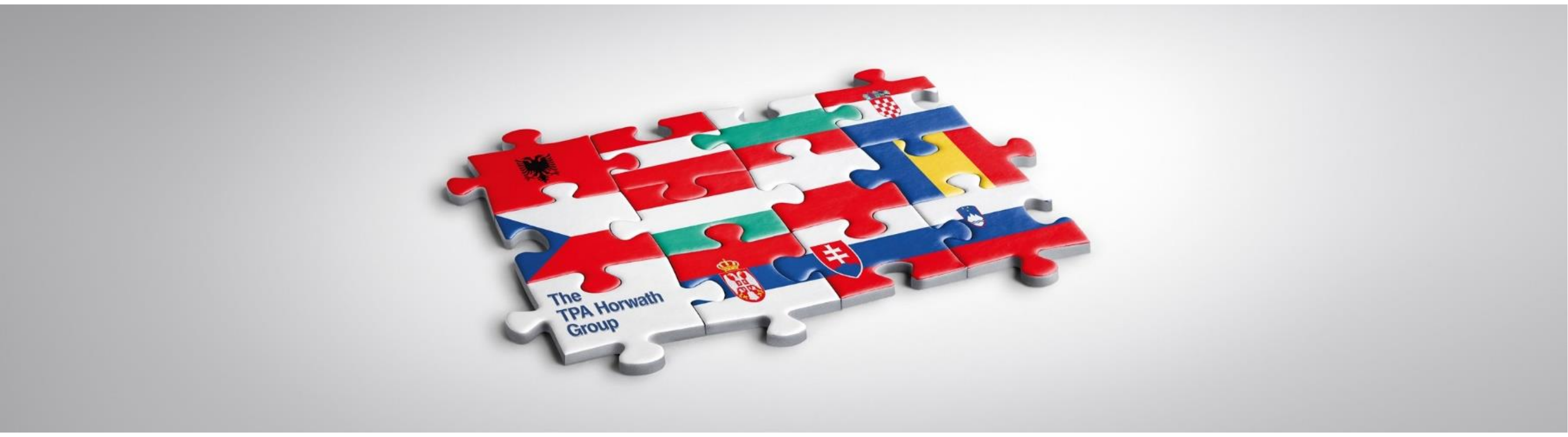

11 Countries. 11 Tax Systems.

The year 2016 also brings extensive changes in the areas of taxes, duties and social contributions in all CEE and SEE countries. This special newsletter covers essential changes in effect as of 2016.

TPA Horwath offers an overview of the most important tax innovations in the following CEE and SEE countries in which we operate:

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1. Albania

1.1. National taxes

- Tax on premiums written, excluding insurance premiums regarding life, travel, health and green card insurance policies, is 10 (ten) percent of the premium.
- A new tax applies to luxury vehicles:
  - The initial registration fee at the rate of 70,000 (seventy thousand); and
  - The annual fee at the rate of 21,000 (twenty-one thousand).

  Luxury vehicles are cars to 4 + 1 with capacity equal to or greater than 3000 cm^3

1.2. Local taxes

- The tax rate applicable to the taxable income of taxpayers subject to the simplified income tax on small businesses, with an annual turnover of five (5) to eight (8) million, is five (5) percent. Simplified income tax for taxpayers with an annual turnover from 0 (zero) to 5 (five) million, is 0 (zero) per year.

- The tax base of the bedrooms in a hotel is the number of overnight stays at the hotel per person. The indicative tax is 140 Albanian lek per overnight stay.
- Real estate tax applies to all natural or legal persons, domestic or foreign, owners or users of assets above the territory of the Republic of Albania, regardless of the level of use of these assets. Liable for the tax on immovable property is the owner or co-owner in proportion to the part that owns. For the properties that are not equipped with the ownership document, liable for the tax is the used of that immovable property.

1.3. Social and health insurance

- Self-employed persons are responsible for the payment of contributions and unpaid family workers for taxpayers determined by the Council of Ministers.
- Social insurance contributions paid by employer and employee are calculated based on the gross salary of the employee and other allowances of permanent character arising from la-bour relations, within a minimum gross wage and the maximum wage for purposes of calculating social security contributions both being determined by the Council of Ministers.
- For certain categories of persons who conduct business performing professional activities as self-employees, including the unpaid family members who work and live with the self-employed professions, salaries for the calculation of contributions and the criteria of setting her up to the level of salary maximum are set by the Council of Ministers.

2. Austria

2.1. Sales tax

Introduction of a new reduced tax rate in the amount of 13 %. Applicable with effect from 1/1/2016 to sales involving live animals/plants, wood, art objects, swimming pools and aircraft passenger transport, among others. With effect from 1/5/2016 also applicable to accommodation services (including ancillary services), tickets in the cultural sphere (theatre, music and singing performances, zoos).

2.2. Profit tax regarding natural persons

- Newly set rate of progression for income tax; among others, reduction of initial tax rate to 25 % and increase of maximum tax rate to 55 % (for incomes of EUR 1 million and higher, will end in 2020);
- Increase of capital gains tax from 25 % to 27.5 %: basically applicable to all capital gains; interest from money deposited in banks, in particular, will be exempt from this increase;
- Cancellation of the restricted possibility of carrying forward losses for those applying cash-based accounting with income from business: losses from 2013 can be carried forward for an unlimited period
- Loss settlement restraint for capitalist partners in the amount of their capital contribution; non-attributable losses will be put “on hold” and can only be settled in the event of future profits or funds deposited;

2.3. New provisions in real estate

- Increase of real-estate income tax for natural persons to 30 % (real-estate income tax for legal entities remains at 25 %)
- Elimination of inflation allowance
- Depreciation rate for buildings included in business assets: up to a maximum rate of 2.5 % pa.
- Depreciation rate for residential buildings included in business assets: up to a maximum rate of 1.5 % pa.
- As regards non-corporate property, the basically specified land share is increased from 20 % to 40 %

2.4. Real estate transfer tax

- Elimination of standard values (except in agriculture and forestry)
- Unrequited transfers are calculated based on property value derived from fair market value;
- Progressive tax rate for purchases without charge, depending on property value:
- 0.5 % for the first EUR 250,000, 2 % for the next EUR 400,000 and 3.5 % beyond that;
- Extension of the regulations regarding consolidation of shares and/or change of shareholders for partnerships
- Extended benefits for business transfers

2.5. Other provisions

- Introduction of mandatory cash registers (with certain exceptions) as well as receipt issuance and individual accounting obligations for sales in cash;
- Creation of an account register (possibility of access to accounts subject to certain prerequisites) and reporting duty for capital drains > k EUR 50 from accounts/deposits of natural persons (exception: business accounts)
- Cash payments for construction work exceeding EUR 500 are no longer tax deductible;
- Ban on wage payments in cash in the construction industry;
- Increase of research bonus from 10 % to 12 %:
- Elimination of 1 % capital duty;

3. Bulgaria

Summary of tax changes 2016

Several amendments in the Bulgarian tax regulations as well as a New Accountancy act have been approved by the Bulgarian Parliament at the end of 2015. These amendments concern mainly corporate income taxation, VAT and taxes on personal incomes, and are effective as of 1 January 2016.

3.1. New Accountancy Act – important changes

A new Accountancy Act has been approved by the Bulgarian Parliament at the end of 2015. This new act fully substitutes the Accountancy Act from 2002, applicable until 31/12/2015.

The New Accountancy Act implements 4 groups of companies and 3 groups of enterprises based on criteria as: assets, net sales and personnel. New rules for financial audits shall be applicable.

3.2. Corporate Income Tax Act amendments

Several changes concern clarifications and additional tuning of articles related to „state aid“.

The definition of „disposal of financial instruments“ has been amended and now includes also „state bonds“, leading to exemption of withholding tax of the incomes derived from disposal of such bonds on regulated market.

The dividends or other distributed amounts shall be considered taxable income, if these amounts have been treated as tax-deductible expenses in the source company.

3.3. VAT Act amendments

Amendments related to defining the tax base of supplies of the VAT registered person to shareholders and employees for purposes not related to the business activity of the company. Such „free“ supplies shall be considered subject to VAT.

The tax base (equal to the cost of the goods or services) shall be determined proportionally based on the use of these supplies for purposes of the business activity and for purposes of the shareholders not related to this activity.

The tax bases of such supply of goods shall be also adjusted with a coefficient reflecting the impairment of the goods (5 years basis for movable assets and 20 years for immovables).

3.4. Law on Taxes on Incomes of Individuals – amendments

Advance (current) tax of 10 % on „other incomes“ has been implemented when the income is paid by a company or by a self employed person. E.g. interest income from loan provided by an individual.

3.5. Act on Restriction of Cash Payments – amendments

The limit for cash payments has been reduced from BGN 15,000 to BGN 10,000.

3.6. Minimum salary

The minimum salary shall be BGN 420, effective 1 January 2016.

4. Croatia

4.1. Value Added Tax

- The annual value-added tax (VAT) return is abolished;
- The supply of buildings (including the attached land) before their first occupation/use or within two years from their first occupation/use is subject to VAT.
- The cash accounting scheme has been extended to all VAT payers whose annual revenue does not exceed HRK 3 million (approximately EUR 350,000) in the previous calendar year.

4.2. Corporate Profit Tax

- For the reduction of the tax base for profits from dividends and shares in capital and reinvested profit, certain conditions have to be met.
- Excessive interest:
  - the maximum corporate profit tax deductible interest rate on loans from a Croatian tax non-resident to a Croatian tax resident related party decreased from 7 % per annum to 3 % per annum as of 31 October 2015 and to 5.14 % as of 1 January 2016; and
  - the minimum acceptable interest rate on loans from a Croatian tax resident to a Croatian tax non-resident related party for corporate profit tax purposes has also decreased from 7 % per annum to 3 % per annum as of 31 October 2015 and to 5.14 % as of 1 January 2016.

The rules also apply to loans between two Croatian tax residents if one of them is in a favorable tax position.

4.3. Obligation Law Act, General Tax Act and Bylaw:

- Penalty interest rate which applies to trade agreements and contracts between traders and persons of public law is reduced from 15 % to 10.14%, while penalty interest applicable to business transactions between taxpayers and between taxpayers and persons of public law is reduced from 12.14 % to 10.14 %.
- Tax authorities are authorised to issue binding opinions in connection with certain tax issues.
- New obligation for Croatian VAT payers to file reports for overdue uncollected receivables.
- New possibility for tax authorities and taxpayers to agree on additional tax liabilities during a tax audit, if a taxpayer waives its right to file an appeal.

4.4. Investment Promotion Act

The new Investment Promotion Act introduces the possibility for the Government to sign a Project Preparation and Implementation Agreement with newly founded companies with a minimum investment in the amount of EUR 13 million, provided they employ at least 10 new highly educated work-ers.

4.5. New Accounting law

In order to harmonise the Croatian Accounting Law with the 2013/34/EU Directive, a new Accounting law was introduced. The new Accounting Act will apply to all legal entrepreneurs obliged to comply with the Corporate Profit Tax Act.

4.6. International law:

- The intergovernmental agreement (IGA) between the United States (US) Treasury and Croatia was signed and released.
  After the two-year restriction period expired at the end of June 2015, Austria, Malta, the Netherlands, Slovenia, the United Kingdom have decided to maintain restrictions and restrict Croatian citizens from working in their countries during the second phase period.

5. Czech Republic

5.1. Liechtenstein-Czech Double Tax Treaty effective as of 2016

A new double tax treaty with Liechtenstein was duly ratified by both contracting states and shall become effective as of 1 January 2016. Aside from the treaty provisions themselves, the ratification is also important with respect to several Czech Income Tax Act benefits which were conditional on the existence of a tax treaty between the two countries.

5.2. Control VAT Statement

With effect from January 2016, all Czech VAT payers are required to submit a new report – a control VAT statement – together with VAT returns for the months in which a taxable supply is provided or/and purchased in the Czech Republic. This includes local sales and purchases as well as intracommunity acquisitions of goods or services; VAT exempt supplies, imports/exports and deliveries of goods to other EU member states are not reported. A control VAT statement contains details on such taxable supplies, especially tax bases and VAT amounts, dates of taxable supply, VAT numbers of suppliers/customers, and evidence numbers of the relevant tax documents, etc.

The control VAT statement is submitted electronically only through a data box or the online tax portal by the 25th day of the following month at the latest, starting from January 2016. The deadline for the first control VAT statement is 25 February 2016, regardless of the payer's VAT period. Notably, the VAT Act specifies strict fines in case the obligations related to the control VAT statement are not met, with penalties ranging from 1 TCZK (~40 EUR) to 50 TCZK (~1,850 EUR).

5.3. Transfer of Real Property

The transfer of built-on land and buildings may be VAT exempt for 5 years after initial commissioning, first use or, since recently, after commissioning following significant reconstruction of the property. This means that a significant reconstruction of real property will restart the time limit for compulsory VAT taxation since 2016.

Even in case the sale of real property is primarily VAT exempt, the supplier is entitled to opt for taxation; since 2016 this option can be applied to transfer of unbuilt land (except building lots) as well. Should the supplier opt for taxation on the sale of real property, the tax liability is transferred to the purchaser and the so-called "local" reverse charge regime is applied.

6. Hungary

6.1. Sales tax

6.1.1. Transactions subject to settlement on a regular basis

Under the provisions applicable until the end of 2015, the obligation to pay taxes for transactions subject to settlement on a regular basis (e.g. leases, consultancy services billed on a regular basis) arose at the time of the consideration falling due.

Under the new rules, with effect from 2016, the last day of the agreed settlement period will be deemed the date on which the liability to pay taxes arises.

However, in the event of

- the invoice being issued and falling due at an earlier date than the last day of said period, the liability to pay taxes will arise at the date the invoice was issued;
- the consideration falling due at a later date than the last day of the settlement period, the liability to pay taxes will arise on the due date, but no later than 60 days after the last day of the settlement period.

6.1.2. Extension of requirements with respect to invoicing software

With effect from 2016, all invoicing software will be required to have an independent data-exporting function called "data supply for review by tax authorities" integrated into the program, the purpose being that in the event of a tax audit, it will be possible to provide the tax authorities with uniformly structured information about the invoices issued.

6.2. Income tax

6.2.1. Reduction of income tax rate

Instead of the 16 % flat tax rate up to the end of 2015, a tax rate of 15 % applies to the income of private individuals as of 2016.

7. Poland

7.1. Corporate Income Tax (CIT) / Personal Income Tax (PIT)

- Regulations regarding the obligation to correct tax deductible costs that are not paid are abolished.
- Regulations regarding tax incentives for the acquisition of new technologies which allowed the additional deduction of 50 % of expenditure for the acquisition of these new technologies on new technologies are abolished.
- Introduction of new tax incentives for research and development activities allowing for additional deduction from taxable income.
- Introduction of rules regarding correction of tax deductible costs and revenues.
- Introduction of the anti-abuse clause regarding use of the withholding tax exemption on dividends (only CIT Act).
- Introduction of comprehensive regulations regarding the provision of information on interest payments – implementation of Directive 2014/48/EU of 24 March 2014 (only PIT Act).
- Significant transfer pricing documentation amendments – mostly will take effect from 1 January 2017:
  - Three new types of transfer pricing (TP) documentation, depending on the taxpayer's amount of revenues or expenses: local file – over EUR 2 million; master file – over EUR 20 million; country-by-country (CBC) reporting – over EUR 750 million (first CBC to be prepared for 2016).
  - Obligatory benchmarking study – in case of revenues or expenses exceeding EUR 10 million
  - Obligation to inform the tax authorities about transactions with related parties and to prepare TP documentation on an annual basis.

7.2. Value Added Tax (VAT)

- As of 1 July 2015, taxpayers are obliged to submit recapulative statement for local transactions being subject to the domestic reverse charge mechanism.
- As of 1 July 2015, the reverse charge mechanism should be applied to domestic supplies of electronic equipment such as tablets, notebooks, laptops, mobile phones, smartphones and game consoles.
- As of 1 January 2016, new regulations regarding the rules of deductibility of input VAT related to supplies used for VAT purposes and non-VAT purposes entered into force.

7.3. The Tax Ordinance Tax (General Tax Act)

- Introduction of the "in dubio pro tributario" principle, according to which in the case of doubts and ambiguity of tax rules, a tax regulation should be interpreted for the benefit of taxpayers;
- Introduction of new penalty interest rates – reduced (50 % of standard rate) and increased (150 % of standard rate) interest rates may be applied in certain cases.

8. Romania

8.1. Changes introduced by the new Fiscal Procedure Code

The new Fiscal Procedure Code was published on 23 July 2015 and entered into force on 1 January 2016. Some of the main amendments introduced by the new Fiscal Procedure Code are as follows:

- The level of late payment interest is to be reduced from 0.03 % to 0.02 % per day. Late payment penalties are to be reduced from 0.02 % to 0.01 % per day, and the level of late payment interest due to local budgets will be cut from 2 % to 1 % of the overdue liabilities.

- A new penalty of 0.08 % per day is to be introduced for failure to declare or the incorrect declaration of tax liabilities established by the tax authorities through tax assessment decisions (these penalties may, however, be reduced by 75 % if paid within certain deadlines).
- The “in dubio contra fiscum” principle, according to which unclear provisions should be interpreted for the benefit of taxpayers, is to be introduced.

8.2. Amendments introduced by the new Fiscal Code

The new Fiscal Code (Law no. 227/2015) was published on 10 September 2015 and entered into force on 1 January 2016. The main changes introduced by this new Fiscal Code will affect the following areas:

8.2.1. Corporate income tax

- Foreign companies that are effectivly managed from Romania will now be subject to corporate income tax in Romania.
- In cases where the minimum shareholding conditions (i.e. minimum 10 % of the shares held for an uninterrupted period of one year) are not met, as of 1 January 2016, the withholding tax on dividends will be reduced from 16 % to 5 %.
- The capital gains derived by a foreign company from the sale of shares in Romanian companies are tax exempt, irrespective of whether or not the Romanian company qualifies as a real estate company, as long as the shareholding conditions (minimum 10 % of the shares held for at least one year) are met by the seller.
- The interest deductibility limit applicable to interest expenses on foreign currency-denominated loans (e.g. for non-bank loans) is to be reduced from 6 % to 4 % p.a.

8.2.2. VAT

- The standard rate of VAT will be reduced from 24 % to 20 % as of 1 January 2016 and then reduced further to 19 % on 1 January 2017.
- The sale between Romanian VAT payers of land and buildings will become subject to the reverse charge mechanism (without effective payment of VAT).

8.2.3. Tax on income derived by microenterprises

Newly established companies that have at least one employee have been established for a minimum period of 48 months, and whose shareholders have not previously held shares in other companies are to be subject to 1 % income tax during the first 24 months.

8.2.4. Personal income tax

With effect from 1 January 2016, the tax on dividends derived by individuals will be reduced from 16 % to 5 %.

8.2.5. Social contributions

As of 1 January 2017, dividend income, interest income and capital gains derived by individuals will become subject to the 5.5 % health insurance contribution, irrespective of whether or not the income beneficiary also obtains other types of income subject to this contribution.

8.2.6. Local taxes

For buildings, the local tax rate will depend on the purpose of the buildings, i.e. residential and non-residential buildings: for non-residential buildings the tax rate will range between 0.2 % and 1.3 %, while for residential buildings the tax rate will range between 0.08 % and 0.2 %.

9. Serbia

9.1. Value Added Tax Law amendments applicable as of 15 October 2015

- The possibility of a foreign entity to register for VAT in Serbia by appointing a VAT representative;
- Amending the VAT place of supply rules in relation to distribution of electricity, natural gas, energy for heating and cooling;

- Introducing a VAT reverse charge mechanism to all recipients of goods and services in the field of construction made between two VAT payers.

9.2. Corporate Income Tax Law amendments applicable as of 1 March 2016

With effect from 1 March 2016, withholding tax will be payable on income earned by non-resident legal entities from services rendered or used in Serbia, at the rate of 20 %, unless otherwise provided by an international agreement on the avoidance of double taxation.

9.3. Personal Income Tax Law amendments applicable as of 1 January 2016

- The non-taxable amount of per diems for business trips abroad is increased from 15 EUR to 50 EUR. The per diems amount exceeding the threshold is subject to a 10 % personal income tax rate;
- A new tax incentive for newly employed individuals has been introduced, and applies to at least two newly employed individuals, that allows a refund of 75 % salary-related tax and contributions paid on the salary of the newly employed individuals until December 31, 2017 compared to the number of employees on 31 October 2015. The right to use the incentive, under certain conditions, may be exercised by an employer:
  - A legal entity classified as micro or small legal entity according to the Accounting law; and
  - Self-employed individual.
- Real-estate rental income of an individual is now taxed as a special type of income. The income is now taxed at a single tax rate of 20 % after deducting the standard cost of 25 %, resulting in an effective tax rate of 15 %.

10. Slovakia

10.1. VAT

10.1.1. Special arrangements for applying the tax on receipt of payment

For a selected group of taxpayers who do not achieve an annual turnover of EUR 100,000 and who choose to apply the special VAT scheme on receipt of payment for the goods or services, and who are not bankrupt or being wound up, tax liability arises for the goods and services at the moment of receipt of payment from the customer. On the other hand, the right to deduct the VAT from purchases of goods and services arises at the moment when the relevant consideration is paid to their suppliers.

This change, however, fundamentally affects the customers of those VAT payers who apply the special VAT scheme. If a VAT payer using the standard VAT regime receives invoice from a VAT payer using the special VAT scheme, VAT can be deducted only at the time of payment of the suppliers‘ invoices.

The special VAT scheme applies to the supply of goods and services for consideration with delivery place in Slovakia, where the supplier is liable for VAT. The special VAT scheme does not apply to deliveries of goods to another Member state, export/import of goods, IC acquisitions of goods, and delivery of goods and services where the reverse charge mechanism is applicable.

10.1.2. Further changes in VAT law

In order to support new businesses (start-ups), no deposit for tax shall be paid during the registration process if the taxable person at the time of application for VAT registration only performs preparatory activities for business. If such deposit for tax id not paid within the prescribed period, application for VAT registration shall not be refused; however, tax deposit will be claimed by the tax office.

The reverse charge mechanism will be extended to deliveries of goods with place of delivery in Slovakia, where the supplier is a foreign person and the customer is a taxable person established in Slovakia, i.e. the domestic taxable person will be obliged to pay the tax (with the exception of distance sales).

The range of goods to which the reduced 10 % VAT rate applies will be extended. With effect from 1 January 2016, the VAT rate of 10 % will be applied to certain foodstuffs like meat, milk, and bread, for example.

10.2. Tax Code

From 2016, a new calculation of penalties will be in place. Penalties will be calculated on a p.a. basis from the difference in tax reported.

If a taxpayer declares additional tax in an additional tax return before the tax audit, the penalty will be 3% p.a. If a taxpayer declares additional tax in an additional tax return within 15 days after receiving an announcement from the tax authority regarding the tax audit, the penalty will be 7 % p.a. If the tax authority assessed additional tax during the tax audit, the penalty will be 10 % p.a.

11. Slovenia

11.1. Income tax

A tax reform that was planned for 2016 could not be implemented for political reasons; accordingly, the amendments to income tax law are limited to a minor reform of the income tax scale.

2015 income tax scale:

Annual tax assessment basis in EUR		Income tax	
Above	up to		
	8,021.34		16 %
8,021.34	20,400.00	1,283.41	+27 % above 8,021.34
20,400.00	70,907.20	4,236.92	+41 % above 20,400.00
70,907.20		25,535.16	+50 % above 70,907.20

11.2. Size criteria in accounting

The size criteria were amended with effect from 01/01/2016.

Criteria	Micro companies	Small companies	Medium-sized companies	Large companies
Number of employees	Up to 10	Up to 50	Up to 250	Above 250
Sales revenue	up to 700,000 €	up to 8,000,000 €	up to 40,000,000 €	above 40,000,000 €
Total assets	up to 350,000 €	up to 4,000,000 €	up to 20,000,000 €	above 20,000,000 €

Allocation to a size category takes place when the company exceeds – or no longer exceeds – two of the criteria at the balance sheet date of the two last consecutive business years. Medium-sized companies are subject to an auditing duty. The company size criteria, increased by 20 %, are also applied with respect to the duty of preparing consolidated annual accounts. The duty to prepare consolidated annual reports applies to large companies. Micro companies are no longer obliged to prepare notes to the annual accounts.

11.3. New accounting standards (SRS)

The SRS 2016 have been revised completely, they have a new structure and system, and they use a more clear-cut terminology. Modelled after the IFRS and IAS, two new standards were introduced that regulate determination of the fair market value (SRS 16) as well as depreciation of fixed assets and intangible assets (SRS 17).

Of late, micro companies are no longer required to calculate **provisions for long-service awards and severance payments upon transition** into retirement.

Further amendments

- The registration of employees, which must be effected already before commencement of work since 01/01/2014, can only be effected electronically by means of application E-Vem as of 01/01/2016.

- From 01/01/2016, the use of cash registers suitable to perform an invoice confirmation procedure with the financial administration is mandatory. Customers must keep the invoice until they leave the business premises.
- The deadlines for the submission of statements (e.g. quarterly returns for speculative profits, interest, dividends) were harmonised and/or replaced by annual returns.

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