



cutting through complexity

Guide to Taxes on Real Estate in Central and Eastern Europe

Edition 2015

kpmg.com/cee

KPMG in Central and Eastern Europe

Contents

Introduction	5
ALBANIA	6
BOSNIA AND HERZEGOVINA	10
BULGARIA	14
CROATIA	20
CZECH REPUBLIC	28
ESTONIA	34
HUNGARY	40
LATVIA	48
LITHUANIA	54
MACEDONIA	62
MONTENEGRO	68
POLAND	72
ROMANIA	80
SERBIA	86
SLOVAKIA	90
SLOVENIA	98



Introduction

In 2014 the real estate market in Central and Eastern Europe (CEE) rallied further compared to the height of the financial crisis. This trend will probably continue into 2015.

According to the data provided by one of the global property advisors for 2014, the total investment volume in the CEE region (excluding Russia) amounted to EUR 7.7 billion.

Poland continue to be regarded as the key investment destination in the CEE region, followed by the Czech Republic. According to real estate advisors, investors are still concentrating on opportunities in leading locations but they are also trying to target goods assets in secondary locations in other CEE countries such as Romania, Slovakia and Hungary.

The most preferred real estate sectors in 2014 were office and retail, followed by the fast growing industrial and logistic sectors where we are seeing huge investments in the warehouse market year on year. Market forecasts also show that the industrial and logistic sectors should also prosper beyond 2015. This will mainly be caused by the healthy growth of e-commerce and retail logistics. Moreover, it is believed that investors are going to develop shopping infrastructure beyond niche areas by investing more in convenience shopping centres in line with the American strip mall model and in high streets with exclusive shops.

This Guide to Taxes on Real Estate in CEE provides an overview of the key tax aspects related to the real estate sector in the following countries:

- Albania
- Bosnia and Herzegovina
- Bulgaria
- Croatia
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Macedonia
- Montenegro
- Poland
- Romania
- Serbia
- Slovakia
- Slovenia

This fifth edition presents the most important tax benefits and burdens connected with operations in the real estate sector. The summaries were prepared based on the situation on 1 January 2015 and focus on the following areas:

- Value added tax
- Corporate income tax and capital gains
- Tax depreciation
- Tax implications of financing investments (thin capitalisation, dividends, withholding tax, interest and losses carried forward)
- Real estate tax
- Real estate transfer tax

Honorata Green
Tax Partner



GENERAL

The 2015 Fiscal package has introduced numerous amendments to the existing tax legislation which came into force as of 1st of January 2015. Some of these amendments are related to real estate.

The most relevant amendments relate to i) the new value added tax (VAT) law which is effective as of 1 January 2015, ii) an exhaustive Instruction document supporting the respective VAT law, iii) changes in the law on Tax Procedures, Income Tax, Social and Health Contributions.

Personal income tax on all types of income is now subject to a 15% tax rate, with the exception of personal income tax on which the earlier progressive taxation scheme still applies.

In order to stimulate the exchange of ownership of agricultural real estate, the transfer of ownership of agricultural land from a registered farmer to another farmer or natural person or official taxpayer who performs agricultural activities is exempt from personal income tax.

CORPORATE INCOME TAX AND CAPITAL GAINS

The corporate income tax (CIT) rate in Albania is 15%. A reduced rate of 7.5% applies for taxpayers who have an annual turnover between ALL 2 million and ALL 8 million (approx. EUR 57,000). Small businesses having an annual turnover of less than ALL 2 million are subject to a fixed tax obligation amounting to ALL 25,000 (approx. EUR 180) per year.

Corporate income tax is applied to the accounting profit after adjustments for tax purposes.

Capital gains from the sale of real estate are included in the taxable income of the entity and are taxed at 15% (or in certain cases at 7.5%). The sale of real estate by individuals is subject to personal income tax at 15% on the capital gain generated. The ownership transfer of agricultural land from a registered farmer to another farmer or legally active person who performs agricultural activities is exempt from personal income tax.



Since 1992, Albania has entered into agreements with several countries for the avoidance of double taxation. As of 1 January 2015, 37 double tax treaties with different countries are in force. A general rule imposed by the tax treaties is that the right to tax capital gains is conferred to the state of residence of the seller.

However, a number of double tax treaties provide a special regime for capital gains if the shares being sold derive more than 50% of their value directly or indirectly from real estate. In addition, capital gains are taxed in Albania in cases where a foreign entity or a foreign individual transfers the direct ownership of real estate situated in Albania.

Tax Depreciation

Entities may set depreciation rates for assets in accordance with their accounting policies, while under the provisions of the Law on Income Tax, the maximum annual rates allowed for tax purposes are specified according to a separate tax depreciation schedule. Land is not depreciated for tax purposes.

Solid buildings, including investment properties, facilities, transmitting devices (e.g. antenna stations), machinery and production equipment which are fixed at a building's location are depreciated according to the declining balance method at a depreciation rate of 5%.

Certain assets associated with a building can be treated as separate movable assets for tax purposes and therefore can be depreciated over a shorter period.

As set out in the recent amendments to the Law on Income Tax, starting from 1 January 2015, if the net book value of a fixed asset, at the beginning of a year, is lower than 3% of the historic cost (for assets depreciated at 5% on net book value) or 10% of the historic cost (for assets depreciated at 20% or 25% of the net book value), the net book value shall be entirely recognised as a deductible expense for corporate income tax purposes.

Tax Losses

Tax losses can be carried forward over three tax periods. They can be offset against positive financial results after tax adjustment for the respective tax period according to the "first loss before the last" principle. A tax loss cannot be carried forward if the ownership of stock capital or voting rights of a person or taxable entity changes more than 50% in number or value.

Thin Capitalisation

Thin capitalisation rules apply in Albania if a company's liabilities exceed four times the amount of its equity (excluding short-term loans). In such a case, the interest paid on the exceeded amount is not tax deductible. The thin capitalisation restrictions do not apply to banks, to

insurance or to leasing companies. In addition, any interest paid exceeding the average annual interest rate on loans published by the Bank of Albania is not tax deductible.

WITHHOLDING TAX

As of 1 January 2015, the standard Albanian withholding tax (WHT) is 15% (the previous rate was 10%). The WHT rate can be reduced in line with double tax treaties to which Albania is party. Withholding tax shall be declared within deadlines set out in the Law on Income Tax and declared via a specific tax return.

The Minister of Finance has published the template of WHT returns. Based on new amendments of the tax legislation, starting from 1 January 2015 WHT returns should only be submitted electronically.

Dividends

Withholding tax of 15% on dividends applies on all dividends paid by Albanian companies unless a respective double tax treaty states otherwise.

No WHT applies if dividends are paid to a tax resident company or partnership which is subject to CIT in Albania.

In addition, the income generated from dividends is not included in the taxable income of the tax resident company or partnership.

In addition, the amended Instruction on Income Tax provides that the deadline for declaration and payment of WHT on dividends will be 20 August of each year notwithstanding the time when the payment to the beneficiary is/was performed.

Interest and Royalties

Withholding tax of 15% is also applied to interest and royalties paid by Albanian companies unless a respective double tax treaty states otherwise.

REAL ESTATE TAX

Individuals and legal entities that own real estate property in Albania are subject to real estate tax. Local taxes on real estate consist of the real estate tax on buildings and on agricultural land. Regarding real estate tax on buildings, the tax base is calculated as the floor area of the buildings measured in square metres for each floor of the building owned (for real estate tax on agricultural land, the tax base is the area of agricultural land measured in hectares). The tax depends on the district where the real estate is located and is calculated on an annual basis. The local tax on buildings varies from ALL 5 to ALL 400 per square metre. The tax on residential buildings used for business purposes varies from ALL 40 to ALL 400 per square metre, while the tax on buildings owned by individuals varies from ALL 5 to ALL 30 per square metre. In addition, the tax on buildings is at double rate for any second or subsequent real estate property (apartment or house) owned by individuals. The tax on agricultural land varies from ALL 700 to ALL 5,600 per hectare. Buildings owned by the state and local governmental authorities as well as by religious institutions are exempt from this tax.

REAL ESTATE TRANSFER TAX

This tax is applicable in the case of the transfer of ownership rights of buildings and other real estate properties. It is payable by the entity that transfers the

ownership of the real estate. The tax on the ownership transfer of buildings is levied on each square metre and varies from ALL 100 to ALL 2,000, depending on the district where the real estate is located. The tax on ownership transfers of real estate other than for buildings is 2% of the sale price. The tax is not applicable to individuals subject to personal income tax in Albania.

Donors of real estate property to governmental authorities, religious institutions or not-for-profit organisations are exempt from this tax. The tax should be paid by the seller of such property before the transfer of the real estate is registered in the Real Estate Register.

VALUE ADDED TAX

Supply of land and the lease of land are considered VAT exempt supplies in Albania. The supply of buildings (except the supply of construction works) is an exempt supply. The lease of a building is an exempt supply except in the following cases:

- when renting for not longer than two months;
- for those staying in hotels or vacation resorts. In addition, based on the by-laws issued by the Minister of Finance, entities or individuals may opt (upon the fulfilment of certain conditions) to categorise their lease supply of buildings as a taxable supply.

Place of Supply of Services

Based on Albanian VAT legislation, the place of supply of services relating to real estate is the place where the real estate is situated. Under the current

interpretation made by the tax authorities, a foreign entity providing services related to Albanian real estate should register in Albania for VAT purposes regardless of the value of the services provided.

VAT Refund

A legal entity carrying out taxable activities has the right to claim for reimbursement of VAT if the excess tax credit is carried forward for three successive months and the claimed reimbursement amount exceeds ALL 400,000. A VAT refund cannot be requested by entities or individuals not registered for VAT purposes in Albania.

For more information on real estate services in Albania, please contact:

Arkadiusz Mierzejewski
Partner

KPMG in Albania

Blvd. "Deshmoret e Kombit"
Twin towers Buildings,
Tower 1, Floor 13, Ap A1-A4
Tirana, Albania

T: +355 4 2274 524
+355 4 2274 534

E: arekmierzejewski@kpmg.com

kpmg.com/al



Bosnia and Herzegovina

GENERAL

Bosnia and Herzegovina (BiH) consists of two main territorial and administrative entities: the Federation of Bosnia and Herzegovina (FBiH) and the Republic of Srpska (RS), jointly referred to as “the entities”, as well as the very small District of Brcko. Legislation related to physical and legal persons and taxes (exclusive of indirect taxes) is predominantly enacted at the level of the entities. Our comments relate to both entities, unless it is specifically stated otherwise.

The below comments are based on the relevant laws of the entities effective as at 1 January 2015.

All BiH taxpayers, both physical and legal persons, have a personal identification number (PIN) issued by the Tax Administration of the relevant entity, and all business documentation and correspondence (including tax returns) must include the PIN.

Foreign physical or legal persons (including EU citizens) can buy land (except agricultural land) and real estate

in BiH on condition of international reciprocity for BiH physical or legal persons.

CORPORATE PROFIT TAX

Direct taxes are levied in line with entity policy.

Resident legal persons (legal persons incorporated in the relevant entity, or legal persons whose place of effective management and control is in the FBiH – applies in the FBiH only) are subject to corporate profit tax (CPT) on their worldwide income. Non-resident legal persons are subject to CPT on their income generated in the relevant entity.

Taxable profit is subject to CPT at 10%. In the FBiH, taxable profit is the accounting profit adjusted for non-deductible and non-taxable items in accordance with the provisions of the FBiH CPT legislation. In the RS the taxable base is determined as the difference between taxable revenues and tax-deductible expenditures as determined in accordance with the RS CPT legislation.



Anti-avoidance provisions, including transfer pricing provisions, exist. Transfer pricing provisions require that all transactions with related parties be listed separately and compared with the prices that would be charged in regular market conditions (arm's length principle).

Tax Depreciation Rates

Accelerated depreciation is possible in both entities under specific circumstances. Depreciation expenses can only be calculated on a straight-line basis.

The FBiH

The tax period is the calendar year. Corporate profit taxpayers pay monthly advance payments (by the end of the month for the previous month), based on the previous year's CPT return. Any CPT shortfalls at the year-end must be self-assessed in the CPT return and paid by the taxpayer by 30 March in the FBiH and by 31 March in the RS of the current year for the previous year, by which date the annual CPT returns must be submitted.

Capital gains are generally included in income and taxed at the same rate.

Generally, domestic and foreign dividend income is not subject to CPT.

Tax losses may be carried forward for a period of five years, if certain conditions are met, and no tax loss carry back provisions exist.

Tax grouping is available, provided that all members of the group are incorporated in the relevant entity.

Assets	Annual Depreciation Rate (%)
Buildings, except: <ul style="list-style-type: none"> • Office buildings • Residence buildings, hotels, restaurants • Roads, utilities premises, upper layers of railways 	standard rate 10% (exceptions range from 3% to 14.3%) 3 5 14.3
Equipment, vehicles	standard rate 20% (exceptions range from 14.3% to 33.3%)
Equipment for utility services	14.3

Computers and equipment for environmental protection	33.3
Perennial plants	14.3
Livestock units	40
Intangible long-term assets	20

The RS

Accelerated depreciation for machinery and equipment is allowed i.e. at 40% in the first year and 30% in both the second and third years. Newly acquired assets may be depreciated from the month that follows the moment when such assets are put into use.

WITHHOLDING TAX

Withholding tax (WHT) at of 10% generally applies to payments made to non-resident legal persons for the provision of services in the FBiH or the RS.

A 5% WHT rate is applied on dividends paid to non-resident legal persons by FBiH legal persons. The RS does not levy WHT on dividend payments (subject to a 10% participation rule).

The WHT rate may be decreased or eliminated pursuant to an effective double tax treaty.

REAL ESTATE TRANSFER TAX

Real estate transfer tax (RETT) is regulated at the cantonal level in the FBiH (i.e. there are currently 10 different laws applicable in the FBiH) and in the RS at the entity level.

Real estate transfer tax applies to transfers of land and all transfers of real estate which are value added tax (VAT) exempt, i.e. all transfers of real estate except the first transfer of newly constructed objects. Real estate transfer tax is irrecoverable.

The RETT rate applicable in all 10 Cantons in the FBiH is 5%

In the RS, the Law on Real Estate Tax (RET) became applicable as of 1 January 2012. The RET rates applicable are within the range 0.05% to 0.50% of the real estate value per annum. The onus is on the local authorities to set their own tax rates and these should not, however, exceed the range proposed by the Law on RET.

If the RET payer, i.e. the real estate owner, transfers the real estate during the year they are obliged to settle the RET liability that became due in relation to the period from the beginning of the year until the transfer of real estate.

VALUE ADDED TAX VAT

Value added tax is levied nationwide at the level of BiH. The standard VAT rate is 17% and applies to the supply of products and services.

A VAT rate of 0% (input VAT recovery possible) applies to exports.

Services are taxable in BiH if they are deemed to have been supplied in BiH. The reverse-charge mechanism applies to certain services supplied from abroad.

The rules regarding the place of the supply are similar to the EU 6th VAT Directive prior to the implementation of the “VAT package” applicable in the EU as of 1 January 2011.

The registration threshold is set at taxable supplies of BAM 50,000 (approximately EUR 25,000). Foreign legal persons providing taxable supplies in BiH are required to register for VAT purposes, provided relevant conditions are met.

The transfer of newly constructed buildings is subject to VAT at the rate of 17%. Physical persons generally cannot recover VAT; however, VAT is generally recoverable for legal persons registered for VAT in BiH, provided general conditions for VAT recovery are met.

Foreign legal persons are eligible to recover VAT, provided certain conditions are met.

Options available to foreign legal entities in respect of VAT registration and compliance are to either register for VAT purposes in BiH through a VAT representative or to establish a limited liability company in BiH which would then register for BiH VAT.

In accordance with the VAT Law, a foreign legal entity and its VAT representative are jointly and severally liable for VAT calculated in accordance with the BiH VAT Law.

Foreign legal persons are permitted to register a branch office in the FBiH and RS. Such a branch office is not considered a legal entity and it is therefore deemed as an extension of the foreign company.

For more information on real estate services in BiH, please contact:

Paul Suchar

Partner

KPMG in Croatia

Eurotower, Ivana Lucica 2a

Zagreb, 10000

Croatia

T: +385 1 5390 032

E: psuchar@kpmg.com

kpmg.com/ba



Bulgaria

GENERAL

No major changes have been made to the Bulgarian Corporate Income Tax Act (CITA) or the Local Taxes and Fees Act (LTFA) as of January 2015, except the introduced exemption of withholding tax on interest and royalties in certain cases. There have been no significant amendments to the Value Added Tax (VAT) Act which would concern the real estate sector.

CORPORATE INCOME TAX AND CAPITAL GAINS

The Bulgarian CITA specifies that Bulgarian entities are subject to 10% corporate income tax (CIT) on their worldwide income. Foreign entities are subject to tax only on the profits derived from Bulgarian permanent establishments (including branches) and/or profits related to the disposal of property owned by such a permanent establishment.

Corporate income tax is calculated on the basis of the annual financial result (as per the Income Statement of the entity)

adjusted with certain permanent or temporary tax differences.

The income from real estate derived by Bulgarian entities is included in their annual financial result. The annual financial/accounting result is subject to further adjustments for tax purposes.

The annual CIT liability is determined by the taxpayer by preparing an annual CIT return. Any outstanding liability (off-set with any advance instalments made) should be remitted to the state budget by 31 March 2015. The same timeframe applies for the submission of the annual CIT return.

There is no provision for tax grouping in Bulgaria.

Tax Depreciation

Bulgarian tax-liable persons should maintain a tax depreciation schedule (TDS) where they report all tax depreciable assets. Tax depreciation as per the TDS is to be reported as a downward adjustment to the financial result for tax purposes while the



accounting depreciation expenses accrued during the year are disallowed for tax purposes and are reported as an upward adjustment to the financial result.

The Bulgarian CITA provides for maximum tax depreciation rates depending on the type of the depreciable asset. The maximum tax depreciation rate for buildings including those held as investment properties is 4%. Land is not depreciated for tax purposes.

Tax Losses

A tax loss can be carried forward for five years. It can be offset against a positive tax result for a subsequent tax year.

Thin Capitalisation

Thin capitalisation rules apply in Bulgaria if a company's liabilities exceed three times the amount of its equity. Interest expenses are deductible up to an amount equal to the entity's interest income plus 75% of the profits before interest and tax. Interest expenses on bank loans are not subject to thin capitalisation, except in some specific cases.

TRANSFER PRICING

Transfer pricing rules allow the revenue authorities to adjust tax bases where transactions are not carried out on an arm's length basis.

Under the transfer pricing provisions the tax base may be adjusted by the revenue authorities in order to determine the CIT, withholding tax (WHT) and VAT liabilities of the taxpayer.

WITHHOLDING TAX

Specific types of income originating in Bulgaria accrued by local tax resident entities in favour of non-resident taxpayers is subject to WHT provided that the income is not derived through a permanent establishment of a non-resident entity in Bulgaria. Such income includes capital gains, rental payments, the accrual of interest, royalties, technical services (including consultancy services), management fees, etc.

The standard WHT rate is 10%. Withholding tax rates can be reduced under an effective Double Taxation Treaty signed between Bulgaria and the country of residence of the foreign income recipient following a specific pre-approval procedure.

Withholding tax is generally calculated on a gross basis. CITA includes provisions stating that foreign recipients of income subject to WHT and who are tax residents of an EU/EEA member state are entitled to an annual recalculation of the WHT which has been levied and paid on a gross basis following a specific procedure. The recalculation is aimed at equalling out the tax treatment between local entities and foreign entities which are tax residents of an EU/EEA member state.

Dividends

Dividends and liquidation quotas are subject to WHT at a general rate of 5%.

Please note that dividends and liquidation quotas distributed by local tax residents to shareholders' local entities, as well as foreign entities that are tax resident in an EU/EEA member state, are exempt from WHT taxation.

Interest and Royalty Payments

Effective from 1 January 2015, the WHT on interest income and royalties accrued by local companies to foreign tax residents of EU countries is exempt in the following cases:

- (i) the beneficiary of the income is a foreign legal entity from an EU Member State or a permanent establishment in the EU;
- (ii) the local legal entity (payer of the income) is a related party to the foreign beneficial owner of the income;
- (iii) at the time of the income accrual, the ownership of the required minimum capital is uninterrupted.

The aim of this provision is to harmonise the Bulgarian tax legislation with Directive 2003/49/EC (i.e. the EU Interest and Royalties Directive).

In prior years, there was a transitional period for the application of the Interest and Royalties Directive agreed by the Bulgarian government, whereby Bulgaria reserved its right to tax interest and royalty income arising in the country by applying the maximum withholding tax rates as follows: 10% for the period up until 31 December 2010 and 5% for the

period 1 January 2011 to 31 December 2014.

Following a change in CITA effective from 2014, interest derived from bonds and other securities issued by local tax residents and traded on a regulated EU or EEA stock exchange is exempt from WHT. Neither is WHT due on interest accrued in relation to loans extended by EU/EEA residents, which have issued bonds and other securities traded on a regulated EU/EEA stock exchange, in order to lend the proceeds to the Bulgarian entity.

In addition, as of 1 January 2015 the interest on bonds or other debt instruments issued by the state and the municipalities and traded on a regulated market in the EU or in the EEA, as well as interest arising under loan facilities granted to the state or the municipalities and not backed-up with bonds, are not subject to WHT.

Payments for rent/the right of use of immovable properties

Rental income realised by foreign entities from rent or the right of use of immovable properties located in the country is subject to 10% WHT, which should be deducted and paid by the local payer of the income, provided that the latter is a tax liable person under the terms of CITA. As mentioned above, the WHT rate may be reduced under a Double Taxation Treaty.

LOCAL TAXES AND FEES

The main local taxes and fees in relation to the ownership or acquisition of real estate in Bulgaria include real estate tax, garbage collection fees and transfer tax.

Real Estate Tax

Owners of buildings and plots of land situated in Bulgaria as well as acquirers of limited ownership rights of real estate property are subject to annual real estate taxation. The rate of real estate tax varies in the range of 0.01% – 0.45%. It is determined at a municipal level and may vary from year to year.

The taxable base for real estate tax of non-residential property owned by companies is the higher amount of the tax valuation and the book value of the property. The taxable base for real estate tax of property owned by individuals or residential property owned by companies is the tax valuation of the property.

An exemption from tax on real estate properties still counts for buildings constructed before 1 January 2005 depending on the type of certificate for energy consumption that the building has received and whether any measures are applied for utilisation of the building's renewable energy sources. The real estate tax exemption for the respective building may be used for a maximum of 10 years depending on the specific conditions satisfied.

Garbage Collection Fee

Generally, a garbage collection fee is levied on the book value/cost of the immovable property at a rate determined annually by the respective municipality where the property is located. The rates for the garbage collection fee may vary significantly between municipalities.

The garbage collection fee comprises of several service fees:

(i) waste collection/ transportation fee, (ii) fee for safe disposal of household waste at sanitary landfills or other facilities (iii) fee for sanitation of spatial-development areas for public use. An exemption from waste collection/transportation fee is introduced upon submission of a declaration by the owners of the properties by the end of the calendar year declaring that the property shall not be used the whole following year.

Transfer Tax

Transfer tax is levied when transferring real estate property or limited property rights over real estate. The tax rate is in the range of 0.1% – 3% levied on the tax base of the property in cases of acquisition against consideration. When immovable property is transferred as a gift, the tax rate is in the range of 3.3% – 6.6%. The applicable transfer tax rate is determined by the respective municipality.

The amendments to the Local Taxes and Fees Act (LTFA), effective from 1 January 2015 determine cases of gratuitous acquisition of property for which no tax is due, and for which no tax return has to be submitted. These include customary gifts and non-cash capital contributions.

The tax base upon transfer of real estate property or limited property rights over it is the higher of the following values:

- (i) the purchase price/a price defined by state or municipal authorities and
- (ii) the tax valuation of the property.

The transfer tax is generally paid by the recipient of the property, unless the parties have agreed differently.

If the recipient has no clear presence in the country, the tax is payable by the transferor.

As of 1 January 2015 all tax returns specified in the Local Taxes and Fees Act may be filed electronically, including by using the personal identification code issued by the National Revenue Agency. Prior to that LTFA returns were submitted in person to the municipality, where the property was located.

VALUE ADDED TAX

As of 1 January 2015 there are no significant amendments of the Bulgarian VAT Act which would affect VAT in the real estate sector.

VAT Exempt and VAT Taxable Supplies

According to the provisions of the Bulgarian VAT Act, the lease of buildings for residential purposes, the sale and lease of unregulated plots of land, the sale of old buildings (i.e. buildings for which more than 60 months from the issuance of the exploitation permit have expired) as well as the transfer of construction rights, are considered a VAT exempt supply. However, the seller/lessor has the option to choose to treat these supplies as VAT taxable transactions and charge VAT at the rate of 20%.

The supply of construction rights could be exempt from VAT only up until the start of the construction process i.e. up to the date of the issuing of the building permit.

The sale of new buildings, plant, machinery, equipment and structures

immovably fixed to the land is a VAT-taxable supply, subject to 20% VAT.

Taxable Amount

The taxable amount of real estate is determined under the general rules of the VAT Act and is not regulated separately.

The following special rules may also be applicable for real estate transactions:

- Transactions between related parties

The taxable amount for supplies made between related parties should be equal to the open market value only in specific cases where neither the supplier nor the recipient enjoy the right to full input VAT deduction. The aim of this rule is to prevent related parties from optimising their pro-rata VAT deduction by applying non-arm's length prices.

- Barter transactions (e.g. construction rights for construction services)

The taxable amount for a barter transaction for which the parties have not agreed a monetary value should be equal to the acquisition cost/direct cost of the goods/services provided. When the tax base cannot be determined in this way, it should be equal to the open market value. The open market value would also be used as a taxable base when the barter transaction is performed between related parties with restricted input VAT deduction rights, as explained above.

- Improvement of rented assets

The taxable amount of the deemed supply of service by the tenant to the landlord in cases of free-of-charge improvements of hired assets should be equal to the direct expenses incurred, taking into account normal wear and tear. If the direct cost cannot be estimated, the taxable amount should be the open market value.

There is no VAT grouping in Bulgaria.

For more information on real estate services in Bulgaria, please contact:

Kalin Hadjidimov

Partner

KPMG in Bulgaria

45/A Bulgaria Boulevard

1404 Sofia

Bulgaria

T: +359 2 9697 700

E: khadjidimov@kpmg.com

kpmg.com/bg





Croatia



GENERAL

Croatia joined the EU on 1 July 2013, a step which resulted in significant taxation and legal changes.

The comments below are based on Croatian laws effective as at 1 January 2015.

In general, legal entities and legitimate persons from EU member states are free to buy real estate in Croatia. Exceptions exist and depend on the type of real estate. Other foreign (non-EU) legal entities and legitimate persons need to apply for a permit from the Croatian Ministry of Justice before they can be registered as owners in the land registry.

The standard value added tax (VAT) rate is 25% and it applies to most products and services. There are also reduced VAT rates of 5% and 13% for some other products and services.

Generally, as of 1 January 2015, land and buildings are considered to be one supply,

i.e. the same tax treatment applies to both land and buildings.

Whether VAT or real estate transfer tax (RETT) applies depends on the status of the seller, the status of the buyer and the status of the real estate. For details, please refer to the section “Real Estate Transfer Tax and Value Added Tax” below.

CORPORATE INCOME TAX AND CAPITAL GAINS

Resident legal entities (legal entities incorporated in Croatia or legal entities whose place of effective management and control is in Croatia) are subject to corporate income tax (CIT) on their worldwide income. Non-resident legal entities are subject to CIT on their Croatian sourced income.

Accounting profits, adjusted in accordance with the provisions of the CIT Law, are subject to CIT at the rate of 20%. This rate can be reduced by 50% if the company operates in a Class II Support Area or the company



can be exempt from CIT if it operates in a Class I Support Area or in the City of Vukovar. Specific conditions must be met in all cases.

Amongst other items, accounting profit needs to be increased for:

- interest on loans provided or guaranteed by a foreign direct shareholder (holding 25% or more of the shares) or by any foreign related party on the amount of the loan that exceeds four times the capital of that foreign shareholder (“thin capitalisation” rule);
- penalty interest between related parties (both domestic and foreign);
- interest over 7% per annum on loans provided by a foreign related party (“excessive interest rate” rule); and
- interest over 7% per annum on loans provided by a domestic related party, if one of the parties is in a tax favourable

position or has tax losses carried forward from previous periods which can be utilised in the current tax period.

The tax period is the calendar year. Corporate income taxpayers pay monthly advance payments based on the previous year’s annual CIT return. Any CIT shortfalls at year end must be self assessed in the annual CIT return and paid by the taxpayer by 30 April of the current year for the previous year, by which date the annual CIT return must be submitted.

There is no separate capital gains tax – any capital gains realised by a company on the disposal of fixed assets and intangibles are added to the company’s tax base and are subject to the standard CIT rate of 20%. On disposal, the seller can deduct the net tax value of the fixed assets and associated disposal expenditures. Taxable income can be reduced by tax losses where they are available for utilisation.

Domestic and foreign dividend income is, generally, not subject to CIT.

There is no tax grouping provision.

There are anti-avoidance provisions, including detailed transfer pricing provisions (which require a transfer pricing study including benchmarking analyses, for all cross border transactions with related parties and for certain domestic transactions between related parties).

Tax Depreciation

Depreciation of tangible and intangible assets is usually calculated on a straight-

line basis using the rates laid down in the Croatian CIT Law. Depreciation of tangible and intangible assets is a tax deductible expense starting from the month following the month in which a particular asset was brought into use. After being completely depreciated, the tangible and intangible assets are kept on record until they are sold, disposed of or found missing. The annual depreciation rates include: 5% for buildings, 25% for equipment and machinery, motor vehicles (other than personal cars) and intangible assets; 20% for personal cars; 50% for IT equipment and mobile phones and 10% for other long-term assets. These rates can be doubled in some cases. Land is not depreciated for tax purposes.

Tax Losses

Tax losses may be carried forward for a maximum of five years starting with the year in which they were occurred, if certain conditions are met. No tax loss carry-back provisions exist.

In the case of mergers and de-mergers, tax losses can be transferred to the legal successor, but only if the legal predecessor is fully in operation and

if the legal successor does not have a significantly different business activity compared to the predecessor, the timeframe being for two years both prior to and after the statutory change. The same applies if there is a change in ownership of the company of more than 50% compared to the ownership structure at the beginning of the tax period.

Thin Capitalisation

Interest on a loan provided or guaranteed by a foreign direct shareholder holding at least 25% of the shares or voting rights in a company or a loan provided or guaranteed by a foreign related party is not deductible for CIT purposes on the amount of the loan which exceeds four times the capital of that foreign shareholder.

The amount of the shareholder's holding in the loan recipient's equity capital is determined for the tax period as an average on the basis of paid-in capital, retained earnings and reserves as at the last day of each month in the tax period.



For loans provided or guaranteed by entities without a direct shareholding in the loan recipient but which are considered to be related to the loan recipient, the equity capital of the foreign direct shareholder is taken into account for thin capitalisation purposes.

The thin capitalisation rule does not apply to loans provided by foreign shareholders and foreign related parties that are financial institutions.

Incentive for reinvested profits under the CPT Law

As of 1 January 2015, profits from the current year used to increase the registered share capital of a company are exempt from corporate profit tax (CPT):

- if the reinvested profits are used to invest in fixed assets in the tax period for which the incentive will be used;
- if the increase of share capital in the amount of the reinvested profits is registered in the Court Register;
- whereby existing jobs need to be preserved for at least two years following the year when the reinvestment of the profit was performed; and
- where the profits were not gained from a bank or a financial institution.

Such companies are required to submit to the Croatian Tax Authority (CTA), together with the tax return, but not later than 6 months from the deadline for filing the tax return, evidence of the increase of the share capital which consists of:

- a list of acquired fixed assets and credible documentation on performed investments in fixed assets;
- evidence that the increase of the share capital in the amount of reinvested profits was registered in the Court Register; and
- a statement that pursuant to the same completed investment in fixed assets the company does not use incentives based on the Law on encouraging investment and improving the investment climate.

The incentive for reinvested profits will be denied if:

- the company's share capital which was increased by reinvested profits is subsequently decreased;
- the share capital of the company is decreased due to statutory changes (e.g. mergers or demergers); or
- the number of employees is decreased before the two year period has lapsed.

WITHHOLDING TAX

Dividends

Withholding tax (WHT) at a rate of 12% applies to payments of dividends and profit shares paid to foreign legal entities made on or after 1 March 2012, but not for payments of dividends and profit shares earned before that date.

The WHT rate may be decreased/ eliminated where an effective double taxation treaty exists to which Croatia is a party. In order for the dividend payment not to be subject to Croatian withholding

tax in line with provisions of a double taxation treaty, the Croatian company – i.e. the payer of such a dividend – would need to obtain in advance of making any dividend payments:

- a Statement of Residence issued by the tax office in the country in which the recipient of the dividend is tax resident – this procedure applies if withholding tax is eliminated (reduced to 0%); or
- a filled in Form for Dividend payments prescribed by the Croatian CIT legislation, stamped/approved by the tax office in the country in which the recipient of the dividend is tax resident – this procedure applies if withholding tax is reduced from the statutory rate of 12% to a lower rate provided for under a double taxation treaty (e.g. 5% or 10%).

Also, dividends paid to shareholder companies that are residents in EU member states or paid to qualifying Swiss companies are exempt from Croatian withholding tax if the shareholder owns at least 10% (for Swiss shareholders at least 25%) of the payer's shares and the shares have been uninterrupted held for at least two years and if certain other conditions are met.

Interest, Royalties and Intangible Services

Withholding tax at a rate of 15% applies to certain payments made to non-resident legal persons (for specified interest payments, payments for intellectual property rights, market research, tax advisory, business advisory and audit services).

Withholding tax at a rate of 20% applies to payments for services, other than the above mentioned services, made to legal persons outside the EU if the legal person has their registered seat or place of effective management and supervision in a country with a CPT rate lower than 12.5%, if Croatia does not have a Double Tax Treaty with that country and if the country is included in the appropriate list published by the Croatian Ministry of Finance.

The WHT rate may be decreased or eliminated in line with an effective double taxation treaty to which Croatia is a party. In order for the interest payment or royalty payment not to be subject to Croatian withholding tax in line with provisions of a double tax treaty, the Croatian company, i.e. the payer of such interest or royalty, would need to obtain the following in advance of making any interest or royalty payments:

- a Statement of Residence issued by the tax office in the country in which the recipient of the interest or royalty is tax resident – this procedure applies if withholding tax is eliminated (reduced to 0%); or
- a filled in Form covering Interest or Royalty payments prescribed by the Croatian CIT legislation, stamped/ approved by the tax office in the country in which the recipient of the interest or royalty is tax resident – this procedure applies if WHT is reduced from the statutory rate of 15% to a lower rate provided for under a double tax treaty (e.g. 5% or 10%).



In addition, interest paid to EU resident companies or to qualifying Swiss companies is exempt from Croatian WHT where a minimum of 25% direct shareholding exists between both companies or where a third company directly owns at least 25% of both companies, provided that the participation is held for an uninterrupted period of at least two years and if certain other conditions are met.

REAL ESTATE TRANSFER TAX AND VALUE ADDED TAX

General Provisions Regarding Real Estate

The following transfers of real estate are subject to VAT (if transferred by a Croatian VAT registered entrepreneur):

- transfers of construction land; and
- transfers of buildings (or parts of buildings) before first occupation or if less than two years have elapsed between the period of first occupation and the date of transfer.

In all other instances RETT applies.

However, in certain circumstances, the transferring party (of both land and buildings) is able to opt for the transfer to be subject to VAT, provided that the transferee is entitled to full input VAT deduction. In this case, the reverse-charge mechanism applies.

Real estate transfer tax at the rate of 5% applies to the transfer of real estate unless the transfer of real estate is subject to VAT. Real estate transfer tax is payable by the purchaser.

Place of Supply of Services

As of Croatian EU accession, Croatian VAT rules regarding the place of supply of services have changed and have been fully aligned with the EU VAT Directive.

Specifically, Croatia has introduced the general B2B (business to business) rule for taxation of services according to which services provided by a taxpayer from one EU member state to a taxpayer

in another EU member state are taxable in the country of the service recipient.

However, in the case of services related to real estate (including renting or leasing), the place of supply is the place where the real estate is located.

VAT Refunds and Domestic Law

Input VAT can generally be recovered if a taxpayer is VAT registered and if the following conditions are met:

- the taxpayer receives a proper VAT invoice from a supplier;
- the delivery of goods (services) took place; and
- the goods (services) are used by the taxpayer for business purposes and for the performance of VAT-able supplies/provisions.

A taxpayer whose input VAT exceeds its VAT liability is entitled to claim a refund of that difference. The refund period is 30 days from the date of submission of the VAT return. If a tax inspection is initiated prior to the receipt of the VAT refund, a refund must be made within 90 days of the day of the start of the tax inspection.

VAT refunds in the periods prior to Croatian EU accession

Prior to Croatian EU accession in order for any non-resident entrepreneur to claim a refund of VAT charged by a Croatian entrepreneur, the reciprocity condition needed to have been confirmed between the country of residence of the non-resident entrepreneur and Croatia. If the reciprocity condition with the country had not been officially confirmed

then resident entrepreneurs of that country were generally not able to recover Croatian VAT. As at 1 January 2014 reciprocity had been confirmed with the following countries: Germany, Slovenia, Switzerland, Serbia, United Kingdom, Poland and Finland.

In order to obtain a refund of Croatian VAT the non-resident entrepreneur must submit a request to the Croatian Tax Authorities no later than six months following the end of the calendar year to which it relates i.e. it has to be submitted by 30 June 2015 for transactions in the year ended 31 December 2014. A request for a VAT refund must be submitted on the prescribed form together with a certificate issued by the tax office of the country of the non-resident entrepreneur stating the VAT status of the claimant and presenting original invoices.

VAT refunds in the periods after Croatian EU accession

1. VAT Refunds for Non-Resident Entrepreneurs from non-EU countries (13th Directive)

In order for non-resident entrepreneurs from non-EU countries to obtain a refund of Croatian VAT, the reciprocity condition needs to be fulfilled.

The same conditions apply as for VAT refunds in the periods prior to Croatian EU accession.

2. VAT Refunds for Non-Resident Entrepreneurs from other EU member states

According to the VAT legislation applicable as of Croatian EU accession, non-resident entrepreneurs from EU member states are entitled to a

refund of VAT charged by Croatian entrepreneurs.

In order to obtain a refund of Croatian VAT, non-resident entrepreneurs from other EU member states must submit an electronic request for a VAT refund by using the electronic portal of the tax office of the EU member state where they are established.

Electronic requests for VAT refunds should be submitted at the latest by 30 September in relation to charges from the previous year, i.e. for the year ending 31 December 2014 the request needs to be submitted at latest by 30 September 2015.

Non-resident entrepreneurs from other EU member states which submit requests for a refund of Croatian VAT are also required to provide an explanation of the business activities and a description of the transactions for which VAT refund is sought, bank account number, etc.

European Sales/Purchases List/ Intrastat

Apart from regular VAT returns, all transactions with taxpayers from EU member states need to be reported on an European Sales List and an European Purchase List. Additionally, all transactions involving goods with taxpayers from EU member states must be reported on Intrastat returns, provided the relevant threshold is reached.

For more information on real estate services in Croatia, please contact:

Paul Suchar

Partner

KPMG in Croatia

Eurotower, Ivana Lucica 2a
Zagreb, 10000
Croatia

T: +385 1 5390 032

M: +385 91 4668 032

E: psuchar@kpmg.com

kpmg.com/hr



Czech Republic

GENERAL

The Czech legal environment has changed significantly following the reform of the civil and commercial law on 1 January 2014. Since the change significantly affected all taxes, taxpayers will still have to pay close attention to particular tax rules to ensure that they are in line with the new civil and commercial laws.

Therefore, in 2015 there will be more onus on unifications and clarifications. Also, the Czech tax authorities are stressing the importance of transfer pricing more than before and new obligations with respect to related party transactions have been brought into effect as of 2015.

The most significant changes as of 1 January 2015 are summarised below.

Income Tax

New rules for the tax treatment of interest free loans have been introduced as of 1 January 2015. The specific tax implications of these rules are currently

being discussed at Czech tax authority level.

New rules for the repayment of share capital and reserve funds have been introduced, whereby repayments may be exempt from Czech taxation under certain conditions.

Individual taxpayers must now also announce exempt income exceeding CZK 5 million to the Czech tax authorities.

It is now obligatory to fill in an Appendix to the corporate income tax return (in which certain related party transactions must be disclosed, e.g. dividends, royalties, interest and management fee payments).

There has also been a change in the definition of funds for which the 5% corporate income tax rate applies. This reduced rate can be applied only if at least 90% of the fund's property is invested in investment securities, market securities etc. In this respect, companies holding only real estate cannot meet the



condition for the fund and thus apply for the reduced rate (i.e. real estate funds may not apply the 5% reduced rate). Also, as of 1 January 2015 a tax rate of 0% now applies to pension funds.

Tax Administration

As of 1 January 2015, it is mandatory for corporations to file all tax returns electronically.

Newly introduced penalties for this are (i) up to CZK 500,000 for failing to comply with the registration, notification, reporting requirements and obligations, (ii) up to CZK 50,000 for breaching the electronic filing obligation, (iii) up to CZK 500,000 for impeding the tax administration.

Value Added Tax

As of 1 January 2015, if a value added tax (VAT) payer makes a payment for delivered goods or services to the Czech bank account of a supplier who is not included in the VAT Payers Register, the limit for the origination of liability decreases from CZK 700,000 to CZK 540,000.

A new reduced rate of 10% was introduced for certain non-durable goods.

As of 1 January 2015, the principle of the VAT treatment of ancillary supplies being closely linked with the VAT treatment of the principal supplies was more clearly incorporated into Czech VAT law with respect to real estate transactions.

More significant changes will come into force as of 1 January 2016.

TAX SUMMARY

CORPORATE INCOME TAX AND CAPITAL GAINS

Corporate income tax (CIT) is levied on profit from all activities (including rental income) and from the management of all types of property, although there are some exceptions to this rule defined in the tax law. The corporate income tax rate is 19% (with the exception of pension fund where it is 0% and investment funds where it is 5%).

Capital gains are generally included in income and taxed at the same rate, including income from the transfer of shares in Czech companies or cooperatives. However, if at least 10% of the shares of a company have been held by a parent company for 12 months, income from the sale of the shares is tax exempt if the parent company is an EU resident company or a resident of Norway or Iceland and the subsidiary is a tax resident of an EU Member State or a non-EU Member State with which the Czech Republic has concluded a double taxation treaty (subject to certain conditions).

As of 1 January 2015, the Czech Republic has 82 double taxation treaties. As a rule,

the right to tax capital gains is conferred on the state where the seller is resident. However, a number of double taxation treaties provide a special regime for capital gains if the shares being sold derive more than 50% of their value directly or indirectly from real estate (e.g. the agreements with Australia, Cyprus, Egypt, Finland, France, Ireland, Canada, Sweden, USA). In such cases, the taxation right belongs to the state where the real estate is located. In other cases the taxation right belongs to the state of residence of the company whose shares are being sold (e.g. under agreements with Germany, Israel and Saudi Arabia).

There are no corporate tax grouping provisions in the Czech Republic.

Tax Depreciation

For tax purposes, either straight-line or reducing balance depreciation can be used. The tax depreciation period for buildings is generally 30 years except for administrative buildings, shopping centres and hotels where the depreciation period is 50 years. Special rates apply in the year of acquisition. Land is not depreciated for tax purposes. Certain assets attached to a building can be treated as separate movable assets for tax purposes and therefore can be depreciated over a shorter period.

Special provisions apply for the assets of solar power plants. These fixed assets must be depreciated over 240 months and the depreciation must be claimed (unlike depreciation on most other assets). Special adjustments are made for similar assets acquired under finance lease agreements.

Tax Losses

Tax losses can be carried forward for five years.

Losses may not be carried forward where there has been a substantial change in the ownership of a company unless it can be shown that at least 80% of the company's revenues are derived from the same activities as those performed in the period when the loss arose. A change of at least 25% in the ownership of the registered capital or the voting rights or a change resulting in a person obtaining a controlling influence in the company is always seen as a substantial change.

Tax losses are available after a merger or de-merger, although they can only be offset against profit if the entity performs the same activity as was carried out in the year when the tax loss arose.

As of 1 January 2015, it is also possible to utilise tax losses taken over during chain mergers or de-mergers.

Thin Capitalisation

The thin capitalisation provisions act to restrict the deductibility of interest where the borrower has insufficient equity.

The following financial costs are non-deductible:

- financial expenses on loans and credit received from related parties which are more than four times the equity (six times in the case of banks and insurance companies);
- financial expenses incurred on loans and credit with interest rates or other returns dependent on the debtor's profit levels.



Interest on loans and credits received from unrelated parties including those secured by a related party, is fully deductible on general principles, except for interest on “back-to-back” loans (i.e. where a related party provides a loan, credit or deposit to an unrelated party which then provides the funds to the borrower) which is treated as interest on related party debt.

Any interest or other expenses relating to a non-EU or non-EEA resident lender which is disallowed under the thin capitalisation rules may be treated as a dividend, i.e. it is subject to dividend withholding tax (WHT), reduced by the provisions of any applicable double taxation agreement.

WITHHOLDING TAX

Under Czech tax legislation, a 15% WHT applies to dividends, as well as to interest and royalties paid to foreign entities. However, a 5% WHT applies on finance lease payments. The rate may be reduced or eliminated under double tax treaties or under EU Directives. On the other hand, an increased 35% WHT rate applies to income paid to residents of countries which have not signed a double tax treaty with the Czech Republic and where no arrangement is in place for the exchange of information on tax matters.

Dividends

Withholding tax applies on all dividends paid by Czech companies.

Under the EU Parent/Subsidiary Directive, a dividend paid by a Czech subsidiary to a parent company that is tax resident in an EU member state may be exempt from WHT. These provisions also apply to dividends paid between Czech companies and those paid to Switzerland, Norway and Iceland. A parent and subsidiary qualify for this exemption if a minimum shareholding of 10% is maintained for an uninterrupted period of 12 months unless one of the shareholders in question:

- is exempt from corporate income (or a similar) tax; or
- may claim a corporate income tax exemption or corporate income tax relief; or
- is subject to corporate income tax at a rate of 0%.

Interest and Royalties

Under the EU Interest and Royalties Directive, qualifying interest and royalty payments between associated enterprises which are tax resident in EU member states may be exempt from WHT.

This also applies to recipients in Switzerland, Norway and Iceland.

Residents of other EU and EEA countries have the option to file a tax return for income subject to WHT (e.g. interest payments, royalties, income from freelance work), and to claim a deduction of the related expenses. This may result in a reduction in the tax burden as WHT is calculated on a gross basis.

TAX ON IMMOVABLE PROPERTY

The tax on immovable property (formerly real estate tax) comprises land tax and building tax. The property must be located in the Czech Republic and recorded in the Land Register. The real estate tax is calculated by multiplying the area in square metres by the tax rate factor.

The rate varies according to the type and location of the property. The basic rates of tax applicable to buildings may be increased depending on the number of floors, the prevailing activity for which the building is used and the location. Municipalities can also issue a decree increasing the basic tax rate or coefficient.

Improved land surfaces are regarded as a separate class of real estate on which a special rate of tax applies.

TAX ON THE ACQUISITION OF IMMOVABLE PROPERTY

With effect from 1 January 2014, a new tax replaced the former real estate transfer tax (although the tax rate of 4% remains the same). The tax is payable on transfers of the ownership of real estate for consideration. In cases of purchases and exchanges, the tax is paid by the

transferring party (seller) unless the parties agree that the acquirer will pay.

The tax base is the higher of the agreed price and the reference value. The reference value is calculated by tax authorities based on prices for similar transactions. If the tax authorities cannot calculate a reference value, the tax base is the higher of the agreed price and 75% of the value assessed by an expert. If real estate is transferred as part of an enterprise, the tax base is based on an expert valuation.

The contribution of real estate to share capital is no longer tax exempt.

VALUE ADDED TAX

The standard rate is 21%, the first reduced VAT rate is 15% and the second reduced rate is 10%.

The sale of residential property that qualifies as social housing is subject to the reduced VAT rate. To qualify as social housing, an apartment should have a floor area of 120 square metres or less and the floor area of houses should not exceed 350 square metres. As of 1 January 2015, a new methodology for calculating specified floor-areas has been introduced, such areas will now also include the area physically beneath the walls.

According to the new Civil Code, a building is an integral part of the land on which it stands. Therefore, it is no longer possible to treat the sale of land with a building on it as two separate transactions for VAT purposes and the whole transaction is considered as a sale of land even if the price is split into two parts.

In principle, the sale of land with a building on it is considered as a transaction subject to the standard VAT rate of 21% unless five years have passed from the date when the first consent to use the building was granted or from the date when the building was brought into use. A three year period applies for buildings for which consent was granted or for buildings which were first used before 1 January 2013. However, the taxpayer can opt to tax the sale of the land and/or building after expiry of the period.

A change in the level of exempt sales within ten years of acquisition of the building may lead to a claw back of previously recovered input VAT. A claw back period of five years is applicable to buildings acquired before 1 March 2011.

The lease of buildings and land is generally VAT exempt but the lessor can opt to charge 21% VAT on a lease with a tenant who is registered for VAT.

Groups of related companies may form a VAT group.

Construction work and building assembly services between two Czech VAT paying entities are subject to the “reverse charge” regime. As a result, the duty to report and pay VAT rests with the recipient of the service.

As of 1 January 2015, the principle whereby the VAT treatment of ancillary supplies is closely linked with the VAT treatment of the principal supplies was more clearly incorporated into the Czech VAT law with respect to the real estate transactions.

ADMINISTRATION OF TAXES

Tax administration is governed mainly by the Tax Code with specific procedures covered by other legislation.

For more information on real estate services in the Czech Republic, please contact:

Petr Toman

Partner

KPMG in the Czech Republic

Pobrezni 1a

186 00 Praha 8

Czech Republic

T: +420 222 123 602

F: +420 222 123 446

E: ptoman@kpmg.cz

kpmg.com/cz

The image features a stylized graphic on the left side, consisting of a blue and black flag with a white and purple section at the bottom. The word "Estonia" is written in white on the purple section. To the right of this graphic is a photograph of a cityscape, likely Tallinn, showing red-tiled roofs, a large church with a tall spire, and a body of water in the background.

Estonia

GENERAL

The sale of immovable property and the leasing or letting of immovable property or parts of them are generally tax exempt when arranged as supply without credit according to the Estonian value added tax (VAT) Act. Tax exemption applies neither for the supply of buildings before their first occupation nor for their parts nor for significantly renovated buildings (nor their parts) nor for plots within the meaning of the Planning Act, as long as there is no construction work in operation on such plots.

However, the taxpayer is entitled to use optional taxation, except for in the case of residential housing, as long as the tax authorities have been notified in writing beforehand. The notice regarding optional taxation of the leasing or letting of immovable property or parts thereof is binding for two years.

The corporate tax system in Estonia differs from that used by many countries, in that corporate income is taxable only upon distribution in the form of a dividend.

CORPORATE INCOME TAX AND CAPITAL GAINS

The corporate tax system in Estonia differs from that used by many countries, in that corporate income is taxable only upon distribution. The profits earned and retained by a company are not subject to taxation. The income tax rate for 2015 on gross dividends is 20%, although the tax is calculated on the net amount of dividends by applying a proportional tax rate of 20/80. Thus a company not distributing profit is not obliged to pay income tax. Taxable expenses and payments are taxed at the rate of 20/80 as well.

There is no separate tax on capital gains, but proceeds from the disposal of fixed assets and intangibles are added to the taxpayer's regular business income, so that corporate income is taxable only upon distribution in the form of a dividend.

A non-resident is obliged to pay income tax on income derived from the transfer of property if the immovable property is



located in Estonia. In addition, income from the transfer of a shareholding in a real estate company or of the right of claim or real right related to real estate located in Estonia is subject to taxation. Generally, the tax treaties concluded between Estonia and other countries grant the right of taxation of real estate or rights related to real estate to the country where the real estate is located.

Tax Depreciation

As Estonian companies pay income tax upon distribution of profit, corporate income tax depreciation is not relevant in Estonia.

Tax Losses

Tax losses are not recognised nor do they have any effect on corporate taxation.

Thin Capitalisation

There are currently no thin capitalisation regulations in Estonia.

WITHHOLDING TAX

Dividends

There is no withholding tax (WHT) on dividends.

Interest, Royalties and Intangible Services

Interest

From 2014, income tax is charged on interest received from the holding (in a contractual investment fund or other pool) of assets, where no less than 50% of the property part of those assets, at the time of the transfer or for up to two years prior to the transfer, was or is directly or indirectly made up of immovable real estate or movable structures located in Estonia and in which the non-resident had a holding of at least 10% at the time of transfer.

Previously income tax of 21% had to be withheld on interest paid to a resident individual, interest that corresponded to the market interest paid to a non-resident or a resident company was generally exempt from taxation. Furthermore, tax was levied at 21% for above-market-value income tax interest paid to a non-resident but from 2014, such liabilities will be taxed according to transfer pricing rules.

Royalties

Patent royalties, including payments for the use of commercial, scientific or industrial equipment, paid by resident companies to non-resident ones are subject to income tax withholding. The rate is 10%, unless a treaty provides for a lower rate. However, in order to apply the treaty rates, the payer should hold a certificate of tax residence in the name of the recipient party.

Under the domestic law implementing the provisions of the EU Interest and Royalties Directive and the EU-Switzerland Savings Agreement, outbound royalty payments are exempt from WHT, provided that the recipient company is an associated

company of the paying company and is resident in another EU Member State or in Switzerland, or if such a company's permanent establishment is situated in another Member State or in Switzerland. Two companies are "associated companies" if one of the following conditions is met:

- one of them directly holds at least 25% of the capital of the other; or
- a third EU or Swiss company directly holds at least 25% of the capital of the two companies.

In both cases, a minimum holding period of two years is required. The exemption is not granted if the payment in question exceeds a similar payment between non-associated entities.

Intangible Services

A 10% WHT rate applies to fees paid to a non-resident for services rendered in Estonia. The tax rate is reduced to 0% under any double taxation treaty to which Estonia is a party. However, in order to apply the treaty rates, the payer should hold a certificate of tax residence in the name of the recipient.

Fees paid to companies resident in low-tax territories for services rendered to an Estonian resident are subject to a 20% WHT irrespective of where the services were provided or used.

A 20% WHT rate applies to rental payments made to non-residents and resident individuals.

REAL ESTATE TAX

The only property tax imposed in Estonia is land tax. Taxable persons are the

owners or, in specific circumstances, the users of land. Tax is levied on the market value of all land unless specific exemptions apply. The tax rate is established by the municipal council and may vary between 0.1% and 2.5% of the taxable value of the land. Land beneath or directly around a domestic residence is tax exempt.

TAX ON CIVIL LAW TRANSACTIONS (PCC, TRANSFER TAX)

Transactions involving immovable property are subject to a state fee the amount of which depends on the value of the transaction. For transactions of more than EUR 639,116.48, the fee is fixed at 0.16% of the value, up to a maximum value of EUR 2,556.46.

VALUE ADDED TAX

General Provisions Regarding Real Estate

The sale of immovable property and the leasing or letting of immovable property or parts thereof are generally tax exempt if they are supplies without credit. Tax exemption does not apply for the supply before the first occupation of buildings or their parts or for significantly renovated buildings or their parts or for plots if there are no construction works on such plots.

However, the taxpayer can opt to charge/pay VAT, except in the cases of residential housing, as long as the tax authorities have been notified in writing beforehand. The notice regarding optional taxation of the leasing or letting of immovable property or parts thereof is binding for two years.

The standard VAT rate in Estonia is 20% (for land and building sales) and 9% (for accommodation services).



Place of Supply

Generally, the place of supply of services to a taxpayer registered for VAT purposes in another EU country is the place where the purchaser is registered. Services provided to a third country taxable person are subject to taxation in the country where the purchaser has established its business. In cases where the services are provided to a non-business entity, the place of supply of services is usually where the service provider was originally registered.

However, in the case of services that are regarded as services related to real estate, the place of supply of such services is where the real estate is situated. Also, the supply of immovable property is taxable in the country where the real estate is situated.

Registration of a Foreign Person for VAT Purposes in Estonia

If a foreign person who is not registered for VAT purposes in Estonia performs a VAT taxable supply in Estonia, the person is required to register in Estonia for VAT purposes if:

- the foreign person has no fixed establishment in Estonia and no tax is payable upon the acquisition of goods by an Estonian customer; or
- the foreign person has a fixed establishment which intervenes/ participates in the supply in Estonia and where supplies during a calendar year exceed the threshold of EUR 16,000, excluding the transfer of fixed assets.

The foreign person is required to submit an application for registration for VAT purposes to the tax authority within three working days as of the date on which the registration obligation arises.

Value Added Tax Returns and EC Sales List

Estonian VAT payers submit VAT returns and EC Sales Lists monthly. The EC Sales List includes data on supplies of goods and services to VAT registered persons in other EU countries, i.e. supplies which are subject to taxation in the buyer's country under the so called reverse-charge mechanism. Services related to real estate

in Estonia are subject to Estonian VAT and therefore are not to be reported in the EC Sales List.

VAT returns and the EC Sales List should be filed by the 20th day of the following month.

VAT Refunding under Domestic Law

If VAT calculated by the Estonian taxpayer during a taxable period is less than the amount of deductible input VAT in the same period, the overpaid amount of VAT is refundable to the taxpayer. The standard refund period is 30 days.

The tax authority may, in connection with checking a claim for refund, extend the term for fulfilment of the claim by a reasoned decision for up to 90 calendar days if there is reason to believe that it may be impossible to reclaim the sum paid upon satisfaction of the claim for refund. The term for fulfilling a claim for refund may be extended for up to 30 calendar days at a time.

There is no right of deduction if the taxable person paid the input VAT when paying for goods or services relating to the reception of guests, or the provision of meals or accommodation for employees of the taxable person.

This provision does not apply to the deduction of input VAT which is paid for accommodation services received during a business trip. In addition, there is no right to deduct input VAT on purchases directly related to exempt supplying or purchasing of items for non-business use.

Foreign VAT Refund under Directive 2008/9/EC

Since 1 January 2010, foreign persons may claim input VAT incurred in Estonia by filling in reclaim forms obtainable electronically from the local VAT authority (where a company is registered). Value added tax refund applications have to be filed electronically. The Estonian Tax Authority notifies relevant parties of the acceptance or rejection of the application within four months or, upon the request of additional information – e.g. an invoice or import documentation – within six months of the receipt of the application. Upon request of further additional information, the tax authority notifies applicants of the decision concerning the refund of VAT within eight months of the receipt of the application.

For more information on real estate services in Estonia, please contact:

Steve Austwick

Partner, Head of Tax and Legal Services
KPMG in the Baltics

KPMG in the Baltics and Belarus

Vesetas iela 7
Riga, LV1013
Latvia
T: +371 6703 8000
F: +371 6703 8002
E: saustwick@kpmg.com

kpmg.com/ee



Photo: Jarek Joepera



Hungary

GENERAL

In Hungary, as of 2012, the value added tax (VAT) rate was increased to 27% (up from the previous 25%). As a main rule, real estate rental and the sale of real estate older than two years are exempt from VAT, but VAT-able treatment may be opted for upon the taxpayer's request. In the case of opting for VAT-able treatment, the real estate rental is VAT-able according to the general rules, while the sale of real estate (older than two years) can be VAT-able under the rules of the established domestic reverse charge mechanism.

The share purchase is VAT exempt; however, under certain circumstances, the purchase of shares (in real estate owning companies) may be subject to transfer tax and the capital gain achieved by foreign entities via selling the shares in real estate companies may be subject to Hungarian corporate income tax (CIT).

Since 2011, a new Real Estate Investment Trust (REIT) regime has been introduced, under which CIT and local business tax exemption is available for entities fulfilling the relevant conditions.

CORPORATE INCOME TAX

Rental Income

Effective since summer 2010, rental income is subject to 10% corporate income tax up to a tax base of HUF 500 million, and at 19% above this threshold.

With respect to tax deductible items, only costs and expenditures which are not related to the core business activity of a company are not deductible in Hungary for corporate income tax purposes. With respect to "normal" business costs, there is no specific limitation. Availability of robust and complete documentation is important to support the tax deductibility of business costs.

Certain consulting and financing expenses (e.g. interest) which relate directly to units of property prior to capitalising the asset should be taken into account and capitalised as part of the investment value. The amounts spent on future reconstruction/enlargement costs may also be capitalised as part of the real estate.



Tax Depreciation

In the case of buildings, generally 2% per annum depreciation is acceptable according to the corporate income tax regulations. In the case of real estate subject to rental, the accepted depreciation rate is 5% per annum. The value of land cannot be depreciated.

Thin Capitalisation

Interest payments are tax deductible in Hungary. However, thin capitalisation rules should be taken into account. The Hungarian thin capitalisation regulations provide for a debt to equity ratio of 3:1. Loans from financial institutions, even if related, are excluded from the calculation. Effective from 2012, interest-free related party loans should also be calculated as part of the average daily loan amount. However, since 2012, it has been possible to reduce the amount of liabilities by the amount transferred as a loan and shown in the balance sheet as a money claim among long-term financial investments, receivables or securities. Since 2013 it has also been clarified that accounts payable and receivable related to goods and services (even if subject to transfer

pricing correction) should not be included in the thin capitalisation calculation.

Minimum Income (or Minimum Tax Base)

Resident taxpayers and foreign entrepreneurs (PE's) can be subject to corporate income tax even if their taxable base for corporate income tax purposes is negative. The minimum tax base is 2% of total revenues modified by certain items e.g. relating to preferential transactions; but these cannot be decreased by the cost of goods sold or services intermediated from 1 January 2015. If the higher of the tax base or the accounting pre-tax profit does not reach the minimum tax base, then the minimum tax base should be considered as the tax base.

However, taxpayers may choose not to pay the tax on the minimum tax base even if they were obliged to based on the above calculation, but they can elect to file a specific declaration to the tax authorities stating that their tax base did not reach the required minimum income level. The tax authorities specifically focus on those companies which file such a declaration when they decide whom to audit.

The minimum tax base rule does not apply in the year of foundation, nor in cases where certain natural disasters have caused a loss.

Loss Carry Forwards

As from 1 January 2015, a general 5-year time limitation has been introduced in the case of tax losses arising in 2015 or later. Tax losses arising up until 2014 may be utilised (by applying the rules in force on 31 December 2014) until the end of the tax year but no later than in 2025.

From 2010 no permission needs to be obtained from the tax authority in order to carry forward losses.¹ Since 1 January 2010 (and in some cases for 2009) financial institutions have also been able to carry forward losses.

As of 2012, losses carried forward from previous periods may only offset half the positive tax base (calculated without the utilised loss). Accordingly, the effective utilisation of losses is expected to cover double the timeframe previously seen as necessary.

Effective from 1 January 2012, in the case of a transformation, available losses may be utilised if, as a result of the transformation, no new majority shareholder is introduced in relation to the company and where income would be realised at least from one of the activities (not including holding activities) performed by the predecessor over the following two tax years commencing from the date of transformation.

From 2013, if the successor is terminated without legal succession or if the predecessor's activities include significant holding activities, this requirement for realising revenue is not applicable. As of 1 January 2014, in the case of a merger, the successor will be entitled to utilise the losses arising at the predecessor in the tax year of the merger first in its tax year including the day of the merger. This rule can already be applied with regard to 2013.

Furthermore, losses carried forward cannot be utilised if majority interest is acquired in a company where the parties were not affiliated in the two tax years prior to the acquisition. This prohibition should not be applied if a portion of the shares of the acquirer or acquired company was introduced to a recognised stock exchange prior to the acquisition or if the business activity of the acquired company will be continued after the acquisition over the next two tax years commencing from the date of acquisition (except if the company is liquidated without legal succession), and if the acquiring company will realise income from this activity and where the activity will not be significantly changed.

As of 1 January 2015 there is a further restriction that only losses acquired may be utilised by the successor which are attributable to the original activity. A proportional adjustment should be made if new activities are pursued. This provision may be ignored if the predecessor's sole business was asset management.

WITHHOLDING TAX

Withholding tax (WHT) rules were discontinued on 1 January 2011.²

VALUE ADDED TAX

Since 2008, the VAT treatment on the sale of buildings has depended on the wish of the taxpayer. The sale is subject to VAT if the transaction occurs:

1) before the first occupation; or

¹ Before that, if the taxpayer had a negative profit before establishment of its tax position and had tax losses for two consecutive years (after the initial start-up period), or the total revenue of the company in the tax year did not exceed 50% of the total costs and expenses, then the carrying forward of losses was subject to the granting of permission from the tax authority.

² Between 1 January 2010 and 31 December 2010 withholding tax at a rate of 30% was payable on royalties, interest and certain service fee payments granted to foreign entities. Exemption from WHT was only possible for foreign companies that were tax residents in countries having a double taxation treaty with Hungary. Having only their seat in such countries was not sufficient for exemption.

2) after the first occupation, but less than two years have elapsed between the date of the occupancy permit and the date of sale. In the case of sales after two years of the issuance of the occupancy permit, the VAT treatment is optional for the taxpayer. After choosing either VAT-charging or VAT exempt status, the taxpayer has to retain that choice for five years.

If choosing VAT charging status, the taxpayer has to notify the tax authority by the end of the preceding tax year. Since 1 January 2010 the taxpayer has been able to choose to apply VAT charging status only for the sales of non-residential real estate.

Rental activity is exempt from Hungarian VAT, but there is a taxpayer option to charge the standard 27% VAT on rental fees. Since 2008, the VAT status of residential and non-residential real estate rental could be treated separately.

The VAT exempt method allows entities not to charge VAT on property rental – however, in that case, input VAT cannot be deducted or reclaimed. Companies have to submit a request to the Tax Authority by a statutory deadline if they wish to apply standard rated VAT. If such a choice is made, the VAT treatment of the rental activity cannot be changed for five years.

The domestic reverse charge system is applicable in cases of construction and other real estate related services, thereby reducing VAT financing costs. Since 1 May 2008 services that are provided in relation to real estate and which are eligible for official permits also fall under this rule. From 1 January 2015, the domestic reverse charge scheme is

broadened to staff leasing and employee leasing.

As of 1 January 2016, the regulations in connection with periodic settlements ('continuous performance') will change. The date of the performance of business transactions subject to the rules of periodic settlement will be the closing day of the settlement period as opposed to the currently applicable due date of payment.

The new regulation will be applicable for settlement periods commencing after 31 December 2015 as long as the due date of payments also falls after 31 December 2015. This will mean an additional administration burden for the taxpayers as they will need to pay attention to their periodic settlements after that date. In contrast to the general rule, two additional special regulations will be introduced as of 30 June 2015 regarding auditing, bookkeeping and tax advisory services, while in cases of other services it will be applied as of 1 January 2016:

- if the date of issuing an invoice and the due date of payment occur before the last day of the period, then the date of issuing the invoice is the date of supply;
- if the due date of payment occurs after the last day of the period, then the date of supply is the due date of payment, but not later than the 30th day following the last day of the period.

In addition, as the term "periodic settlement" will also be re-defined, it might also be important to review whether the business transactions treated previously in compliance with the rules of "settlement for a fixed period" or

“installment payment” still fall under the rules of “periodic settlement” in light of the new system of concepts.

According to the changes which came into effect on 1 October 2014, all taxpayers with Hungarian VAT numbers are obliged to report to the Hungarian Tax Authority details about which invoicing software they use, by submitting a special form.

LOCAL BUSINESS TAX

If real estate is recognised as stock in the books of a company at the time of an asset deal, local business tax should be paid; the maximum tax rate is 2%. Rental income is also subject to local business tax. In order to calculate the amount of the local business tax base, the cost of goods sold, the amount of mediated services, the value of services provided by subcontractors, material costs and direct R&D costs can be deducted from the net sales revenue.

Effective from 1 January 2013, the deductible value of the cost of goods sold and mediated services will be limited for local business tax base calculation purposes for entities with annual net sales revenue of over HUF 500 million. Net sales revenue ranges have been determined where certain proportions of the cost of goods sold and mediated services are allowed to be deducted, limited to decreasing percentages of the revenue (the following thresholds have been introduced in the revenue ranges: up to HUF 500 million: 100%; HUF 500 million to HUF 20 billion: 85%, HUF 20 billion to HUF 80 billion: 75%, over HUF 80 billion: 70% will be applicable).

The cost of goods sold and mediated services relating to export sales revenue will continue to be 100% deductible.

A consolidated local business tax base establishing method has been introduced for taxpayers qualified as related parties for corporate income tax purposes. When determining the local business tax base, the figures for the related parties need to be taken into account proportionally, based on the period of the existence of the related party status.

Please note that local business tax amounts are deductible from the corporate tax base only once as of 1 January 2010. As part of pre-tax profit, it is accounted as a cost under Hungarian GAAP.³

CAPITAL GAINS ON SHARE DEALS

If the shares of a Hungarian entity are sold by a non-Hungarian entity, the gain is not taxable in Hungary. However, such capital gains are taxable in Hungary from 1 January 2010 if shares of a real estate company are transferred. A company will be considered to be a “real estate company” if the following requirements are met:

- 1) more than 75% of its total assets on a consolidated and/or stand-alone basis are real estate units located in Hungary; and
- 2) at least one of its shareholders is resident in a state with which Hungary has not concluded a double taxation treaty, or in a state where the double taxation treaty allows such gains to be taxed in Hungary.

³ Until 2009 this could be deducted from the corporate tax base as well, if a company did not have unpaid tax liabilities at the end of the tax year. This additional deduction was capped by the amount of the positive pre-tax profit under Hungarian GAAP.

As of 1 January 2014, to determine whether a company qualifies as a real estate holding company, the book value of the real estate units should be considered instead of their market value effective on the balance sheet data.

According to the Act, tax liability for shareholders of a real estate company will arise when the shareholder sells, provides free of charge or as an in-kind contribution the shares of such a company to another party. The tax base will be the difference between the income from the sale of the shares and the acquisition costs including expenses related to the shares during the shareholding period.

The tax rate will be 19% (in accordance with the law, the reduced rate may not be applied).⁴ Deciding whether or not a taxpayer qualifies as a real estate company could give rise to considerable administrative work. A further complicating factor is that the real estate of affiliated undertakings has to be considered too.

ASSET DEALS

If real estate is sold as an asset, the gain is subject to corporate income tax as part of the normal tax base at a rate of 10% up to a tax base of HUF 500 million, and at 19% above this threshold.

PROPERTY TAX

Hungarian companies may be subject to local land tax or local building tax.

The maximum rate of local building tax may be 3.6% of the fair market value of the building owned or HUF 1,100 per square metre (approximately EUR 3.5 per square

metre). The maximum rate of local land tax may be 3% of the market value of the plot or HUF 200 per square metre of land (i.e. approximately EUR 1 per square metre). The applied method of tax base calculation depends on the local municipality.⁵

The tax liability arising is paid in two instalments (whose deadlines are 15 March and 15 September). This tax may be levied by the local municipalities at their own discretion.

REAL ESTATE TRANSFER TAX

Until 2010, by purchasing the shares of a Hungarian entity, no VAT or real estate transfer tax (RETT) liability would arise in connection with the transaction. Only minor procedural costs would be payable to the Company Court to register new shareholders.

However, since 1 January 2010, transfer tax liability has been payable in cases of the acquisition of shares of real estate owning companies. The liability arises at the time when the direct or indirect ownership of the real estate owning company reaches 75%. Different conditions applied from July 2011 until 31 December 2013.

However, from January 2014, the definition of the real estate holding company was amended similarly to the Act on CIT. According to this, a company qualifies as a real estate holding company,

- if the book value of the real estate presented in the balance sheet reaches 75% of the total assets, or

⁴ According to the interpretation of the legislators, the reduced rate is applicable also to the owner of the real estate company, although the legislation has not yet been amended accordingly.

⁵ Please note that the above maximum rates may be modified by changes in the consumer price index. For 2015 the maximum rate of building tax is HUF 1,852 per m² and the maximum rate of land tax is HUF 336 per m².

- if the entity owns 75% shares (directly or indirectly) in another company which has a real estate to total assets ratio of 75%.

From January 2015, beside cash and financial claims, the accrued assets and loans should not be considered when calculating the amount of total assets either. In addition, an important change is that the acquisition of shares in real estate holding companies is subject to transfer tax payment liability irrespectively of the company's main activity indicated in the company register.

In the case of acquisitions of real estate in Hungary, the buyer is liable to pay stamp duty on the property, based on the market price of the property. It is important to note that based on a recent court case, the basis of the stamp duty liability should be the market value exclusive of VAT.

The standard rate of stamp duty is 4%, for the acquisition of real estate property or shares of a real estate owning company 4% up to HUF 1 billion of the value of the real estate, and 2% for the value above that, but with the maximum stamp duty liability of HUF 200 million per unit of real estate.

Furthermore, the transfer of real estate and the transfer of shares in a real estate holding company between related parties is exempted from transfer duty under certain conditions.

In special cases, lower stamp duty may be applicable:

- The stamp duty rate is 2% if the purpose of the acquisition of the property is resale/finance leasing and in the year prior to the purchase, more than 50% of the buyer's sales revenue

arose from the resale of property/finance leasing, or if the buyer is licensed by the Hungarian Financial Supervisory Authority to perform financial leasing. Moreover the buyer must declare that the property will be either sold within two years, or leased, with the condition that the lessee would eventually buy the property.

- Until 2013, the stamp duty rate in the case of residential properties was only 2% up to a maximum of HUF 4 million, but from January 2013, the favourable rate was abolished and the standard rate is now applicable.
- With regard to plots of land, if the buyer of the plot makes a declaration that he will build residential property on the purchased plot within four years, stamp duty exemption may be obtained (as long as the four-year deadline is met).

REAL ESTATE INVESTMENT TRUST

A new Real Estate Investment Trust (REIT) regime was introduced in 2011. Public limited companies with a minimum starting capital of HUF 10 billion, registered (at the request of the company) with the Tax Authority are eligible for REIT status if the conditions set by the legislation are met.

The activities of a REIT entity or its 100% subsidiary project companies (SPV) are limited to the following, within and outside the territory of Hungary:

- sale of one's own real estate;
- rental and operation of one's own real estate;
- property management; or

- asset management.

The main advantages of a Hungarian REIT are the following:

- A corporate income tax exemption is available for the REIT and at SPV level (including gains on asset deals).
- Exemption from local business tax at REIT and SPV levels (including gains on asset deals) is introduced.
- The transfer tax rate is 2% (although with no upper cap).
- The SPV can have its seat outside of Hungary.
- The current SPV entities may be converted into a REIT in a tax neutral way (including transfer tax exemption).
- The REIT entity is able to hold shares in a project company.

Limitations and obligations regarding the operation of a REIT:

- REIT entities have an obligation to dividend out 90%, or for SPVs 100% of their profits each year. As of 2014, if the free liquid assets of the company do not reach the profit after tax to be paid as dividend then the company has to pay 90% of its free liquid assets as dividend.
- A starting capital of HUF 10 billion is required.
- At least 25% of the shares must be traded in controlled financial markets (i.e. certain defined stock exchanges); and would have to be owned by minority shareholders (below 5% each).

- Share acquisition by banks and insurance companies would be limited to 10% in a REIT.
- The entity should follow strict registration obligations administered by the Tax Authority.
- The total debt to properties ratio would be a maximum of 65% for REITs, and 70% for SPVs.
- None of the real estates' or REIT ownerships' value can exceed 20% of the balance sheet total.
- A compulsory quarterly market valuation of the property portfolio is required.

Further Notes

- Since 9 July 2009, loan debt assumptions have been considered as exempt from gift duty if the assumption is carried out between two legal entities. Before that time they were subject to gift duty of 40%.

For more information on real estate services in Hungary, please contact:

Gabor Beer
Partner

KPMG in Hungary

Váci ut 31
Budapest, 1134
Hungary

T: +36 1 887 7329

E: gabor.beer@kpmg.hu

kpmg.com/hu



Latvia

GENERAL

Value added tax (VAT) for construction services supplied inland in Latvia is paid by the receiver of the construction services (i.e. the reverse charge mechanism is applied) if both the supplier and the receiver of the services are taxable persons.

Construction services are defined as construction work performed in order to build a new building or renovate, reconstruct, conserve or tear down a building or a part of it. Construction work also includes, inter alia, preparation of a building site, interior decoration work, installation of constructions with or without delivery, cleaning up of the building site, etc. Payment for construction services has to be made by a non-cash transfer.

CORPORATE INCOME TAX AND CAPITAL GAINS TAX

Generally, corporate income tax (CIT) in Latvia is levied on all taxable income, with some exceptions. CIT of 15% is payable on income which is computed as taxable

revenues reduced by eligible costs which were incurred to generate these revenues or to retain or secure a source of a taxable revenue.

There is no separate capital gains tax, but gains from the disposal of fixed assets and intangibles are added to the taxpayer's mainstream income (gains from the sale of real estate property are taxed at the regular 15% CIT rate). For the seller, profit on the sale of assets is added to the standard income subject to corporate income tax at normal rates. On disposal, the taxpayer can deduct the net tax value of the assets and associated disposal expenditures. Taxable income can be reduced by the value of tax losses available for utilisation.

According to Latvian CIT Law, 2% is payable from the proceeds received by a non-resident from the sale of real estate located in Latvia. Proceeds also include income from the sale of shares of a Latvian company if in the period when the property is sold, or in the previous taxation period more than 50% from



that entity's assets directly or indirectly consisted of real estate located in Latvia. The real estate proportion is determined based on the company's balance sheet at the beginning of the taxation period.

Tax Depreciation

Depreciation rates are laid down in the CIT Law and are 10% for buildings and constructions and 40% for incorporated plant and machinery, all on a reducing balance basis.

Tax Losses

Tax losses can be carried forward for up to eight years if they were incurred up to 2007. Losses correctly calculated and incurred from 2008 onwards can be carried forward for an unlimited period of time. Taxpayers registered in Special Economic Zones can carry forward the losses incurred since 2005 for an unlimited period of time.

Thin Capitalisation

Interest payments may be deducted from a company's taxable income; however, the deductible amount is restricted.

There are no deduction restrictions if the interest is paid to a Latvian or an EU registered credit institution, or on funds borrowed from a credit institution in a country with which Latvia has concluded a double taxation treaty.

According to the thin capitalisation rules, two calculations for determining the deductible amount of interest must be made. The calculation of deductible interest must be made on an annual basis.

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 last month of the taxation period as determined by the Bank of Latvia.

If the interest payment for the tax year exceeds this amount, the excess is not deductible for taxation purposes.

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 a company's equity as stated in its annual accounts at the beginning of the year, reduced by any amounts that are long-term investment revaluation reserves or other reserves that have not been reflected in the official profit and loss statement. Interest on "profit participating loans" is deductible with the same limits. The higher disallowance is applied.

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

Dividends

There is no withholding tax (WHT) on dividend payments made by a Latvian resident to a non-resident. Withholding tax of 15% is applicable to dividends which the Latvian resident pays to a non-resident established in a jurisdiction with low or zero taxes.

Regardless of the level of ownership, dividends received are tax exempt except for dividends paid by a Latvian company which utilises some form of corporate income tax relief, or if the payer of dividend is from a low tax or zero tax country or territory.

Other Withholding Taxes

Latvia imposes withholding taxes on the following payments made to non-resident entities:

- management and consulting services: 10%;

- payments for the use of fixed or movable property in Latvia: 5%;
- payments of interest by Latvian commercial banks to recipients in low or zero tax countries.

Withholding tax rates may be reduced in line with double taxation treaties to which Latvia is a party.

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 zero tax countries and territories designated by the Latvian government. The tax authorities may waive this payment requirement if certain conditions are met.

REAL ESTATE TAX

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



Municipalities have the right to set the rate of property tax between 0.2% and 3% of a property's cadastral value. A tax rate of more than 1.5% of the property's cadastral value may be set only in cases where the property is not being managed properly. If a municipality had not published binding regulations on property tax rates up until 1 November of the previous taxation period, the following tax rates are applicable:

- for property and land used for business activities and also for engineering or technical buildings: 1.5% of the cadastral value of the property;
- for agricultural land not currently used for agricultural purposes: 3% of the cadastral value;
- for houses, apartments for inhabitants and additional premises (garages, storage rooms, etc.) not used for business purposes, then the following:
 - 0.2% of the cadastral value if it does not exceed EUR 56,900;
 - 0.4% of the amount of the cadastral value from EUR 56,900 to EUR 106,700;
 - 0.6% of the amount of the cadastral value which exceeds EUR 106,700.

The minimum tax payment from each taxpayer to a particular municipality is EUR 7.

- For houses and apartments that belong to legal entities and which are not leased out to an individual: 1.5%;
- for engineering constructions that are taxable with real estate tax but are not registered in the information system of the State Cadastre of Immovable Property: 1.5% (from 1 July 2012);
- for completed buildings which are in use but have not been formally commissioned – 3%.

TAX ON CIVIL LAW TRANSACTIONS (Transfer Tax)

There is a state duty on real estate transactions.

When sale or exchange agreements are concluded for commercial property, the duty is 2% of the real estate's value up to a maximum of EUR 42,686. If an agreement is concluded with an individual's child(ren), spouse, parent(s), sibling(s), grandchild(ren), great grandchild(ren) or grandparent(s), the duty is 0.5% of the real estate's value with no maximum.

When a gift agreement is concluded, the duty is 3% of the real estate's value. If the agreement is concluded with an individual's child(ren), spouse, parent(s), sibling(s), grandchild(ren), great grandchild(ren) or grandparent(s), the duty is 0.5% of the value of the real estate.

If a company purchases an apartment which is designated as living space, the duty is 6%.

VALUE ADDED TAX

General Provisions Regarding Real Estate

According to the VAT Law, the sale of unused real estate, and the sale of building land. The term “real estate” includes parts of real estate (flats, workshops, etc.), land, buildings, constructions, and immovable parts of real estate (bridges, roads, etc.) on the land.

When selling new real estate, the full selling price is taxable at a 21% VAT rate.

If it is planned that the real estate will be used only for taxable activities, then input tax is fully deductible. If the real estate will be used both for taxable and non-taxable activities, then input tax is deducted proportionally. In both cases the new real estate must be registered at the Tax Authority. An input tax correction has to be completed each year if the proportion between taxable and non-taxable use of the real estate changes. The proportion must be calculated for a ten year period.

There is an option to apply VAT to the sale of used real estate if the details are registered with the Tax Authority.

The lease of residential property for housing purposes is VAT exempt.

The place of provision of services that are related to real estate is the place where the real estate is located.

VAT Refund under Domestic Law

VAT is refunded each month, based on a VAT return, as long as the amount of input tax is at least EUR 11,383. Input tax is refunded within 30 days after the deadline of submission of the VAT return.

Foreign VAT Refund under VIII Directive

VIII Directive reclaims must be filed with the local Tax Authority (where a company is registered) and not where VAT has been paid. VAT reclaims must be filed electronically (decreed in Council Directive 2008/9/EC).

EC Services List

Taxpayers who supply services to taxpayers based in other EU countries where the reverse-charge mechanism is applied, should fill out monthly EC service lists.

For more information on real estate services in Latvia, please contact:

Steve Austwick

Partner, Head of Tax and Legal Services
KPMG in the Baltics

KPMG in the Baltics and Belarus

Vesetas iela 7
Riga, LV1013
Latvia

T: +371 6703 8000

F: +371 6703 8002

E: saustwick@kpmg.com

kpmg.com/lv





Lithuania

GENERAL

The Lithuanian Law on value added tax (VAT) provides that the sale of buildings, land and other real estate is not subject to VAT except in relation to new buildings and building land which are all subject to the standard VAT rate of 21%. A new building or structure or a finished building or structure (within the first 24 months following its completion or following its material improvement) is considered as an unfinished building or structure.

Building land means a plot of land assigned for construction works regardless of whether or not any development of the plot has been undertaken. Besides this, the land transferred together with new buildings (e.g. land beneath a new block of flats which is allocated to each flat) or structures or their parts are subject to the standard 21% VAT rate.

CORPORATE INCOME TAX

The taxable profit of Lithuanian and foreign corporate taxpayers is subject to a standard flat rate of 15%. Lithuanian entities are taxed on worldwide income; the tax liability of foreign entities is limited to income arising in Lithuania, including income earned through permanent establishments. Taxable profits are arrived at by deducting exempt income as well as allowable and partly allowable expenses from taxable income.

Tax-exempt Income

Exempt income includes the receipt of penalties and fines, revaluation of fixed assets and liabilities (except for derivative financial instruments), insurance compensations, amongst others.

Dividends received from EEA companies (subject to corporate income tax (CIT) or equivalent tax) are tax exempt. Dividends received from other foreign companies (subject to CIT or equivalent tax) are tax exempt if they qualify for



participation exemption (where not less than 10% of voting shares have been held continuously for at least 12 months), except for dividends received from tax havens.

Allowable and Partly Allowable Deductions

Deductions allowed are all expenses actually incurred in the ordinary course of business that are necessary for the earning of 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.

CAPITAL GAINS

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 two years). If the transfer of shares takes place in the course of a corporate reorganisation, the minimum holding period is three years.

Capital gains derived by non-residents from the sale of shares in Lithuanian companies are not taxable in Lithuania.

Non-residents are taxed on capital gains arising from the disposal of real estate located in Lithuania. For resident companies, capital gains are included in the taxable income for CIT purposes.

Tax Depreciation

Depreciation of fixed assets is usually calculated on a straight-line basis or using a double declining balance method over fixed asset tax intervals as outlined in the Lithuanian Law on CIT. Depreciation expense is claimed on the initial value of the individual fixed or intangible assets over the tax interval of the asset. The tax depreciation interval for new buildings (except residential buildings) used in a company's economic activity for tax purposes shall not be less than eight years using straight line

or double declining balance methods of depreciation. Land is not depreciated for tax purposes.

Tax Losses

Ordinary tax losses can be carried forward indefinitely if a taxpayer continues to perform business activities from which such losses arose. As of 2014, ordinary tax losses carried forward can only be off-set against up to 70% of the calculated taxable profits of the taxable period.

Capital losses linked to the disposal of securities or financial derivatives can be carried forward for five years, exclusively to off-set gains from the disposal of securities or financial derivatives.

Grouping

Tax losses of a company incurred for the taxable period may be off-set against the respective profits of another company forming a group, provided the following criteria are met: the parent company directly or indirectly owns at least two-thirds of the shares in subsidiaries; and the transfer of losses is performed between companies that have continuously been members of the group for at least two years, or if the participants of the transfer have been a part of the group since their incorporation and will be part of the group for at least two years. A grouping with foreign losses is possible where the foreign entity transferring losses is a tax resident in the EU and where there is no possibility to carry forward respective losses in that foreign country; additionally, such losses have to be calculated according to the rules of the Lithuanian Law on CIT.

Thin Capitalisation

A certain proportion 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, 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.

WITHHOLDING TAX

Dividends

In general, dividends are subject to a 15% withholding tax (WHT) rate. However, 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 entities in tax haven countries.

It is possible to pay interim dividends in Lithuania.

Withholding tax may be reduced under applicable tax treaties.

Interest and Royalties

In general, interest is subject to a 10% WHT rate. However, interest paid to an EEA company, or to a company registered in a country with which Lithuania has a double taxation treaty, is tax exempt.

Royalties are generally subject to a 10% WHT rate. Royalties paid to associated EU companies are exempt from WHT.

Two companies are deemed to be associated companies if one of them directly holds at least 25% of the capital of the other, or if a third EU company directly holds at least 25% of the capital of the aforementioned two companies. A minimum holding period of two years is required.

Withholding tax may be reduced under applicable tax treaties.

Real Estate

Non-resident companies are subject to a 15% WHT rate on income from the sale, transfer or rental 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.

Withholding tax may be reduced under applicable tax treaties.

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 has to 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 ranges from 0.3% to 3% of the taxable value of real estate. Municipalities are entitled to establish a precise rate by 1 June of each year to govern transactions in the following year. The taxable value of the real estate is the average market value of the real estate established by applying the mass valuation method or the rebuilding value method depending on the purpose of the real estate. However, the owners of real estate may request an individual valuation performed by independent property appraisers on an annual basis.

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 (added together with the real estate owned by family members). This counts for property which is included in the list of taxable real estate (e.g. residential premises, gardens, garages, homesteads, science facilities, places of worship). The non-taxable real estate threshold is 30% higher for families



raising 3 or more children and families raising disabled children.

However, commercial property owned by individuals (for purposes other than those subject to the above taxation) is taxed in the same way as real estate owned by legal entities.

The annual tax return has to be filed with the tax authorities and real estate tax must be paid by 1 February of the following year, while individuals paying 0.5% real estate tax must file the annual tax return and pay tax by 15 December of the current year. In addition, legal entities should pay advance real estate tax amounts equal to 25% of their annual tax if the annual amount of tax payable exceeds certain limits.

Land Tax

The land tax is paid by the owners of private land. The land tax rates range from 0.01% to 4% of the taxable value. Particular rates are established by the local municipalities by 1 June to cover the following year (or they are set by 1 December in specific years).

Land tax does not apply to roads of common usage, land owned by embassies, land in protected areas and also other specific land. Land tax is paid annually for the whole calendar year according to the taxable value of the land owned on 30 June of the current year. The taxable value is established based on the mass valuation which is intended to reflect the market price of the land. This new method has been applicable since 2013 and resulted in an increase of taxable values. Special rules to reduce the impact of new taxable values apply in this period up to 2017 inclusive.

In 2015, legal entities and individuals leasing state or municipality owned land must pay the land lease tax, which is not less than 0.1% and not higher than 4% of the land value. A precise tariff for a land lease tax is established by the local municipality in each individual case. Land lease tax is paid according to the order established by the local municipality where the land is located. The land value, on which the land lease tax is estimated according to special rules, is set forth in the land lease agreement.

VALUE ADDED TAX

General Provisions – Real Estate

In general, the Lithuanian Law on VAT provides that the sale of buildings, land and other real estate is VAT non-taxable, except for new buildings and building land which are both subject to the standard 21% VAT rate. If real estate is sold without VAT, but the taxpayer has deducted input VAT, they shall be obliged to adjust the VAT deduction (for real estate a 10-year term is applicable).

Similarly to the sale of real estate, rent of real estate is VAT non-taxable unless the real estate is categorised among certain exceptions. Exceptions are made for hotels, motels, camping sites, and similar accommodation services as well as short-term rentals within residential areas. In addition to the aforementioned residential real estate, the renting of garages, parking lots and similar real estate properties as well as equipment treated as real estate are subject to a standard VAT rate of 21%.

A taxpayer can choose to conclude transactions with regards to the sale or rent of real estate applying VAT with regards forthcoming years and can sell or rent real estate to another VAT payer

applying a standard VAT rate of 21%. Such choices have to be declared to the tax authorities and must remain unchanged for at least 24 months from commencement.

In general, the place of supply of services to a taxable person is the place where the purchaser has its seat, permanent place of residence or permanent place of carrying out business, while the place of supply of services to a non-taxable person is the place where the supplier has its seat. However, there are several exceptions to these rules, for example the place of supply of services related to real estate is the place where the real estate is located.

Services related to a real estate unit which is, or will be located in Lithuania are considered to be provided in Lithuania. Therefore, such services have to be charged with the standard Lithuanian VAT rate of 21%. In such cases, foreign taxable persons rendering services related to real estate in Lithuania have an obligation to register for VAT in Lithuania. Services related to real estate cover construction, projecting, relevant research, engineering, architectural works, real estate valuation, supervision and maintenance of real estate, and other real estate related services. As of 1 July 2015, the reverse charge mechanism will also be applicable for construction works purchased (although the supporting legal acts are yet to be passed).

VAT Refund under Domestic Law

Application for VAT refunds may be filed with the Lithuanian tax authorities as soon as VAT has been declared (subject to certain conditions).

The VAT is typically refunded within 30 days after the submission of

the application. In the case of a tax investigation, VAT shall be refunded within 20 days following the declaration of the result of the investigation.

Foreign VAT Refund

Claims by EU businesses for cross-border refunding of VAT in the EU must be filed with their local VAT authority (i.e. in the country where the company is established) and not where VAT has been paid. VAT claims have to be filed electronically.

Non-EU businesses may refund purchase input VAT incurred in Lithuania under the 13th VAT Directive if Lithuania has a reciprocity agreement with their country of establishment subject to particular conditions.

EC Services List

Monthly EU sales listing should be submitted to the tax authorities by the 25th day of the following month (in line with VAT return submission deadlines) in the case of supplies to other EU member countries, which themselves are subject to a VAT reverse charge procedure by the purchaser.

INVESTMENT INCENTIVES

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 and acquired rights. As of 2014 the incentive also applies to acquired trucks, trailers and semi-trailers. Part of the acquisition costs of fixed assets, which has not been utilised during the taxable

year, may be carried forward, but for not more than 4 years. The tax authorities should be notified that such a company is performing an investment project.

Incentive for Research and Development

Expenses incurred via 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.

Reduced Rate for Small Companies

Small companies are subject to a reduced 5% CIT rate if their average number of employees does not exceed 10 and their taxable income during the taxable year is less than EUR 300,000.

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

An entity may deduct (from its taxable profits) an amount up to 75% of the funds they provide for production of a film or its part in Lithuania. Furthermore, an entity's payable corporate income tax may be reduced by up to 75% by the amount provided in order to support film production. If the amount of funds exceeds 75% of that entity's corporate income tax payable, then the exceeding amount may be carried forward to reduce profits in two subsequent tax periods.

Free Economic Zones

A company with investments of EUR 1 million or more and operating in a free economic zone (FEZ) is exempt from Lithuanian corporate income tax for 6 taxable years and is subject to a 50% reduced corporate income tax rate in 10 subsequent 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 an FEZ, or from wholesale trade in goods stored within an 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 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. Real estate tax is not applicable in an FEZ territory.

For more information on real estate services in Lithuania, please contact:

Steve Austwick

Partner, Head of Tax and Legal Services
KPMG in the Baltics

KPMG in the Baltics and Belarus

Vesetas iela 7
Riga, LV1013
Latvia
T: +371 6703 8000
F: +371 6703 8002
E: saustwick@kpmg.com

kpmg.com/lt





Macedonia

GENERAL

The preferential value added tax (VAT) rate of 5% for the supply of residential buildings and apartments will apply until 31 December 2015. After that period, such supplies should be taxable at the general VAT rate of 18%.

The above only refers to the first supply of residential buildings or apartments which is made within five years from their completion. Subsequent supplies as well as first supplies following the five year period from the completion are deemed VAT exempt without the right to input VAT credit.

The supply of any other real estate by Macedonian VAT registered taxpayers is VATable at the general VAT rate of 18%.

CORPORATE INCOME TAX AND CAPITAL GAINS

Corporate income tax (CIT) of 10% is due on the profit or loss for the year after

adjustment for tax purposes in regards to unrecognised expenses or non-taxable income.

Under the current CIT legislation, capital gains do not have a specific tax treatment, i.e. capital gains or losses are included in the taxpayers' profit or loss, and as such form part of the tax base for the year.

Tax Depreciation

There is no specific tax treatment for the depreciation/amortisation of assets. The annual depreciation/amortisation expense is recognised for tax purposes in accordance with the applicable accounting standards.

Tax Loss

Accounting losses reduced for the amount of the non-deductible expenses can be carried forward and offset against future tax bases in the following three years.



However, the right to utilise such losses is subject to prior approval from the tax authorities (the request is due for submission by the end of March of the following year, and is usually subject to a tax inspection), this also being dependent on the taxpayer having covered the losses in question in accordance with the Law on Trading Companies.

Thin Capitalisation

Interest on loans granted by direct non-resident shareholders holding at least 25% of a company's share capital ("qualifying shareholder"), is considered non-deductible for tax purposes should the loan amount exceed three times the amount of the equity attributable to that shareholder.

The same rule applies to loans granted by a third party, while being guaranteed by a qualifying shareholder or granted in relation to a deposit provided by the qualifying shareholder to a third party.

The amount which is not recognised for tax purposes is the amount of interest on the part of a loan which exceeds three times the amount of the equity attributable to the qualifying shareholder.

The thin capitalisation rules do not apply to loan facilities granted by direct shareholders which are banks or other financial institutions, as well as loan facilities granted by direct shareholders to newly established entities in the course of the first three years of their establishment.

WITHHOLDING TAX

Withholding tax (WHT) at 10% is to be withheld by the payer when certain types of income are paid by a Macedonian entity to foreign legal entities, provided that the income is not derived through a permanent establishment of the foreign legal entity in Macedonia. Amongst other types, the type of income subject to WHT in Macedonia includes dividends, royalties, and interest as well as rental income for immovable property located in Macedonia.

The WHT rate can be reduced or the income can be exempt from WHT in Macedonia, as per the provisions of an effective double taxation treaty (DTT) to which Macedonia is party.

The application of the DTT provisions is subject to approval from the Macedonian tax authorities, following a separate formal procedure.

PERSONAL INCOME TAX

Income realised by individuals from the lease of immovable property is subject

to personal income tax (PIT) at a rate of 10%. Allowances, ranging between 25% and 30%, are granted in order to determine PIT.

PIT is also due from individuals who have realised capital gains from the sale of real property. The capital gain is determined as the difference between the sale price and the purchase price. The tax rate is 10%, levied on 70% of the capital gain.

REAL ESTATE TAX

Owners of immovable property situated in Macedonia are liable to property tax. The tax is levied on the market value of the property on an annual basis, at a rate ranging between 0.10% and 0.20%, depending on the municipality where the property is situated. The person liable for the property tax is the owner (legal entity or an individual) of the immovable property, or the user of the property if a limited right to use the property was granted. Property tax on immovable property in state ownership is owed by the person given the right to use that property.

REAL ESTATE TRANSFER TAX

Tax on the transfer of immovable property ranges from 2% to 4% and is levied on the market value of the property. The tax rate is determined by the municipality where the immovable property is located. Transfer tax is due from the seller of the property, unless otherwise agreed between the parties.

Certain transfers of immovable properties are exempt from taxation including "contribution in kind" of an immovable property, as well as the first sale of a

residential apartment provided that the supply was subject to VAT.

VALUE ADDED TAX

Generally, the sale of immovable property (land and buildings) is considered a VAT taxable supply at the general rate of 18%. However, an exception to the above rule is provided with regards to supplies of residential buildings and apartments.

Immovable property qualifying as residential premises is generally exempt from Macedonian VAT with no right to input VAT credit for related purchases, except for the first supply of residential premises made within five years of their completion. The first sale of residential premises is taxable at the preferential rate of 5% (the preferential rate is to be applied until 31 December 2015, upon which these supplies will be taxable at the general rate of 18%).

Apart from the above, provision of hotel accommodation services is taxable at the preferential rate of 5%.

Place of Supply of Services

The general rule is that the place of supply of services is the place where the supplier of services has its headquarters or a branch office, from where such services are physically supplied. When there is no such place, the place where the supplier of services has a permanent place of residence is considered the place of supply of the services.

A number of exceptions from the above general rules are listed in the Macedonian VAT law. These exceptions include the following:

- The place of supply of services connected to real estate (e.g. renting out real estate, agency services related to real estate, valuation, construction, supervision of construction works) is the place where the real estate is situated.
 - with the exception of the hire of safes;
 - obligations to refrain from pursuing or exercising, in whole or in part, an act or a right, or to bear an action or a factual situation;
 - The place of supply is the place where the services are physically carried out for the following types of services:
 - artistic, sporting, educational, scientific and entertainment services;
 - transport and ancillary services;
 - valuation and work on movable property.
 - The place where transport services are supplied shall be the place where the transport takes place, i.e. with regard to distances covered.
 - legal, economic and technical advice and consulting, in particular activities of the notary public, solicitors, auditors, tax consultants, accountants, engineers, as well as other similar activities;
 - services for electronic data processing and the provision of information, including know-how and expertise;
 - the provision of personnel;
 - the hiring of movable tangible property with the exception of all forms of transport;
 - The place of supply of agency services in relation to other services is the place of supply of the underlying service in connection to which the agency services were supplied.
 - telecommunications services;
 - the transfer and assignment of copyrights, patents, licenses, trademarks and other similar rights;
 - The place of supply of certain services is considered the place where the recipient of the services is established or if it has a fixed base for which the services were carried out. These services include the following:
 - and also the services of agents when they procure the services listed above for their client.
- VAT Refund to Resident Taxpayers**
Macedonian VAT registered persons are entitled to recover input VAT in respect of taxable supplies from another VAT registered person or in respect of imported goods (with certain exceptions) if such goods are used for the purposes

of the business activities. The input VAT credit claimed by a VAT registered person should be supported with an invoice or customs declaration where the VAT charged on import is separately shown, and these documents are recorded in the accounting books of the taxable person. If in a given month the input VAT deduction declared by the registered person exceeds the amount of output VAT charged, the excess amount is subject to reimbursement. The VAT for reimbursement is generally offset against VAT payable in the subsequent periods, unless the VAT registered person has explicitly declared that a refund is requested. The term for a VAT refund is 30 days from filing of the respective VAT return.

VAT Refund to Non-residents

According to the VAT law, foreign persons registered for VAT purposes in their countries, which are not headquartered in Macedonia and who do not have a

fixed establishment there, are, upon request, entitled to receive a refund of the VAT paid for particular purchases of goods and services in Macedonia. In order to apply for a VAT refund, the foreign taxable person should meet certain conditions as well as fulfilling a statutory procedure. The deadline for VAT application submissions is 30 June in the year following the year in which the purchases were made. The Macedonian tax authorities have six months to review the application for a VAT refund submitted together with the documents attached to it and then to make the refund.

A VAT refund from the Macedonian tax administration is made only in MKD which implies that non-residents should open a non-resident bank account in order to obtain that refund.

The principle of reciprocity applies for foreign persons entitled to claim a refund of Macedonian VAT.

For more information on real estate services in Macedonia, please contact:

Arkadiusz Mierzejewski
Partner, Tax

KPMG in Macedonia

Soravia Center 7th floor
Filip Vtori Makedonski No. 3,
Skopje, Macedonia

T: +389 2 3135 220

E: arekmierzejewski@kpmg.com

kpmg.com/mk





Montenegro



GENERAL

The general value added tax (VAT) rate is now 19% and it is applicable on the first transfer of ownership rights for buildings built after 1 April 2003, while 3% real estate transfer tax (RETT) is applicable on all other real estate transfers.

Gains arising from real estate deals are subject to a 9% corporate income tax (CIT) rate, which is one of the lowest in Europe.

CORPORATE INCOME TAX AND CAPITAL GAINS

In Montenegro CIT is levied at 9% for resident entities and branches of non-resident entities. A resident is a legal entity which is incorporated or which has a place of effective management and control within the territory of Montenegro. Resident legal entities pay tax on their worldwide income.

Non-resident entities pay tax on the income generated through a permanent establishment within the territory of Montenegro.

The tax period is the financial year which is also the calendar year except in the event of liquidation or for businesses starting their business activity during the year. A corporate tax return must be submitted within three months of the end of the period for which the tax is assessed.

Corporate income tax liability is paid in one instalment within three months of the end of the tax year.

Taxable income is determined on the basis of accounting profit disclosed in the annual income statement, in accordance with International Financial Reporting Standards and is subject to further adjustments in the tax balance.



Capital gains are disclosed separately in the tax return and are taxed at 9%. The capital gain is the difference between the sale and purchase price of assets (land, buildings, property rights, capital share and securities). If such a difference is negative, a capital loss is reported.

Tax Losses

Tax losses generated from business transactions, financial and non-business transactions, excluding capital gains and losses, may be carried forward for up to five subsequent tax periods and can be offset against future taxable income. Losses can be carried forward irrespective of mergers, acquisitions, spin-offs or other organisational changes.

Capital losses may be carried forward for five years and offset only against capital gains.

Tax Depreciation

For CIT purposes, non-current tangible assets are divided into five groups, with

depreciation rates prescribed for each group:

Group	Depreciation Rate
I	5%
II	15%
III	20%
IV	25%
V	30%

Buildings and other immovables (excluding land) are classified into tax depreciation group I, while plant and equipment are classified into groups II-V. Non-current assets classified in group I are depreciated using the straight-line method at 5%. A declining model is prescribed for non-current assets classified in groups II-V.

In addition, non tangible assets such as franchises, patents, authorship rights and others are tax depreciated based on their estimated useful life.

Thin Capitalisation

There are no thin capitalisation rules in Montenegro.

WITHHOLDING TAXES

Withholding tax (WHT) a rate of at 9% is levied on dividends, profit sharing, royalties, interest, capital gains, lease payments for immovable and movable property, consulting services, market research services and audit services earned by non-residents. Withholding

tax may be reduced via double taxation treaties.

Distribution of intercompany dividends between Montenegrin companies is subject to withholding tax.

DOUBLE TAXATION CONVENTIONS

Montenegro has declared that it will honour all tax conventions that have been concluded by the state union of Serbia and Montenegro (and previously by the Federal Republic of Yugoslavia and the Socialist Federative Republic of Yugoslavia). However, the application of such agreements with Montenegro has to be confirmed on a case-by-case basis by the agreeing partners.

As at 1 January 2015, Montenegro has 40 effective double taxation conventions on income and capital with the following states: Albania, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, China, Croatia, Cyprus, Czech Republic, Denmark, Finland, Germany, Hungary, Italy, Kuwait, Latvia, Macedonia, Moldova, Netherlands, North Korea, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Sri Lanka, Sweden, Switzerland, Turkey, Ukraine; additionally, agreements with Azerbaijan, Egypt, France, Ireland, Malaysia, Malta, Serbia, UAE and United Kingdom cover the avoidance of double taxation of income only.

VALUE ADDED TAX

VAT is levied on the following:

- supplies of goods and services for business purposes by a taxpayer for consideration within the territory of Montenegro; and

- import of goods into Montenegro.

A taxpayer is any entity that independently supplies goods and services in the course of doing business.

The threshold for VAT registration is prescribed at the equivalent of EUR 18,000. Namely, if turnover in the previous 12 months exceeds or is likely to exceed EUR 18,000 then registration for VAT is obligatory.

Only the first transfer of newly built buildings (i.e. buildings built since 1 April 2003) is subject to VAT at the general rate of 19% (there is no reduced rate for residential buildings). Reduced VAT amounts to 7%. The supply of land (except the first transfer of the ownership right or the right to make use of or transfer a newly constructed building), the lease of land, as well as services linked to the leasing of residential buildings for longer than 60 days are exempt from VAT without credit.

PROPERTY TAX

Tax on property is paid by the titleholder of the property rights (ownership, right of use, etc.). Property tax is paid on land and buildings. The property tax base is the market value of the property. In general, property tax rates range from 0.1% to 1.00%. For certain types of real estate (e.g. hotels in coastal areas), the rate can be even higher (up to 5.5%). Property tax is paid in two instalments on 30 June and 30 November, upon receipt of the tax assessment which is issued by 31 May for the current year.

REAL ESTATE TRANSFER TAX

Acquisition of property rights over real estate (land and buildings) is subject to RETT unless the transaction is subject to VAT.

The RETT tax base is the market value of the real estate at the time of its acquisition. The tax rate is 3%. The taxpayer will be the acquirer of the real estate. Real estate transfer tax is not paid when a unit of real estate is included (as part of) an initial stake as a contribution in kind or in connection with a share capital increase or in the event of the acquisition of real estate in the course of a merger or de-merger.

For more information on real estate services in Montenegro, please contact:

Igor Loncarevic

Partner, Tax and Legal

KPMG in Montenegro

Svetlane Kane Radović 3

Podgorica, 81000

Montenegro

T: +381 11 20 50 570

E: iloncarevic@kpmg.com

kpmg.com/me



Poland

GENERAL

On 1 January 2015, several important amendments to the Polish Corporate Income Tax (CIT) Act came into force, including new thin capitalisation rules and an introduction of the Controlled Foreign Corporations (CFC) provisions.

CORPORATE INCOME TAX AND CAPITAL GAINS

Based on the CIT provisions which came into force on 1 January 2014, apart from corporate entities (limited liability companies and joint-stock companies) joint-stock partnerships are also generally treated as the Polish CIT payers. However, based on interim provisions, joint-stock partnerships fulfilling certain conditions can still benefit from CIT exemption in Poland until the end of the first financial year starting on or before 31 December 2013, but in practice up until no later than 31 October 2015.

Generally, CIT in Poland is levied on all taxable income, with some exceptions, e.g. income derived from forestry and agricultural activities. A 19% CIT rate is

payable on income which is calculated as taxable revenues reduced by eligible costs incurred to generate these revenues or in order to retain or secure the source of taxable revenue.

The costs incurred in respect of abandoned investments may be treated as tax-deductible costs.

There is no separate capital gains tax, but gains on the disposal of fixed assets and intangibles are added to the taxpayer's mainstream income (gains from the sale of real estate property are taxed at the regular CIT rate of 19%). For the seller, profit on the sale of assets is added to the mainstream income subject to corporate income tax at normal rates. On disposal, the taxpayer can deduct the net tax value of the assets and associated disposal expenditure. Taxable income can be reduced by tax losses where they are available for utilisation.

In the case of a sale of shares in a Polish company held by a non-Polish shareholder, many of the double taxation



treaties Poland has concluded with other countries provide for a taxation right of respective capital gains in the jurisdiction of the shareholder. However, some double taxation treaties provide for the sale of shares of a Polish company whose assets principally (directly or indirectly) consist of real estate to be taxed in Poland at 19% CIT (for example: double taxation treaties with UK, Spain, France, Ireland, Germany, Austria, Belgium, Denmark, Malta, Sweden and Luxembourg).

A fiscal group may be created for corporate tax purposes. There are a number of conditions that need to be met (in practice, the most difficult is the requirement for the profit of the group for tax purposes to be equal to at least 3% of gross taxable revenue). In principle, limited partnerships are able to consolidate their CIT results.

Tax Depreciation

Depreciation of fixed assets is usually calculated on a straight-line basis using the rates laid down in the Polish CIT Act.

Depreciation write offs are then claimed on the initial value of the individual fixed or intangible assets, in equal amounts each month, starting from the month following the month in which a particular asset was brought into use, until the end of the month in which the total depreciation write offs equal the asset's initial value – or in the month in which it is liquidated, disposed of or found missing. The key annual depreciation rates are: 2.5% for buildings, 4.5% for constructions and 10% for technical devices. Land is not depreciated for tax purposes.

Tax Losses

Tax losses may be carried forward for five years and up to 50% of a specific tax loss can be utilised in any one year (after five years they expire). The ability to utilise tax losses is unaffected by a change of ownership in a company.

Thin Capitalisation

Based on the amendment to the Polish CIT Act, from 1 January 2015 thin capitalisation limitations also apply to loans provided by entities that are indirectly related to taxpayers (previously this only concerned loans granted by direct shareholders or direct sister companies). Under the new thin capitalisation provisions, indirect participation is established based on the transfer pricing regulations (25% effective ownership is the required minimum, based on the number of voting rights proportionally entitled to the given entity.

Equity is now defined differently. Based on the amended regulations, the entire equity (with some exemptions) is included in the calculation of debt-to-equity ratios (previously just share capital

was considered). The ratio has now been changed to 1:1 (instead of 3:1).

Also, an alternative method of applying the thin capitalisation restrictions is available. By this method the deductible interest expenses are limited to) the value corresponding to the product of the reference rate of the National Bank of Poland binding on the last day of the year preceding the tax year, increased by 1.25 percentage point and ii) the tax value of assets in line with the provisions of the Polish Accounting Act excluding intangible assets, but no more than 50% of the operating profit, regardless of the amount of liabilities towards related entities and regardless of the level of the equity. Any interest not deducted under this method may be deducted in the subsequent five years.

The new regulations do not apply to loans already granted provided that actual cash-flow took place before the end of 2014 (the "Grandfather clause").

The old Polish thin capitalisation rules limit the tax deductibility of interest paid or capitalised on loans granted by qualified lenders, i.e.:

- from a direct shareholder solely holding at least 25% of voting rights or from shareholders jointly holding at least 25% of voting rights of the borrowing company;
- from a sister company which has the same direct shareholder as the borrower, if the shareholder owns at least 25% of voting rights of both the lending and the borrowing company (i.e. is clearly a sister company).

Generally, the thin capitalisation restrictions apply to interest paid in relation to the above loans by a Polish company if as per the date of its payment the total debt (payable to the above qualifying lenders and shareholders of a parent entity with at least 25% of voting rights in the parent entity) exceeds three times the equity of the Polish company. In principle, the interest paid from the part of the loan exceeding this debt to equity ratio is tax deductible. There were some uncertainties about how old thin capitalisation should be applied in practice.

Controlled Foreign Corporations (CFC) Rules

From 1 January 2015, certain income or gain derived by foreign subsidiaries owned by Polish taxpayers are now taxed in Poland. The CFC rules apply if the following criteria are satisfied: (1) the subsidiary is considered as CFC because (a) its seat or place of management is in a black-listed country (practicing harmful tax competition) or in a country with which Poland has not concluded an agreement containing an exchange of information clause; (b) the income/gain derived by the subsidiary is passive in nature e.g. gain from the disposal of shares, interest income, IP income, etc.; (c) the above income/gains are tax exempt in the subsidiary country or are taxed with a rate lower than 14.25%; or (2) because no genuine economic activity is carried out by the subsidiary.

WITHHOLDING TAX

Dividends

Dividends are subject to 19% withholding tax (WHT). This is generally reduced under double taxation treaties to which Poland is a party. To apply the reduced rate, the



payer should be in possession of a tax residence certificate of its shareholder. Dividends paid to a qualifying Polish resident company, EU/EEA resident companies (or their foreign permanent establishments), or to qualifying Swiss companies are exempt from Polish withholding tax if the shareholder owns at least 10% (for Swiss shareholders at least 25%) of the payer's shares and the shares have been uninterrupted held for at least two years. The withholding tax exemption is also applicable if the dividend payments were made before the end of this period; but if the shares were disposed of earlier, any withholding tax due is payable together with penalty interest. In order to apply reduced rates, the relevant treaty should provide for the exchange of information between the Polish tax authorities and the relevant country and the payer should also be in possession of a tax residence certificate of its shareholder. Moreover, in order to apply the WHT exemption based on the EU directive the payer should possess written confirmation from the dividend recipient that he is not CIT exempt in his country of residence.

The WHT exemption described above applies also to dividends paid by Polish

joint-stock partnerships, but only with respect to the profits generated on or since 1 January 2014 (with respect to profits generated until 31 December 2013 the exemption does not apply). Moreover, based on the amended tax regulations, the general partner is not entitled to benefit from withholding tax exemption with respect to income generated from participation in a joint-stock partnership.

Interest, Royalties and Intangible Services

Under Polish domestic legislation, withholding tax of 20% is applied on payments of interest, on royalties and fees for intangible services made abroad. This is generally reduced or eliminated under the double taxation treaties to which Poland is a party. However, in order to apply the treaty rates, the payer should hold a certificate of tax residence of the recipient and the relevant treaty should provide for the exchange of information between tax authorities.

Interest and royalties are subject to withholding tax exemptions, if they are paid to qualifying EU entities. To apply the EU Interest and Royalties Directive provisions, a two year holding period

is required. These provisions can also be applied before the two year holding period has been fulfilled, but if the shares are disposed of earlier, any withholding tax due is payable together with penalty interest. In order to apply the reduced rate (or exemption), the payer should hold a certificate of tax residence of the recipient and the relevant treaty should provide for the exchange of information between tax authorities. Moreover, the payer should also hold written confirmation from the recipient that he is not CIT exempt in his country of residence.

Similar provisions apply to qualifying Swiss resident companies.

REAL ESTATE TAX

Real estate tax is a local tax which applies to land (and perpetual use of land), buildings and constructions (or installations).

The taxable base for all buildings is the floorspace area of the building. For land (and perpetual use of land), it is the land area. For constructions (installations), the depreciation value is taken into account. The current (for 2015) maximum rates for real estate tax cannot exceed:

- PLN 0.90 per square metre for land used for business activities;
- PLN 0.47 per square metre for other land;
- PLN 0.75 per square metre for dwellings;
- PLN 23.13 per square metre for buildings used for business activities;
- PLN 7.77 per square metre for other buildings;
- 2% of the value of constructions/installations (in principle the value being the base for tax depreciation purposes at 1 January each year not reduced by depreciation deductions).

Year after year it has been the Government's intent to implement a new real estate tax where the basis for the taxation would be the value of the real estate (cadastral tax). However, the implementation of this tax has been postponed each year and no information has yet been forthcoming about when (if at all) it will be implemented.

TAX ON CIVIL LAW TRANSACTIONS (PCC, TRANSFER TAX)

A 0.5% PCC is imposed on capital injections to a newly registered company, as well as on any increases of the share capital or additional payments made to the reserve capital of the company (or on the value of contributed assets in respect of partnerships). Shareholder loans are PCC exempt while non-shareholder loans are generally subject to 2% PCC (the borrower is obliged to pay the transfer tax; if certain conditions are met there is no obligation to pay PCC on loans).

Moreover, the sale and exchange of goods and property rights are subject to PCC if they fall outside the scope of VAT. If the sale is VAT exempt, it is usually also exempt from PCC, except for land and buildings (purchase of real estate is subject to 2% transfer tax on its market value even if VAT exempt).

Acquisition of shares in Polish companies is, in principle, subject in Poland to 1% transfer tax payable by the buyer, but some tax reduction techniques may be used.

VALUE ADDED TAX

General Provisions Regarding Real Estate

Generally, the sale of buildings, constructions and their parts is value added tax (VAT) exempt (except if the sale is performed before or within the scope of first occupation, or if the sale is performed during the first two years of the first occupation). However, in most cases taxpayers are able to waive the exemption if special conditions are met. Supplies of buildings, constructions or their parts are also exempt from VAT if the supplier had no right to deduct input VAT upon acquisition of such buildings or constructions and if additional conditions on the level of improvements are met.

In the case of a VAT exempt sale of buildings, constructions and their parts, the transaction is subject to 2% transfer tax. In the case of a sale of land along with a building upon it which qualifies for a VAT exemption, both assets are VAT exempt and are subject to 2% transfer tax.

The standard VAT rate in Poland on the sale of land and buildings which are not VAT exempt is 23%. The reduced 8% VAT rate for sales of residential property applies only if the property meets the criteria of being part of a social housing programme (houses no larger than 300 square metres and apartments no larger than 150 square metres). If the area of a house or apartment exceeds these

respective values, both VAT rates apply (8% for area up to 300 square metres/150 square metres, and 23% for the portion of the area exceeding those statutory limits).

Where a property is acquired as a going concern (as a whole business or organised part of a business) such transactions are not subject to VAT. For these, transfer tax applies at 2% on the value of property and is payable by the buyer (if an enterprise consists of various components, transfer tax of 2% applies to sales of real estate, movables and perpetual land use rights; 1% applies to the sale of other property rights).

The lease of office and rental space is subject to 23% VAT. The lease of residential property for housing purposes is VAT exempt.

Tax Point

Based on the Polish VAT provisions, the tax point arises when goods are supplied or services are provided, whereas for the supply of construction services, the special VAT point is determined with the issuance of the VAT invoice (but not later than 30 days after the completion of services).

The current Polish VAT provisions include a definition of the taxable amount which complements the definition from the VAT Directive. As a result, all payments constitute taxable amounts for VAT purposes. Moreover, the supplier or service provider should, in general, issue an invoice by the 15th day of the month following the month when goods were supplied or services provided. For the provision of construction services,

according to special regulations, the invoice should be issued within 30 days from the day the services were provided.

Also, based on the VAT provisions, the VAT payer is entitled to deduct VAT from the given invoice if a tax point already arose for the seller in respect of the given sale and in respect of domestic purchases, the VAT payer is also entitled to deduct VAT in the period in which he received an invoice, whereas in respect of the intra-community acquisition of goods, the VAT payer is entitled to deduct VAT provided that he receives the VAT invoice within three months from the end of the month in which the tax point arose.

Place of Supply of Services

Generally, the place of supply of services performed to a taxpayer is a place where the purchaser has its seat, fixed place of business or permanent place of residence. However, in cases where the supply of services is provided to entities other than taxpayers, the place of supply of services is where the service provider has its seat, fixed place of business or permanent place of residence.

For services related to real estate, the place of supply of services is where this real estate is situated.

Services (including amongst others advisory and engineering services) provided to a non taxpayer having its seat or permanent place of residence outside of the EU, are subject to taxation where the purchaser has its seat or permanent place of residence.

Entities Obligated to Settled VAT

Generally, for services provided to taxpayers by a foreign taxpayer (without seat or fixed place of business in Poland), VAT is settled by the purchaser.

However, in cases where the services relate to real estate, VAT is also, as a rule, settled by the purchaser but only if the supplier is not registered for VAT purposes in Poland. Otherwise, the supplier is obliged to settle this VAT.

VAT Refund and Domestic Law

The standard VAT refund period is 60 days. In order to apply for a direct refund of input VAT excess within the standard 60 days, the taxpayer has to perform a taxable transaction. The standard period of refund (60 days) can be shortened to 25 days if all purchase invoices in which VAT is declared in the specific VAT return were paid by the time the VAT return has been submitted to the tax office. If there is no VAT-able activity, then a VAT refund may still be obtainable. However, in such a case, the deadline is 180 days (but the application for the refund must be submitted). This period can be shortened to 60 days if the taxpayer files a security deposit.

Foreign VAT Refund under VIII Directive

VIII Directive reclaims must be filed with the local VAT authority (where a company is registered) and not where VAT has been paid. VAT reclaims have to be filed electronically.

EC Services List

EC service lists must be filed monthly by taxpayers if they supply services to taxpayers from other EU countries where the reverse-charge mechanism applies. Advisory services where VAT is charged in the recipient's country have to be included. Services relating to local real estate where the VAT is charged locally need not be reported.

The EC services lists must be filed by the 15th of the following month – or by the 25th of the following month if filed electronically.

Uncollectable Debts

According to the VAT regulations, the taxpayer is able to benefit from bad debt relief (i.e. to adjust the tax base and the output tax) where the debt will not be settled within 150 days from the date of payment. The debtor, in turn, is obliged to adjust the amount of input tax, regardless of whether or not the debtor has

amended its output VAT. The adjustment should be made in the settlement for a period of 150 days from the date of payment. In the absence of such an adjustment, the debtor may be subject to a fine of 30% of this unadjusted VAT.

Based on the amendments of the VAT Act, starting from 1 July 2015, bad debts relief will, provisionally, also apply for the related parties (i.e. if there is a capital, pecuniary, family or employment relation between creditor and debtor).

The other important change is that the debtor will not be obliged to adjust the amount of input tax if he is involved in liquidation or bankruptcy proceedings on and up to the last day of the 150 days from the date of payment.

For more information on real estate services in Poland, please contact:

Honorata Green

Partner

KPMG in Poland

ul. Chłodna 51

Warszawa, 00-867

Poland

T: +48 22 528 11 53

M: +48 604 496 370

E: honoratagreen@kpmg.pl

kpmg.com/pl



Romania

GENERAL

Several changes to Romanian tax legislation were enacted in 2014, the most important of which concern corporate tax, withholding tax, and construction tax.

N.B. Significant changes are expected to be introduced in this area as of 1 January 2016 (they are not yet approved or ratified).

CORPORATE TAX, INCOME TAX AND CAPITAL GAINS TAX

Taxable profits are determined based on accounting profits, as recognised in accordance with Romanian accounting standards, subject to certain specific adjustments as provided by corporate tax law. The standard corporate tax rate is 16%.

Capital gains realised by corporate entities from the sale of assets are deemed to be corporate profits and are taxed at 16%. Income realised by

individuals from the transfer of real estate is subject to lower tax rates on income (not on profits). Capital gains derived by individuals from the sale of shares is subject to a 16% personal income tax rate, irrespective of the period for which the shares are held.

A special taxation regime (3% on revenue, instead of 16% on income) is applicable for so-called micro-enterprises (companies fulfilling certain conditions, e.g. with annual turnover below EUR 65,000).

Income from immovable property located in Romania is subject to 16% capital gains tax. Income from immovable property located in Romania mainly includes income from the rental or the grant of use of immovable property located in Romania and also included are the gains from the sale-assignment of the rights of ownership or other rights related to immovable property located in Romania and gains from the sale-assignment



of participation titles in a legal entity, if at least 50% of its fixed assets derive directly or indirectly from real estate properties located in Romania.

Non-Romanian vendors may be entitled to claim Romanian tax exemption under double taxation treaties where applicable.

Certain double taxation treaties (e.g. those with Germany, France and Austria) provide special regimes for capital gains similar to the Romanian rules if the shares being sold derive more than 50% of their value from real estate located in Romania.

There are no corporate tax consolidation rules in Romania.

Taxpayers can opt for a fiscal year corresponding to the accounting year, which can be different than the calendar year.

Tax Depreciation

The following depreciation methods are available for tax purposes:

- straight-line method;
- reducing balance method (may be applied only to certain assets);
- accelerated depreciation method (may be used for technological equipment such as machinery and installations, computers and related equipment). The accelerated method allows for a deduction of 50% of the cost of the asset during the first year of operation.

Land and goodwill cannot be depreciated for tax purposes. Buildings can be depreciated only using the straight-line method. The tax depreciation period for buildings is between 40 and 60 years. Certain assets attached to a building can be treated as separate movable assets for tax purposes and therefore can be depreciated over a shorter period.

Tax Losses

Tax losses can be carried forward and deducted from taxable profits recorded during the following seven years on a “first in, first out” (FIFO) basis (tax losses incurred before 2009 can be carried forward for a period of five years).

Fiscal losses recorded by taxpayers performing transfer activities following a spin-off/merger can be taken over by the new parent company under specific rules provided in the law.

There is no withdrawal of the tax loss carry-forward right if there is a change of ownership or activity. Tax losses can only be carried forward, not carried back.

Thin Capitalisation

There are two basic Romanian thin capitalisation rules to be considered, as follows:

Deductibility of interest is restricted to 6% for non-RON denominated loans and up to the level of the interest rate of the National Bank of Romania (NBR) corresponding to the last month of the quarter for loans denominated in RON, currently 2.25% – as of February 2015 (please note that the NBR's rate is updated through the year depending on the NBR's policy). This limitation is applicable for each loan. The restriction of deductibility is determined before the calculation of the debt-to-equity ratio. Interest which is non-deductible after the application of this rule is deemed permanently non-deductible.

Interest expenses in respect of non-bank loans which exceed one year, are wholly

deductible if the debt-to-equity ratio of the borrowing company is less than 3:1. If the debt-to-equity ratio is three to one or more (or negative), interest expenses are non-deductible (but not permanently non-deductible – see below).

Interest and foreign exchange losses relating to loans received from Romanian or foreign banks, non-banking financial institutions (including leasing companies), mortgage credit companies, and other regulated lending institutions are exempt from the scope of thin capitalisation rules.

Any interest which is not deductible due to the lender having negative equity or a debt-to-equity ratio higher than 3:1, can be carried forward to be deducted against income earned in future periods, but only if and when the company's debt-to-equity ratio falls below the relevant thresholds.

If foreign exchange losses recorded by a company in relation to non-bank loans



subject to debt-to-equity limitation, as described above, exceed the foreign exchange gains, then the deductibility of net foreign exchange losses is subject to the same restrictions as for interest.

Under Romanian law, unrealised foreign exchange differences on monetary items have been recognised on a monthly basis and are taxable or deductible upon corporate tax calculation (subject to potential thin capitalisation deductibility restrictions).

The right to carry forward interest expenses and net foreign exchange losses for taxpayers who cease their operations as a result of a merger or de-merger operation may be transferred to newly-established taxpayers, or to those which take over the assets and liabilities of the absorbed or divided company, as appropriate, but this must be in proportion to the assets, equity and liabilities transferred to the beneficiary legal entities, as provided in the merger/ de-merger plan.

WITHHOLDING TAX

The standard Romanian withholding tax (WHT) rate is 16%. However, this rate can be reduced in accordance with double taxation treaties. As at 1 January 2015, Romania had double taxation treaties with around 90 countries.

If the income is paid in a state with which Romania has not concluded a treaty for the exchange of information and the payment is deemed to be related to an artificial transaction, a special WHT rate of 50% is applicable.

Dividends

Generally, a 16% dividend tax rate applies on dividends paid to non-residents (whether individuals or companies).

However, dividend payments made by a resident legal entity to an EU legal entity which holds at least 10% of the Romanian entity's shareholding for a period of at least one year at the moment of distribution, are tax exempt. If the holding period conditions are not fulfilled at the moment of distribution, the dividend tax paid may be reclaimed when this condition is fulfilled.

Interest and Royalties

Since 1 January 2011, income derived from interest and royalties is exempt if the beneficial owner of this income is a legal entity which is located in an EU Member State, or a permanent establishment of a company from an EU Member State, or if it is located in another EU Member State. This rate applies provided that the effective beneficiary of the interest or royalties has owned at least 25% of the shares in a Romanian legal entity for an uninterrupted period of at least two years, which terminates at the date of payment of the interest on royalties.

REQUIREMENTS FOR APPLYING EU DIRECTIVES

To apply the provisions of EU Directives, a non-resident should provide Romanian companies with their certificate of tax residence and with an affidavit stipulating that the non-resident fulfils the mandatory holding conditions mentioned above.



Holding Regime in Force from 1 January 2014

A number of sources of revenue have now become non-taxable. These include revenues derived from dividends, gains from the sale or transfer of shares and proceeds from liquidation, if the legal entities in which the company holds shares are Romanian or foreign entities from states with which Romania has concluded Double Tax Treaties (both EU and Non-EU). These revenues are non-taxable, provided that certain conditions are met (the seller/transferor is a Romanian legal entity or a foreign entity located in a state with which Romania has concluded a Double Tax Treaty and at the time of the sale/transfer transaction or at the time when the liquidation process starts, the seller/transferor must have owned at least 10% of the share capital of the legal entity for an uninterrupted period of at least 1 year).

REAL ESTATE TAX

Real estate tax comprises land tax and building tax. The tax on land is determined by taking into account the surface area of the land in square metres, the status of the locality where the land is located, and the area and/or category of use of the land, in accordance with relevant guidelines issued by the local council where the land is located. For companies, the tax on buildings is usually determined based on the gross book value of the building at a rate between 0.25% and 1.8% (usually 1.5%), while for individuals, the tax on buildings is pre-determined depending on the type of building. For building tax purposes, if a company has not performed a revaluation of its building(s) for three consecutive years, then starting with the fourth year it is generally liable to an increased building tax rate of 10-20% of the gross book value of the building. Since 1 January 2012 if the company has not revaluated the building for five consecutive years, then starting with the sixth year the building tax rate ranges from 30% to 40% of the gross book value of the building.

REAL ESTATE TRANSFER TAX

There is no real estate transfer tax as such.

Transfers of real estate may result in land/building registry taxes and notary fees of approximately 1% of the value of the transaction.

VALUE ADDED TAX

The standard value added tax (VAT) rate applicable in Romania is 24%. A reduced rate of 9% is applicable for certain supplies of goods and services. A special

VAT rate of 5% is applicable for sales of dwellings to certain categories of the population as part of the Government's social programme.

As a general rule, supplies of buildings, parts of buildings and land are VAT exempt without credit (i.e. any input VAT incurred on the relevant expenditures is not allowed to be offset against output VAT, but should be borne by the company as an extra cost).

However, there is an exception for supplies of "new" buildings, parts of "new" buildings and building land (i.e. any land on which buildings can be erected), which are subject to VAT and for which the taxpayer is entitled to deduct the VAT incurred on the related costs, if certain conditions are met.

Rental of real estate is also VAT exempt without credit.

For both rental and sales of real estate property, companies may opt to charge VAT and, when they do so, a formal notification must be submitted to the tax office.

VAT grouping in Romania implies the mere consolidation of the VAT positions of the members of the VAT group and is allowed only for certain categories of VAT payers.

Starting with 1 January 2013, a VAT cash accounting system has been implemented in Romania and has been mandatory for all eligible taxpayers, i.e. resident companies with a turnover below RON 2,250,000 (the approximate

equivalent of EUR 500,000). However, since 1 January 2014, this system has been optional for these taxpayers. Starting with 2013, vehicle lessors cancelling leasing agreements and who subsequently cannot repossess the related leased vehicles from lessees are no longer required to charge 24% output VAT for performing self-supplies of goods.

TAX ON CONSTRUCTIONS

As of 1 January 2015, a tax of 1% applies to the book value of existing constructions based on their status at 31 December of the previous year except for the value of buildings subject to building tax (for 2014, this tax rate was 1.5%).

For more information on real estate services in Romania, please contact:

Ramona Jurubita
Partner

KPMG in Romania
Victoria Business Park
DN1 Bucuresti Ploiesti nr. 69-71
Sector 1
Bucuresti, 013685
Romania

T: +40 741 800 700

M: +40 747 333 133

E: rjurubita@kpmg.com

kpmg.com/ro



GENERAL

The general value added tax (VAT) rate currently stands at 20%. The reduced VAT rate is now 10%.

Value added tax is applicable on the first transfer of ownership rights for newly built residential buildings constructed after 1 January 2005. Residential buildings are subject to a reduced VAT rate, while all other buildings are subject to the general VAT rate.

In addition, since 1 January 2013, special schemes have been in place to govern the sale of real estate and the provision of construction services to investors. Under certain conditions buyers of buildings can apply the reverse charge mechanism. Such measures are intended to reduce the costs of VAT financing in real estate and construction deals.

The corporate income tax (CIT) rate is 15%.

CORPORATE INCOME TAX AND CAPITAL GAINS

Corporate income tax is levied at 15% on resident entities and branches of non-resident entities. A resident entity is a legal entity which is incorporated or has a place of effective management and control within the territory of Serbia. Resident legal entities pay tax on their worldwide income in the country. Non-resident entities pay tax on the income generated through a permanent establishment within the territory of Serbia.

The tax period is usually the calendar year. A CIT return for each year has to be filed within 180 days from the end of the tax year. Corporate income tax liability is payable in monthly advanced payments (by the 15th day of the following month). Corporate income tax payable is settled by the CIT return filing date. Upon request, a taxpayer may change its tax year to a period of any 12 consecutive months, but only if the foreign parent entity has a financial year which differs from the calendar year.



Taxable income is determined on the basis of accounting profit disclosed in the annual income statement, in accordance with International Financial Reporting Standards and is subject to further adjustments in the tax balance.

Capital gains are disclosed separately in the tax balance and are subject to 15% tax. The capital gain is the difference between the sale and purchase price of assets (real estate, shares/securities, intellectual property rights, investment units). If this difference is negative, a capital loss is reported.

Capital gains realised by non-resident entities which do not have a permanent establishment in Serbia, is subject to 20% tax unless otherwise prescribed by a respective Double Tax Treaty.

Losses

Tax losses generated from business transactions, financial and non-business transactions, excluding capital gains and losses, may be carried forward for up to five subsequent tax periods and can

be offset against future taxable income. There are no change of ownership rules (i.e. losses carried forward are not lost in the case of a change of ownership, or of mergers, acquisitions, spin-offs or other organisational changes).

Capital losses may be carried forward for five years and offset only against capital gains.

Tax Depreciation

For CIT purposes, non-current assets are divided into five groups, with depreciation rates prescribed for each group:

Group	Depreciation Rate
I	2.5%
II	10%
III	15%
IV	20%
V	30%

Non-current assets classified under the group I are depreciated using the straight-line method at 2.5%, while a declining balance method is prescribed for non-current assets classified into groups II-V. Buildings and other immovables (excluding land) are classified into tax depreciation group I, while plant and equipment are classified into groups II-V.

If a non-current asset is acquired from a related party, the tax depreciation base will be the lower of:

- the transfer price of the non-current asset;

- the amount/value determined in line with arm's length principle.

Thin Capitalisation

Interest and related expenses arising from business with related entities are deductible to a value of up to four times the taxpayer's equity (the limit for banks and finance lease entities is 10 times the entity's equity).

Related Party Interest

Interest expenses arising from business with related entities, which are allowable according to thin capitalisation rules, are subject to transfer pricing rules. Taxpayers have an option either to apply a safe harbour interest rate prescribed by the Ministry of Finance or to assess a market interest rate by applying general transfer pricing rules.

Transfer Pricing

Transactions with related parties need to be separately disclosed in the tax return. Penalties are prescribed for non-compliance. Transfer pricing documentation must be submitted along with the CIT return.

Acceptable methods for assessing the "arm's length" principle of transactions with related parties have been harmonised with OECD methods and include:

- comparable uncontrolled prices method;
- cost plus method;
- resale price method;
- transaction net margin method;
- profit split method;

- any other method, provided above mentioned methods are not applicable or that other method is more appropriate.

WITHHOLDING TAXES

Withholding tax (WHT) at 20% is withheld from dividends, the share in profits, liquidation surplus, royalties, interest and lease payments for movable and immovable assets located in Serbia and which is derived by non-residents. Withholding tax may be reduced in line with double taxation treaties.

If a non-resident taxpayer receives capital gains from a Serbian resident, from a non-Serbian resident based in Serbia, from a non-resident individual or from an open investment fund within the territory of Serbia, then 20% tax has to be paid unless otherwise prescribed in line with a double taxation treaty. A non-resident taxpayer has to submit a special tax return within 30 days of generating the capital gains via proxy, based on which the Tax Authorities assess the tax liability.

Withholding tax at 25% is applied on royalties, interest, lease payments for movable and immovable assets and service fees (irrespective of the place where they are provided or used) paid by a resident entity to a non-resident registered in a jurisdiction with a preferential tax system (i.e. tax havens). There is a list of 51 preferential tax jurisdictions to which this special regime applies.

DOUBLE TAXATION CONVENTIONS

As at 1 January 2015, Serbia has 54 effective double taxation conventions on income and capital with the following countries: Albania, Austria, Azerbaijan, Belarus, Belgium, Bosnia & Herzegovina, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Finland,

Georgia, Germany, Greece, Hungary, Iran, India, Italy, Kuwait, Latvia, Lithuania, Macedonia, Moldova, Netherlands, North Korea, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Spain, Sri Lanka, Sweden, Switzerland, Tunisia, Turkey and Ukraine. Agreements with Egypt, Estonia, France, Ireland, Libya, Malaysia, Malta, Montenegro, Pakistan, Qatar, UAE, United Kingdom and Vietnam cover the avoidance of double taxation of income only.

VALUE ADDED TAX

Value added tax is levied on the following:

- supplies of goods and services for business purposes by a taxpayer within the territory of Serbia; and
- import of goods into Serbia.

A taxpayer is any entity that independently supplies goods and services in the course of doing business.

Each entity whose turnover in the previous 12 months (sales of goods and services excluding sales of real estate and equipment used in performing business activities) exceeds RSD 8 million is obliged to register for VAT.

The first transfer of newly built buildings (currently for buildings constructed since 1 January 2005) is subject to VAT at 10% (for residential buildings) or 20% (other buildings). Supplies of land, as well as the renting of land and real estate for residential purposes are exempt from VAT without input VAT recovery. There is a possibility to apply VAT on any transfer of buildings (option to tax) through a reverse charge mechanism if both the purchaser and the seller are VAT registered. In addition, there is a possibility to accrue VAT through a reverse charge mechanism

on construction services provided by the main contractor to the investor.

PROPERTY TAX

In Serbia, tax on property is paid by the titleholder of the property rights (ownership, right of use, tenure, etc.). The property tax base is the market value for most entities instead of its book value. Each municipality issues detailed rules on how to calculate property tax liability. Entities applying fair value accounting use the book value as the tax base.

Property tax rate may not exceed 0.4%.

Property tax returns are submitted by 31 March of the current year.

REAL ESTATE TRANSFER TAX

The transfer of ownership for real estate which is not subject to VAT is subject to transfer tax at a rate of 2.5%. The taxpayer is the seller (i.e. transferor of the ownership right, intellectual property right, or the person who leases or gets use of the construction land).

For more information on real estate services in Serbia, please contact:

Igor Loncarevic
Partner, Tax and Legal

KPMG in Serbia
Kraljice Natalije 11
Belgrade, 11000
Serbia

T: +381 11 20 50 570
E: iloncarevic@kpmg.com

kpmg.com/rs



Slovakia

GENERAL

The Slovak tax system was fundamentally changed following major tax reforms in 2004 making the tax system fully EU compliant. In 2009 an amendment to the Slovak tax legislation introduced new tax treatment for business combinations, effective from 1 January 2010. The amendment to the Income Tax Act effective from 1 January 2012, among other changes, modified certain aspects of tax depreciation. With effect from 1 January 2013 inter alia the corporate income tax rate was increased from 19% to 23%, while from 1 January 2014 this tax rate was reduced to 22% besides other major changes. The amendment to the Slovak tax legislation effective as of 1 January 2015 introduced new depreciation rules, certain limitations on tax deductibility of selected costs and new transfer pricing and anti-avoidance rules.

The amendment to the value added tax (VAT) legislation passed in 2009 introduced the possibility of VAT grouping and accelerated VAT refunds for

qualifying taxpayers. The amendment to the VAT Act effective from 1 January 2011 extended the period for the application of a capital goods scheme to real estate from 10 to 20 years and temporarily increased the basic VAT rate from 19% to 20%. From 1 October 2012 a further amendment was introduced with the aim of countering tax fraud in the VAT area. This was followed by an amendment to the VAT legislation effective from 1 January 2013, also implementing inter alia the EU invoicing directive.

As of 1 January 2014 all VAT payers and certain other entities became obliged to file all their filings with the Tax Authorities electronically. By 2017 it is hoped that all companies and individuals communicating with all public authorities will be doing so electronically.

CORPORATE INCOME TAX AND CAPITAL GAINS

Corporate income tax (CIT) in Slovakia is levied on all taxable income at the standard corporate tax rate of 22%. Income is computed as taxable revenues



reduced by eligible costs incurred to generate, assure or maintain taxable income, subject to additional tax adjustments.

There is no separate capital gains tax in Slovakia and gains on the disposal of fixed assets and intangibles are included in a taxpayer's total income. On disposal, the taxpayer can deduct the net tax value of the assets (after accumulated depreciation) and associated disposal expenditures up to the amount of the income from related sales. Taxable income can be reduced by the amount of tax losses available for utilisation. Losses on the sale of certain buildings are not tax deductible, neither are losses on the sale of land. The capital gains on sales of real estate, rental income or other income from real estate situated in Slovakia is also subject to local rules; hence there is also a liability to pay income tax if both parties involved in the transaction are Slovak tax non-residents not having a permanent establishment in Slovakia, unless a Double Tax Treaty provides tax ineligibility.

In the case of a sale of shares in a Slovak company held by a foreign shareholder, under the domestic rules the capital gain is taxable in Slovakia but exemptions may be available to EU resident taxpayers. Also Slovakia has a wide network of double tax treaties which normally (but not always) provide the right to tax the capital gain in the jurisdiction of the seller. Potential gains here may also be taxable if the Slovak company holds substantial real estate.

Fiscal Grouping

There is no concept of fiscal grouping for corporate income tax purposes in Slovakia.

Minimum Tax/Tax Licenses

With effect from 1 January 2014, the taxpayer declaring any tax loss or tax liability which is lower than a defined minimum amount is obliged to pay a "tax license", which is in fact a minimum tax. The amount of the tax license ranges from EUR 480 to EUR 2,880 depending on the entity's turnover and on whether the entity is a VAT payer. Payment of the tax license is due within the filing period of the corporate income tax return (i.e. by 31 March the following year if the deadline is not extended). A positive difference between the minimum tax and the actual tax liability may be offset against future tax liabilities in excess of the amount of the minimum tax in the following three tax periods.

Tax Depreciation

Depreciation of fixed assets is calculated on a straight-line or accelerated basis, using rates laid down in legislation. Depreciation is based on categorisation of assets into groups with depreciation

periods. Effective from 1 January 2015, the number of depreciation groups has been increased from 4 to 6 groups with a maximum tax depreciation period amounting to 40 years. Accelerated tax depreciation may only apply to depreciation groups 2 and 3 (mostly on technological equipment). Buildings are depreciated over 20 or 40 years depending on the type of the building. It is possible to decide to interrupt (not claim) depreciation of tangible assets in any particular year, but with effect from 1 January 2015 the interruption of tax depreciation of tangible assets is not possible during a tax audit and only via a supplementary income tax return for a tax period that was already subject to a tax audit. Generally, interruption of depreciation of tangible assets prolongs the depreciation period. Land cannot be depreciated for tax purposes.

In the case of certain components of (multiple unit) real estate it is also possible to divide a fixed asset into separate components if the acquisition value of each respective component is higher than EUR 1,700 – and also to depreciate them separately in a different tax depreciation group.

Tax Losses

Tax losses incurred from 2014 onwards may be carried forward over four years in equal instalments. Tax losses incurred for the 2010 to 2013 taxable periods can be carried forward equally over four years starting with the taxable period starting 1 January 2014. A company wound up without liquidation (e.g., for a merger), is allowed to transfer the right to carry forward its tax losses to its legal successor to set off against subsequent taxable profits. Subject to certain anti-avoidance limitations, the legal successor

may deduct the tax losses of a dissolved legal entity. Different rules may apply to tax losses of companies benefiting from various tax incentive schemes.

Thin Capitalisation/Earnings Stripping Rules

In the tax periods commencing on or after 1 January 2015, interest and other expenses related to loans received from a related party exceeding 25% of an amount roughly corresponding to EBITDA will be tax non-deductible. The rules apply to related parties – in line with the definition of related parties for transfer pricing purposes, i.e. to foreign and domestic related parties. These rules do not apply to certain financial institutions, e.g. banks, insurance companies, re-insurance companies and others.

WITHHOLDING TAX Dividends

Dividends are currently not subject to any withholding tax if paid out of profits generated from 1 January 2004 onwards. Dividends paid out from older profit may still be taxable, whilst exemptions are provided to EU/ EEA resident companies under the terms of the EU Parent-Subsidiary Directive. Dividend income received by individuals may be subject to compulsory health insurance contributions.

Interest, Royalties and Intangible Services

Under Slovak domestic legislation, withholding tax of 19% applies to payments of interest, royalties and fees for intangible services paid to treaty countries. This is generally reduced or eliminated under the double taxation treaties to which Slovakia is a party. However, in order to apply the treaty



rates, the payer should hold a certificate of tax residence of the recipient. Furthermore, the Interest and Royalties Directive fully applies in Slovakia.

In the case of non-treaty countries, the withholding tax rate is increased to 35% as of 1 March 2014. The Ministry of Finance issues a list of the treaty countries annually.

Currently, withholding tax is regarded as the final tax with certain exceptions, such as certain income of tax non-residents listed in line with the tax legislation.

SECURITY TAX

Payments to an entity which has or may have a permanent establishment in Slovakia are subject to 35% security tax with the exception of treaty countries, in the case of which the security tax rate remains at 19%. This is not applied if the receiving entity holds a certificate proving it makes advance payments of tax or if the receiving entity has its registered seat or address within the EU.

BUSINESS COMBINATIONS

Taxpayers in Slovakia may decide that in the case of certain business

combinations/activities the fair value will be used not only for accounting, but also for tax purposes.

In such a case, the revaluation difference arising from the restructuring must be included in the taxable base in line with the tax law. On the other hand the company may depreciate assets from their fair value and must not continue with the tax depreciation of assets from their tax residual value. In addition, the amortisation of goodwill may, under certain conditions, be tax deductible.

REAL ESTATE TAX

In general, real estate tax is applied to companies and individuals owning land and buildings. The tax is based on the area of the land and building, the number of floors of a building, usage and location. There is considerable flexibility for local authorities in the setting of these rates of tax.

REAL ESTATE TRANSFER TAX AND OTHER TRANSFER TAXES AND DUTIES

Real estate transfer tax was abolished in 2005. There are no significant stamp or other duties on the transfer of land or



buildings. Acquisition of shares in Slovak companies is not subject to any transfer tax or significant stamp duties.

VALUE ADDED TAX

General Provisions for Real Estate

Generally, the sale of property or parts thereof is subject to VAT in Slovakia if sold within five years of the first occupancy permit or first use. The sale of building land is also subject to VAT. Since January 2011, the standard 20% VAT rate is applicable in Slovakia with respect to the supply of building land and buildings.

If real estate sales do not meet these conditions they are VAT exempt but the supplier has the option to choose to charge VAT.

Rental of real estate or parts thereof is exempt from VAT but the supplier may opt to charge VAT if the supply is made to a taxable person.

The VAT payer who acquires immovable property with the intention to use the

property for both business and non-business purposes is only entitled to deduct the proportional part of the input VAT in the amount that corresponds with the scope of the business use of the respective property.

The Slovak VAT Act contains provisions on capital goods scheme, according to which the VAT payer is obliged to pursue for VAT purposes the change of use (for business/non-business purposes as well as for exempt/non-exempt use) of immovable property (buildings, building lands, flats, commercial premises, building superstructures, extensions and reconstructions of buildings, flats and commercial premises requiring a building permit) for a period of 20 years and to adjust the input VAT deducted accordingly.

VAT Grouping

VAT grouping was introduced in Slovakia with effect from 1 January 2010. A VAT group is defined as a group of taxable persons with their seat(s), places of business or establishment in the territory of Slovakia and which are connected financially, economically and organisationally. Members of a VAT group act as one taxable entity under one assigned VAT ID number.

The Tax Authorities should register the VAT group with effect from 1 January of the calendar year following the year in which the application for registration was submitted if the respective application has been filed by 31 October of the current calendar year.

Should the application for VAT group registration be filed after 31 October of the current year, the Tax Authorities will register the group with effect from

1 January of the second year following the calendar year in which the application for the registration of the VAT group was filed.

From 1 January 2014, a new member may join the existing VAT group anytime during the calendar year.

VAT grouping can positively affect the cash flow of companies in a VAT group since VAT is not charged on transactions between VAT group members.

VAT Refund

If a company is established in another EU Member State, it can submit an electronic claim for VAT refunds under EU Directive 2008/9/EC. A non-EU business can also recover VAT under the principles of the 13th EU VAT Directive.

Under both of these provisions, there are strict time limits for making claims. Applications must be submitted within six months following the end of the calendar year in which the VAT was charged or paid to non-EU businesses and within nine months in the case of payments to EU entities. Alternatively, for EU entities, a shorter period is allowed if at least three calendar months are involved and VAT incurred during this period amounts to at least EUR 400.

The Tax Authorities should decide on whether the claim is to be paid for EU business within four months of receipt of the application, or, if additional information is requested, with a period of up to eight months, or for non-EU entities within six months.

VAT payers with seats in Slovakia and foreign entities who do not fulfil the conditions for refunding of VAT under

the EU Directive 2008/9/EC or the 13th EU VAT Directive and which are VAT registered in Slovakia may apply for a refund of VAT incurred via filing of VAT returns.

Generally, the refunding by way of VAT returns takes approximately 90 days if the supplier is a monthly VAT payer.

However, an accelerated VAT remittance procedure is available for persons registered for VAT in Slovakia, under which a VAT refund is possible within 30 days of the deadline for filing the VAT return for the respective period. This is subject to certain conditions, e.g. the taxable period being a calendar month, registration for VAT purposes for at least 12 months before claiming the excess VAT deduction, and no outstanding liabilities towards the state budget nor towards social/health insurance institutions during 12 calendar months before the end of the calendar month in which the excess VAT deduction arose. VAT payers who comply with these conditions must note this in the respective VAT return.

Slovak Act on Value Added Tax – General Rule for Determining the Place of Supply of Services

General rules on “place of taxation” stipulate that the place of supply of services to a taxable person (so-called “B2B” – business to business services) is the place where the customer is established; and the place of supply of service to a person other than a taxable person (so-called “B2C” – business to consumer services) is in the Member State of the service supplier.

Exceptions to the general rule apply for specific services, e.g. the place of supply

of services connected with immovable property, including the services of estate agents and of related experts, accommodation services, the granting of rights to use immovable property and services for the preparation and coordination of construction work, such as the services of architects and of persons providing on-site supervision, should be the place where the immovable property is located.

TRANSFER PRICING

Prices used in transactions between related parties must comply with arm's length principles. Under Slovak tax law, if the agreed price for a transaction is notably different from a fair market price and the difference would lead to a decrease of the taxable base of the Slovak related party, a fair market price will be substituted for tax purposes. Related parties are generally defined as economically or personally connected individuals or legal entities. Economic connection is understood to be participation of more than 25% in share capital or voting rights. Personal connection is understood to include participation in the management or control of the other person.

Up until the end of 2014 the transfer-pricing rules have only applied to cross-border transactions. As of 2015, the transfer pricing rules have been extended to apply to transactions between related domestic entities.

Based on transfer pricing principles the transfer price should reflect the risks borne and functions performed by parties involved in the transaction. In principle, any method recognised by the OECD could be used for price determination (e.g. cost plus, resale minus, comparable uncontrolled price). If the price charged for goods or for a service significantly differs from prices charged in similar transactions between independent companies, the tax authorities may challenge the transaction.

Formal transfer pricing documentation requirements have been effective since 1 January 2009. The Ministry of Finance issues guidelines on transfer pricing documentation rules. Transfer pricing documentation must be provided to the tax authorities within 15 days of their request.

For more information on real estate services in Slovakia, please contact:

Branislav Durajka

Partner

KPMG in Slovakia

Dvorakovo nabrezie 10

Bratislava, 811 02

Slovakia

T: +421 2 599 84 111

M: +421 917 843 534

E: bdurajka@kpmg.sk

kpmg.com/sk





Slovenia

GENERAL

The standard value added tax (VAT) rate of 22% is applicable in Slovenia whereas a reduced rate of 9.5% may be applied in some cases.

The sale of building land is subject to 22% VAT. However, the sale of buildings or parts thereof and of the land on which they stand (occupied for longer than two years) is VAT exempt, consequently, 2% real estate transfer tax (RETT) is payable. Notwithstanding the above, the seller (taxable person) and the buyer (taxable person having the right to full deductions of VAT) can make an arrangement to charge VAT on the sale. In such a case the buyer and the seller agree on a joint declaration about taxation with VAT and submit it to the Tax Authority prior to the time of supply.

The reduced 9.5% VAT rate on the sale of residential property applies only if the property meets the criteria of a social housing programme. If the area of a house or apartment exceeds a certain area in square metres then the standard VAT rate applies. Details are provided under section "Value added tax" below.

CORPORATE INCOME TAX

Resident companies are taxed on their worldwide income. According to the Corporate Income Tax Act (henceforth the Slovene CIT Act), revenues and expenditure disclosed in companies' profit and loss accounts are adjusted for tax purposes.

The corporate income tax (CIT) rate is currently 17%.

Investment funds subject to tax under the Slovene CIT Act which are established in accordance with the Act regulating investment funds and fund management companies shall pay CIT for the tax period at a rate of 0% of the tax base, provided that at least 90% of the operating profit generated in the preceding tax period has been distributed by 30 November of the tax period in question.

Capital Gains

Capital gains are included in the tax base and are subject to CIT. However, under certain conditions (i.e. if the taxpayer holds at least 8% of the share capital for a minimum period of 6 months and



employs one employee on a full time basis) then 47.5% of the capital gain may be exempt from taxation. 50% of capital losses are treated as non-deductible expenses if realised from alienation of shares and if the above mentioned conditions are met.

Tax Depreciation

Based on the Slovene CIT Act, depreciation and amortisation may not exceed the level arrived at using the straight-line depreciation method and the maximum annual depreciation rates prescribed by the CIT Act. Any excessive amount should be treated as a tax non-deductible expense until the asset has been completely depreciated or disposed of.

Examples of maximum depreciation rates are:

- 3% for buildings and investment property;
- 6% for parts of building projects, including parts of investment property;

- 20% for equipment, vehicles and machinery;
- 50% for computers, hardware and software;
- 10% for other investments.

Tax Losses

Tax losses may be carried forward for an indefinite period and may be used for the reduction of the taxpayer's positive CIT base but only up to 50% of that taxpayer's CIT base for the current tax period. Tax losses from the current and previous years may not be carried forward if the direct or indirect ownership of capital or voting rights of the taxpayer changes by a factor of at least 50%, and where:

- the taxpayer, before the changes of ownership, did not carry out the business activity for two years; or where
- the taxpayer essentially changed its business activities in the last two years before or after the change of ownership, unless the change of business activities is necessary for the continuation of employment or due to business restructuring.

Thin Capitalisation

Except in the case of loan recipients that are banks or insurance providers, the interest paid on loans (loans received from a shareholder who at any time during the tax period directly or indirectly owns at least 25% of the shares in the equity capital, or the voting rights of the taxpayer) will not be recognised as an expense, if at any time during the tax period the loans exceed the prescribed debt/equity ratio of 4:1. However, if

the taxpayer can prove that the excess loan could also be granted by a non-related entity under the same or similar circumstances, then thin capitalisation rules do not apply.

WITHHOLDING TAX

The general withholding tax (WHT) rate is 15% and is applicable for payments of dividends, interest, royalties, lease payments for immovable property located in Slovenia, on payments for the performances of artists and sportsmen, in all those cases provided that the payment is made to another person, and, for payments for any services, to an entity resident in a country listed on the "black list" which is published by the Slovene Ministry of Finance.

Slovenia applies the EC Parent-Subsidiary Directive and Interest-Royalty Directive which reduce WHT to 0% when this income is paid to EU resident companies. If none of the aforementioned Directives apply, there is also a possibility to apply the relevant double tax treaty between Slovenia and the respective country.

Dividends

No withholding tax is levied on any payments made by a Slovenian company to another Slovenian company which communicates its tax identification number to the payer (the procedure normally followed).

Under the Slovene CIT Act which lays down the provisions of the EC Parent-Subsidiary Directive, dividends are exempt from withholding tax if the recipient is an EU company listed in the Directive and subject to corporate income tax and which directly holds at least 10% of the capital or voting rights of the paying company.

A continuous minimum holding period of two years is required. If the 2-year holding

period has not yet elapsed, the exemption can be directly applied if the recipient lodges a bank guarantee.

Notwithstanding the above conditions, dividends are exempt from withholding tax if the recipient is an EU or EEA company that is unable to offset the Slovenian withholding tax because it benefits from a participation exemption regime in its country of residence. In such cases, any withholding tax already paid may also be refunded.

Interest and Royalties

According to the Slovene CIT Act, which lays down the provisions of the EC Interest and Royalties Directive, interest and royalty payments made by resident companies are generally exempt from withholding tax, provided that at the time of the payment:

- the payments are made to the beneficial owner which is a company registered in an EU Member State;
- the payer and the beneficial owner are related such that a) the payer directly participates in the beneficial owner's capital by not less than 25%, or b) the beneficial owner directly participates in the payer's capital by not less than 25%, or c) the same company directly participates in the payer's and the beneficial owner's capital by not less than 25%, where participation between the companies of the EU Member States is concerned;
- the duration of the minimum participation is not less than 24 months.

However, an exemption from withholding tax shall only apply to the amount of the payments that are at arm's length.

For the above-mentioned withholding tax exemption, a special application must be submitted to the Slovene Tax Authorities. If the conditions are fulfilled, the Slovene Tax Authorities have to pre-approve the application of that WHT exemption.

REAL ESTATE TRANSFER TAX

The transfer of real estate property or establishing and transferring the right of superficies is subject to real estate transfer tax (RETT). If VAT is charged on the transaction, the RETT is not imposed (i.e. for supplies of construction land, new immovable property – buildings and land at the time of first use or within 2 years of first use, etc.).

The taxable person is the seller of the real estate property, unless otherwise agreed. In establishing the right of superficies, the taxable person is the owner who first acquired the right to the superficies, while in transferring the right of superficies; the taxable person is the owner who transfers the right to the superficies.

This tax is payable at a rate of 2% of the tax base. The tax base is the selling price of the real property. In establishing or transferring the right of superficies, the tax base is the realised payment equaling the market value of the right of superficies.

TAX ON CIVIL LAW TRANSACTIONS (TRANSFER TAX)

Slovenia does not impose a special tax on civil law transactions.

VALUE ADDED TAX General Provisions Regarding Real Estate

Generally, according to Article 44 of the Slovene VAT Act, the sale of buildings, constructions and their parts are VAT exempt (except if the sale is made

before the first occupation or if the sale is performed within two years of the first occupation and except for the sale of building land). However, in most cases taxpayers are able to give up the exemption if special conditions according to Article 45 of the Slovene VAT Act are fulfilled, i.e.:

- the seller and the buyer of immovable property have made a joint declaration (regarding the VAT-able transaction) to the competent tax authority prior to the supply thereof (filed electronically); and
- the buyer of the immovable property has the right to full deduction of input VAT.

If the supply of immovable property is subject to VAT (according to Article 45 of the Slovene VAT Act) then the VAT is payable by the buyer based on the local reverse charge mechanism, as long as the buyer is registered for VAT in Slovenia (using the domestic reverse charge mechanism according to Article 76a of VAT Act). In this case, the seller is obliged to report every taxable transaction with regard to such immovable property to the Tax Authorities on a monthly basis in accordance with Article 76a of the VAT Act (reverse charge mechanism).

In the case of a VAT exempt sale of buildings, constructions and their parts, the transaction is subject to 2% RETT.

The standard VAT rate in Slovenia is 22% and the reduced rate is 9.5%).

The reduced VAT rate applies only to flats, housing and other facilities intended for permanent residence and parts of these buildings that are part of a social policy, including the construction, renovation and repair thereof, the maximum floor space for these being 120 m² for apartments and 250 m² for houses).

The leasing of an office and certain rental space is, in general, also VAT exempt (except for accommodation in hotels, the lease of garages and parking areas, the lease of permanently installed machinery and equipment and the lease of safes). However, the lease of an office and certain rental space might be subject to VAT if certain conditions are met (e.g. where a joint declaration is signed and provided to the tax authorities).

Place of Supply of Services

Generally, since 2010, the place of supply of services to a taxpayer registered for VAT purposes in another EU country or third country is the place where the taxpayer has established his business, permanent place of residence or permanent place of conducting business. However, in cases where the supply of services is made to a person other than a taxpayer, the place of supply of services is where the service provider has its seat, permanent place of residence or permanent place of conducting business.

In cases of services related to real estate, the place of supply of services is where the real estate is situated.

EC Services List

Since 1 January 2010, relevant monthly EC sales lists have had to be filed by taxpayers if they supply goods or services to taxpayers from other EU countries where the reverse-charge mechanism is applied. Advisory services where VAT is charged on a reverse charge mechanism basis in the recipient's country have to be included in the EC sales list. Services relating to local real estate where the VAT is charged locally do not need to be reported in the EC sales list.

EC sales lists should be filed electronically by the 20th of the month following the transaction. If EC sales list are filed, then VAT returns should also be filed by the 20th of the following month, otherwise the deadline for filing VAT returns is on the last working day in the month following the tax period in question. Nil EC sales lists do not need to be filed. However, the VAT liability should always be paid by the last working day of the month following the taxable period in question.

VAT Refund under Domestic Law

The standard refund period relating to VAT returns (i.e. the refund of VAT surplus) is 21 days after the date of filing of the VAT return.

Foreign VAT Refund under VIII Directive

Since 1 January 2010, VAT reclaims under the VIII Directive must be filed with the local VAT authority (in the country where the requestor is registered) and not where VAT has been paid. VAT reclaims must be filed electronically.

For more information on real estate services in Slovenia, please contact:

Nada Drobnic

Partner, Tax

KPMG in Slovenia

Zelezna cesta 8a

1000 Ljubljana

Slovenia

T: + 386 1 2364 300

M: +386 31 641 150

E: nada.drobnic@kpmg.si

kpmg.com/si



© 2016 KPMG Central & Eastern Europe Limited, a limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

Photo: Miran Kambic, arhiv Ljubljanski grad

Contact:

Honorata Green

Tax Partner

KPMG in Poland

ul. Chłodna 51

Warszawa, 00-867

Poland

T: +48 22 528 11 53

M: +48 604 496 370

E: honoratagreen@kpmg.pl

kpmg.com/cee

KPMG Thought Leadership app



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

© 2015 KPMG Central & Eastern Europe Limited, a limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.