial Register. Exceptions are available for non-Estonian resident management board members.

Auditing

Audit has been compulsory for the majority of companies since 1991. A new Auditing Act was passed on 8 March 2010 that complies with the requirements of Directive 2006/43/EC of the European Parliament and of the Council.

The new Auditing Act sets forth:

- 1) the legal basis for financial auditing;
- 2) the requirements for sworn auditors and audit firms;
- 3) the legal basis for the professional activities of sworn auditors and audit firms;
- 4) the requirements for public sector internal auditors;
- 5) the legal basis for the professional activities of public sector internal auditors;
- 6) the terms and conditions under which an audit or a review is mandatory and the basis for the activities of an audit committee;
- 7) the legal status and competence of the Board of Auditors and the basis for its activities, organisation and financing;
- 8) the basis for the supervision of chartered internal and sworn auditors, audit firms and the Board of Auditors;
- 9) the basis for the maintenance of the register of auditors and audit firms.

Under the new Auditing Act, in performing their professional activities, sworn auditors have to observe the international standards transposed by the European Commission and established by a Commission Regulation as well as the standards created in accordance with the principles and international standards developed by the International Federation of Accountants (IFAC). The professional activities of sworn auditors comprise audits, reviews, and verification of the legality of transactions.

In accordance with the new Act, an audit is mandatory for all public limited companies (Aktšiaselts), as well as for all state accounting entities, local governments and legal persons governed by public law. An audit is mandatory for an accounting entity within the meaning of the Accounting Act when at least two of the following reporting period figures in its annual financial statements exceed the following thresholds:

- 1) sales revenue or income: EUR 2 million
- 2) assets as at the balance sheet date: EUR 1 million
- 3) average number of employees: 30.

In addition, an audit is mandatory for an accounting entity within the meaning of the Accounting Act when one of the following reporting period figures in its annual financial statements exceed the following thresholds:

- 1) sales revenue or income: EUR 6 million
- 2) total assets as at the balance sheet date: EUR 3 million
- 3) average number of employees: 90.

A review is mandatory for an accounting entity within the meaning of the Accounting Act when at least two of the following reporting period figures in its annual financial statements exceed the following thresholds:

- 1) sales revenue or income: EUR 1 million

- 2) total assets as at the balance sheet date: EUR 500,000
- 3) average number of employees: 15.

In addition, a review is mandatory for an accounting entity within the meaning of the Accounting Act when at least one of the following reporting period figures in its annual financial statements exceed the following thresholds:

- 1) sales revenue or income: EUR 3 million
- 2) total assets as at the balance sheet date: EUR 1.5 million
- 3) average number of employees: 45.

Latvia

Accounting

The major legislative acts setting out the accounting and reporting rules in Latvia include:

- The Law on Accounting
- The Law on Annual Reports.

Current Latvian accounting rules are based on the International Financial Reporting Standards as adopted in the EU.

The main objective of the Law on Accounting is to outline a system of accounting principles, and any other law or legislative act relating to accounting must be issued in conformity with this law.

The Law on Accounting applies to merchants, cooperative societies, foreign merchant branches and non-resident (foreign merchant) permanent representations, associations and foundations, political organisations (parties) and the associations thereof, religious organisations, trade unions, institutions which are financed from the state budget or local government budgets, state or local government agencies, and to legal persons and natural persons who perform economic activities.

Accounting records must clearly display the transactions and the financial position of a company. The records must be kept in such a manner as to enable any person who is qualified in accounting to clearly identify the financial position of a company, as well as the business transactions performed in a given period of time, and to enable the person to ascertain both the beginning and the sequence of each transaction.

The company's general management has sole responsibility for any violation of the accounting regulations.

All company accounting records had to be kept in Latvian currency until 31 December 2013. On 1 January 2014 the Republic of Latvia joined the eurozone and the Latvian lat was replaced by the euro. As a result, financial accounting is converted to euros using the official exchange rate LVL 0.702804 to EUR 1 as of 1 January 2014. The company's books must be written in the Latvian language and, together with all of the supporting documents, must be kept within Latvia. If foreign persons participate in business

transactions, another language may also be used. If codes, abbreviations, single letters or symbols are used in the records, explanations must be available.

A double entry bookkeeping system must be used, except for:

- individual merchants, individual undertakings, farms and fishing undertakings whose sales for the previous year do not exceed EUR 300,000, or other individuals who perform economic activities;
- associations, foundations, trade unions, religious organisations whose income from operating activities in the reporting year does not exceed EUR 40,000.

Accounting records must be based on legally valid supporting documents, which contain the following information: the company's name, registration number, official address, document name, number, date, description and basis of transaction, indicators (amounts, volumes), parties involved (the persons directly entering into the transaction) and the signatures of persons responsible for the operating transactions and the correctness of information provided in the supporting documents. Some supporting documents may need additional information (stamp, seal, etc.), which are required by particular Cabinet regulations.

All supporting documents, bookkeeping records, inventory lists, annual reports, as well as accounting policies and charts of accounts must be preserved in the company's archives for periods of 5 to 75 years. These include:

- ledger, annual reports and additions - 10 years (then transferable to public record office)
- inventory lists, accounting registers and accounting institutional forms - 10 years
- source documents per calculated monthly salaries for staff - 75 years
- other accounting source documents - 5 years.

Cabinet regulations "The Law on Annual reports application rules" and "The rules on cash flow statement and statement of changes in equity content and preparation" replace Latvian accounting standards since July 2011.

The Cabinet regulations and existing Latvian legislation on Accounting contain only minor differences from International Financial Reporting Standards as adopted by the EU. Where no applicable Latvian Accounting legislation is available, International Financial Reporting Standards as adopted by the EU can be used as a best practice.

Annual report

The Annual Reports Law outlines the procedure for preparing annual reports and the presentation of financial statements. It applies to any commercial company, cooperative societies, European economic interest groups and European commercial companies registered in Latvia, as well as to individual undertakings, farms and finishing undertakings whose revenue from business transactions in the prior financial year exceeded EUR 300,000. Individual merchants, individual undertakings, farms and fishing undertakings whose revenue from business transactions in the prior financial year is less than EUR 300,000 may still apply the principles and procedures outlined in this law. This law does not apply to banks, savings and loan associations, commercial

insurance companies in the form of joint stock companies, mutual insurance co-operative organisations, re-insurance, private pension funds, investment broker companies and investment administration companies. These organisations prepare financial statements in accordance with IFRS as stated by the regulations of the Finance and Capital Market Commission.

Financial institutions which prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union in accordance with the Finance and Capital market Commission requirements may derogate from the requirements of the Annual Reports Law.

The reporting year should comprise 12 months and usually corresponds with the calendar year. A company may have another start and end of the reporting year if required by the company's Articles of Association. The initial reporting year of a newly established company may comprise a shorter or longer period of time, but no more than 18 months. If the starting date of an already existing company is changed, the reporting year may not be longer than 12 months. The fiscal year should be similar for the parent company and subsidiary companies that are merged into one concern (group).

If the company is under reorganisation or liquidation, it should prepare closing financial statements, if laws and regulations do not prescribe otherwise. Closing financial statements should be prepared, audited and published in accordance with laws and regulations applicable for annual reports. These regulations do not apply to individual merchants, individual undertakings, farms and fishing undertakings whose sales for the previous year do not exceed EUR 300,000, or other individuals who perform economic activities.

The annual report must be completed for each year, and consists of:

- the financial statements
- the management report on the development of the company in the current year.

The financial statements contain the balance sheet, the profit and loss statement, cash flow statement, statement on changes in shareholders' equity and notes to the financial statements.

Starting from 1 January 2014 the financial statements for subsequent years have to be prepared and presented in euros.

All items in the annual report shall be in accordance with the following policies:

- assumption that the company will continue as a going concern;
- consistent valuation principles with those used in the prior year;
- items are valued conservatively, i.e.:
 - annual report reflects only the profit generated to the date of the balance sheet
 - all incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the date of the balance sheet and preparation of the annual report

- all impairments and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit
- income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received; expenses are matched with revenue within the proper reporting period;
- asset and liability items have been valued separately;
- the opening balance sheet agrees with the prior year closing balance sheet;
- all material items which would influence the decision making process of users of the annual report have been recognised and insignificant items have been combined and their details disclosed in the notes;
- business transactions are recorded taking into account their economic contents and substance, not the legal form.

The reporting conditions may be disregarded in exceptional cases, but such action must be recorded and justified in the notes, indicating its effect on the assets, liabilities and financial results of a company.

Financial instruments may be measured at fair value in accordance with IFRS.

The law provides four options of presentation of the profit and loss account from which the enterprise must choose. Two options classify expenses by periods and two options by turnover. The presentation should not be changed unless there are good reasons.

The notes to the financial statements should explain the valuation methods used and substantiate any changes in valuation policies. They should also disclose information concerning the substance of specific items, e.g. sales by region and field of activity, taxes paid during the year and tax deductions and benefits received, as well as the total number of persons employed.

A management report should contain clear information on the company's development and current financial position, as well as information on significant risks and unclear circumstances met by the company during the reporting period. A management

report also should include information on the impact of environmental protection requirements, if material, as well as on financial instruments and financial risk management policies. Significant non-financial indicators should also be disclosed. The management report should describe subsequent events significantly affecting the company's financial position. A vital part of the management report is the proposed distribution of profit or loss coverage plans.

The financial statement of the company should be signed by the management board.

Entities which, at balance sheet date, do not fulfil two of the three criteria below, are allowed not to prepare a cash flow statement, a statement on changes in shareholders' equity, and not to calculate and disclose deferred tax assets and liabilities. The criteria are:

- assets of EUR 400,000 or smaller
- sales of EUR 800,000 or smaller
- an average number of employees during the fiscal year of 25 or less.

If an entity, at balance sheet date, exceeds or does not exceed two of the three criteria above, it respectively loses or acquires the right to prepare the simplified financial statements if repeated in two consecutive fiscal years.

There are additional exemptions granted for small entities. Entities which, at balance sheet date, do not fulfil two of the three criteria below, are allowed to prepare a short version of the balance sheet and not to prepare corresponding disclosures. A short version of the balance sheet excludes such captions as investment property, biological assets, assets held for sale, derivative financial instruments and financial instrument revaluation reserve. The criteria are:

- assets of EUR 50,000 or smaller
- sales of EUR 100,000 or smaller and
- an average number of employees during the fiscal year of 5 or less.

If an entity, at balance sheet date, exceeds or does not exceed two of the three criteria above, it respectively loses or acquires the right to prepare the simplified financial statements if repeated in two consecutive fiscal years.

Not later than 1 month after the approval of the annual report by a shareholders' meeting and, at the latest, 4 months after the end of the fiscal year, the audited annual report must be filed with the tax authorities. The tax authorities submit an electronic version of the annual report to the Enterprise Register within 5 working days. The Enterprise Register ensures that the information is publicly available in the Enterprise Register.

The date of submission of the annual report is extended to 7 months after the end of the fiscal year for companies with at least two of the following criteria:

- assets of EUR 1,400,000 or greater
- sales of EUR 3,400,000 or greater
- an average number of employees during the fiscal year of at least 250.

Consolidated annual reports

Consolidated Annual Reports Law states the general regulations for the preparation of consolidated annual reports as well as the exceptions from the requirement to prepare a consolidated annual report. A parent company registered in Latvia is exempt from the obligation to prepare consolidated annual reports for its group of companies if it, together with its subsidiary companies, does not exceed at least two of the following criteria for 2 consecutive years:

- assets of EUR 1,400,000
- sales of EUR 3,400,000
- an average number of employees during the fiscal year of 250.

These criteria apply to financial periods beginning on or after 1 January 2014.

A parent company registered in Latvia, which is at the same time a subsidiary company of another company, is exempt from the obligation to prepare consolidated annual accounts if its parent company is a company registered in Latvia or in another Member State of the EU which is in compliance with at least one of the following conditions:

- it owns all (100 percent) of the stock or shares in the company which is exempted from the obligation to prepare consolidated annual accounts or
- it owns at least 90 percent of the stock or shares in a company which is exempt from the obligation to prepare consolidated annual accounts, and the remaining stockholders or shareholders (minority stockholders) of this company have agreed (are informed and do not oppose) to the application of the exemption.

A parent company registered in Latvia is exempt from the obligation to prepare consolidated annual accounts if all of its subsidiaries individually and in aggregate are insignificant for giving a true and fair view of the consolidated financial position of the parent company.

The Consolidated Annual Reports Law also states the procedures for the preparation, examination, approval and publication of consolidated annual reports. Alternatively, a parent company may prepare consolidated financial statements in accordance with IFRS as adapted by EU.

Dependency statements

The Law on Concerns (groups) affects the relationships between the dependant entities and the entities that ultimately control them (governing entities). Dependant companies should prepare a dependency statement, if a concern contract outlining the principles of control transfer and profits transfer to the governing entity has not been concluded. The dependency statement provides a general overview on the relationship between the dependant company and the dominant entity. The dependency statement should be approved together with the annual report.

The dependency statement is subject to review by a sworn auditor together with the audit of annual report of the dependant company.

Auditing

Financial statements are subject to an audit by a Latvian sworn auditor if the company exceeds two of the following listed criteria:

- assets of EUR 400,000
- sales of EUR 800,000
- 25 employees during the fiscal year.

These criteria relate to financial periods starting on 1 January 2014 or later.

Effective 1 January 2002, the Law on Sworn Auditors was enacted, which provides that the audit must be conducted in accordance with the International Standards on Auditing recognised in the Republic of Latvia. Sworn auditors' commercial companies are licensed in accordance with the law On Sworn Auditors.

Lithuania

Accounting

Key requirements for accounting are provided by the Law on Accounting.

International business accounting standards (IFRS) are mandatory for legal entities whose securities are traded publicly in a stock exchange, brokerage firms, regulated market operator, the Central Securities Depository of Lithuania, management companies operating pursuant to the Lithuanian Law on Collective Investment Undertakings and management companies operating pursuant to the Lithuanian Law on Supplementary Voluntary Pension Law, as well as credit institutions (but not credit unions).

Other private legal entities may choose to perform accounting in accordance with the Lithuanian Business Accounting Standards (LBAS) or IFRS.

Lithuanian Business Accounting Standards are issued by the Authority of Audit and Accounting which acts under the supervision of the Ministry of Finance. LBASs can be regarded as summarised lighter version of the corresponding IASs or IFRSs.

At the end of 2012 there were 40 LBASs approved by the Authority of Audit and Accounting.

As a general principle, LBASs require less disclosure than the corresponding IASs and IFRSs. However, LBASs do follow the benchmark treatments of IASs at the date of their adoption and do not provide for alternatives.

According to the Lithuanian Law on Consolidated Accounts of Entities, Groups of companies are required to prepare consolidated financial statements. A parent company, which is a subsidiary of an ultimate parent company registered in Lithuania, does not need to prepare consolidated financial statements if one of the following conditions is present:

- all shares of the company are owned by the ultimate parent
- not less than 90% of the shares of the company are owned by the ultimate parent and minority shareholders do not object that the consolidated financial statements will not be prepared
- financial statements of the company and subsidiaries thereof are incorporated in the consolidated financial statements of another group of companies, the parent company whereof is governed by this Law;
- its explanatory notes disclose the data of the parent company drawing up the consolidated financial statements and information about a decision on the exemption from the obligation to draw up the consolidated financial statements and consolidated annual report as well as the reasons for the exemption.

The indicated exceptions are not applied where the securities of at least one company of a group of companies are traded on a regulated market.

Financial statements of a subsidiary need not be included in consolidated financial statements provided at least one of the following conditions exists:

- shares of the subsidiary have been acquired with a view to their subsequent resale within one year from the day of acquisition;
- activities of the subsidiary are subject to severe long-term restrictions hindering it in the transfer of assets to the parent company as well as in the exercise of management;
- in particularly rare cases, the information necessary for the drawing up of consolidated financial statements cannot be obtained without disproportionate expense and undue delay.

Also, financial statements of a subsidiary need not be included in consolidated financial statements where this subsidiary is not material in respect of a group of companies: assets of the subsidiary at the end of the financial year do not exceed 5 per cent of the assets of a parent company, and the net turnover over the reporting year does not exceed 5 per cent of the net turnover of the parent company over the same period. This provision shall not apply where the same group of companies contains several such subsidiaries and exclusion of their financial statements from the consolidated financial statements would infringe the principle of materiality as well as the requirement to give a fair view of the assets, equity, liabilities, income, expenses and cash flows of the group of companies. A parent company holding only those subsidiaries which individually and collectively are not significant, need not to prepare consolidated financial statements and consolidated annual report.

In addition, the parent company is not obliged to prepare consolidated financial statements if on the last day of the financial year of the parent company at least two of the following ratios of the financial statements of the group for the two consequent financial years, including the current year, are exceeded:

- net turnover (before inter-company eliminations) - EUR 6 million
- total value of assets indicated in the balance sheet (before inter-company eliminations) - EUR 9.6 million
- average annual number of employees - 50.

From technical and administrative points of view, the following requirements of the Law on Accounting should be outlined.

- Accounting in a company can be performed by an internal accounting department (chief accountant) or by a third-party company or individual providing accounting services.
- The Law sets a number of formal requirements for accounting source documents.
- Each entity has to prepare its accounting policies and the chart of accounts, which must be approved by the general manager.
- Accounting registers can be handwritten or drawn using technical means.
- Accounting must be made in euros.
- Accounting must be conducted in the Lithuanian language, or if necessary may be both in Lithuanian and in a foreign language.

- The general manager is responsible for the organising of accounting and storing of accounting documents.

Legal requirements for financial statements are set in the Lithuanian Law on Financial Statements of Entities and the Law on Consolidated Accounts of Entities. Certain reporting requirements are also established in the Law on Companies, as outlined below.

- Financial statements are signed by the general manager of the company and also by the accountant of the company or other person responsible for accounting of the company.
- Consolidated financial statements are signed by the general manager of the parent company and also by the accountant of the company or other person responsible for accounting of the company.
- Companies must submit their annual financial statements to the annual general meeting of the shareholders for their approval within 4 months after the end of a financial year.
- Companies must present annual financial statements (consolidated financial statements) together with the annual report of the company and the audit report to the Register of Legal Entities within 30 days of approval by the general meeting of the shareholders.

Auditing

The Lithuanian Law on Audit provides regulations on auditing activities. The law determines the requirements for auditors, the basis for passing the examination of professional competence, types and requirements for audit companies and the organisation of the auditor's chamber. The Law on Audit provides the rights, duties and responsibilities of the auditors and audit companies. Following the Law on Audit, audit shall be performed in accordance with the International Standards on Auditing as promulgated by the International Federation of Accountants.

Following the Company Law, the shareholders meeting is authorised to elect and recall the auditor of the company.

The annual financial statements of state and municipal enterprises, public-interest entities, public limited liability companies are subject to a statutory audit.

The annual financial statements of private limited liability companies, co-operative societies (cooperatives), general partnerships and limited partnerships, where all members are public limited liability companies or private limited liability companies, are subject to a statutory audit, if a company meets two of the following criteria:

- annual net turnover exceeds EUR 3.5 million
- total value of assets indicated in the balance sheet exceeds EUR 1.8 million
- average annual number of employees exceeds 50.





6

Employment



Employment

Estonia

The effective Employment Contracts Act is in force from 1 July 2009.

The new Act integrates all of the legal provisions regulating labour relations that used to be set out in a number of different acts (the Wages Act, the Holidays Act, the Working and Rest Time Act and the Labour Code).

The Act was drafted taking into account the EU labour law directives, the obligations under the European Social Charter that are obligatory for Estonia, and the conventions and recommendations of the International Labour Organisation that have been ratified by Estonia.

Employment contracts

According to the Estonian labour law, an employment contract is an agreement between an employee and an employer under which the employee undertakes to do work for the employer in subordination to the management and under the supervision of the employer, and the employer undertakes to provide the remuneration and the working conditions provided for in the agreement between the parties, a collective agreement, law or administrative legislation. The principle of freedom of contract is applied under which the parties to an employment contract are free to shape the content of the contract. The freedom of contract is limited, however, so that the provisions of an employment contract derogating to the detriment of an employee from the provisions of law are void, unless such derogation to the detriment of an employee has been prescribed by the law.

Employment contracts in Estonia may be entered into for an unspecified term or a specified term of up to 5 years. Employment contracts may be concluded for a specified term only in certain cases, for example for the replacement of an employee who is temporarily absent or for the performance of temporary work, primarily in the event of temporary increase in work volume or seasonal work.

Employment contracts must be in written form unless in effect for a period not exceeding 2 weeks. Employment contracts may prescribe a probation period of no more than 4 months.

In the employment contract parties may specify mutual relations which are not regulated by the labour law, matters concerning business secrets and competition. In that case their relations will be regulated by both the labour law and the law of obligations.

Estonian labour law does not regulate the relations between the company and its management board member. Regulations of authorisation agreement as set forth in the Law of Obligations Act will be applicable to management board member service agreement. The terms and conditions of the agreement shall be approved by and the representative of the company for concluding the agreement shall be appointed by the supervisory board or in the absence of the supervisory board by the shareholder of the company.

Remuneration

The monthly minimum wage for full-time work is EUR 355. Overtime work may be compensated either by time-off or additional remuneration depending on the agreement of the parties. Overtime pay per hour must be at least 1.5 times the employee's average hourly wage.

Work performed on a public holiday is remunerated at least double the normal rate, regardless of whether such work is scheduled or unscheduled. At the request of an employee, an employer may compensate for unscheduled work performed on a public holiday with time-off in lieu of money to the extent of the time worked. In such cases, work performed on a public holiday is remunerated as work performed on an ordinary working day.

Work performed at night (from 10 pm to 6 am) should be compensated for at a rate of 125% of the hourly wage rate of the employee unless it has been agreed in the employment contract that the basic salary includes additional remuneration. Wages must be paid at least once a month.

Working time

A typical working week consists of 5 working days from Monday to Friday (full work time). The general national standard for the working time of employees is 8 hours per day or 40 hours per week; and the duration of one shift may not exceed 12 hours. Working time may be calculated also by using the recording of total working time.

Overtime is allowed by mutual agreement. Working time together with overtime may not exceed an average of 48 hours per week during a 4-month recording period. The absolute limit for working time and overtime is 52 hours per week during a 4-month period, if the employee agrees to do overtime and the overtime work is not unreasonably harmful.

The duration of annual paid vacation is 28 calendar days. Vacations exceeding 28 days are made available to employees in specific fields.

By agreement of the parties, annual leave may be granted in parts. However, the duration of one continuous period of leave must be at least 14 calendar days.

Employees may be granted a leave without pay at their request for a period of time established by agreement of the parties. The law prescribes some occasions when the employee is entitled to unpaid leave.

A woman is entitled to a pregnancy and maternity leave of 140 calendar days. A woman has the right to commence pregnancy and maternity leave at least 70 calendar days before the estimated date of delivery.

A mother or father of a child may be granted childcare leave at his or her request for raising a child of up to 3 years of age.

A father has the right to additional childcare leave of 10 working days that may be taken during the 2 months preceding the expected date of childbirth or during the 2 months following the birth of the child.

A mother or a father is also entitled to additional childcare leave of 3 to 6 calendar days every working year depending on the number of children and their age.

Employers do not have the right to withhold vacation and employees do not have the right to waive vacation. The employee's claim for vacation is valid for the vacation available for one preceding year.

Termination of employment

An employee may terminate an employment contract with an unspecified term by giving the employer 30 calendar days' notice. Employers and employees should inform each other of any intention to terminate the employment contract. It is possible to terminate the contract by mutual consent at any time.

An employer has a right to terminate the employment contract only on the grounds specified by law. The employer is obliged to justify the need to terminate the employment contract to the employee. Depending on the basis for termination and how long the employee has been continuously employed by the employer, an employer is obliged to give the employee 15 to 90 calendar days' notice.

An employer is responsible for paying the final severance pay on the day of termination. If an employment contract is terminated because of redundancy, the employee is entitled to unemployment insurance benefits on the basis of and pursuant to the procedure established in the Unemployment Insurance Act.

Expatriates and immigration law

Immigration legislation in Estonia is governed principally by the new Aliens Act (effective from 1 October 2010) and the Citizen of the European Union Act (effective from 1 August 2006).

A residence permit may be temporary (validity period up to 5 years) or long term.

Upon the issue or extension of the residence permit an alien is issued a residence card. A residence card contains its holder's personal data, data related to residence and work permits, photo and fingerprint images.

A temporary residence permit may be issued to an alien:

- married to a person with permanent residence in Estonia
- for settling down with a close relative permanently residing in Estonia
- for working

- for studies at an Estonian educational institution
- for business
- whose permanent legal income ensures his/her subsistence in Estonia
- in case of substantial public interest
- whose application for residence permit is based on an international agreement.

A temporary residence permit may be extended if the basis for the permit has not changed and the application is justified. In order to extend a temporary residence permit, it is necessary to go to the customer service centre of the Citizenship and Migration Bureau of the Prefecture of the Police and Border Guard Board in person or submit the application by post.

A long-term residence permit may be issued to an alien, who:

- has stayed in Estonia permanently on the basis of a temporary residence permit for at least 5 years directly prior to submitting an application for the long-term residence permit
- holds a valid temporary residence permit
- has a registered residence in Estonia
- has a permanent legal income for subsistence in Estonia
- is covered with health insurance
- complies with the integration requirement, i.e. has knowledge of the Estonian language at least at the B1 level established by the language act or level corresponding to that.

It is allowed to work in Estonia without a work permit for a short term of up to 6 months within a 12-month period. In Estonia, an alien may work without the work permit, if their work is registered before accepting employment. Registering of work for a short term may be applied by:

- an alien who arrives to Estonia on the basis of a visa or is visa-free
- an alien staying in Estonia on the basis of a visa or is visa-free.

A citizen of the EU has the right to work in Estonia starting from the date of entry into the country for 3 months and, also, if the right of residence has been granted (a work permit is not needed). Family members of an EU citizen may work in Estonia in the event that they have been granted the right of residence (a work permit is not needed).

Estonia joined the Schengen area on 21 December 2007.

Trade unions

According to the Estonian Trade Unions Act employees have the right to be members of trade unions in their workplace or other trade unions. A trade union may be founded by at least five employees, while a federation of trade unions may be founded by at least five trade unions.

Trade unions have the right to represent their members in collective labour relations and in personal labour relations on the basis of authorisation from their members. Unions may, for example, conclude collective agreements with employers, represent their members in labour dispute resolution bodies, etc.

Latvia

Employment contracts

An employment contract must be concluded for an indefinite period of time, except if it is in order for the employee to perform specified short-term work only in cases specified by the Labour Law. The period of the employment contract concluded for a limited period of time cannot be more than 5 years (including any extensions of the term). The extension cannot be longer than 60 days.

The Labour Law balances employers' and employees' rights in accordance with EU directives, International Labour Organisation treaties and requirements of the European Social Charter.

Employees and employers can agree upon the law to be applied to employment relations. If an employee and employer do not choose an applicable law, the laws of Latvia or a state where the employee performs his work, or the laws of the country of the place of location of the employer, or the laws of the country to which legal labour relations are closely connected, will apply.

When concluding an employment contract, a trial period of a maximum of 3 months may be established for the purpose of determining whether an employee is capable of the performance of work entrusted.

The employee is obliged not to divulge information which is a commercial secret of the employer. Agreements between employee and employer on the limitation of professional activity after the termination of legal employment relations are permissible in certain cases.

Remuneration

As of 1 January 2015 the minimum wage is EUR 360. Employees who perform overtime work must be paid double for these additional hours. Wages must be paid twice a month, unless employer and employee have agreed that the wage will be paid only monthly.

Working time

Regular daily work time cannot exceed 8 hours and the regular weekly work period is 40 hours. Overtime is permissible if the employer and the employee have agreed upon it in writing. Overtime work cannot exceed in average 8 hours in 7 days period which shall be calculated for a period not exceeding 4 months.

Each employee is entitled to a paid annual vacation. Such vacation, excluding public holidays, cannot be less than 4 calendar weeks. By agreement of the parties, annual leave may be granted in portions, but the duration of one continuous period of leave must be at least 14 calendar days. In exceptional cases vacation can be transferred to

the next year; however, in this case, vacation during the current year cannot be shorter than 2 consecutive weeks. The part of the vacation transferred to the next year should be combined with the next year's vacation when possible. The current year vacation may be postponed for 1 year only. However, in accordance with the changes in force since 1 January 2015, in case when employment relationships are terminated, the employee is entitled to compensation for unused vacation during all employment period.

Women are entitled to pregnancy and maternity leave of 112 calendar days. These days are not included in the annual vacation. Paternity leave may be granted to a father for a period of 10 days. Such leave must be granted not later than 2 months after the birth of a child. A leave for child care up to 18 months is also possible for both parents until the 8th birthday of the child.

Termination of employment

The employee has the right, a month in advance, to give notice to the employer regarding termination of an employment contract in writing, unless a shorter period for giving notice is established in the employment contract or in a collective agreement. An employment contract can be terminated by mutual agreement of the employer and employee at any time.

An employer has a right to terminate the employment contract only on grounds specified by law. The employer is obliged to justify the need to terminate the employment contract in writing to the employee.

An employer is responsible for paying the final severance pay on the day of termination.

If an employer foresees collective termination of employment agreements with employees, the employer must give notice to the State Employment Agency at least 45 to 60 days prior to the collective termination of employment contracts.

Expatriates and immigration law

The immigration law is constantly being amended in order to be in line with the EU law and to provide immigration opportunities that comply with national interests. For citizens of countries other than EU member states, visas and residence permits are required. There is a special procedure to receive visas which varies depending on the circumstances of each individual case. There are numerous nationalities which do not require visas to visit Latvia for a short time.

In order to work in Latvia, persons who are non-EU citizens must obtain a visa or a residence permit, depending on the intended length of their stay, together with the rights to work. Rights to work are issued for a particular job with a particular employer and for a limited period, which can be extended. The specifics of the work permit application process for obtaining rights to work differ depending on the occupation.

Since 2011 EU Blue Card Directive is implemented and EU Blue Card procedure for highly skilled non-EU citizens is available also in Latvia. The EU Blue Card program is designed to facilitate movement and increase employment opportunities for highly skilled third-country workers within the EU and thereby increase competitiveness and economic growth through the region. The EU Blue Card procedure allows for highly skilled persons to enter and to work in Latvia on the basis of more favourable conditions.

As of 1 July 2011 it is possible for investors who are non-EU citizens to obtain temporary residence permits for up to 5 years with rights to be employed at any employer in Latvia, when:

- Purchasing and owning real estate for at least EUR 250,000 in the Republic of Latvia if the following conditions are met:
 - investor has no and has never had real estate tax debts;
 - payment for real estate purchase was made by clearing;
 - real estate was purchased from Latvian, EU, EEA or Swiss legal person which is tax payer in Latvia or from individual who is Latvian citizen, Latvian non-citizen (USSR citizen - resident of Latvia, who has not applied for Latvian citizenship), EU citizen or foreigner who holds valid residence permit in Latvia;
 - cadastral value at real estate purchase date is at least EUR 80,000. If the cadastral value is less than the mentioned sum, the real estate's market value, according to a certified real estate assessor's evaluation, cannot be less than EUR 250,000;
- Investing at least EUR 35,000 in the share capital of a Latvian company by way of increasing capital of an existing company or investing into capital of a newly incorporated company and
 - company employs no more than 50 employees;
 - the annual turnover or the annual balance sheet of the company does not exceed EUR 10,000,000;
 - company pays at least EUR 40,000 per annum in taxes;
- Investing at least EUR 150,000 in the share capital of a Latvian company by way of increasing capital of an existing company or investing into capital of a newly incorporated company and
 - company employs more than 50 employees;
 - the annual turnover or the annual balance sheet of the company exceed EUR 10,000,000.
- Subordinated liabilities with Latvian credit institution for at least EUR 280,000 if term of concluded transaction is not less than 5 years and EUR 25 000 is paid into the state budget.

EU citizens do not have to obtain rights to work in Latvia as rights to choose employee are one of the general principles in EU. An expatriate who is an EU citizen must register at the relevant authority to receive a registration certificate if he/she plans to reside in Latvia for more than 3 months. EU citizens have the right to apply for the registration certificate if certain criteria are met (e.g. one of the criteria is work). Family members of the EU citizen enjoy residence rights along with the EU citizen, as provided in EU law.

Trade unions and employee representatives

The Latvian Trade Union Law states that a trade union can be formed if it consists of at least 50 members or at least 15 employees or 25% of employees working for a particular enterprise, profession or industry.

Trade unions have the right to represent their members in collective labour relations and in personal labour relations on the basis of authorisations from the members. Unions may, for example, conclude collective agreements with employers, represent their members in state institutions and in courts.

If a company has at least five employees, they can also appoint authorised representatives through a vote with a simple majority from at least half of all employees of the company. These representatives deal with different economic and social matters on behalf of the employees and basically act as intermediaries between employees and the employer.

Latvia has also implemented rules governing employee representation and decision making in Societas Europaea. Therefore involvement of employees in decision making process is obligatory, when registering Societas Europaea or its legal address in Latvia or in the case of a cross-border merger.

Lithuania

Employment contracts

The main legal act regulating employment relations in Lithuania is the Lithuanian Labour Code. The Labour Code sets the terms and conditions of employment contracts, working and rest time, remuneration, liability, etc. Parties of an employment contract may also agree on other terms, i.e. a probation period of up to 3 months, confidentiality obligations, etc. However, as a general principle, an employment contract may not include terms and conditions that are less favourable to an employee than those established by law.

Specific labour areas, such as activities of work councils, trade unions, and participation rights of the employee are regulated by separate special laws.

An employment contract must provide the following substantive terms of employment: place of work, work duties and/or position and remuneration. The substantive terms of an employment contract can be changed only after obtaining an advance written consent by the employee. An employment contract must be concluded in writing according to the model form of employment contract approved by the Government.

The Lithuanian Labour Code provides for the following types of employment contracts:

- employment contract concluded for an indefinite period of time
- fixed-term, temporary and seasonal employment contract
- employment contract for additional work and secondary work
- employment contract for the distance work.

Generally, employment contracts are concluded for an indefinite period of time.

A fixed-term employment contract may be concluded for a certain period of time or for the period of performance of certain work, but cannot exceed a 5-year period. A fixed-term employment contract cannot be concluded for work which is deemed as permanent.

A seasonal employment contract may be concluded for performance of seasonal work, which due to natural and climatic conditions may not be performed all year

round, but only in certain periods (seasons), not exceeding eight months (in a period of 12 successive months). The list of seasonal work is approved by the Lithuanian Government.

A temporary employment contract shall be an employment contract concluded for a period not exceeding 2 months.

An employee may agree to perform certain additional duties or certain additional work (not agreed in the main contract) at the same workplace and conclude an employment agreement on additional work.

A distance work contract may establish that an employee will perform the work functions or part of the work functions in places other than the workplace, as appropriate for the employee.

Employment contracts as well as amendments thereof must be in writing and registered in the internal register of employment contracts of a company.

The Lithuanian Labour Code also defines illegal work – it is a situation when the employee actually performs the work functions, although the employment contract is not concluded between the parties or is not concluded properly. The employer is responsible for this. As of 1 January 2015, some guarantees for the employees who performed illegal work were established: the employer must pay not less than the minimum salary for the work which was performed and not for a shorter period than three months (unless it is proven differently).

Remuneration

Remuneration to be agreed in the employment contract must not be less than the minimum monthly salary established by the Government – EUR 325 as of 1 July 2015. The minimum hourly remuneration rate is EUR 1.97. It is also planned by the Lithuanian Government to increase the minimum monthly salary up to EUR 350 as of 2016.

Overtime work or night work (from 10pm to 6am) must be paid by at 1.5 times the usual rate.

Unscheduled work during rest days or public holidays must be paid at double rate or upon the employee's request an additional rest day may be granted.

Working time

Normal working hours are 40 hours per week. Generally, working hours including overtime may not exceed 48 hours during a 7-day period. Overtime may not exceed 4 hours within 2 days in a row and 120 hours per year and can be performed only in special cases. The collective agreement may indicate other terms of overtime, however, even then the total overtime may not exceed 180 hours per year.

Generally, an employee is entitled to a minimum 28 calendar days of annual paid vacation. Normally, employees are entitled to annual vacation after 6 months of their employment.

Certain categories of employees are subject to extended annual vacation of 35 days:

- employees under 18 years of age
- employees who, as single parents, are raising a child younger than the age of 14, or a disabled child younger than the age of 18

- disabled persons
- other specific employees prescribed by law.

Extended annual leave up to 58 calendar days must be granted to certain categories of employees whose work involves greater nervous, emotional and intellectual strain and professional risk, as well as to those employees who work under special working conditions.

Employees having more than a 10-year work record in a company are entitled to an additional 3 annual paid vacation days.

Special leaves are established for parents. Women are entitled to pregnancy (maternity) leave of total 126 calendar days: 70 days prior to the birth of a child and 56 after the birth (70 days in case of complicated birth or birth of 2 or more children). Fathers are entitled to paternity leave for the period from the date of the birth of a child until the child is one month old.

A mother or a father is also entitled to additional childcare leave of up to 3 years. However, the child care allowances are paid for a maximum of 2 years. If 1 year child care leave is chosen, then 100% of the average salary is compensated to a parent. If it is chosen to stay for 2 years on child care leave, 70% of the average salary is compensated to a parent for the first year and 40% for the second year.

Also, there is a special vacation for studying which is provided for employees who are school or university students also for those who study adult programmes. This kind of vacation can also be provided for preparation and taking of exams, for writing thesis, also for defending a dissertation for a degree.

Termination of employment

An employment contract may only be terminated on the grounds explicitly provided by legislation and in accordance with the statutory termination procedures. The termination grounds include mutual agreement, the employee's request, the employer's initiative, etc.

The requirement to pay final severance pay as well as the compensation amount depends on the particular reason for the termination. If the employment contract is terminated due to the employee's fault, no compensation has to be paid. If the employee is not at fault, severance pay may vary from 1 to 6 average monthly salaries depending on the work record of the employee. The legislation also provides for some additional requirements, such as advance notice of 2 months (in certain cases 4 months), priority to stay at work, etc., which must be adhered to when terminating an employment contract.

When an employment contract is being terminated by the employee, the minimum advance notice period is 14 working days prior to the termination date. It is prohibited to terminate an employment contract with a pregnant woman or with an employee having a child under 3 years of age, unless the employee is at fault. Employment may not be terminated when the employee is on sick leave or on vacation.

When the employment contract is terminated (except for the cases when the contract is terminated at the fault of the employee) the employee is granted with the compensation for unused annual vacation. As of 1 December 2015 the compensation shall be limited and paid only for up to 3 months of accrued vacation.

Trade unions

Trade unions may be established on the basis of professional, territorial and other principles.

Individuals having their legal capacity and legally working in Lithuania may be members of trade unions. Trade unions can be founded by Lithuanian citizens as well as foreigners who have a necessary working legal capacity.

There must be at least 20 founders of a trade union or the number of the founders may not be less than 1/10 (at least 3 employees) of all the employees in a company. Trade unions must be registered with the Register of Legal Entities within 6 months after the statutory foundation documents have been adopted and the bodies of the trade union are elected.

Trade unions have the right to negotiate collective agreements, to conclude contracts with the employers regarding requalification of the employees, organisation of work, reimbursement, conditions of work and other relevant issues. They may also organise strikes and participate in solving individual and collective labour disputes.

Trade unions may also propose amendments to the legal acts and laws to the Lithuanian authorities regarding economic and social issues.

Work of expatriates in Lithuania

Expatriates may work in Lithuania under employment contracts provided they have obtained work permits. Work permits are not required for citizens of the EU-member states. Non-EU citizens are required to obtain work permits irrespective of their period of work prior to coming to Lithuania.

There is a group of non-EU citizens who are relieved from the obligation to obtain work permits. The exemption applies to:

- individuals coming to Lithuania to take care of negotiations regarding conclusion and implementation of agreements, staff training, commercial establishment for a period not longer than 3 months per year;
- individuals who are citizens of non-EU countries but are legally and permanently working in the EU, assigned to work in Lithuania, and are socially insured in respective country (hold form A1);
- individuals coming to Lithuania to work for an international company which belongs to the same group of companies for a period not longer than 3 years;
- individuals who are the permanent employees in companies registered in EU or European Free Trade Association (EFTA) countries;
- Other individuals (e.g. sportsmen, scientists).

Work permits are issued by the State Labour Exchange. Before submitting documents for obtaining a work permit, employer is obliged to register a vacancy within the Labour Exchange, except for foreigners who are coming for temporary work in a Lithuanian company and foreign interns.

The whole procedure of issuing a work permit for an employee who will be employed by a Lithuanian company under an employment contract takes up to 40 calendar days after

the relevant documents have been submitted to the State Labour Exchange. The work permit is issued for up to 2 years.

A work permit for a foreigner working in Lithuania on a temporary assignment is issued within 10 days after the relevant documents are submitted to the State Labour Exchange. In this case the employer is not required to register a vacancy. Such work permit can be issued for up to 1 year with a possibility to be extended.

An employment contract with a foreigner who is not exempted from obtaining a work permit must be concluded in accordance with the standard form of the employment contract. It is forbidden for the employee to engage in the work other than that specified in the work permit. The employment contract with a foreigner who is not exempted from obtaining a work permit must be registered with the National Labour Exchange within 3 days before its signing.

Non-EU citizens must also have a temporary residence permit to stay in Lithuania for the purposes of work. Residence permits are issued by the Migration Department under the Ministry of Internal Affairs (please see section Immigration below).

Immigration

Citizens of the EU-member states are not required to obtain the residency permits in Lithuania.

However, the EU citizens intending to stay in Lithuania for a period exceeding 3 months within half-year from their first day of entry to Lithuania must obtain certificates, confirming their right to reside in Lithuania and declare their residence place in Lithuania.

Any non-EU citizen arriving and staying in Lithuania is subject to the regulations set by the Council (EC) Regulation No. 539/2001 listing those countries whose nationals must be in possession of visas when crossing the external borders and those whose nationals are exempt from that requirement.

Any foreigner who is subject to a visa free regime is eligible to stay in Lithuania without visa for 3 months within half a year from their first day of entry into Lithuania or any other Schengen state. Foreigners having a valid Schengen visa (visa C) are entitled to enter Lithuania and stay for the period permitted by the visa, but not longer than for 3 months within a 6 month period.

There are 2 types of visas: Schengen visa and national visa.

Schengen visa types include:

- airport transit visa (A);
- short-stay visa (C)

If a non-EU citizen intends to stay in Lithuania for longer than 3 months, he/she is required to obtain either a national visa (D) or a temporary residence permit.

Visas might be single-entry or multiple-entry visas. A national visa for a single entry (D) may be issued to a foreigner who has been granted a permit to live temporary or permanently in Lithuania.

A national visa for multiple entries (D) may be issued if a foreigner submits the documents proving that he/she intends to enter Lithuania periodically, while his/her main place of residence is in a foreign state and there is no requirement for the foreigner to get a temporary residence permit in Lithuania. National visa (D) can be issued for up to 1 year. Visas are issued at diplomatic missions or consular offices of the Republic of Lithuania abroad.

Temporary residence permits are issued by the Migration Department under the Ministry of Internal Affairs. The procedure for issuing a temporary residence permit takes up to 4 months. The temporary residence permit may be issued for a maximum of 5 years.

As of 1 January 2013, the amendments to the Law on the Legal Status of Foreigners came into effect. The amendments provide more favourable conditions for arrival and work of highly skilled foreigners (non-EU citizens) in Lithuania - a shorter period (up to 2 months) for issuance of temporary residence permits of highly skilled persons was established. Such foreigners are exempt from an obligation to obtain a work permit in Lithuania.

The foreigners, who intend to perform highly skilled professional work and seek to obtain a residence permit in Lithuania, shall comply with the following conditions: the average salary should not be lower than 2 average gross monthly salaries in the country's economy; the foreigner should file a document evidencing that he complies with the established conditions to perform the regulated professional activity as set forth in the labour contract; and if the professional activity is not regulated – a document evidencing high professional qualification. Furthermore, a decision of the Lithuanian Labour Exchange regarding compliance of the foreigner with the needs of labour market will be needed.

EU citizens who are the family members of the EU citizens intending to stay in Lithuania for a period exceeding 3 months in any calendar half-year, and who come to Lithuania together, must obtain certificates, confirming their right to reside in Lithuania.

Non-EU citizens who are the family members of the EU citizens intending to stay in Lithuania for a period exceeding 3 months in any calendar half-year must obtain a residency permit issued for family member of EU citizens. Such permits are issued for up to 5 years. This permit is issued within 4 months by the Immigration Department at the Ministry of Internal Affairs.

EU-member state citizens legally residing in Lithuania for the previous 5 years may acquire the right to permanent residency in Lithuania.



7

Real estate

7 Real estate

Estonia

Registration

All immovable property and rights relating to immovable property in Estonia are entered into the public Land Register, maintained by the land registry departments of the county courts. Ownership and other rights relating to immovable property are created upon entry into the Land Register. The current Estonian model is based on the private law transparency principle, following the example of the respective continental European civil law tradition.

Immovable property is a plot of land together with its essential parts, which are things permanently attached to the plot of land (e.g. buildings, forest, etc.), and the rights relating to the plot of land.

Acquisition

Foreigners are allowed to acquire immovable property in Estonia with certain conditions and restrictions provided by the Restrictions on Acquisition of Immovables Act. There are two main types of restrictions on the acquisition of immovable property:

- restrictions arising from public interest on the acquisition of 10 hectares or more of agricultural or forest land;
- restrictions arising from national defense reasons on the acquisition of land in certain regions of Estonia.

Without restrictions, agricultural or forest land may be acquired by Estonian citizens or citizens of a country which is a party to the EEA Agreement or a member state of the OECD (a Contracting State). Legal entities of Estonia and any contracting state may acquire less than 10 hectares of agricultural or forest land without restrictions.

Ten hectares or more of agricultural or forest land may be acquired by legal entities of Estonia or any contracting state, provided that the following conditions have been met.

If the legal entity has been engaged, for 3 years immediately preceding the year of making the transaction of acquisition of the immovable property:

- in production of agricultural products (in the case of acquisition of agricultural land);
- in production of agricultural products or forest management (in the case of acquisition of forest land); or
- in production of agricultural products or forest management (in the case of acquisition of 10 hectares of agricultural or forest land in total).

Without meeting the above requirements, 10 hectares or more of agricultural or forest land can only be acquired when authorised by the county governor.

For citizens and legal entities of third countries the authorisation of the county governor is one of the inevitable conditions to acquire an immovable which contains agricultural or forest land.

Restrictions exist for national defense reasons to prohibit persons who are not citizens or legal entities of Estonia or of contracting states from acquiring immovable property on certain sea islands, border cities and rural municipalities listed in the Restrictions on Acquisition of Immovables Act. The government may grant authorisation for the acquisition of an immovable in the above to other persons for reasons significant to the State.

Real estate contracts

Rights relating to immovable property in Estonia are regulated by the Law of Property Act, entered into force on 1 December 1993. The rights, i.e. certain rights of a person regarding a movable or immovable object, are ownership (right of ownership) and restricted rights, such as servitudes, encumbrances, right of superficies (building title), right of pre-emption and right of security. The transfer of immovable property ownership or its encumbrance with a right must be concluded with a notarised transfer contract, which would lead to a corresponding entry in the Land Register.

For example, an immovable may be encumbered with a right of superficies (i.e. building title), leading to the creation of an independent Land Register part with a transferable and inheritable right to temporarily own a construction on the immovable property of another. Only one right of superficies may be established on an immovable, for a specified term not longer than 99 years.

Aside from the transfer of real rights to an immovable, rights of use may be granted with lease or commercial lease contracts, primarily regulated by the Law of Obligations Act. There is no requirement to notarise such contracts and a corresponding notation in the Land Register is optional.

Mortgage

As an instrument to facilitate credit, immovable property may be encumbered with a mortgage. A mortgage provides security for the counterparty's claim, providing a right to satisfy it out of the encumbered immovable. A mortgage contract must be notarised and the mortgage is entered into the Land Register. The owner of the immovable may freely transfer the immovable encumbered with a mortgage, in which case the mortgage stays with the immovable.

Latvia

Registration

All immovable property including any encumbrances (e.g., mortgages, easements) must be registered with the Land Book Registry. The Land Book Registry is a publicly accessible court register of immovable property.

Movable and immovable property

According to Latvian Civil Law, immovable property is property which may not be moved without external damage from one location to another (land and any building firmly attached thereto).

Acquisition

Under Latvian law, land may be owned without limitation in urban areas by:

- Latvian citizens and EU citizens;
- The State and local governments and their companies;
- Religious organisations registered before 21 July 1940;
- The State's and local governments' higher education establishments;
- Companies registered in Latvia or in any EU country provided where:
 - more than half of the share capital is owned by Latvian or EU citizens, the state or local governments,
 - more than half of the capital is owned by individuals or legal entities resident in countries with which Latvia has signed investment protection treaties enacted before 31 December 1996 (i.e. Finland, Sweden, Denmark, France, Norway, Taiwan, Switzerland, Germany, Poland, Great Britain, Israel, the Netherlands, the Czech Republic, Austria, USA, Canada, Vietnam, Estonia, Lithuania). This applies also to individuals or legal entities from states with which these treaties are signed after 31 December 1996, if these treaties provide the rights of Latvian individuals and legal entities to acquire land in the relevant state (for example, this applies to the Korean Republic),
 - more than half of the capital is owned by a combination of the aforementioned categories of persons,
 - a public joint stock company listed on the stock exchange.

In rural areas land may be owned without limitations by such subjects:

- Latvian citizens, EU citizens, EEA citizens or Swiss Confederation citizens
- The Republic of Latvia as the initial legal person governed by public law and derived public persons. A company registered in Latvia or in other EU member country, or in EEA country, or in Swiss confederation registered company, which is registered in Republic of Latvia as tax payer and:
 - whose all shareholders are the subjects mentioned in the first two clauses severally or jointly

- whose all shareholders, natural or legal persons, are residents in countries with which Latvia has signed investment treaties enacted until 31 December 1996 (i.e. Finland, Sweden, Denmark, France, Norway, Taiwan, Switzerland, Germany, Poland, Great Britain, Israel, the Netherlands, the Czech Republic, Austria, USA, Canada, Vietnam, Estonia, Lithuania). This applies also to individuals or legal entities from states with which these treaties are signed after 31 December 1996, if these treaties provide the rights of Latvian individuals and legal entities to acquire land in the relevant state (this applies to the Korean Republic)
- whose all shareholders are several subjects all together mentioned in the previous two clauses.
- Latvian registered religious organisations operating for not less than 3 years
- In Latvia, in other EU member country, in EEA country or in Swiss confederation registered subject of law, which is registered as tax payer or as performer of economic activity and is:
 - Individual company whose owner is Latvian citizens, EU citizens, EEA citizens or Swiss Confederation citizens
 - individual merchant, whose registered by Latvian citizens, EU citizens, EEA citizens or Swiss Confederation citizens
 - Cooperative company whose all members are previously mentioned subjects severally or jointly
 - Other in EU member country or in EEA country registered subject of law which is comparable with previously mentioned subjects
- Associations and Foundations registered in Registry of Associations and Foundations operating for not less than 3 years with aim of operation related with agriculture or hunting farms.

Latvian registered religious organisations and individuals and legal entities not mentioned above may acquire land subject to the local government's consent. However, these individuals are prohibited from acquiring land situated:

- on the Latvian border
- in the protected coastal and other protected zones near public bodies of water
- in agriculture and forestry areas
- in the mineral deposits of national significance.

Real estate contracts

Contracts for sale and purchase of real estate must be executed in writing (notarisation is not necessary). To register a change of ownership, a notarised request to the Land Registry must be submitted together with the respective contract. If the transaction is not registered with the Land Registry, it is still a legal purchase but the purchaser may not transfer the title or use other rights which may belong to the property owner until registration has taken place.

The stamp duty for transfer of property rights is usually 2% of the value of the property.

Mortgage

A mortgage gives rights to the creditor only after the mortgage is registered with the Land Registry. The mortgage agreement does not have to be notarised. A request to register the mortgage only needs to be signed by the property owner but it must be notarised. A mortgage allows the creditor to sell the collateral by auction, according to rules approved by the court, if the debtor fails to fulfil its obligations.

Lithuania

Registration

Real estate (including land plots, buildings, apartments, other premises) and the rights pertaining to it (such property rights as ownership, long-term lease, right of use, servitude, etc.) as well as legal encumbrances on property rights to real estate, including transactions and decisions affecting the legal status of the real estate, testamentary dispositions and arrests must be registered with the Real Estate Cadastre and Register. There is no separate register for land in Lithuania.

The conclusion of real estate sale-purchase, rent, etc. contracts and ownership rights shall be enforced against third parties only if such transactions been registered with the public register. Moreover, according to the Lithuanian Civil Code if the party of the agreement avoids registering transfer of ownership rights, the court may act to compensate the losses of the other party.

Movable and immovable property

The Lithuanian Civil Code distinguishes immovable property and movable property. Immovable property is land and other things related to land, which cannot be moved from one place to another, not changing the purpose thereof or essentially decreasing their value, i.e. if they are deemed to be as such due to their purpose and nature. Immovable property also includes ships and aircraft, which are required to be registered with the public register. The laws may also recognise other things as immovable property.

Movable things are the ones that can be transferred from one place to another without any damage, unless the laws provide otherwise.

Acquisition

In Lithuania, land may be owned by the following persons:

- citizens of the Republic of Lithuania
- the state and municipalities
- domestic and foreign legal entities engaged in economic activity in Lithuania, as well as foreign individuals.

Foreign legal entities intending to acquire land must comply with the criteria established by the laws, i.e. the foreign entity must be incorporated in an EU, OECD, NATO, European Economic Area Agreement member country, or in a country which has concluded an association agreement with the EU.

Foreign legal entities that do not meet the aforementioned criteria may lease the land for up to 99 years. The land may be acquired for the construction of buildings which are necessary for business activity. State-owned land may be leased with or without an auction. The auction should be held in most cases, except for land which bears constructions or facilities owned or leased by individuals or legal entities and in some other specific occasions.

Foreign individuals and legal entities meeting the aforementioned criteria may acquire ownership of non-agricultural and non-forest land under the same conditions as Lithuanian citizens or legal entities registered in Lithuania.

There are no specific requirements for foreigners to acquire the ownership of real estate other than land.

As of 1 January 2014 legal entities and individuals together with related parties are entitled to acquire up to 500 ha of agricultural land each. Related parties are considered to be spouses, parents (adoptive parents) with their minor children (adopted children), as well as individuals and legal entities related with other legal entities (specific conditions are prescribed).

Real estate contracts

Contracts on the selling and purchasing of real estate shall be executed in writing and approved by the notary public. Failure to notarise such agreements makes them null and void. The mandatory part of a land transaction is a plan of the land plot approved by the competent state authority. The legal title to the real estate is deemed to be passed at the moment the property transfer has been accepted.

The agreement on sale-purchase of real estate must specify the rights of the buyer in respect of the land whereon the real estate is located. If the seller of the real estate is the owner of the land plot attached to the real estate to be sold, the ownership right must be transferred to the buyer according to the sale-purchase agreement. If the owner of the real estate does not hold the ownership right to the land plot concerned, the real estate may be sold without the consent of the land owner only if it does not contradict the conditions of usage of the land as established by the laws and/ or an agreement on use of land. Land issues are to be defined in the sale-purchase agreement.

Contracts on leasing real estate must be concluded in writing if the lease term exceeds one year.

Contracts on selling, purchasing or leasing real estate may be enforced against third parties only if such contracts are registered with the Real Estate Cadastre and Register.

The fee for notarisation of a sale-purchase contract is 0,45% of the value of real estate (i.e. sales price), but not less than EUR 28.96 and not more than EUR 5,792.40. The stamp duty for registration of the ownership rights depends on the value of real estate and may range from EUR 2,90 to EUR 1448,10.

Mortgage

Mortgages can be seconded on real estate registered with the public register and not excluded from civil use. Only insured property may be mortgaged. Real estate mortgages must be executed on the standard mortgage deed form and approved by the notary public. Real estate mortgages are only effective after the registration in the Register of Mortgages when respective inscriptions are entered into the public register. Upon transfer of the mortgaged property, the mortgage follows the property.



Other legal considerations



Other legal considerations

Estonia

Competition law

The first Estonian Competition Act was in effect as early as in 1993; the currently effective Competition Act was adopted in 2001. However, since 2001, the Competition Act has gone through various amendments to bring it in line with the requirements demanded by Estonia's accession to the EU. Due to the accession, the regulations of the Council of Europe and the European Commission have a direct impact on Estonian enterprises.

Anti-competitive agreements

Agreements, concerted practices and decisions by associations of enterprises, which have the restriction of their object or effect, are prohibited. Above all, the prohibition covers such cooperation between the enterprises by which:

- prices or other essential transaction conditions in respect of other enterprises or clients acting in the market are fixed, or information restricting competition is exchanged;
- product market, technical development or investments are limited or controlled;
- product markets and supply sources which are shared or accessed by third parties to a product market are restricted; and
- dissimilar conditions are applied to equivalent agreements or entry into an agreement is subject to acceptance by the other party of obligations which have no connection to the subject of such agreement.

Abuse of dominant position

For the purposes of the Competition Act, an enterprise in a dominant position is an enterprise which accounts for at least 40% of the turnover in the product market or whose position enables it to operate in the market independently of other participants (competitors, suppliers, or clients). In addition, enterprises in a dominant position include those with special or exclusive rights or those in control of essential facilities.

Any direct or indirect abuse by a company or several companies in the dominant position in the goods market is prohibited, including:

- directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- limiting production, service, goods markets, technical development or investment;
- offering or applying dissimilar conditions to equivalent agreements with other trading parties, thereby placing some of them at a competitive disadvantage;
- making entry into an agreement subject to acceptance by the other parties of supplementary obligations which have no connection with the subject of such agreement;
- forcing a company to concentrate, enter into an agreement which restricts competition, engage in concerted practices or adopt a decision together with the company or another undertaking; and
- unjustified refusal to sell or buy goods.

State aid which distorts competition, i.e. any advantage granted by the state or a local government or through their resources, is prohibited in so far as this affects trade between the EU member states.

Concentration control

Concentration is a merger of enterprises or parts of the enterprises, or acquisition by an enterprise or enterprises, or of control over the whole or part of another enterprise or enterprises (on certain conditions, an individual may also be the acquirer of control).

According to the Competition Act, a concentration is subject to control by the Estonian Competition Board if, during the previous financial year, the aggregate turnover in Estonia of the parties to the concentration exceeded EUR 6,000,000 and the turnover in Estonia of each of at least two parties to the concentration exceeded EUR 2,000,000.

Liability

Upon the first occurrence of the violation of the rules applicable to enterprises holding the dominant position (or rules applicable to enterprises with special or exclusive rights), the prescribed administrative punishment for the members of the governing bodies of such an undertaking is a fine of up to EUR 1,200 or detention, and for the undertaking itself, a fine of up to EUR 400,000. The same punishment is prescribed for the first-time failure to comply with the notification rules regarding concentration.

Entering into agreements which have the restriction of competition as their intention or their effect as well as such concerted practices and decisions are treated as a criminal offense upon the first instance.

Estonian law allows both an individual and a legal entity to be punished for a crime. Criminal punishment for competition offenses for a member of a governing body is a fine or imprisonment for up to 3 years. The same act, if committed by a legal entity, is punishable by a pecuniary punishment and up to 10% of the legal entity's turnover.

Proprietary or other damage caused by deeds prohibited by the Competition Act shall be subject to compensation by way of civil procedure.

Intellectual property

The main acts governing intellectual property are the Copyright Act (effective 1992) which regulates both copyright and rights related to copyright, The Patents Act (effective 1994), the Trademark Act (effective 2004), the Utility Models Act (effective 1994), the Industrial Design Protection Act (effective 1998) and the Geographical Indication Protection Act (effective 2000). These regulate industrial property rights. Business names and trade secrets are regulated by the Commercial Code (effective 1995) and the Competition Act (effective 2001).

Estonia is also a signatory to several international treaties. The most important are the Berne Convention for the Protection of Literary and Artistic Works (re-acceded 1994), the Paris Convention for the Protection of Industrial Property (re-acceded 1994), the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs (acceded 2003), and the Convention establishing the World Intellectual Property Organisation (acceded 1993). Estonia's intellectual property acts are also consistent with corresponding EU provisions.

Consumer protection

The protection of consumer rights on the legislative level dates back more than 15 years when the first Consumer Protection Act was adopted by the Parliament. Today, the Estonian consumer protection regulations have been brought in line with the EU consumer protection policies and the UN guidelines and the numerous acts in that field: the Consumer Protection Act, the Law of Obligations Act, Trading Act, Advertising Act, Food Act and Product Conformity Act, which can be considered as the main acts regulating consumer protection in Estonia. The currently effective Consumer Protection Act entered into force in 2004. The Consumer Protection Act sets forth the fundamentals of consumer protection, including information requirements, general regulations on the sale of goods and services to consumers and the organisation of consumer protection.

The national authority with the main task of protecting the legitimate interests of consumer is the Estonian Consumer Protection Board. According to the consumer protection policy of the UN and the EU, and also arising from the Consumer Protection Act, the Consumer Protection Board provides protection for the interests and legal rights of single consumers (not legal manufacturers or entrepreneurs).

Anti-money laundering

The currently effective Money Laundering and Terrorist Financing Prevention Act became effective on 28 January 2008 and has ever since been repeatedly amended according to the new EU regulations.

The authority primarily responsible for the preventive activities set forth in the law is the Estonian Financial Intelligence Unit (FIU) which is an independent structural unit of the Estonian Police and Border Guard Board. Other authorities, e.g. the Financial Supervisory Authority, The Estonian Bar Association and the Chamber of Notaries, are also involved in the supervision of the adherence to the requirements set forth in the money laundering and terrorist financing prevention regulations.

According to the Act, obligated persons, except credit institutions, must inform Financial Intelligence Unit about every transaction where a cash payment of at least 32 000 EUR or an equal amount in another currency is made. Credit institutions have this kind of

notification obligation only if providing currency exchange services to a person who has no established business relationship with the credit institution.

The obligated persons are also required to establish written rules of procedure for taking the appropriate due diligence measures as well as internal control rules for checking adherence thereto and to inform the Financial Intelligence Unit of all suspicious transactions which may indicate to the money laundering or terrorist financing.

Litigation and arbitration

The Estonian court system consists of three levels. The first instance is formed by four county courts and two administrative courts. Appeals against decisions of courts of the first instance are heard by two courts of the second instance (sometimes also called circuit courts) situated in Tartu and Tallinn. The Supreme Court, situated in Tartu, is the court of the highest instance. A matter is heard in the Supreme Court only after all previous court instances have been passed. The filing of an appeal is governed by codes of court procedure.

The decisions of courts of the first and second instances are made public in full in the database of court statistics and court decisions, unless the court decides to protect sensitive personal data and publication of the decision together with the personal data may materially breach the inviolability of private life of the person. All reasoned judgments of the Supreme Court are electronically available on the homepages of Riigi Teataja (the State Gazette) and the Supreme Court.

The only permanent arbitration court in Estonia is the Arbitration Court of the Estonian Chamber of Commerce and Industry, which settles disputes arising from contractual and other civil law relationships, including foreign trade and other international economic relations. The arbitration court will accept disputes for settlement if parties have voluntarily chosen that the dispute should be settled in the arbitration court or it is so provided by international conventions.

Latvia

Competition law

The Competition Law is the main national legislative act that regulates competition issues in Latvia. The Law came into force on 1 January 2002 and has been amended five times, most recently in September 2013. It is in line with EU policies on the regulation of anti-competitive behaviour. The Competition Council supervises this field.

Agreements with the intention of restricting competition are prohibited and therefore are null and void from the moment of being entered into. This includes agreements regarding the fixing of prices and tariffs, restriction or control of the scope of business activities, investment, and the division of markets, the application of unequal provisions in equivalent transactions with third persons, and other types of agreements.

The Law gives examples of exceptional cases when the Competition Council may allow such agreements.

Any competitor having a dominant position in the market is prohibited from abusing its position in any manner within the territory of Latvia. Examples of abuse of dominance might include refusal to enter into transactions with other competitors, restriction of the

amount of business activities without proper reason, imposing additional obligations not related to a particular transaction on competitors, application of unequal provisions in equivalent contracts with other competitors, and creating disadvantageous conditions.

The concentration control is overseen by the Competition Council and with the latest amendments of the Competition Law. Consequently, prior to a merger, market participants must submit a notification of their proposed merger to the Competition Council if the turnover of the market participants involved in the transaction exceeds EUR 35,572,000, and each of them has a turnover of at least EUR 2,134,000 or the total market share of the participants in the merger in the particular market exceeds 40%.

For Competition Law purposes, the concept of “concentration” includes the merging of two or more independent market participants in order to become one market participant (the consolidation), the joining of one market participant to another market participant (the acquisition), and a situation where one or more market participants acquire part or all of the fixed assets of another market participant or participants or the right to use such, or a direct or indirect decisive influence over another market participant or participants. The same applies to one or more private individuals already having a decisive influence over one or more market participants. Also, it is considered a concentration when two or more private individuals jointly, or a single private individual, simultaneously acquire a part or all of the assets of two or several market participants or obtain the right to use such assets, or a direct or indirect decisive influence over two or several market participants.

If a competitor is found to be in a breach of the provisions of the prohibited agreements, the Competition Council may impose fines on the competitor of up to 10% of their net turnover for the previous financial year.

In cases of abuse of dominant position, the Competition Council may impose fines of up to 5% of the guilty company’s net turnover of the previous financial year. This may be increased to 10% of the violator’s net turnover for the previous financial year if the initial fine is not paid.

In situations where there is a violation of the provisions of the law relating to concentrations, a fine of up to EUR 1,400 for each day can be imposed on the new market participant or the acquirer of the decisive influence.

A participant of a cartel notifying the responsible authorities about the cartel is released from responsibility – the leniency policy.

Intellectual property

Latvian legislation provides sufficient legal grounds for enforcement and protection of intellectual property rights complying with principles recognised at the international level. As a WTO (World Trade Organisation) member, Latvia participates in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Latvia is a member of the World Intellectual Property Organisation (WIPO) and therefore participates in the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works. An international treaty regulation supplements EU legislation in force.

Trademarks and designs are registered and patents on inventions are granted by the Patent Office. The Patent Office examines the applications for the trademark, design and patent protection and keeps the State Registers.

As a general rule, disputes on protection of intellectual property rights are subject to the jurisdiction of the Riga district court. Civil procedure law offers effective tools for the protection of intellectual property rights, which may be used even before bringing an action to the court.

In intellectual property cases, evidence may be ensured by a court decision before an action is brought to the court and without summoning potential participants of the lawsuit if there is a reason to believe that the rights of an intellectual property are being infringed or may be infringed.

If an action is brought to court, the court may, upon a request from the plaintiff, request that the information regarding the origin of the goods or services and the distribution thereof be disclosed by the defendant or other person having such information. The plaintiff may ask for a court decision prohibiting an unlawful use of intellectual property.

The holder of the intellectual property rights may request a court decision on the question of damages and also moral injury compensation for unlawful use of intellectual property.

Consumer protection

Rights of private persons who are consumers are protected by the government against unfair and dangerous service and goods providers and to help the consumers in choosing goods and services. The sphere of consumer contracts in general is protected, including contracts regarding credits and loans. Contracts concluded by internet (distance contract) also enjoy protection. There are special regulations that govern the observance of the rights of consumers directly and indirectly (pre-cautionary) to comply with EU directives. The state institution supervising the observance of consumer rights is the Consumer Rights Protection Centre.

Anti-money laundering

Since 13 August 2008, the new Anti-Money Laundering Law is in force, which creates strict obligations. The directives of the European Parliament and Council 2005/60/EC, 2006/70/EC are implemented in the new law. Banks, bookkeepers, tax advisers, lawyers, real estate agents etc. must comply with the Law. Any other individual who becomes aware of a suspicious transaction is also required to report it. The Law implements the "on risk-based" principle which means that direct subjects of the Law must evaluate the risks of money laundering in their everyday activities and, based on this, establish internal polices in order to meet the requirements provided by international treaties, EC and national law. The Special Supervision office under the prosecutor's office monitors anti-money laundering issues in Latvia.

Litigation and arbitration

Latvia has a 3-tier court system. Administrative cases are examined by the administrative courts. Civil, criminal and other cases are examined by the general courts.

The Regional Court is the court of first instance for most cases. Appeals against the Regional Court's decisions are subject to the jurisdiction of a district court, which is also the court of first instance for some cases of special character. The Supreme Court is located in Riga and has jurisdiction to review petitions for cassation and appeals in cases of special character examined by a district court as the court of first instance.

If contracting parties have included an arbitration clause in the agreement, the disputes may be subject to the jurisdiction of the arbitration. The courts of arbitration are registered by the Latvian Enterprise Registry. According to the Registry there are about 125 registered arbitration courts in Latvia. Since 1 January 2015, Arbitration law is in force. The aim of this law is to determine establishment of arbitration courts and their further operation to ensure effective and fair dispute resolution.

Latvia is a member of the International Chamber of Commerce and Industry. The Arbitration Court of the Latvian Chamber of Commerce and Industry (LCCI) provides the settlement of international and local commercial disputes in accordance with the LCCI Rules of Arbitration and UNCITRAL Arbitration Rules.

Lithuania

Competition law

The Lithuanian Competition Law binds Lithuanian commercial activities as well as commercial undertakings registered outside of Lithuania, if the activities of the foreign undertaking limit competition in the Lithuanian market.

Entities are prohibited from performing any acts contrary to fair business and good customs, where such actions may affect the other entity's ability to compete, including: unauthorized use of trade names and trade marks, intentional misrepresentation with respect to products of other undertakings, unauthorized sharing of confidential information about other undertakings, solicitation of employees of other undertakings to leave their job, misleading advertising, etc.

Agreements aimed at restricting competition such as those fixing, directly or indirectly, prices or other sales terms, dividing the market, establishing quantities of production or sales, etc., are prohibited and are deemed legally invalid as of their date of conclusion. Exceptions apply to agreements of insignificant influence which are those between business undertakings whose total market share does not exceed the following limits:

- 10% in the case of horizontal agreements
- 15% in the case of vertical agreements
- 10% in the case of mixed agreements.

“Dominant position” means the position when one or more undertakings can effectively restrict competition through their decisive influence on the market. It is presumed that a person (except for an undertaking engaged in retail trade) has a dominant position in the market if his market share equals or exceeds 40% (30 % share for retail trade), unless it is proven otherwise. Also, each undertaking belonging to a group of three or fewer members with the largest shares in the relevant market, jointly holding over 70% (55 % share for retail trade) of the relevant market, shall be presumed to have a dominant position, unless it is proven otherwise.

The list of prohibited acts abusing dominant position include unfair pricing, limitations of trade, production or technical development, discriminatory treatment of different groups of undertakings, etc.

Competition regulations also control concentration. The concept of “concentration” includes mergers of undertakings as well as acquisition of control over undertakings.

Concentration is deemed to be controlled if:

- the combined aggregate income of the concerned undertakings for the previous year exceeds EUR 14.5 million, and
- the aggregate income of each of at least two concerned undertakings for the previous year exceeds EUR 1.45 million.

The controlled concentration must be notified in advance to the Competition Council whose permission is required to perform the concentration.

Any acts implementing the controlled concentration which are performed without having due permission shall be legally void and invalid. The Competition Council may impose fines on undertakings performing the controlled concentration without having due permission. In serious circumstances, fines up to 10% of the annual aggregate income of the undertakings concerned may be imposed. Sanctions may also be imposed for the managers of the companies who commit any actions that are against the law of competition. These sanctions involve suspension from management, controlling or other functions, also, an additional penalty of up to 14 481 EUR.

Intellectual property

The legal regulation on protecting intellectual property in Lithuania is based on the rules and recommendations of the World Trade Organisation and the World Intellectual Property Organisation. Legal acts are in compliance with the EU regulations.

According to Lithuanian law, the object of copyright is defined as original literary, scientific or artistic works that are considered to be the result of creative activity expressed in an objective form. Copyright is not applied to ideas, principals, action methods, intentions, processes, legal acts, official documents, information reports, folk art works, etc.

The law also protects related rights. The object of related rights is defined as the performance of works, live or recorded in audio, video tape, phonogram, the first record of audio-visual work, as well as a programme of a radio/television broadcast.

Copyright protection granted by Lithuanian legislation applies to the citizens and permanent residents of the Republic of Lithuania, legal entities having their place of business in the Republic of Lithuania, authors, irrespective of their citizenship and place of residence, who have published works for the first time in the Republic of Lithuania as well as authors of architectural works constructed in the Republic of Lithuania.

The property rights of an author last during the life of the author and for 70 years thereafter. Non-property (personal) rights are protected indefinitely.

Protection of trademarks is prescribed by the Lithuanian Law on Trademarks. In order to have a trademark legally protected by Lithuanian law, it must be registered with the State Patent Bureau of the Republic of Lithuania. The registration is not necessary if the trademark is deemed as “well-known” in Lithuania within the meaning of the law.

The registration term of a trademark is 10 years, which may be extended for an additional 10 years an unlimited number of times.

Patent rights belong to inventors, their successors in title as well as to employees for inventions made at work. Discoveries, scientific theories, mathematical methods, product designs, schemes, rules and methods of games, intellectual or economic

activities, computer programmes, ways of providing information, human body and its elements in a natural environment, are not regarded as inventions for patent registration. Patents are not issued to certain treatment methods of humans and animals, certain derivation methods of plants and animals, also inventions the commercial exploitation of which would be contrary to the public interest, morality and humanity principles.

For patent protection, inventions must be registered by filing an application with the State Patent Bureau of the Republic of Lithuania or an international application following the international treaty on patent co-operation. The patent protection may also be sought by extending the European patent into the territory of Lithuania. A registered patent is valid for 20 years from the date the relevant application is filed.

Lithuania, being a party to the co-operation agreement with the European Patent Organisation, recognizes the priority right with respect to the patent protection granted by foreign countries.

Consumer protection

The fundamental rights of consumers established by Lithuanian law include the right to good quality and safe products and services; the right to information on goods and services as well as information on protection of consumer rights; the right to compensation for a breach of consumer rights; etc. Following the EU pattern, the concept of strict liability is established in Lithuanian legislation.

Quality of goods and services must meet the standards stipulated by law or contract. If the quality does not comply with the standards prescribed, a consumer has the following right to:

- claim for a replacement of the defective goods; or
- claim for a reduction in the price of the defective goods; or
- eliminate the defects at the seller's costs; or
- terminate the sale-purchase contract and to have the purchase price refunded.

A seller is deemed to be responsible for the quality of goods. Goods entering the market must also meet safety requirements.

Legal entities and individuals (including producers, importers, distributors, sellers) supplying goods to the Lithuanian market are responsible for proper labelling. Labelling must be in the Lithuanian language and include information about the producer's name, address, country of origin, date of production, etc. Certain categories of goods (e.g. alcohol, tobacco) must have additional labelling with special state-issued labels and must bear warnings on their negative effects to human life and health.

Anti-money laundering

Lithuania has implemented the Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the Prevention of the Use of the Financial System for the Purpose of Money Laundering and/or Terrorist Financing.

Money laundering means conversion or transfer of property, knowing that such property is derived from criminal activity, for the purpose of concealing or disguising the illicit origin of the property; concealment or disguise of the true nature, source, location,

disposition, ownership of property, knowing that such property is derived from criminal activity; the acquisition, possession or use of property, knowing at the time of receipt/ transfer, that such property was derived from criminal activity; preparation, an attempt, conspiracy to making any of the activities mentioned.

Reporting obligations are assigned to financial institutions and other entities such as auditors, insurance undertakings, bailiffs, undertakings providing accounting or tax advisory services, notaries, advocates when they are acting on behalf of customer and by assisting the customer in the execution of transactions concerning the buying or selling of real property or business entities, the managing of customer money, securities, the opening or management of a bank, savings or securities accounts, trust or other corporate service providers, persons engaged in trade of real estate, precious metals, cultural goods, antiques or other assets the value of which exceeds EUR 15,000 and the payments are made in cash, companies organizing gaming, postal services providers, and close-ended investment companies.

Financial institutions and other entities must take all the measures to identify the customer and the beneficial owner when establishing a business relationship, when concluding transactions amounting to more than EUR 15,000, when exchanging cash, if the amount exchanged exceeds EUR 6,000, or in any other case when there are suspicions that the activities of money laundering or terrorist financing are, has been or will be performed.

Financial institutions, performing a monetary operation, must submit to the Financial Crime Investigation Service data confirming the customer's identity and information about the performed monetary operation, if the total amount of the customer's single operation in cash or of several interrelated operations in cash exceeds EUR 15,000, subject to certain exemptions provided by the law.

In certain cases simplified verification of a customer's identity can be performed.

Litigation and arbitration

The Constitution of the Republic of Lithuania provides that the courts have the exclusive right to administer justice.

The Lithuanian system of general jurisdiction courts consists of the Supreme Court (1), the Court of Appeals (1), district courts (49) and regional courts (5) dealing with civil and criminal cases. Administrative litigation is assigned to the Supreme Administrative Court (1) and regional administrative courts (5).

A district court is first instance for criminal cases, civil cases and cases of administrative offences (assigned to its jurisdiction by law), cases assigned to the jurisdiction of mortgage judges, as well as cases relating to the enforcement of decisions and sentences. Judges of a district court also perform the functions of a pre-trial judge or an enforcement judge.

Administrative courts hear disputes regarding public administration, deal with issues relating to the lawfulness of regulatory administrative acts, tax disputes, etc. Before applying to an administrative court, individual legal acts or actions concluded public institutions may have to be mandatory disputed under the pre-trial procedure.

There is also the Constitutional Court which determines whether the laws and other legal acts are in conformity with the Constitution or whether the decisions of the president and resolutions of the government conform to the Constitution and laws.

The concept of precedent law is not applicable in Lithuania; however the Senate of the Supreme Court is analyzing the practice of courts and adopting recommendations on the uniformity of legal interpretations.

Both institutional and ad hoc arbitrations are recognized in Lithuania. The permanent arbitration institution is established in Lithuania. Vilnius Court of Commercial Arbitration is an institutional arbitration, which deals with commercial disputes.

The arbitration is established in accordance with the Lithuanian Law on Commercial Arbitration, which is applied to arbitrations taking place in the territory of Lithuania. The provisions regarding the recognition of foreign arbitration awards are applied irrespective of the place of the arbitration.

Commercial disputes are defined as any disagreements between the parties due to the fact (or) legal issues of a contractual or non-contractual legal relations, including the supply of goods or services, distribution, commercial representation, factoring, leasing, contracting, consulting, engineering services, licensing, investment, financing, banking operations, insurance, concession, joint venture development and execution of any other industrial or business cooperation, compensation of damages for breach of competition law, contracts concluded under procurement basis, transportation of goods or passengers by air, sea and land, but not limited to.

Disputes arising from constitutional, employment, family, administrative legal relations, as well as disputes related to competition, patents, trademarks, consumer contracts, also disputes with public institutions (unless a prior approval of the founder of the institutions has been received) cannot be submitted to the arbitration.

Arbitrational agreement shall be expressed in writing and it may be in the form of an arbitration clause in an agreement (contract) or a separate agreement can be concluded by the parties. The parties are free to determine the number of arbitrators, also place and language of the arbitration. Failing such determination, the number of arbitrators shall be three and the language and place may be chosen by the arbitrators.

Arbitral award is binding to the parties at the moment it is made. The parties no longer have the right to start action concerning the same subject matter based on the same grounds. Arbitral awards are enforced under the same procedures as court rulings. The arbitration awards are recognized and may be enforced in the territory of more than 140 states of the World, including Lithuania, as these states that are the members of United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 10 June 1958). Recognition and enforcement of foreign arbitral awards is carried out though the Lithuanian Court of Appeals.



Appendix A

Tax treaties

Estonia

As of 1 January 2015 Estonia has effective tax treaties with the following countries:

Albania	Hungary	Poland
Armenia	Iceland	Portugal
Azerbaijan	India	Romania
Austria	Ireland	Serbia
Bahrain	The Isle of Man	Singapore
Belarus	Israel	Slovakia
Belgium	Italy	Slovenia
Bulgaria	Jersey	Spain
Canada	Kazakhstan	Sweden
The Czech Republic	The Republic of Korea	Switzerland
China	Latvia	Thailand
Croatia	Lithuania	Turkey
Cyprus	Luxembourg	Turkmenistan
Denmark	Macedonia	Ukraine
Finland	Malta	United Arab Emirates
France	Mexico	United Kingdom
Georgia	Moldova	USA
Germany	The Netherlands	Uzbekistan
Greece	Norway	

i <http://www.heritage.org/index/ranking>

ii <http://www.nasdaqomxbaltic.com/en/exchange-information/about-us/nasdaq-omx/nasdaq-omx-tallinn-3/>

Latvia

As of 1 January 2015 Latvia has effective tax treaties with the following countries:

Albania	Macedonia
Armenia	Malta
Austria	Mexico
Azerbaijan	Moldova
Belarus	Montenegro
Belgium	Morocco
Bulgaria	Norway
Canada	Poland
China	Portugal
Croatia	Qatar
Czech Republic	Romania
Denmark	Russia
Estonia	Serbia
Finland	Singapore
France	Slovakia
Georgia	Slovenia
Germany	South Korea
Greece	Spain
Hungary	Sweden
Iceland	Switzerland
India	The Netherlands
Ireland	Tajikistan
Israel	Turkey
Italy	Turkmenistan
Kazakhstan	United Arab Emirates
Kuwait	Ukraine
Kyrgyzstan	United Kingdom
Lithuania	USA
Luxembourg	Uzbekistan

Lithuania

As of 1 January 2015 Lithuania has effective tax treaties with the following countries:

Armenia	Latvia
Azerbaijan	Luxembourg
Austria	Macedonia
Belarus	Malta
Belgium	Mexico
Bulgaria	Moldova
Canada	Netherlands
Czech Rep.	Norway
China	Poland
Croatia	Portugal
Cyprus**	Romania
Denmark	Russia
Estonia	Serbia
Finland	Singapore
France	Slovak Rep.
Georgia	Slovenia
Germany	Spain
Greece	Sweden
Hungary	Switzerland
Iceland	Turkey
India	Turkmenistan**
Ireland	UAE**
Israel	Ukraine
Italy	United Kingdom
Kazakhstan	USA
Korea	Uzbekistan
Kyrgyzstan	

* *Treaties with Kuwait, Morocco have not been ratified yet.*

** *Applicable as of 2015.*



Appendix B

Useful links

Estonia

Parliament of Estonia	www.riigikogu.ee
Estonian legal acts in English	www.legaltext.ee
Bank of Estonia	www.eestipank.info
Ministry of Justice Center of Registers	www.eer.ee
Ministry of Finance	www.fin.ee
Financial Supervision Authority	www.fi.ee
Estonian Tax and Customs Board	www.emta.ee
Ministry of Finance	www.fin.ee
Estonian Auditing Board	www.auditorkogu.ee
Estonian Labour Market Board	www.tta.ee
Ministry of Social Affairs	www.sm.ee
Ministry of Justice Center of Registers	www.eer.ee
Estonian Patent Office	www.epa.ee
Estonian Competition Board	www.konkurentsiamet.ee
Financial Supervision Authority	www.fi.ee
Tallinn Stock Exchange	www.ee.omxgroup.com/
Estonian Central Register of Securities	www.e-register.ee/

Latvia

Latvian Investment and Development Agency	www.liaa.gov.lv
Bank of Latvia	www.bank.lv
Parliament of Latvia	www.saeima.lv
Cabinet of Ministers	www.mk.gov.lv
Ministry of Finance	www.fm.gov.lv
Ministry of Foreign Affairs	www.am.gov.lv
Latvian Embassies Abroad	http://www.am.gov.lv/en/ministry/mission/
Ministry of Interior Affairs	www.iem.gov.lv
Ministry of Economics	www.em.gov.lv
State Revenue Service	www.vid.gov.lv
Riga Stock Exchange and Latvian Central Depository	www.rfb.lv
Central Statistical Bureau	www.csb.gov.lv
Land Register	www.zemesgramata.lv

Lithuania

Parliament of Lithuania	www.lrs.lt
Bank of Lithuania	www.lb.lt
Company Register	www.kada.lt
Government of Lithuania	www.lrvk.lt
Ministry of Finance	www.finmin.lt
Ministry of Foreign Affairs	www.urm.lt
State Tax Authority	www.vmi.lt
Lithuanian Chamber Of Auditors	www.lar.lt
Lithuanian Labour Exchange	www.ldb.lt
Competition Council Of Lithuania	www.konkuren.lt
National Stock Exchange	www.nasdaqomxbaltic.com
State Patent Bureau	www.vpb.lt



C

Appendix C

KPMG in the Baltics (and Belarus)

KPMG is one of the leading professional services firms providing Audit, Tax and Advisory services in the Baltic states. The Baltics' practice has offices in Tallinn, Riga, Vilnius and Klaipeda.

KPMG member firms in Latvia, Estonia, Lithuania and Belarus operate under common management. This allows the Baltics practice to coordinate services to a geographically dispersed group with a single point of contact, increasing the efficiency and effectiveness of our services.

We serve clients across all industry sectors, including subsidiaries of large international companies, successful local entrepreneurs, state institutions and agencies, and non-governmental organisations.

Our staff and range of services allows us to meet the expectations of clients who desire multidisciplinary services being provided by professionals who understand a client's needs:

- **Extensive experience** – KPMG firms have been operating in the Baltics since 1992.
- **Coordinated client support** and consistent high quality of services throughout the Baltics, enhanced by an excellent understanding of the specific features of each country.
- **A professional and dedicated team** with 10 partners and more than 380 staff actively benefiting from shared knowledge, experience and information in the Baltic region and Belarus. Our partnership brings experience across a wide range of industry areas and technical expertise from Estonia, Latvia, Lithuania, Belarus, UK, USA, Czech Republic, CIS and Australia, and enables to connect our local experience to incoming clients from around the world.
- **International support** – KPMG firms in the Baltics are members of the KPMG global network of professional advisory firms which allows us to draw on international know-how and benefit from knowledge sharing.

KPMG in the Baltics and Belarus provide a wide range of high quality services to meet rapidly changing client expectations in the developing markets of the Baltics and Belarus.

A separate “Investments in Belarus” is available on request.

Our services

Audit

- Financial Statement Audits
 - Audits of financial statements prepared in accordance with IFRS and other accounting standards
 - Reviews of annual and quarterly financial statements
- Assurance Services
 - Reports on financial information prepared for IPOs and listings
 - Regulatory and contractual assurance (including EU and other grant audits and agreed upon procedure engagements)
 - Revenue assurance
 - Future/forecasts assurance
 - Sustainability assurance
 - Other assurance services specifically tailored to your circumstances

Tax

Business Tax

- Corporate Taxation
 - Mergers and Acquisitions (M&A)
 - Transaction tax
- Tax structuring
- Transfer Pricing
- Indirect Taxation
- Global Mobility
- Customs and International Trade
- Tax Risk Assessment
- Tax Compliance Support
- Tax Disputes

Legal*

- Corporate Law and M&A
- Corporate Restructuring
- Legal Due Diligence
- Commercial and Contract Law
- Employment Law
- Insolvency
- Representation in Litigation

* *Legal services may not be offered to SEC registrant audit clients or where otherwise prohibited by law.*

Advisory

- Management Consulting
 - Business Performance Improvement
 - Major Project Advisory
- Risk Consulting
 - Financial Risk Management
 - Internal Audit, Risk and Compliance
 - IT Advisory
 - Forensic
 - Climate Change and Sustainability
 - Accounting Advisory
- Deal Advisory (Transactions and Restructuring)
 - Corporate Finance
 - Restructuring
 - Transactions
 - Insolvency and Liquidation

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