

Investing in Central Europe

Your move in the right direction

December 2016

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Introduction

The economic and business outlook for Central Europe

In 2016-17 the core/central CEE region looks like a “safe haven” globally. When many emerging markets and developed ones face strained economic and political developments, core CEE looks comparatively much better.

Hungary, Poland, the Czech Republic and Slovakia (the core CEE region) did go through a very tough 5 year period economically and commercially from 2009 to May 2013. The core CEE region and south-eastern Europe were badly hit and business confidence was poor for most of 2009 to spring 2013 with occasional exceptions. The region was performing sub-par and most business executives were certainly disappointed and despondent with the region. Hungary and the Czech Republic were slumped in recession or sub-par growth just 2-3 years ago. Poland, which along with Russia and Turkey, was a key regional market. Poland, for reasons we outline below, has always been a growth market and has experienced fewer cycles than its neighbors and fewer cycles in recent years than most markets globally.

Indeed, Romania is “the new sexy” and we have “taken Romania out of the Balkans”. Growth exceeds 4% and a large majority of companies report excellent business and this is across most sectors. Romania is not as roller-coaster as it used to be and the recent 18 months have been some of the best for business in the last 20 years with the economy recording some of its best figures in 20 years for indicators such as unemployment and inflation.

The timing of the core CEE revival is rather good as critically Russia and Ukraine obviously went through recessions in 2015 and in 2016 or with very low growth while Turkey is experiencing a softer patch. Over the last 18-24 months and for the next 15 months, at least, more companies are putting more focus on the core CEE region.

- The core CEE region is booming relatively and core CEE grew at 8 times the GDP of Latin America in 2015 and in 2016!
- Poland is one of the best performing transition markets in the world.
- Consumer confidence in Hungary and the Czech Republic during 2014-15 saw some of the best improvements in the world and in Europe.

- When the Eurozone grows by an extra 1%, then the CEE region grows by an extra 1.3%.
- But South-eastern Europe (SEE), with the exception of Romania, was not performing as well due to structural economic issues such as budget deficits, debt levels and poor allocation of funding, with Serbia pressing for austerity measures against a soft growth back-drop.
- The SEE markets were about “9-18 months behind” the core CEE ones, but by mid-2016, the SEE markets have embraced that catch-up with GDP growth levels at close to 3%. 

When the Eurozone grows by an extra 1%, then the CEE region grows by an extra 1.3%.

CEE and other regions comparative GDP growth

	2015	2016	2017
Core CEE region	3.7	2.9	3.0
Southeast Europe	2.8	3.0	2.9
Eurozone	1.8	1.4	1.0
USA	2.3	1.6	2.2
Latin America	(-0.2)	(-0.5)	1.9
Asia Pacific	4.6	4.4	4.3

Sources: Consensus Economics, Ceemea Business Group, IMF.

The comparative numbers still speak for themselves with the core CEE region growing faster than any region in the world with the exception of Asia Pacific.

But some minor qualification is required: the core CEE markets are now witnessing a slower 2016 than 2015 and this is due to the slower cycle of EU funding this year. 2016 is an "in-between" year for EU funding budgets and so public investment has slowed in the CEE region and entails slightly softer growth. And, of course, we now have the Brexit scenario which will impact the region more in 2017. As we noted above, whenever the EU falters, then there is risk for the CEE region. We now expect the Eurozone to decelerate to about 1.0% GDP growth in 2017 and this will mean lopping off about 0.3% from most of the CEE (and SEE) markets. This means that 2017 will be weaker but not a catastrophe and by 2017 EU funding will once again be kicking-in and compensating for the Brexit effects.

The key point to make is that the economic numbers are improving but this does not automatically mean that the business results are therefore booming immediately. These core CEE markets are mature, transitioned markets (although they do retain regions which are still emerging).

The core CEE region will remain a more mature single-digit sales market for most companies and we are seeing this trend in 2015-17. But we can confirm that more companies than ever are reporting a mild/ steady uptake in business. One major US conglomerate reports organic top-line sales growing at 8-10% and as the regional managing director notes: "For such markets, this is very sizeable and helps buttress other slower markets in the EMEA region".

And there is more good news: unless there is a serious downturn in the Eurozone or eastern Ukraine turns into something much more serious, the consensus then is for these markets to grow steadily and sustainably for the next 5 years. So far, events in eastern Ukraine and sanctions on Russia have only had a marginal impact on CEE GDP figures: trimming off 0.1% or 0.2% from growth of 2.5% to 3.5% for these markets in 2015-2017. .

But Brexit and the consequent Eurozone slowdown in 2016 and especially in 2017 combined with weaker EU funding in 2016 does mean that the CEE region will not shine quite as much as in 2014 and 2015. But the point remains that as a region, core CEE and now combined with an improving SEE, will stay a decent growth region compared with other emerging markets and developed ones

The CEE/SEE region will attract more attention this year and through to 2020 and of course this will make the markets more competitive and attractive.

The only major cloud on the horizon is corporate headquarters (!): they are seeing many markets globally soften and with the CEE region posting good economic numbers and a reasonable business rally, headquarters tend to say: "Well done, congratulations and now give us even more top line and bottom line". We witness a similar trend in parts of the MEA region where the actual business recovery is not as strong as in the CEE region.

There are several key reasons for the turnaround:

As we noted above, one axiom is that when the Eurozone grows by an extra 1%, then the CEE region grows by an extra 1.3% and in 2014 the Eurozone added an extra 1.5% and stabilized in 2015. The rally in the Eurozone is the key driver for CEE exports, investment and industrial output. But from mid-2014, we also started to see a positive contamination from exports and investment into consumer spending which has usually been the weak link in these markets. Unfortunately, unemployment was slower to recuperate but even these stubbornly negative figures have started to improve across the region from late 2014 (in Hungary, thanks to government programs unemployment tumbled more quickly and earlier).

1. Improvement in Eurozone: low oil prices help disposable consumer spending on non-energy items, low inflation helps real wages, weak Euro helps exports and quantitative easing will help stock markets and property sectors.

2. Bank credits are flowing better: for a while in 2009-10 the banking sector did look like a weak link but the worst was soon over and new credit emission is now rising 2-4% which is quite decent and in Poland such new credits are rising at 4-6%, close to record levels.
3. Several CEE governments are imposing softer austerity programs on their economies.
4. Inflation (or deflation) is extremely low (or deflationary) in all the CEE markets.
5. This allows the central banks in the region to keep interest rates at record low levels which, in turn, kicks back and stimulates the investment and production outlook.
6. But low inflation (or deflation) is very important in stimulating real wages (i.e. salary after inflation): some nominal wages are rising well given the demand for labor as economies expand. But even in economies where nominal wages are for example just +1%, then if inflation is negative at say -1%, then real wages are positive by 2%. The combination of some increase in nominal wages across a back-drop of very low inflation is boosting consumer confidence and household spending.
7. EU funding has been a consistent bed-rock of investment for the region and despite the deceleration in 2016, we anticipate a rally on this front in 2017-2022.

Minimum monthly wages in selected EU member states as of 1 January 2012, 2013, 2015 and 2016

	2012	2013	2015	2016
Romania	162	158	217	278*
Bulgaria	138	159	184	215
Latvia	286	287	360	370
Lithuania	232	290	300	350
Czech Republic	310	312	331	365
Estonia	290	320	390	430
Hungary	296	335	332	358
Slovakia	327	338	380	405
Poland	336	393	409	430
Portugal	566	566	589	618
Spain	748	753	756	764
Slovenia	763	784	790	790
UK	1202	1264	1378	1278
France	1398	1430	1457	1466
Belgium	1444	1502	1502	1531
Luxemburg	1801	1874	1922	1922

Source: Eurostat, 2016

*Source: Romanian Ministry of Labor

Also, as other emerging markets across the globe start to decelerate or face specific political challenges, and as wages in China continue to raise steadily, so many European and US investors are starting to "re-on-shore" investments into Central Europe and especially South-East Europe to benefit from lower wage costs. In addition, companies who are manufacturing or providing services for the European continent, then being based/ established in the CEE/SEE region makes sense by reducing transport costs and providing better opportunities for just-in-time deliveries etc.

A few samples of economic indicators which are typical for these core CEE markets testify to the recent improvement:

- Consumer confidence in Hungary in 2013-14 improved at the fastest rate of any country in the whole of Europe. Through 2016 it has stabilized close to record levels.
- At the start of 2013, Czech industry was down -4.2% and in June 2016 was up +3.9%.
- At the start of 2013 business confidence in Slovakia was -9 and in June 2016 was +9.

- Retail sales in Poland were rising +3.5% in the first half of 2016 compared with flat trends in the summer of 2014.
- Industry in Poland was up +4% through the first half of 2016 while negative for much of 2013.
- Hungarian retail sales were -3.2% in 2014 but since then have averaged +4-5%.
- Hungarian industry was down -2.7% in 2014 and in 2016 so far has averaged +7%.

Poland: a quick case-study

Poland has outperformed the other core CEE markets (even in the 2013 downturn) for several reasons:

1. Poland has a large domestic economy.
2. It is less dependent on external trade with the proportion of GDP emanating from trade at only 33% in Poland compared with 72% in Slovakia, 70% in Hungary and 60% in the Czech Republic. When global and Eurozone trade has slumped, being less dependent on trade has been a big positive for Poland.
3. The government has been much less obsessed with austerity measures than other CEE markets.
4. The banking sector and loan profile is stronger and the Central Bank has been reasonably aggressive in cutting interest rates to support GDP growth. The authorities are also eliminating certain restrictions on consumer lending.
5. Remittances from abroad have been very strong although they have slowed.
6. Polish companies are sitting on cash and are relatively profitable.
7. Inflation has fallen sharply in recent quarters.
8. The Central Bank is ready to intervene to protect the zloty at around 4.30 to the Euro.

Corporate Income Tax Rate

Country	Corporate tax rate
Bulgaria	10%
Hungary	10%/19 %*
Romania	16%
Czech Republic	19%
Poland	19%
Slovakia	22%

Source: The WorldWide Tax, 2016

Notes: *The corporate tax for income up to HUF 500 million is 10%.

Poland remains one of these winning markets and didn't go through any 5-year slowdown as with the other CEE markets: instead it was weak briefly from autumn 2012 to summer 2013 and is now back up. Poland is actually still storming along at the moment with excepted GDP of 3.3% this year and perhaps dipping down to about 3.0% in 2017 due to Brexit effects. Poland is, of course, a developed and highly competitive market though: but still, a good and large volume market to have in ones' portfolio.

**Favorable Tax Environment
Low corporate tax rates in CE countries attract foreign investors**

Although the nominal corporate income tax rate in some CE countries might increase in the near future, it is expected to remain generally attractive in comparison to other western EU countries. CE countries are implementing tax reforms by reducing companies' tax burden as an effective way to attract foreign investment and to spur sustainable economic growth.

**Availability of Investment Incentives
Financial support to foreign investment**

One of the key tools used by the EU member states in CE to attract foreign investments is the provision of investment incentives in various forms. Cash grants (mostly from European Structural Funds in "new" EU member states), local cash grants and tax reliefs or deductions are providing investors in CE countries. In most cases local governments created special investment incentives packages offered combinations of cash and tax incentives. It should be noted that all forms of investment incentives constitute state aid and must be approved by the European Commission in Brussels before they can be provided to investors. The vast majority of investment incentive schemes have already been approved by the European Commission but mainly for larger investments (up to EUR 100 million) case-by-case prior approval is still necessary. Countries within CE have appointed their governmental bodies with administration and set up proper procedures to assist foreign investors with their requests.

Summary

Global business is not getting any easier and one can well argue that the global economy and global business have never properly recovered from the 2009 financial crash. We are all living in a very “new normal” and it is not easy. Many executives complain about a chronic malaise among consumers and clients and that all aspects of business are now tougher and demand more time than they used to prior to 2009. Even the years 2011-12 globally, now in hindsight, appear relatively good.

So what? Well, against this back-drop the CEE region is looking relatively sound and sustainable. It is no longer the “glory boy” of the years 2002-2008 but one should consider the following:

- Within Europe the CEE looks like the strong growth region again, much more dynamic than the Eurozone and even when some of its economies are within the Eurozone e.g. Slovakia;
- This looks sustainable over the medium-term into 2022 but of course with probably softer GDP growths the markets become more mature.

There are many “catch-up” opportunities in the region and EU-funding will continue to assist this:

- GDP per capita will catch up (GDP per capita for some CEE countries is still 35%-65% of the EU average);
- National GDP will grow faster than developed markets;
- Consumer spending and investment will increase faster than developed markets;
- More remote, “backward” regions will catch up;
- Western and local companies will be able to further develop their brands as brand convergence takes place;
- Sales per capita have great scope for catch up;
- The slow but steady rise of the middle class across the region which offers a consumer segment willing to buy premium products;
- Companies have very good opportunities to develop affordable innovation products to capture those customer segments which are low-middle class or actually quite poor: not everyone in the CEE region is rich and doing well;
- Companies are looking to locate more out-sourcing operations here as wages rise in Asia;

- Executives argue that there are still some M&A options available: not everything has been sold;
- But especially the political risk, compared with other emerging markets, looks very acceptable compared say with South Africa, India, Turkey, Nigeria, Brazil, Mexico, Russia etc;
- And of course Central Europe is obviously closer to Europe than Asia or the Middle East and this helps transport costs and just-in-time delivery business;
- And in a more volatile world the CEE region is closer to Europe and the USA in terms of culture and history and shared experiences;

There is a new normal in the world and a new normal in the CEE region but the CEE one doesn't look that bad.

The investment process

The stage of the investment dictates, in large part, what issues are most relevant to the investor. Accordingly, it also determines the types of services that we seek to provide to the investor. This is the basic approach of our FDI service line.

Based upon our understanding of the foreign investors' investment, we try to pin-point where they stand on the investment timeline. We can then focus our attention on the issues we think are most relevant to them at the moment. We have prepared a high-level summary of certain issues to give investors an idea as to where they may need to focus. We have also indicated how we can be of assistance.

Some of the most relevant issues a foreign investor faces during the start-up period are:

- Structuring the investment;
- establishing a legal entity to do business;
- determining the availability of investment incentives; and
- analyzing business processes from a customs and VAT perspective.



Why Central Europe?

Since May 1, 2004 some 11 Central European countries have joined the EU culminating on July 1, 2013 with the accession of Croatia which became the 28th EU state. Within the enlarged EU, the new CEE member states account for approximately 16% of the population, 9% of overall GDP (measured in purchasing power parity) and 15% of total employment.

The CEE region within the EU offers relatively low labor costs, a favorable tax environment, and availability of tax incentives and since spring 2013 solid GDP growth trends across most of the economic sectors.

Investors are increasingly clustering the markets either into a greater CEE region within the EU or as sub-clusters with the core CEE markets (Hungary, Poland, Czech Republic, Slovakia and increasingly Romania) and the remaining smaller SEE markets. All the EU members are also members of the OECD and NATO which are reassuring factors for companies when making long-term investment decisions. EU membership has transformed these countries into a customs-free zone and in 2007, after joining Schengen, all remaining borders have been removed. This allows complete free movement of capital, goods, people and services across the 28 EU member states. One new risk of course is how viable is Schengen now with the wave of 2015 migration. This is an open question and could "go either way".

We presume Schengen will remain in place but there will be more emergency options for countries to deviate temporarily. The recent flurry of GDP growth and rising confidence which has intensified during the last two years and which looks reasonably sustainable, when many other markets globally are struggling, also adds to their investment appeal.

The markets are also attractive in terms of their labor costs and over the last 10 years the CEE markets replaced the southern European ones such as Spain, Portugal, and Greece as the location for cheap labor. However, the appeal of the markets is based more than on just cheap wages. As we note above, there is some considerable growth divergence in recent years and also currently as the southern "peripheral" EU markets struggle economically while the core CEE ones are relatively booming. Investors also get good value for money in labor costs as most foreign companies agree that the overall quality of CEE staff is relatively good when compared with other European and emerging market economies. Also as wages continue to rise and accelerate in China and some other emerging markets, the skill set, proximity and "cultural closeness" and language skills all add to the appeal of the CEE region.

A small but growing number of companies are "re-on-shoring" some investments and outsourced activities.

Comparison of selected data

Basic facts

2016	Population	Area (km ²)	Capital city	Main language	Currency	Membership in international organizations
Albania	2.8*	28,748	Tirana	Albanian	Lek (ALL)	WTO, NATO, CEFTA
Bosnia & Herzegovina	3.8	51,209	Sarajevo	Bosnian, Serbian, Croatian	convertible mark (BAM)	WTO (observer), CEFTA
Bulgaria	7.1	111,002	Sofia	Bulgarian	Lev (BGN)	EU, NATO, OECD, WTO
Croatia	4.1	56,538	Zagreb	Croatian	Croatian kuna (HRK)	EU, NATO, WTO
Czech Republic	10.5	78,866	Prague	Czech	Czech Koruna (CZK)	EU, NATO, OECD, WTO
Estonia	1.3	45,277	Tallinn	Estonian	Euro (EUR)	EU, NATO, OECD, WTO
Hungary	9.8	93,030.	Budapest	Hungarian	Hungarian Forint (HUF)	EU, NATO, OECD, WTO
Latvia	1.9	64,589	Riga	Latvian	Euro (EUR)	EU, NATO, WTO
Lithuania	2.8	65,300.	Vilnius	Lithuanian	Euro (EUR)	EU, NATO, WTO
Macedonia	2.1	25,713	Skopje	Macedonian	Macedonia Denar (MKD)	CEFTA
Moldova	3.5	33,800.	Chisinau	Moldovan	Moldovan Leu (MDL)	WTO, CEFTA
Montenegro	0.6	13,812	Podgorica	Montenegrin	Euro (EUR)	WTO, CEFTA
Poland	37.9	322,575	Warsaw	Polish	Polish Zloty (PLN)	EU, NATO, OECD, WTO
Romania	19.7	238,391	Bucharest	Romanian	Leu (Ron)	EU, NATO, OECD, WTO
Serbia	7	77,474	Belgrade	Serbian	Serbian Dinar (RSD)	WTO (observer), CEFTA
Slovakia	5.4	49,036	Bratislava	Slovakian	Euro (EUR)	EU, NATO, OECD, WTO
Slovenia	2	20,273	Ljubljana	Slovene	Euro (EUR)	EU, NATO, OECD, WTO

*estimated

Source: TheEconomist Intelligence Unit, 2014; Eurostat

Main macroeconomic data, 2016*

Country	Inflation (% avg)	GDP per capita (€) *	Goods & services export (bn \$)	Goods & services import (bn \$)	Unemployment rate (%) mid 2016	Minimum monthly wage (€)
Albania	1,5	9 100	2,9	5,9	16,9	180
Bosnia & Herzegovina	0,0	12 000	6,8	12,7	42,0	235
Bulgaria	-0,4	13 300	26,0	29,0	9,9	215
Croatia	-0,6	16 700	12,5	20,0	13,7	414
Czech Republic	0,6	25 000	140,0	131,0	5,2	365
Estonia	0,4	21 400	12,5	13,4	6,3	430
Hungary	0,5	19 500	101,0	96,0	6,0	358
Latvia	0,3	18 600	11,0	14,5	9,7	370
Lithuania	0,9	21 100	25,0	27,0	8,5	350
Macedonia	-0,2	14 500	5,8	8,4	24,6	232
Moldova	7,7	5 900	2,5	5,7	4,8	96
Montenegro	-0,8	9 000	3,7	4,9	17,6	288
Poland	-0,5	11 200	205,0	198,0	9,5	430
Romania	-1,0	16 300	58,0	68,0	6,4	278**
Serbia	1,6	13 700	16,0	21,5	17,9	235
Slovakia	-0,1	22 200	76,0	74,0	9,9	380
Slovenia	-0,1	23 700	28,0	26,0	12,6	790

Sources: IMF, World Bank, Eurostat, CEEMEA Business Group

*Data gathered in August 2016

**Source: Romanian Ministry of Labor

Note 1: GDP per capita figure is on PPP basis and not lower exchange rate number

Note 2: Trade is merchandise "fob" = free on board

Note 3: trade figures are in US dollars

GDP growth in CE, % change*

Country	Real GDP growth				Real GDP growth forecast		
	2012	2013	2014	2015	2016	2017	2018
Albania	1,6	1,4	1,9	2,5	3,1	3,2	3,0
Bosnia and Herzegovina	-0,9	2,5	1,1	3,1	3,0	3,0	2,9
Bulgaria	0,2	1,3	1,5	3,0	2,6	2,6	2,8
Croatia	-2,2	-1,1	-0,4	1,6	1,9	1,7	1,7
Czech Republic	-0,7	-0,5	1,9	4,3	2,5	2,6	3,0
Estonia	5,2	1,6	2,8	1,1	1,9	2,6	2,7
Hungary	-1,7	1,9	3,7	2,9	2,1	2,4	2,4
Latvia	4,0	3,2	2,4	2,7	2,5	2,9	2,9
Lithuania	3,8	3,5	3,0	1,6	2,8	3,0	2,9
Macedonia	-0,5	2,9	3,5	3,6	3,4	3,5	3,2
Moldova	-0,7	9,4	4,6	-0,5	1,5	3,0	2,8
Montenegro	-2,5	3,3	2,1	3,0	3,3	2,9	3,2
Poland	1,6	1,3	3,3	3,6	3,4	3,1	3,2
Romania	0,6	3,5	2,9	3,8	4,1	3,3	3,2
Serbia	-1,0	2,6	-1,8	0,7	2,0	2,3	2,2
Slovakia	1,8	1,4	2,4	3,6	3,2	3,1	3,0
Slovenia	-2,6	-1,0	3,0	2,8	2,1	2,0	2,3

Source: CEEMEA Business Group

*Data gathered in August 2016

Taxation

2016	Personal tax	Corporate tax	VAT	VAT reduced rate
Albania	13%-23% ¹	15%	20%	N/A
Bosnia and Herzegovina	10%	10%	17%	N/A
Bulgaria	10%	10%	20%	9%
Croatia	12-40% ²	20%	25%	5%/13% ³
Czech Republic	15%/22% ⁴	19%	21%	10%/15% ⁵
Estonia	20%	20%	20%	9%
Hungary	15%	9%	27%	5%/18% ⁶
Latvia	23%	15%	21%	12%
Lithuania	15%	15% ⁷	21%	5%/9% ⁸
Macedonia	10%	10%	18%	5%
Moldova	7%/18% ⁹	12%	20%	0%/8% ¹⁰
Montenegro	9%/13% ¹¹	9%	19%	7%
Poland	18%/32% ¹²	19%	23%	5%/8% ¹³
Romania	16%	16%	24%	5%/9% ¹⁴
Serbia	10-30% ¹⁵	15%	20%	10% ¹⁶
Slovakia	19%/25% ¹⁷	22%	20%	10%
Slovenia	16-50% ¹⁸	17%	22%	9,5%

Source: CEEMEA Business Group

Notes:

1 Depending on the income: 0-30,000 ALL: 0%, 30,001 – 130,000 ALL: 13% of the amount over 30,000 ALL, 130,001 and above: 13,000 + 23% of the amount above 130,000.

2 Depending on the income: 12%: up to 26,400 HRK, 25%: 26,400 – 158,400 HRK, 40%: above 158,400 HRK

3 Reduced rate of 13% applies to accommodation, hospitality services, baby food, edible oils; and 5% rate applies mainly to basic food (bread and milk), books, daily newspapers, medicines.

4 A tax rate of 22% applies to income exceeding 48 times the average salary

5 Tax rate of 10% applies to some groceries, printed books and pharmaceuticals

6 The standard VAT rate on products and services is 27%. An 18% rate is applicable to basic food products (milk, dairy products, bread, etc.), the provision of accommodation, internet and restaurant services. A 5% rate applies to pharmaceuticals and certain medical equipment, aid for the blind, books and newspapers, district heating services, certain meats, milk (with the exception for UHT and ESL milk), eggs and the sale of newly built residential real estates (certain limitations apply).

7 Micro companies (those with up to 10 employees and up to EUR 300,000 in income per year) may be entitled to reduced rate of 5%.

8 VAT of 5% applies to pharmaceuticals and medical purposes products, equipment for disabled persons' technical assistance and repairs of such equipment; 9% rate applies to heating and hot water (until 31.12.2016), books and printed non-periodical materials, journals and magazines (with certain exceptions), passenger transport services on regular routes, hotel accommodation services (from 1.1.2015).

9 Tax rate of 18% applies to the taxable annual income exceeding MDL 27,852.

The annual taxable income below the respective amount is taxable at 7% rate.

10 8% rate is applied to bread and bakery products, milk and dairy products, medicines, natural production of plant, horticulture, zootechnics etc. 0% rate is applied to exports, international transportation services, supplies designated to the technical assistance projects etc.

11 Progressive rates are prescribed for salary, only. On the portion of monthly gross salary in excess of 720 Eur, 13% tax applies

12 Tax rate of 32% applies to income exceeding 85,528 PLN.

13 Rate of 5% applies to foodstuffs, 8% rate applies to pharmaceuticals, medicines, passenger transport, newspapers, hotels, restaurants, admission to cultural sporting and entertainment events

14 VAT of 9% applies to food, drugs, books, accommodation in hotels, while the reduced rate of 5% applies to the supply of buildings as part of the social policy under certain conditions.

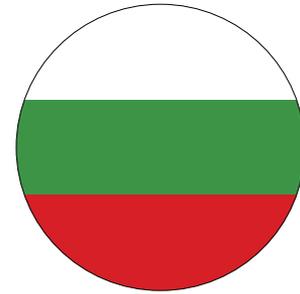
15 Income from yield on investments (capital) in Serbia is taxed at the rate of 15%.

16 Depending on the type of income, level of income and status of the income recipient; The rate of 10% applies to basic foodstuffs, medicine, gas, cultural events, etc.

17 The individual income tax rate in Slovakia is 19% for income up to EUR 35,022 and 25% for income exceeding this ceiling.

18 Progressive tax rates: 16%, 27%, 41% and 50%.





Bulgaria

1. General overview of economy

Economic growth in Bulgaria has gained pace, reaching 3.0% in 2015, and rising private consumption should underpin continued momentum in 2016-18. This is supported by an improving labor market with falling unemployment and strong growth of real wages (+8% y/y in 2015). Consumer confidence has been rising and is near a post-crisis high. Net exports were the most important contributor to GDP growth last year and should remain a positive driver in 2016 and 2017 but growing import demand is expected to see the size of contribution decline. The contribution to GDP from investment last year is also expected to pull back in 2016 due to lower absorption of EU funds, before gradually picking up again in 2017-18. Business confidence should improve as the economic recovery becomes more firmly entrenched and falling loan rates will make credit more affordable. Business confidence should improve as the economic recovery becomes more firmly entrenched and falling loan rates will make credit more affordable.

Political system

According to the Constitution of Bulgaria, adopted by the Great National Assembly on July 13, 1991, Bulgaria is a parliamentary democratic republic in which the sovereign power belongs to the people who exercise it

through their representative bodies, elected by direct and secret ballot. Every Bulgarian citizen over the age of 18 has the right to elect or to be elected.

The National Assembly, elected for a period of four years, is the supreme body of state power. The National Assembly enacts, amends, and rescinds the laws; appoints and dismisses the Government and the Directors of the Bulgarian National Bank, draw up the state budget, adopts the resolutions for holding referenda, constitutes, transforms and abolishes ministries.

2. Tax structure

Principal taxes

- Personal Income Tax
- Corporate Income Tax
- Value Added Tax

The Bulgarian tax system also includes withholding taxes, one-off taxes on certain expenses, local taxes and fees, tax on insurance premiums, excise duties, customs duties and environmental fees.

The tax year in Bulgaria coincides with the calendar year.

Personal Income Tax

A 10% flat tax rate applies for most types of an individuals' income. There is no non-taxable minimum. A 15% flat tax applies on income of sole traders.

Generally, the taxable income of individuals includes monetary income, as well as benefits received in-kind. Certain types of income are exempt from taxation including capital gains from disposal of shares on a regulated Bulgarian/EU/EEA market, income from disposal of certain real estate, etc. The tax rate for interest income from deposit accounts in EU/EEA banks (including Bulgarian banks) is 8%.

Remuneration received for work performed in Bulgaria or for provision of services in Bulgaria is considered income from a Bulgarian source. That is regardless of whether the remuneration is paid in Bulgaria or abroad. Therefore, such remuneration is subject to personal income tax in Bulgaria unless a Double Tax Treaty suggests otherwise.

Bulgarian tax residents are subject to tax on their global income, whereas non-residents are taxed on their Bulgarian-sourced income only.



Individuals, irrespective of their nationality, are considered Bulgarian tax residents if they:

- have a permanent address in Bulgaria¹;
- reside in the country for more than 183 days in any given 12-month period;
- have been sent abroad by the Bulgarian State, by Bulgarian state bodies and organizations, by Bulgarian enterprises (the family members of such individuals are also considered residents); or
- have center of vital interests (personal and economic ties) in Bulgaria.

Subject to personal income tax is the gross taxable income including the basic compensation and all taxable benefits without the allowed deductions (Bulgarian and foreign mandatory social security and health insurance contributions at the individual's expense; voluntary pension/life/health/unemployment insurance contributions subject to certain conditions/limitations; standard flat deductions applicable to income from independent business activities, etc.).

Bulgarian personal income tax on employment income as well as the statutory insurance contributions by employees should generally be withheld, and paid by the employer through the monthly payroll. Bulgarian personal income tax returns for the respective year should be filed with the revenue authorities by the 30th April of the following year. An individual has a right to a 5% reduction of the outstanding tax liability of the annual tax return if the tax return is submitted electronically by the 31st of March the year following the reporting one; the tax is paid to the state budget by the 30th

of April and in the absence of enforceable public obligations. Individuals are generally not obliged to file annual tax returns if they have received only: the employer, non-taxable income and/or income subject to one-off tax have withheld employment income for which the full tax is due.

Certain income of residents or non-residents is not taxed with the annual tax return (e.g. dividends and liquidation quotas for residents and non-residents; management and technical service fees, interest, royalties, franchising and factoring fees, capital gains from disposal of real estate and financial assets, etc. for non-residents having no fixed base in Bulgaria). It is taxed separately with a specific flat one-off final tax, which varies from five to ten percent. The one-off tax may be reduced or eliminated under an applicable tax treaty. EU residents may declare deductible expenses and claim corresponding refunds of the one-off tax paid on a gross basis under certain conditions. Exempt from taxation with the one-off tax are capital gains from disposal of shares on a regulated Bulgarian / EU / EEA market by EU / EEA residents.

Lump-sum taxation is applicable to individuals and sole traders performing certain business activities (e.g. hotel and restaurant, retail business, etc.) who are not VAT-registered and whose turn-over for the preceding year does not exceed BGN 50,000.

Corporate Income Tax

Subject to corporate income tax are companies and partnerships established under Bulgarian law as well as permanent establishments of non-residential entities in Bulgaria.

Bulgarian corporate income tax rate of 10 % is charged based on the financial result of the taxpayer as per its profit and loss account, adjusted with certain non-deductible items and tax allowances, as provided for in the law.

Under Bulgarian tax depreciation rules, fixed tangible and intangible assets can be depreciated for tax purposes on a straight-line basis, except for land, goodwill, forests, plants and works of art. Only tax depreciation as per a special tax depreciation schedule is recognized for tax purposes (accounting depreciation is not tax deductible). The assets are classified in seven categories with a separate maximum annual rate applying to each category.

An entity may choose to apply a lower rate for a certain category as well as to change the rate each year. Maximum annual tax depreciation rates vary between 4% and 50%, depending on the type of asset.

¹ Individuals who have a permanent address in Bulgaria but their center of vital interests is not in the country are not considered Bulgarian tax residents.

The tax deductibility of certain interest costs incurred by the entities (except for banks and other credit institutions) may be restricted under the Bulgarian thin capitalization rules. The interest costs that may be affected include all finance expenses incurred in relation to debt financing. If the annual average debt to equity ratio of the company exceeds 3:1 (some of) the interest expenses may not be tax deductible in the current year. However, they may become tax deductible in the following five consecutive years under certain conditions.

A Bulgarian corporate income taxpayer has the right to carry forward its tax loss and offset it against future tax profits (if any) from the next five consecutive years. Once the taxpayer has chosen to carry forward its tax loss it is obliged to continue to do so until the tax loss has been offset in full or the five-year period has expired. Separate five-year offset periods apply to tax losses occurring in consecutive years. Change of control over a company does not affect the tax losses carry forward capability.

Corporate income tax liabilities are reported annually through filing an annual tax return by March 31st of the following year. The corporate tax has to be paid by the 31st of March as well. Corporate taxpayers are obliged to prepare statistical reports to be filed along with the annual tax return. A discount of 1% from the annual corporate income tax due but not more than BGN 1,000 is available if the annual tax return (along with the statistical report) is submitted electronically and the annual tax due is paid by 31st of March.

Monthly or quarterly advance tax payments are due during the year.

Withholding tax

Withholding tax is applicable on certain types of income when accrued to a non-residential entity (having no permanent establishment in Bulgaria), such as interest, royalties, franchising and factoring fees, technical (including consultancy) and management service fees, income from hiring out movable or immovable property capital gains from transfer of real estate, capital gains from disposal of financial assets issued by resident entities or the State and municipalities (exemption for capital gains from disposal of shares on a regulated Bulgarian/EU/EEA market), service fees and remuneration for the use of rights (unless actually received); penalty or damages payments (except for insurance compensation) accrued to entities tax resident in low tax jurisdictions.

Dividends are subject to 5% withholding tax when distributed to individuals, resident non-profit entities and non-residents (except for EU/EEA entities). Dividends distributed to resident companies are not included in their taxable income except for dividends distributed by special purpose investment companies and non-EU/EEA foreign entities.

General withholding tax rate is 10 % on the gross amount for all taxable income. Types of income, for instance, capital gains, disposal of financial instruments, etc. taxation is made on a net basis.

Interest and royalties accrued to related party legal entities residing in the EU are subject to meeting the EU Interest and Royalties Directive conditions or, under domestic law certain conditions are met, are exempt from withholding taxation as of the 1st of January 2015.

No withholding tax applies to interest over:

- bonds or other debt securities, issued by a Bulgarian legal entity, municipality or the State and traded on a regulated market in the European Union ("EU") or the European Economic Area ("EEA");
- a loan, granted by a tax resident entity of an EU or EEA Member State, which is financed through issue of bonds or other debt securities (issued specifically for this purpose) traded on a regulated market in the EU or the EEA;
- A loan, taker to which is the state or a municipality, even in the cases where no bonds are issued on the debt.

The withholding tax rates may be reduced under an applicable tax treaty, subject to meeting certain criteria.

Tax treaty relief is applied by the income recipient directly if the income accrued for the calendar year does not exceed BGN 500 thousand. In all other cases, a non-resident can benefit from tax treaty relief if an advance clearance is obtained from the Bulgarian revenue authorities under a specific procedure.

The tax should be withheld by the resident payer and remitted to the budget by the end of the month following the quarter of the income accrual or of the decision for dividend distribution (in case withholding tax on dividends or liquidation quotas is paid).

In case of capital gains, it is their recipient, which should remit the withholding tax within the terms indicated above.

Entities resident in the EU may declare tax-deductible expenses and claim a corresponding refund of the withholding tax paid on a gross basis. The claim is annual and should be filed by December 31st of the following year.

One-off tax

Certain expenses accrued by the taxpayers are subject to one-off tax, namely representative expenses, social expenses provided in-kind to the employees and managers (with few exceptions), and expenses related to the use of vehicles for management purposes.

The tax rate is 10 % on the accrued expenses. Both the respective expense and the one-off tax applicable to it are deductible for corporate income tax purposes.

Corporate tax incentives and specific tax regimes

The amount of the annual corporate income tax due by entities on their profits from manufacturing, including toll manufacturing, may be partly or fully reduced.

The application of the tax holiday is subject to certain limitations and conditions, including the EU state aid restrictions.

Special purpose investment companies, close-ended licensed investment companies and collective investment schemes authorized for public offering in Bulgaria are not subject to corporate income tax.

Special corporate tax regimes are applicable to state-subsidized enterprises, commercial maritime shipping companies and gambling businesses.

The Bulgarian law allows a tax incentive in the form of accelerated depreciation (100% per annum) for intangible assets formed as a result of research and development activities.

Transfer pricing rules

The Bulgarian transfer pricing rules require that taxpayers apply arm's length prices in their related party transactions. Arm's length prices are those, which unrelated parties would have agreed on in similar circumstances. This requirement is imposed both to cross-border and domestic transactions.

Largely based on the 1995 OECD Guidelines, the Bulgarian transfer pricing rules envisage five methods for determining arm's length prices, e.g. the Comparable Uncontrolled Price Method, the Resale Minus Method, the Cost Plus Method, the Transactional Net Margin Method and the Profit Split Method.

A taxpayer is obliged to prove the arm's length character of its related party transactions during a tax audit by applying one of the above methods.

The legislation does not include specific requirements as to the format and contents of transfer pricing documentation, which taxpayers can produce as evidence for arm's length pricing. However, a transfer-pricing manual released by the Bulgarian revenue administration mentions the items that would appear appropriate to include in the documentation. The manual contains a set of other useful guidelines relating to different transfer pricing topics. For instance, with respect to intra-group services, the manual suggests specific profit mark-up ranges that have proven to be customary for Bulgaria.

Value Added Tax (VAT)

The Bulgarian VAT legislation is based on the EU VAT rules and Directive 2006/112/EC. Applicable VAT rates are as follows:

- 20 % for domestic supplies, intra-community acquisitions and importation from non-EU countries,
- 9 % for hotel accommodation services.
- Entities are obliged to register for Bulgarian VAT purposes if they have performed:
- transactions with a place of supply in Bulgaria for which the VAT should be charged by the supplier exceeding BGN 50 thousand for the last 12 months;
- intra-community acquisitions exceeding BGN 20 thousand during the calendar year;
- distance sales in Bulgaria exceeding BGN 70 thousand during the calendar year;
- certain services supplied to non-taxable persons established in Bulgaria (unless they have applied the MOSS scheme in another EU Member State) – when the supplier is not established.

Entities established in an EU Member State performing supply of goods with installation in Bulgaria to customers not registered for VAT purposes are obliged to register irrespective of their taxable turnover.

Foreign entities, which receive services with a place of supply in Bulgaria for which the recipient has to self-charge Bulgarian VAT, are obliged to register irrespective of their taxable turnover.

Any entity may apply for voluntary VAT registration. However, if voluntarily registered, the entity will not be able to deregister for two years following the year of registration. In order to register for VAT purposes, foreign entities have to appoint a local fiscal representative, except when they have a registered branch in Bulgaria. The requirement does not apply to EU based entities.

Foreign entities not established and not VAT-registered in Bulgaria performing certain supplies to local businesses will not have to register for VAT purposes. The VAT will be self-charged by the local customer (reverse charge mechanism).

Supplies where the reverse charge of VAT applies:

- services provided to businesses (with some exceptions);
- supply of goods with installation; supply of natural gas and electricity;
- supply of goods under a triangular transaction (i.e. a supply of goods between three entities VAT-registered in three different EU Member States; under certain conditions the ultimate customer self-charges VAT, while the supplies for the first two entities are exempt with right to deduction of the input VAT).

Monthly VAT returns are filed and the tax is due by the 14th of the following month. The tax period is a calendar month.

VIES returns have to be filed monthly by the same deadline if intra-community supplies goods or certain services have been performed during the respective month.

VAT can be refunded through VAT returns within:

- 2 months (period for carry forward and offsetting of the claimable VAT against VAT payable) and 30 days of filing the last VAT return (period for effective refund);
- 30 days of filing the VAT return for entities, which have performed exempt supplies with the right to deduction exceeding 30% of the total turnover from taxable supplies for the last 12 months.

An investor in a large investment project, which has received authorization by the Ministry of Finance, can receive a refund within 30 days. The investor can also apply reverse charge for VAT on importation of goods (without effective cash outflow).

EU based foreign entities which are not registered and established for VAT purposes in Bulgaria can receive a refund of the local input VAT incurred for goods and services used for supplies with a place of supply outside Bulgaria. A specific procedure before the authorities of the EU Member State of establishment has to be followed. Non-EU based entities may be entitled to a refund on a reciprocal basis (i.e., if their country of tax residence provides the right to refund VAT to Bulgarian entities). A specific procedure before the Bulgarian revenue authorities has to be followed.

Tax incentives

Under the provisions of the Corporate Income Tax Act, some general tax incentives are applicable. They are mainly related to investment in depressed regions and employment of disabled and unemployed people, such as:

- Manufacturing companies operating in depressed regions with high levels of unemployment are entitled to a corporate income tax reduction or exemption subject to certain conditions, provided in the law;
- Companies are entitled to certain deductions for hired employees: (i) who have been registered as unemployed for a period exceeding one year prior to their current employment; or (ii) have been unemployed and are of more than 50 years of age; or (iii) are disabled, unemployed persons;
- Companies employing disabled individuals are entitled to corporate tax exemption upon meeting the requirements set by the law in proportion to the number of people with disabilities to the total of number of employees.

Entities that are VAT-registered in Bulgaria and are investing in a large investment project can, upon receiving authorization by the Ministry of Finance:

- self-assess the VAT on importation of certain goods (i.e., the reverse charge mechanism will apply and the VAT on importation will not be related to a cash outflow for the entity). The goods should not be subject to excise duty and should be included in a list agreed with the Ministry of Finance;
- refund VAT under a faster procedure – within 30 days of filing the VAT return.

Intrastat

Intrastat is a system for collecting statistical data about the intra- community movement of goods between Bulgaria and other EU Member States.

All entities VAT-registered in Bulgaria have to file Intrastat returns if the thresholds for incoming ("arrival") and outgoing ("dispatch") intra-community movement of goods between Bulgaria and the other EU Member States have exceeded.

The threshold triggering the obligation to the file Intrastat returns for 2015 are:

- BGN 370 thousand for arrival of goods; or
- BGN 220 thousand for dispatch of goods.

The deadline for filing Intrastat returns is the 14th day of the month following the month of arrival or dispatch of the goods.

Local taxes and fees

Real estate tax

The real estate tax is between 0.01% - 0.45% annually on the higher of the gross book value and the tax value of the immovable property (or on the tax value for residential property). The municipality in which the real estate is situated determines the exact rate.

Garbage collection fee

This is determined by each municipality and is generally levied on the gross book value of the real estate (or on the tax value for residential property). Alternatively, it may be determined based on the number and volume of waste containers used.

As of January 1st, 2016, municipalities are no longer allowed to determine the waste collection fee on the basis of the gross book value, tax value or the market price of real estate.

Transfer tax

The tax rate is between 0.1% - 3% on the higher of the sales price or the tax value of the transferred real estate / on the insurance value of cars. Each municipality determines the exact rate annually.

Vehicle tax

Each municipality within ranges stipulated in the law determines the tax rate annually. It depends on the type and characteristics of the vehicle and applies to cars, ships and airplanes. The amount of vehicle tax will be determined ex officio based on the data in the register of vehicles maintained by the Ministry of the Interior. A tax liable person will be notified about the amount of the vehicle tax.

Donation tax

Donation tax is between 3.3% and 6.6% on the value of the donation. Each municipality determines the exact rate annually. Lower rates and exemptions apply to donations between relatives.

Inheritance tax

Inheritance by a spouse, children and their descendants are exempt.

The tax is between 0.4% - 0.8% on inheritance exceeding BGN 250 thousand in favor of brothers, sisters and their descendants (between 3.3% and 6.6% for other heirs). Each municipality determines the exact rate annually.

Tourist tax

The tax rate is between BGN 0.2 - 3 per night. The municipality in which the accommodation facilities are located determines the exact rate.

Tax on insurance premiums

A 2% tax is due on insurance premiums for insurance contracts covering risks on the territory of Bulgaria. Insurers should collect the tax, but it is intended to be a burden to the insured. Certain insurance premiums are exempt from the tax (e.g., life insurance, permanent health insurance).

Excise duties

The Bulgarian excise duties legislation is based on EU rules. Excise duties are applicable for certain products including:

- Electricity and energy products (motor fuels, coal, etc.);
- Alcohol;
- Tobacco products.

The excise duty rate for electricity is BGN 2 per megawatt hour (BGN 0 for electricity sold to individuals for use in their homes). The excise duty rates for the most common motor fuels are:

- Leaded gasoline – BGN 830 per 1,000 liters;
- Unleaded gasoline – BGN 710 per 1,000 liters;
- Gas, oil and kerosene – BGN 645 per 1000 liters;
- Liquefied petroleum gas – BGN 340 per 1,000 kilograms;
- Natural gas as a motor fuel – excise duty on natural gas of 0.85 leva per gigajoule will apply until a decision by the European Commission for non-compliance with the rules of State aid in the form of a reduced rate of excise duty on natural gas as a motor fuel. If such a decision is issued, the date of its issuance excise rate rises to 5.10 leva per gigajoule. Heavy fuel oil for ships – BGN 645 per 1,000 kilogram. The excise duty rates for the most common heating fuels are:

- Gas, oil and kerosene – BGN 50 per 1,000 liters (the rate applies only to marked gas, oil, and kerosene);
- Heavy fuel oils, heavy oils other than lubricants, tar, creosote oils – BGN 50 per 1,000 kilograms;
- Liquefied petroleum gas – BGN 0;
- Natural gas – BGN 0.6 per gigajoule for use in industry;
- Coal and coke – BGN 0.60 per gigajoule.

The following excise duty rates apply to alcohol:

- Beer – BGN 1.5 per hectoliter/degree Plato;
- Ethyl alcohol – BGN 1,100 per hectoliter of pure alcohol measured at 20°C;
- Intermediate products – BGN 90 per hectoliter of product;
- Still and sparkling wines, and other still and sparkling fermented beverages – BGN 0.

The following excise duty rates apply to:

- Cigars and cigarillos – BGN 270 per 1,000 items;
- Smoking tobacco (for pipes and cigarettes) – BGN 152 per kilogram.

The excise duty rate for cigarettes is determined as the sum of:

- A specific duty of BGN 101 per 1,000 cigarettes; and
- A proportional duty of BGN 23% of the sales price

A gradual increase in the excise duty rates of cigarettes is expected throughout the period of 2016 – 2018 with an aim of reaching a minimal excise duty of BGN 177 per 1000 cigarettes by the 1st of January 2018 as per the requirements of the EU Directive. The increase is as follows:

- A specific duty of BGN 161 per 1,000 cigarettes; and
- A proportional duty of BGN 25% of the sales price from 2016
- A specific duty of BGN 168 per 1,000 cigarettes; and
- A proportional duty of BGN 27% of the sales price from 2017
- A specific duty of BGN 177 per 1,000 cigarettes; and
- A proportional duty of BGN 28% of the sales price from 2018

Environmental fees

The producers or importers (or the entity performing an intra- community acquisition) of products which leave large amounts of waste have to pay a product fee based on the type of waste. The entities can avoid paying the product fee if they collect or recycle certain amount of the waste produced by their products either on their own or through a licensed collective waste management organization.

The products, which are subject to the fee, include:

- Certain motor vehicles and tires;
- Goods with plastic, paper, metal, glass, wooden, textile, etc. packaging;
- Batteries;
- Motor oil;
- Electric or electronic apparatus and appliances.

3. Business Establishments

Bulgarian legislation allows for the following types of business organizations:

- An unlimited (general) partnership;
- A limited partnership;
- A limited liability company;
- A joint stock company;
- A limited partnership with shares;
- A sole trader;
- A branch;
- A holding;
- A co-operation;
- A representative office.

The most appropriate types for carrying out business in Bulgaria are a limited liability company and a joint stock company.

Companies may also open a branch office. All of these have to be entered into the commercial register.

Limited liability Company - “OOD”

It is a commercial company with share capital owned by its shareholders whose liability is limited to the amount of the shares subscribed. One or more persons, including foreign natural or legal persons, may found a limited liability company with minimum capital of BGN 2. Contributions to the share capital may be paid in cash or in kind. The statutory bodies of the limited liability companies are the general meeting of shareholders, which must be held at least once a year, and the managing director(s). A sole shareholder limited liability company is called “EOOD”. A natural or legal person owns it. The sole shareholder exercises the powers of the general meeting and (a) managing director is appointed to run the company. A limited liability company must prepare financial statements each year.

Joint stock company - "AD"

A commercial company with share capital owned by its shareholders whose liability is limited to the amount of the shares they subscribe. A joint stock company can be founded by one ("EAD") or more persons, including foreign natural or legal persons. The minimum share capital of a joint stock company is BGN 50,000. A share capital higher in value is required for the establishment of special types of companies like banks, insurance companies, etc. The financial statements of the joint stock companies are subject to statutory audit.

Branch

Foreign legal entities that are registered abroad and allowed to perform commercial activities in the country of their registration can register a branch office in Bulgaria. No authorized capital is required to open a branch. A branch is not a legal entity. Branches are obliged to maintain accounts as an independent company.

Representative Office

The Investment Incentives Law regulates it. Foreign persons who are entitled to engage in business activity under the legislation of their own countries may set up a representative office, which is registered with the Bulgarian Chamber of Commerce and Industry. Representative offices are not legal persons and may not engage in economic activity.

4. Labor and wages

Regular Working hours: 8 hours a day. A 48-hour rest period is required during a 7-day period; normally half of it is on Sunday.

Annual paid leave: not less than 20 working days.

Retirement: An individual is entitled to Bulgarian pension for insurable length of service and age if he/she attains the statutory age (63 years and 8months for men and 60 years and 8 months

for women) and the statutory length of service (38 years for men and 35 years for women). The statutory age increases by 4 months every year to reach 65 years for men and 63 years for women. Similarly, the statutory length of service increases by 4 months every year to reach 40 years for men and 37 years for women.

Alternatively, entitlement to pension may be acquired with 15 years insurable length of service and attainment of the age of 65 years and 8months (both for men and women). The statutory age increases by 4 months every year to reach 67 years.

Minimum monthly gross salary: BGN 420
Average monthly gross salary: BGN 941
for the third quarter of 2016.

Social security: Individuals working in Bulgaria and in certain cases working abroad are subject to Bulgarian statutory insurance contributions unless the EU regulations or a bilateral social security agreement provide otherwise.

The EU regulations on the coordination of social insurance schemes apply with respect to citizens of EU/EEA/Switzerland, as well as eligible third-country nationals in a cross-border situation. In addition, Bulgaria has a number of bilateral social security agreements with other countries.

The social insurance contributions are calculated based on the gross remuneration received by the employee subject to a maximum earnings cap of BGN 2,600 per month (BGN 31,200 annually).

For 2015, the following rates apply for statutory social insurance contributions.

Type of contribution	Employer	Employee	Overall rate
Pension Fund Contribution*	7.1%	5.7%	12.8%
Universal Pension*	2.8%	2.2%	5.0%
Labor Accident and Occupational Diseases Fund**	0.4% 1.1%		0.4% 1.1%
Common Illness and Maternity Fund	2.1%	1.4%	3.5%
Unemployment Fund	0.6%	0.4%	1.0%
Health Insurance	4.8%	3.2%	8.0%
Total***	17.8% 18.5%	12.9%	30.7% 31.4%

*Employees born before 1960 are liable for Pension Fund Contribution of 17.8% split between the employer and the employee as follows 9.9%: 7.9% and do not pay the contribution to the Universal Pension Fund of 5%.

**The rate for Labor Accident and Occupational Diseases Fund varies between 0.4% – 1.1% depending on the type of the economic activity performed.

***Additional employer contributions may be due for certain hazardous professions: for Pension Fund (3%) and for Professional Pension Fund (7% or 12%).

The aggregate rates of statutory insurance contributions are split up between the employer and the employee in a certain proportion.²

Labor contracts

According to the Labor Code, the employment contract may be concluded for an indefinite period of time or, alternatively, as an employment contract for a fixed term. An employment contract is considered to be concluded for an indefinite period unless explicitly agreed and stated otherwise. An employment contract concluded for an indefinite period may not be changed to a fixed-term contract unless explicitly requested by the employee, and stated so in writing.

An employment contract for a fixed term may be concluded only under circumstances and conditions explicitly provided for under Bulgarian Labor Code.

Employment contract for a trial period

In cases when the work requires testing the abilities of the employee, their final appointment may be established at a trial period of up to 6 months. Such a contract may also be settled in the case when the employee wants to make sure the job is suitable for him/her.

Termination

Employment contracts should be terminated in writing within grounds set by Bulgarian Labor Code and following the applicable formal termination procedure. Most of these procedures could be viewed as employee protective. In any case, the dismissed employee has the right to file a claim against the employer in the state

courts and claim the damages in cases of unfair dismissal. There are some categories of employees that enjoy protection against dismissal (for example absent employees (e.g. on sick leave, pregnant, nursing mothers, military assignment), employees suffering of explicitly listed diseases, mothers of children up to three years of age, etc.).

Termination notice periods may not be less than 30 days and may not exceed 3 months. The termination period for a fixed term employment contract is 3 months but not more than the remainder of the employment term.

The employment contracts could be terminated upon mutual consent of the parties. In case that the termination of the employment contract is upon initiative of the employer, he could offer a compensation of not less than four gross monthly salaries of the employee.

In addition to other statutory compensations, upon dismissal due to closing down of the enterprise or part of it, staff reduction, etc., the employee is entitled to additional compensation from the employer. This compensation is due only if the employee is unemployed after the termination of the employment contract.

Upon termination of the employment relationship, after the employee has acquired the right to a pension for insured service and age, irrespective of the grounds for the termination, he is entitled to compensation by the employer in the amount of his gross labor remuneration for a period of two months.

However, if the employee has worked with the same employer for ten years or more, he will be entitled to compensation equal to six months gross labor remuneration.

Immigration regulations

Bulgarian immigration legislation divides the expatriates in two categories: EU, EEA or Swiss nationals, and third-country nationals.

Third-country nationals

The work and residence regimes for third-country nationals are more restrictive and aim at protecting the internal labor market. Not all third-country nationals are allowed to enter Bulgaria and remain in the country without a valid entry visa (a so called "visa-less stay"). To work and reside in Bulgaria they need a work permit, a long-term visa, and a residence permit.

Employment: third-country nationals need Bulgarian work permits to legally work in the country. A work permit is required for the expatriate both to be employed under the Bulgarian labor agreement and to be transferred to the country by a foreign employer. To approve a work permit the employment authorities have to be convinced that the employees who are third-country citizens are not over 10% of the total work force of the Bulgarian employer. A work permit is valid for a maximum term of one year and may be subsequently renewed under certain conditions.

There are several categories of third-country nationals, who are exempt from the work permit requirement, namely: individuals who are registered with court resolution as executives of a Bulgarian company/Branch office, general managers of representative offices, expatriates who have a Bulgarian permanent residence permit etc.

² As per the publicly available information provided by the National Institute of Statistics.

Residence: upon obtaining a Bulgarian work permit or being registered as an executive / general manager, the expatriate should apply for long-term visa D (immigration visa). Such visas are issued by the Consulate Sections to the Bulgarian Embassies abroad. The visa D is a multiple entry visa and may be valid for a period of 180 days within 6 months. When the expatriate obtains his/her visa D, he/she is entitled to apply for a Bulgarian prolonged residence permit. The residence permit is issued for a maximum term of one year and can be subsequently renewed.

In certain specific cases, third-country nationals may obtain a short-term residence business visa. The business visa is a special type of one or multiple entry visa, issued to third country nationals, who do not have a visa-less stay in Bulgaria and need to visit the country for attending business meetings or project implementation. It is valid for a maximum period of 90 days within 6 months, 1 year or in exceptional cases 5 years. The business visa does not allow third-country nationals to be employed in the country.

5. Education

The Bulgarian educational system is traditional in style. Education in Bulgaria is compulsory between the ages of 7 and 16. Parents have legal responsibility to secure the school attendance of their child.

The main types of secondary schools are general educational, vocational, language schools and foreign schools. Private schools have also been established and they are beginning to compete successfully with state schools. All schools in the country are co-educational, admitting students of both genders. The official language of instruction is Bulgarian.

Higher education is provided exclusively by colleges and universities. In accordance with the Higher Education Act, they are all self-governing and autonomous institutions. There are fifty-one higher education institutions in Bulgaria offering degrees at undergraduate and graduate levels. The academic year for most Bulgarian universities begins around October 1st and consists of fall and spring semesters. The academic year covers up to 30 weeks.

The educational system has generally been considered a national asset. However, inadequate funding and low teacher morale in the post-communist period has led to some erosion in its quality.

The shortage of Western-style business education, particularly in finance and marketing, has generally been more serious than in the more advanced transition countries, although this is progressively being adjusted. A major goal of the reform of Bulgaria's education system was to bring standards in line with the European context and to harmonize the educational process with that of Europe. Bulgaria is actively working on building up an appropriate environment for modernizing the higher education system, taking into account the demands of society and businesses. Good practices are examined and disseminated.

6. Infrastructure

The Bulgarian national transport system includes all modes of transportation – railway, road, sea, inland-waterway, air and intermodal transport. Being funded mainly by EU infrastructure programs, Bulgaria's transport infrastructure is rapidly developing. The planned projects for developing the transport system are aimed at the effective connectivity of the transport network and removing sections with insufficient capacity, reducing congestion, noise and improving safety.

Roads

Bulgaria is connected to Western Europe, Russia, Asia Minor, the Adriatic, the Aegean, and the Black Sea through a network of international highways, which are being further developed and reconstructed in accordance with the national transport model and strategy.

Statistics

Total length of the country's road network: 19,728 km, including:

- 610 km of motorways
- 2,965 km of category I roads
- 4,042 km of category II roads
- 12,111 km of category III roads

Bulgaria's transport infrastructure is rapidly developing.

The east-west direction is much better developed than the north-south direction, which is largely determined by the topography of the country. The accessibility in the North-East, South-West and South-East regions is better than that of other regions because of the higher density of motorways and first-class roads.

Main transport corridors:

- Corridor No. 4 Vidin-Sofia-Kulata linking Romania to Greece
- Corridor No. 8 Kyustendil-Burgas-Varna linking Macedonia to the port of Varna.
- Corridor No. 9 Ruse-Kazanlak-Kardzhali linking Romania to Greece and Turkey
- Corridor No. 10 Kalotina-Svilengrad linking Serbia to Turkey

European corridors passing through Bulgaria:

- No. 4 (from Germany to Istanbul)
- No. 7 (Rhine, Main, and Danube)
- No. 8 (from Durres, Albania to Varna)
- No. 9 (from Helsinki, Finland to Alexandroupoulos, Greece)
- No. 10 (from Salzburg, Austria to Thessaloniki, Greece)

Railways

Rail is a significant domestic mode of transport for freight, although road transport now accounts for a larger (and increasing) share of the total.



According to National Statistics Institute (NSI) data, the total length of railway lines in Bulgaria was 5,658 km, including current railway – 4,070 km and station tracks – 1,588 km. Territorial distribution of railway lines in the country is unbalanced due to topography and socio-demographic conditions. The highest density of the railway network is in the South-West Region - 44.8 km/1000 sq. km. Lower than the national average is the density of the railway network in the South- East, North-east and South Central Region. Connections to neighboring countries are relatively limited. The share of electrified railway lines and the overall length of the lines in the current railway is 70.3%. This is considered satisfactory and is in line with the share of electrified railway lines in other Member States. A significant part of the railway lines were built more than 50 years ago, with geometry parameters, construction and equipment suitable for speeds of

maximum 100 km/h, and in places with almost depleted options for keeping the speed and guaranteeing security and safety. Key sections with reduced speed are the following Sofia - Septemvri, Vidin - Medkovets, Plovdiv - Mihaylovo. Large parts of the railway (bridges and tunnels) are at the end of their lifecycle (for example, the routes Ruse – Varna). In 2013, the railway carried 26 million passengers (mainly domestic traffic) and 13,670,000 tons of freight, 24.8% of which was international traffic. According to the results of the updated national transport model, the share of passenger trips by railway in 2011 constituted 11.9% of all trips, and the share of freight carried by railway transport was 9.3%. Railway transport dominates the transport of solid mineral fuels (48%) and ores, metal scrap and waste (53%).

Shipping

Bulgaria has five main ports, all in varying degrees of modernity. The largest are Varna and Burgas, both on the Black Sea. Varna mainly handles containers, grain and bulk goods while Burgas handles crude oil and some bulk commodities. There are three sizeable ports on the Danube (Ruse, Lom and Vidin) and 24 smaller sea and river ports. Of all modes of transport, sea transport has declined the least since 1989, perhaps because it is the least dependent on the vagaries of the domestic economic scene. The geographic position of the ports is their key advantage.

However, all of them need renovation. There has been some modernization of the ports but much more needs to be done if the sector is to become more internationally competitive. Varna has ambitions to rival Romania's Constanta, but its plans include a very costly relocation of the Varna East port and the construction of three new terminals. Lom already upgraded its South Pier and is seeking to exploit its position on the EU's north-south Corridor IV by investing in two new terminals. A system of 25- or 30-year concessions is intended to play an important role in upgrading ports and terminals, with concessions on a few of the country's smaller ports already awarded or in the pipeline.

Air transport

Bulgaria has four operating commercial airports – in Sofia, Plovdiv, Burgas and Varna. They handle both international and domestic flights. After accession of Bulgaria to the EU, the air travel markets demonstrated high growth due to the development of business and tourism industry. The strong demand is serviced mainly by the international airports in Sofia, Varna and Burgas, and to a lesser degree by the airports of Plovdiv and Gorna Oryahovitsa. As a result of the targeted investment policy in recent years, the country's aircraft fleet is being updated at a fast pace and Bulgarian air carriers continuously improve their competitiveness both in the charter and passenger service on regularly scheduled international flights.

Telecommunications

Bulgaria entered the post-communist era with one of the highest densities of analogue fixed telephone lines in the former Soviet bloc. Although the quality of the equipment, which used to support the network, was less impressive than its density, it has improved greatly in recent years. There has been a trend away from fixed lines to mobile telecoms. The rapid growth and falling price of mobile communications has led to a decline in the number of fixed lines, which peaked at 2.9m in 2001, and is expected to drop from 1.9m in 2013 to 1.1m in 2019. The mobile telephone market has grown quickly. The number of mobile-phone subscriptions rose from 108% of the population at end-2006 to 145% at end-2013.

Mobile penetration in Bulgaria is high compared to neighboring countries—well above Greece, Macedonia, Romania, Serbia or Turkey. Many individuals have more than one SIM card, although a large number of SIM cards are not active. There are three GSM operators: M-Tel, previously known as Mobiltel (owned by Telekom Austria), Telenor (owned by Telenor Norway, which was acquired from Greece's OTE Telecom in August 2013 when it was known as Globul), and Vivacom, previously known as the Bulgarian Telecommunications Company (BTC, the formerly state-owned monopoly telephone operator).

The Internet

The Internet penetration rate in Bulgaria was an estimated 59 users per 100 people in 2015—according to the National Statistics Institute (NSI). This is low when compared with other European countries. It is below the penetration rates in higher-income eastern European countries such as the Czech Republic, Hungary, Slovakia and Poland, but above the rate of around 50 per 100 people in neighboring Romania.

Greater access to the Internet and wider adoption of modern banking services, such as credit and debit cards, encourages e-commerce to rise steadily. The proportion of the population that bought goods or services on the Internet increased from 12.1% in 2013 to 18.5% in 2015, according to the NSI. 91.31% of Bulgarian firms had access to the Internet in 2015, with the vast majority of these accessing the Internet using a broadband digital subscriber line (DSL) connection.

In 2014 Bulgaria was ranked at the 20-th position in the global Net Index Explorer for broadband internet accessibility and speed, following the leaders in the ranking - Hong Kong, Singapore, Romania, South Korea, Lithuania, Sweden, Switzerland, Macao, the Netherlands and Andorra. The average download speed in Bulgaria is 33.5 Mbps and the average upload speed is 22.8 Mbps. For comparison, in Romania the download speed is 55.7 Mbps for download and 29.3 Mbps for upload. The main reason for the good internet speed in Bulgaria is the fragmentation and competitiveness of the ISP sector in the country.

The media

High levels of literacy and of television and radio ownership have boosted the influence of the media. Six television channels are at present licensed as national terrestrial broadcasters. Three state radio channels broadcast nationally, and the private sector has several national licensed radio channels. The range of newspapers available is wide for a market of Bulgaria's size (none of the papers are state-owned).

At the national level, these include:

- 24 Chasa (24 Hours) and Trud (Labor), the two largest daily circulations owned by Media Group Bulgaria Holding;
- Standart, Monitor, Sega, a popular left-of-center daily;
- Duma, a daily, which has a relatively low circulation and is affiliated to the Bulgarian Socialist Party (BSP)
- Capital Daily, and the weekly Capital, which is widely regarded as the most intellectually serious publication.

Bulgaria's most important television stations are foreign-owned. The private channel bTV belongs to Time Warner. Nova TV is part of the Swedish media concern, Modern Times Group. The introduction of modern entertainment programming enabled the national private broadcasters to rapidly reduce the state television monopoly that had existed for many years. Bulgarian national radio and the private Darik Radio are the only national broadcasters where the spoken word (rather than music) dominates. Apart of the top 3, there are numerous cable and regional TV operators with various political and content focuses, which provide wide choice for domestic audience. Similar is situation on radio market.

7. Bank system

With the economy gradually picking up, long-standing currency board (peg to EUR), fiscal conservatism and low public debt (the second lowest in EU for 2013), the Bulgarian financial system remains stable even though it was shaken by the bank run on the country's fourth largest bank in 2014 – Corporate Commercial Bank. Years of strong deposit growth (2010 – 2013 CAGR Of 10%) have greatly improved the local funding of the banking sector and falling interest rates have made credit more affordable. The banking sector ROE (5.3% in 2012-13) is above that of its southern CE peers in recent years and faces a setback due to losses at CCB in 2014, but an underlying trend of improvement should be visible in 2015-16.

In recent years, locally owned banks have been gaining market share at the expense of foreign-owned banks, notably the Greek-owned banks, but most of the others as well. Given the situation at CCB, the growth of the other locally owned banks is likely to be more restrained and the largest foreign-owned banks will likely benefit from a flight to quality.

Consolidation is likely to emerge as a key strategic issue in the next few years, as one or more Greek-owned banks are likely to be sold as their parents re-focus operations on core markets. This will be an opportunity for smaller foreign-owned banks in the sector to achieve better scale and synergies. Whilst price competition for deposits should ease, intensifying competition in mortgage refinancing after prepayment penalties (beyond the first year) were banned in 2014. This offers a customer acquisition opportunity for players looking to grow in retail and increase the importance of retention. With limited overall demand for new credit and pressure on fee income, increasing cross-sell and penetration of non-credit products to grow customer wallet-share will be important. Given the still weak asset quality and large NPL stockpile in the sector, attention will be given to more effective management of credit risk, including the workout, restructuring and third party sales of non-performing assets.

8. Industrial parks

The industrial zones in Bulgaria offer attractive conditions for establishing production, warehousing, logistics and other activities at very competitive prices. Investment projects are supported by the Government, the Municipal Authorities and by the various domestic and foreign Chambers of Industry and Commerce in Bulgaria.

There are 14 functioning zones, with active local and foreign investors. Furthermore, there are 21 zones, either with fully or mostly developed infrastructure and ready to be invested in, and 27 zones under development.

Trakia Economic Zone (TEZ) is one of the biggest economic projects in Bulgaria, a public-private partnership that includes six major industrial zones in the region of Plovdiv. Together the zones in TEZ have attracted over 1.1 billion euro of fixed-capital investments. The total area of TEZ is 1070 hectares, of which 325 hectares are already occupied. From the start of the 1st industrial zone Maritza in 1995 some 120 investors located their sites in the region, of which 80 multinational, opening over 12 000 jobs.

The industrial zone in Bozhurishte (near Sofia) is the biggest new economic zone in Bulgaria with a total planned area of 2.6 million sq. meters. On the first stage, it has 581 thousand sq. meters of area with already developed infrastructure.

9. Investment Incentives

The Bulgarian legislation introduced a system of promotion measures for initial investments in tangible and intangible fixed assets and creating new employment linked thereto, according to the legislation of EU.

The investment projects are classified to Class B, Class A and Priority investment projects. Depending on the class government incentives may include:

- Information services.
- Shortened administrative procedures
 - The central and local government authorities will provide administrative services shortened with one-third of the time period established by the law
- Financial support of up to 25% for the vocational training for obtaining professional qualifications.
- Reimbursement of labor costs paid by the employer.

- On the request of certified investor, the corresponding authorities may transfer ownership rights or establish a limited ownership right over real estate (private state or private municipal property) without a tender.
- Consulting and individual administrative services. Investors will be able to authorize Agency officials to obtain any documents for implementation of the corresponding investment project.
- Financial support for construction of technical infrastructure elements to the borders of the project site, needed for implementation of one or more investment projects.
- Institutional Support.
- Financial grants of up to 50% for education and R&D projects and up to 10% for manufacturing projects.
- State tax exemption for changing the land status. Acquisition of real estate, private state or private municipal property without a tender and at a price lower than the market, but not lower than the tax assessment of the property.
- Establishment of public-private partnerships with municipalities, universities, other organizations from the academic society and etc.

10. Free-trade zones

- Free-trade zones offer some tax and customs benefits to foreign investors.
- Free-trade zones have been established at Ruse, Burgas, Vidin, Plovdiv, Svilengrad, and Dragoman.

The import and export of goods to and from, as well as between, these areas could be exempt from customs duties, VAT and excise duties upon meeting certain conditions.

11. Incentives and foreign investment strategy

Bulgaria's government is committed to the development of a free-market economy. The following are designed to attract foreign investments in the country.

1. Opportunity for foreign investors to tender for concessions to use state-owned assets.
2. Liberalization of the import and export regimes.
3. Guaranteed repatriation of profits.
4. Foreign investors enjoy the same rights as domestic investors.
5. Internally convertible currency.

Bulgaria offers foreign investors a number of incentives supporting the growth of their business. The latter allow for a special alleviated regime for acquiring permanent residence and/or Bulgarian citizenship.

For example, if a foreign citizen invests over BGN 1,000,000 (appr. EUR 511,292) or increases with this amount an investment already made by acquiring shares in a Bulgarian listed company or bonds issued by the State or the municipality or Bulgarian IP rights, etc., (s)he would be granted with a Bulgarian permanent residence.

Subject to certain criteria such individual would be considered as eligible for Bulgarian citizenship after 1 year as of receiving the permanent residence if (s)he increases the investment under the same terms and conditions up to an amount of at least BGN 2,000,000 (appr. EUR 1,022,584) or makes an investment of at least BGN 1,000,000 in the share capital of a Bulgarian company for carrying out the so called “priority investment project”.

12. Foreign Direct Investment (FDI)

After the leap in 2008, when FDI in Bulgaria reached EUR 5685 million, there was a significant decline throughout the following years until 2011, when the flow was marginal. However, certain improvement was observed as of early 2012, although not close to the levels seen before the global financial crisis. In 2015 Bulgaria drew 1.6 billion euros, up 22.5 percent from 2014.

Considering all of the advantages that Bulgaria provides, notably its fiscal plan with one of the lowest tax rates in the area and its low labor costs, the country remains well-placed for foreign investment to revive again in 2016.

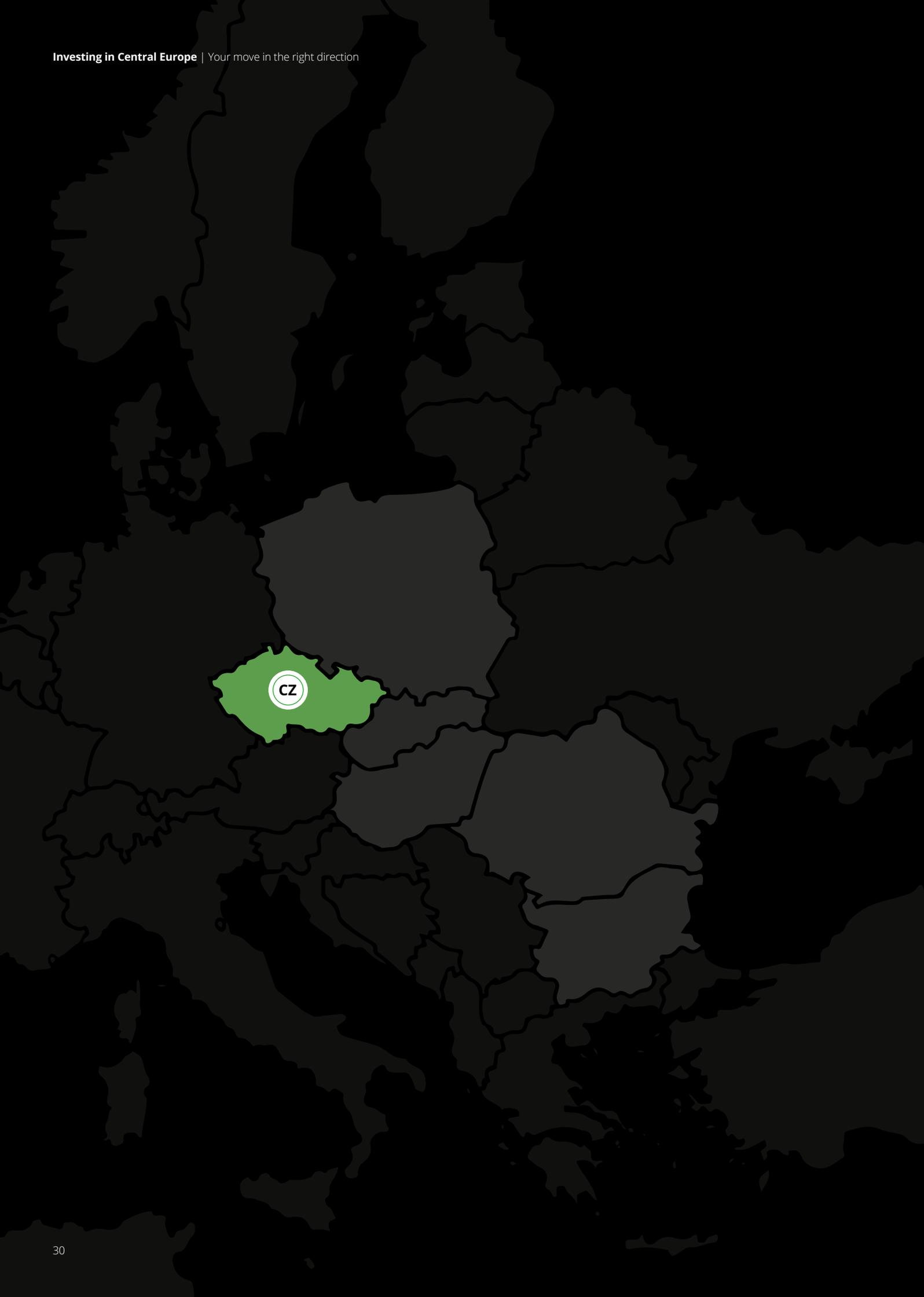
13. Expatriate life

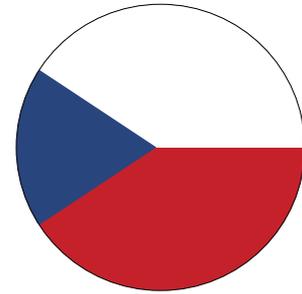
Now that Bulgaria is a fully-fledged member of the European Union, greater numbers of international businesses have established operations in the nation’s capital Sofia and, as a result, the levels of inward migration from international professional expatriates has increased.

There are now many expats living in Sofia, which come from the UK, Ireland, America and Germany for example, and if you are considering joining them you are going to want to know all about the things to do for expatriates living in Sofia outside of working hours.

There are no special rules regarding taxation of expatriates in Bulgaria. They are taxed according to the general rules applicable.

Now that Bulgaria is a fully-fledged member of the European Union, greater numbers of international businesses have established operations in the nation’s capital, Sofia.





Czech Republic

1. General Overview of the Economy

The Czech Republic is one of the most stable and prosperous countries in Central Europe. GDP per capita at purchasing power parity reached 87% of the EU average in 2015, the highest level in the CEE region. Growth is supported by exports, primarily to the EU, as well as investment activity supported by a favourable business environment and rising competitiveness of the Czech economy. This advantage was underlined by the accession to the EU. As a small and very open economy, the Czech Republic is deeply integrated in global production chains. Key sectors are automotive industry and related upstream suppliers, machinery, assembly of electronics and IT equipment, iron and steel production. Major trading partners are Germany, France, Austria, United Kingdom, Italy, China and neighbouring CEE countries.

A key advantage of the Czech economy is its overall stability. Inflation is kept at a low and stable level. Current account of the balance of payment turned to a mild surplus. The financial sector is conservative and well capitalised. The government budget reached a mild surplus and government debt is declining.

The current economic situation is favourable, the recovery from the recession following the global financial crisis has been supported by improving external conditions, rising competitiveness of Czech companies and the relaxed monetary policy of the Czech National Bank.

Political system

The Czech Republic is a parliamentary democracy with a bicameral Parliament.

The Chamber of Deputies has 200 seats and is elected by popular vote under a direct representation system with a 5% entry threshold. Aside from legislative powers, the Chamber of Deputies gives and rejects confidence to the cabinet and approves the state budget.

The Senate has 81 seats and is elected by a majority system for six-year terms with one-third of the Senators being replaced every two years. It approves laws proposed by the Chamber of Deputies.

The formal head of state is the President, who is largely a ceremonial figure, but has the power to appoint the Governor of the National Bank and members of the Constitutional Court. The President is chosen in direct elections. The head of the executive is the Prime Minister, appointed by the President. The PM appoints Ministers with approval from the President.

The Constitutional Court can rule on the unconstitutionality of laws or other legislation.



2. Tax structure

Principal Taxes

- Personal Income Tax
- Corporate Income Tax
- Value Added Tax

The Czech tax system also includes excise duties which are imposed on particular goods. Real estate tax is levied on plots of land and on construction. The real estate transfer tax is levied on the sale or transfer of real estate. The road tax is payable for vehicles used for commercial purposes. As from January 1, 2014 the inheritance and gift taxes are incorporated within the income tax system and the same rates apply as for income tax (with certain exemptions).

In addition to taxes, some local charges and compulsory social security and health insurance are applied in the Czech Republic.

Key features

Those liable to pay corporate income tax are all legal entities, including foreign companies with permanent establishment (mostly branches) in the Czech Republic.

The corporate income tax base is the trading result (i.e. profit or loss) which is adjusted in accordance with the Income Taxes Act. Partners in general partnerships and general partners in limited partnerships are taxed on their share of the partnership's taxable income. Taxable income derived from partnerships is subject to corporate or personal income tax, depending on whether the partner liable for the tax is a company or an individual.

A company is treated as a resident if it has a registered office or place of management in the Czech Republic. Resident companies are liable to tax on worldwide income. A company that has neither a registered office nor a place of management in the Czech Republic is treated as a non-resident. Non-resident companies are subject to Czech corporate income tax only if they receive income or gains from Czech sources and provided that the Czech Republic has the right to levy taxes in terms of an applicable double taxation treaty.

The Czech taxable period is the calendar year or the economic year. The deadline for filing the annual tax return is the end of the third month after the end of the taxable period. This deadline may be extended to the end of the sixth month, after the end of the taxable period, if the tax return is prepared and submitted by a registered tax advisor under a Power of Attorney. The Power of Attorney must be filed at the Financial Office by the end of the third month after the end of the taxable period. Companies that are subject to statutory audits have the filing deadline automatically extended to the end of the sixth month after the end of the taxable period.

Czech entities are entitled to deduct expenses that are incurred to generate, assure and maintain the income of the entity. Particular expenses are disallowed or may be deductible up to a limited amount.

A tax loss may be carried forward for offsetting against taxable profits, but no later than the fifth subsequent taxable period.

A withholding tax at the rate of 15% is levied on dividends paid to both domestic and foreign participants from the countries with which the Czech Republic concluded a double taxation treaty or tax information exchange treaty. Otherwise the applicable rate is 35%. This tax may be reduced under the terms of the relevant double taxation treaty binding for the Czech Republic. A withholding tax at a rate of 0% is related to dividends paid out by a subsidiary company, which has its place of business in the Czech Republic, to the parent company in any EU Member State, Switzerland, Norway or Iceland (the same will apply for Liechtenstein after the double taxation treaty between Liechtenstein and the Czech Republic comes into force). Dividend distributions between two Czech companies are exempt from the tax under similar conditions. Further, the rate of 0% is related to the dividend income of the parent company, which has its place of business in the Czech Republic, derivable from a subsidiary company in any EU Member State. For all these exemptions, certain conditions have to be met (e.g. shareholding of at least 10% for the period of 12 months). From 2008, dividends arising to a Czech tax resident company and to a company that is a tax resident in another EU Member State, Norway or Iceland (the same will apply for Liechtenstein after the double taxation treaty between Liechtenstein and the Czech Republic comes into force) are also exempt if paid by a subsidiary that: is a tax resident in a non-EU country with which the Czech Republic has concluded an effective double taxation treaty; has a specific legal form; satisfies the conditions for the dividend exemption under the EC Parent-Subsidiary directive; and is subject to a home country tax comparable to Czech corporate income tax at a rate of at least 12%.

The Interest-Royalty Directive is fully applicable to interest payments to any EU Member State, Switzerland, Norway or Iceland (the same will apply for Liechtenstein after the double taxation treaty between Liechtenstein and the Czech Republic comes into force). Interest and royalties paid to a tax non-resident from the countries with which double taxation treaty or tax information exchange treaty is concluded are subject to a 15% withholding tax under the Czech Income Taxes Act. Otherwise a 35% tax rate applies. The exemption in compliance with the Interest-Royalty Directive also does not apply to interest that is treated as dividends according to the thin capitalisation rules except interest paid to a tax resident of the European Economic Area.

Capital gains on the sale of securities and participations are exempted from the tax if conditions similar to those required to qualify for the dividend exemption under the EC Parent-Subsidiary are satisfied.

All transactions with related parties must be conducted at arm's length. Otherwise, the taxpayer is obliged to adjust its tax base accordingly. If the Tax Authorities find that a company does not deal with related parties according to the arm's length principles, the Tax Administrator will adjust the company's tax base and impose related sanctions.

Thin capitalisation rules are applied in the Czech Republic and restrict the deductibility of interest and other financial costs (inclusive of guarantee fees, credit facility fees etc.) on "loans and credits" as defined in the Czech Income Taxes Act. The limitation of the debt/equity ratio is 4:1 (6:1 for banks and insurance companies). The ratio applies on debt provided or "secured" (e.g. by a guarantee) by a related party.

Under the Czech Income Taxes Act, the remuneration paid to an employee by a company should be regarded as income from a "dependent activity". A company (employer) is generally regarded as the withholding agent of personal income tax from dependent activities and is obliged to withhold the personal income tax from the remuneration of its employees on a monthly basis and pay it to the tax authorities. An employer prepares an annual reconciliation of payroll tax advances, provided that the employee is not required by the law to file an annual personal income tax return and asks for this reconciliation no later than by the 15th of February following the calendar year for which the reconciliation is prepared. If the employee does not ask the employer for the annual tax reconciliation, the tax liability of the employee is treated as fulfilled by the withheld payroll tax advances. The reasons for obligatory filing of an annual personal income tax return are e.g. receipt of other income exceeding CZK 6,000 during the taxable period, receipt of employment income exceeding 4x the average wage in any month of the taxable period (which is then subject to the solidarity surcharge).

Advance income tax payments are always calculated based on the last known tax liability. They are not, therefore, payable in the first year. If the last tax liability was lower than CZK 30,000, tax advances are not payable.

VAT is levied on domestic taxable supplies, the importation of goods, the acquisition of goods from another EU country, and the purchase of specified services from foreign companies. The VAT base is usually the basis of consideration for goods sold or services rendered, including customs duties, clearance and transportation costs, and excise duties (if applicable).

Companies seated in the Czech Republic with a turnover exceeding CZK 1 million per 12 calendar months are required to register for VAT. Simplified registration is also required if purchases from other EU countries exceed CZK 326,000 per calendar year and in some specific transactions – such as the acquisition of certain services. A company can register voluntarily even if its turnover fails to reach the above amounts if it renders taxable supplies in the Czech Republic.

Foreign businesses and companies from other EU member states are obliged to register for VAT in the Czech Republic if taxable supply is performed, unless it is the recipient who should self-assess Czech VAT. Voluntary registration is possible.

The standard rate of 21% applies to the majority of industrial goods, services and real estate transfers. A reduced VAT rate of 15% is applied to selected goods (agriculture products, foodstuffs and pharmaceuticals) and selected services and a reduced 10% rate applies to the supply of certain goods from 1 January 2015 (for example special nutrition for babies, certain medical drugs, books).

The VAT return must be filed and the tax paid within 25 days after the end of the taxable period. The taxable period is a calendar month or calendar quarter, depending on taxpayer turnover.

In case of newly registered VAT payers calendar month as a taxable period is possible only.

Excise duties are levied on hydrocarbon fuels and lubricants, spirits, beer, wine and tobacco products. There is a uniform real estate transfer tax at the rate of 4%. This tax is applied when real estate is sold or transferred.

Double taxation treaties

The Czech Republic has concluded a considerable number of double taxation treaties. In most cases, the double taxation treaties concluded by the Czech Republic follow the OECD model.

The Czech Republic, as a legal successor to Czechoslovakia, has adopted the treaties concluded by Czechoslovakia in its legislation.

Current tax rates

Corporate income tax	19% (5% tax rate applies for basic investment funds etc.)
Personal income tax	15+7%*
	Standard rate: 21%
Value added tax	Reduced rate: 15%
	Reduced rate: 10%
Real estate transfer tax	4%

Withholding taxes

On dividends

Dividends paid out by a subsidiary company to a parent company within the Czech Republic or to the EU/Switzerland/Norway/Iceland or from the EU parent or subsidiary company (based on the EU Parent Subsidiary Directive)	35% (paid to foreign participants), if no double taxation treaty or tax information exchange treaty is concluded 15%, if not reduced by a relevant double taxation treaty 0%, if certain conditions are met
Dividends paid out by a subsidiary to a parent company from the non-EU country to the Czech Republic/EU/ Norway/Iceland	0%, if certain conditions are met

On interest

Interest paid out by a Czech company to an EU/Swiss/Norwegian/Icelandic related party based on the EU Interest- Royalty Directive	35% (for comment look above at dividends) 15%, if not reduced by a relevant double taxation treaty 0%, if certain conditions are met
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On royalties

Royalties paid out by a Czech company to an EU/Swiss/Norwegian/Icelandic related party based on the EU Interest-Royalty Directive	35% (for comment look above at dividends) 15%, if not reduced by a relevant double taxation treaty 0% applicable from 1 January 2011 (until 30 December 2010, the Czech Republic may tax royalties up to a rate of 10%)
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* Solidarity surcharge applicable from 2013 to income exceeding 48times the average wage per year.

Social Security and health insurance

The social security and health insurance system comprises pension, state employment, and general health and sickness insurance schemes.

Social security contributions are compulsorily paid by employers (legal entities or individuals who employ at least one employee), employees and self-employed persons.

Health insurance contributions are compulsory for everyone who has permanent residence in the Czech Republic or is an employee of a Czech resident employer, excluding persons whose contributions are paid by the state. Both obligatory social security and obligatory health insurance contributions settled by an employer are generally considered as deductible expenses for tax purposes. The rates of contribution for social security and health insurance are as follows at present:

A cap equal to 48 times the average monthly wage (i.e. CZK 1,296,288 for 2016) is applicable to the assessment base for social security purposes. Health insurance is uncapped. The minimum assessment base for the health insurance purposes equals to the minimum wage (CZK 9,900 per month in 2016). There is no minimum assessment base for social security purposes in case of employment.

Employee

Pension insurance	21.5%
Employment insurance	1.2%
Sickness insurance	2.3%
Health insurance	9.0%

Employee

Pension insurance	6.5%
Employment insurance	0%
Sickness insurance	0%
Health insurance	4.5%

Self-employed person

Pension insurance	28.0%
Employment insurance	1.2%
Sickness insurance (voluntary)	2.3%
Health insurance	13.5%

Person without taxable income. The health insurance contributions are paid from minimum

Health insurance	13.5%
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Person voluntarily participating in a pension insurance scheme (from chosen assessment base)

Pension insurance	28%
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Customs System

Since 1 May 2004, the Czech Republic has been a Member state of the European Union. This fact influences customs arrangements significantly. The Czech Republic, like other new Member States, has completely adopted customs rules applied in the EU.

At present, the Czech Republic participates in the single market of the EU. Customs controls at the internal borders of the EU and customs formalities have been abolished for the movement of goods inside the EU.

Customs duties can be even lower due to the extensive application of customs preferences resulting from Free Trade Agreements concluded with a broad range of countries (Norway, Iceland, Switzerland, Liechtenstein, Macedonia, Albania, Algeria, Tunisia, Israel, Morocco, South Africa, Lebanon, Jordan, Syria, Egypt, Mexico, Chile, South Korea, etc.). Customs unions have been created with Turkey, Andorra and San Marino. Furthermore, the Czech Republic grants preferential treatment to goods originating in developing and least developed countries. These customs preferences are conditioned by proving origin of the goods.

According to customs regulations, all standard customs procedures, including special procedures, can be used: the release into free circulation, customs warehousing, inward processing temporary admissions, outward processing, transit and exportation.

The Single Administrative Document ("SAD") is used for releasing the imported and exported goods for the respective procedure or for terminating the procedure. The simplified procedures may be applied for all customs procedures and can save a significant amount of cost and time for importers and exporters. The new Computerised Transit System (NCTS) and Import and Export Customs System (ICS and ECS) enable paper-less communication between the operators and customs authorities.

In 2016, the new European Union Customs Code and related Czech local legislation came into force. One of the targets of these changes is to make the customs procedures simpler and faster for economic subjects. The Czech Republic is also progressing on the path to fully electronic customs procedures.

3. News in the Czech Legislation Changes in the Income Taxes Act

There are no major changes expected in the taxation of corporations for 2017; however, the respective legislation is still being discussed and its effectiveness will be postponed till April 2017 or later.

Starting from December 2016 companies will have to report received revenues (in the form of cash) via the newly introduced electronic evidence of revenues system. In the first round this obligation is imposed to hotels, catering and food providers and restaurants. The next round will focus on wholesale and retail (starting from March 2017) as well as craftsmen (starting from March 2017). Nevertheless, the launch of the new recording system induced protests and many attempts to amend already approved legislation, so it is probable that there will be changes and amendments which will change the respective provisions.

Individuals

There are no major changes in the taxation of individuals expected for 2016; however, the respective legislation is still being discussed and its effectiveness will be postponed till April 2017 or later.

Self-employed individuals will have to cope with the newly introduced electronic evidence of revenues; all individuals requested to do so by the tax authority will have to file a declaration of their property and prove how they financed the acquisition of this property – the authority will be entitled to request such a declaration if the total wealth of the individual exceeds CZK 5 million.

VAT

As of January 2016 new VAT reports have been introduced: additional data in invoice details have to be filed electronically to the tax authorities together with VAT returns. The amendment further affected mostly the real estate area by introducing a new definition of building plots in the VAT system and new rules for determining which land is, for VAT purposes, adjoining to a building.

Further amendment to the VAT Act became effective on 29 August 2016. The amendment has introduced a broadly-applicable reverse charge regime for the sale of goods to a tax-payer if the sale is realised by a person not established in the Czech Republic and not registered as a VAT payer in the Czech Republic. Under certain circumstances, foreign entities registered as VAT payers might be able to deregister provided they realise only supplies that would otherwise be subject to the reverse charge regime.

- A further and relatively significant change is the revocation of the special status of free zones. From 29 August 2016, free zones shall be considered a standard area of the Czech Republic where the common tax regime is applicable. During 2016 several VAT Act amendments have been introduced which, among others, delivered the following changes: The definition of a building plot of land, the supply of which is taxable, has been broadened substantively. Local reverse-charge has been introduced to various supplies of goods such as electricity or gas, and to supply of telecommunication services not rendered to final consumer. Furthermore, a local reverse-charge mechanism applies to all local supplies of goods to Czech VAT taxpayers (regardless of whether established or not) performed by non-established and

non VAT registered businesses in the Czech Republic. A VAT rate for restaurant services has been reduced from 21% to 15% (except for serving alcoholic beverages and tobacco products).

As of December 2016, businesses rendering restaurant services or accommodation in the Czech Republic have an obligation to record their sales according to the Act on Registration of Sales. Further business sectors will be covered by this obligation during 2017 and further on. A sale has to be registered if paid in cash, by card, or by similar means, if it entails a business income taxable by Czech income tax (and if not specifically exempt from registration by the Act on Registration of Sales). Payments made by direct bank account transfers or bank debits do not have to be registered. A VAT Act amendment which should become effective likely as of 1.4.2017 has been prepared. The suggested changes are, among others, the following:

- New rules for taxing payments made before the supply is rendered should change with major impacts mostly on prepaid telecommunication cards;
- Special rules for determining a date of taxable supply in case of recurring supplies will be removed;
- The shortages of goods should be subject to the input VAT recovery adjustments (currently subject to output VAT);
- Local reverse-charge mechanism should be applied on forced supplies of goods (ie judicial sales);
- Investment companies will treat open funds and sub-funds differently as such funds will be - for VAT purposes – considered a separate person.

3. Legal entities

Generally, there are four main business company forms in the Czech Republic: joint stock company (akciová společnost a.s.); limited liability company (společnost s ručením omezeným s.r.o.); limited partnership; and unlimited partnership. In addition, also a European company (SE), a European Economic Interest Grouping (Evropské hospodářské zájmové sdružení), a cooperative (družstvo) and a European Cooperative Society (evropská družstevní společnost) may be established in the Czech Republic. Below are the requirements of an a.s. and an s.r.o., the most popular company forms. As of 1 January 2014 the regulation of the Czech corporate law, including the main features of the legal entities, was significantly changed.

Joint Stock company (a.s.)

The minimum amount of registered capital is CZK 2m or EUR 80,000. The registered capital may be expressed in EUR, only if the accountancy of the company is maintained in EUR in accordance with the special legal regulations. The registered capital is made up by the shareholders' investment contributions and is divided into shares of a certain nominal value or into a certain amount of shares without stating the nominal value (unit shares). Articles of Association shall stipulate the minimum amount of the registered capital to be paid up at the time of formation of the company. The formation of the company is effective, only if each of the founders paid up the share premium, if any, in full and all founders paid up in aggregate at least 30% of the nominal or accounting value of all subscribed shares in the time stipulated in the Articles of Association of the Company; however, before filing an application with the Commercial Register at the latest.

Bringing of the in kind contribution to the company must take place before formation of the company.

The amount of capital contributed in kind must be declared in writing in the Article of Association and must be evaluated by an expert selected by the founders.

There are no restrictions on the number of shareholders, or on their nationality or residence. The sole founder of the a.s. can be a legal entity (company) as well as a natural person.

Regarding the company's bodies the new Czech Act on Business Corporations and Cooperatives provides for two different corporate structures. The company may have either a dualistic (Board of Directors and Supervisory Board) or monistic (Administrative Board and Managing Director) system of organisation.

A company with a monistic structure must have an Administrative Board. The Administrative Board has three members (either natural persons or legal entities), unless the Articles of Association determine otherwise. The Chairman of the Administrative Board has to be a natural person.

The Managing Director is a statutory body and conducts the business management of the company. He is appointed by the Administrative Board (or the General Meeting if determined in the Articles of Association). The Managing Director has to be a natural person and can simultaneously be the Chairman of the Administrative Board.

A company with dualistic structure must have a Supervisory Board. The Supervisory Board has three members (either natural persons or legal entities), unless the Articles of Association determine otherwise. The Members of the Supervisory Board are elected and recalled by the General Meeting.

The business management of the company is conducted by the Board of Directors. The Board of Directors has at least three members (either natural persons or legal entities), unless the Articles of Association determine otherwise. The members of the Board of Directors are elected and recalled by the General Meeting, unless the Articles of Association determine that they are elected and recalled by the Supervisory Board. The Board of Directors is responsible for the day-to-day management of the company, preparation of annual financial statements and corporate reports, and maintenance of the company's accounts etc.

Shares may be registered or bearer, and both types are transferable. Bearer's share may be issued only in a book-entered form or in an immobilised form. There is no minimum value or other limitation placed on the value of individual shares.

The Articles of Association may allow and determine different types of shares and attribute different rights thereto. The shares to which no specific rights are attributed shall be deemed as Basic shares. Shares with preferential right to dividends or to a share in a liquidation balance shall be deemed as Preferred shares which does not include a right to vote, unless otherwise determined by the Articles of Association. Shares without right to vote may be issued up to the total sum of either nominal values equalling 90% of the total registered capital of the company.

At companies with registered capital equal to or under CZK 100,000,000 shareholders holding shares of total nominal value or number of unit shares equalling at least 5% of the registered capital of the company may request from the board of directors that the General Meeting of the company is convoked, that certain items be added to the agenda of a General Meeting, that Board of Directors of the company be investigated by the Supervisory Board, or to file the petition regarding compensation of damage caused to the company by the Board of Directors (status of qualified shareholder).

At companies with registered capital over CZK 100,000,000 the status of qualified shareholder requires the shareholding of shares of total nominal value or number of unit shares equalling at least 3% of the registered capital of the company.

At companies with registered capital equal to or over CZK 500,000,000 the status of qualified shareholder requires the shareholding of shares of total nominal value or number of unit shares equalling at least 1% of the registered capital of the company. Generally a quorum is obtained at the general Meetings when shareholders holding at least 30% of the company's registered capital are present, unless otherwise determined by the Articles of Association. A simple majority of present voting shares is enough for most decisions; however, a two-thirds or three-quarters vote is necessary if the Articles of Association or the law stipulates so (e.g. to change the Articles of Association).

Limited Liability Company (s.r.o.)

The minimum amount of registered capital is CZK 1. The minimum contribution of an individual shareholder in the company is CZK 1, unless the Memorandum of Association stipulates a higher amount. At least 30% of each founder's monetary contribution plus the amount of share premium, if any, must be paid at the time of filing of the petition for registration of the company with the commercial register. The same applies in the event the company is established by one founder.

Bringing of the in kind contribution to the company must take place before the company's formation. The amount of capital contributed in kind must be declared in writing in the Memorandum of Association and must be evaluated by an expert selected by the founders.

A limited liability company may be founded by one person (either a natural person or legal entity). The number of the company's shareholders is not restricted.

A supervisory board may be set up but is not required by law. The legislation stipulates that the supervisory board is set up only in case the Memorandum of Association or special act states so. Business management is conducted by one or several Executives, elected by the company's shareholders at the General Meeting. The office of the company's Executive can be held either by a natural person or a legal entity. In case the company has more than one executive, the Memorandum of Association can determine that the Executives shall create a collective body. The Executive(s) is responsible for the day-to-day management of the company, preparation of annual financial statements and corporate reports, and maintenance of the company's accounts etc.

The Memorandum of Association may allow and determine different types of shares and attribute different rights thereto (for example preferential right to dividends or fixed right on dividends, etc). The shares to which no specific rights are attributed shall be deemed as Basic shares. The Memorandum of Association may also allow one shareholder to hold more shares, even of the other type .

The share of the shareholder can be represented by an ordinary share certificate, if the Memorandum of Association stipulates so.

Generally a quorum is obtained at the General Meetings when shareholders holding at least 50% of all votes are present, unless otherwise determined by the Memorandum of Association. A simple majority of votes is sufficient for most decisions; however, a two-thirds vote or votes of all shareholders are necessary if the Memorandum of Association or the law stipulates so (e.g. to change the Memorandum of Association).

4. Labor and wages Employment market

The Czech Republic has a highly skilled workforce, particularly in technology and engineering. Educational and literacy levels are high. Companies report few difficulties in recruiting skilled and unskilled workers, particularly in industrial areas where unemployment is the highest. Finding workers is difficult also in regions where the unemployment rate is low, e.g. in Prague and parts of western Bohemia, it hovers around 2-3%. There is also a dearth of individuals with management and financial expertise.

Employees' rights

The employment relationship governed by Czech law is regulated by Act No. 262/2006 Coll., Labor Code, as amended (hereinafter the "Labor Code") that came into effect on 1 January 2007. The Czech labor law generally grants more legal protection to the employee and endeavours to achieve a more equal position of the parties in the employment relationship. The Labor Code, therefore, considerably restricts the liberty of the contract in the employment relationships. Since 1 January 2012 an important amendment to the Labor Code entered into force which brought more flexibility to the Czech labor law. These changes resulted especially in the simplification of the wording of the Labor Code and of recruitment and dismissing employees. On 1 January 2014 the new amendment to the Labor Code entered into force bringing the Labor Code in conformity with the New Civil Code. Currently, the amendment to the Labor Code with the planned effectiveness as of July 2017 is proposed and discussed. The proposed wording introduces among other things a new category of the managerial employee and the (currently missing) regulation of home office.

The Labor Code complies in general with EU norms. It contains the basic definitions of discrimination and anti-discriminatory rules, the sexual-harassment provision, equal treatment of EU nationals and Czech individual employees, and specific EU rules on trade unions. These questions have also been regulated by a separate Anti-discrimination act in 2009.

The Labor Code, in line with EU law, contains rules limiting employers in concluding fixed-term employment contracts. However, the Labor Code allows fixed-term employment contracts to be renewed after a maximum of three years, up to two times, and for a maximum length of three years per each renewal, i.e. maximum nine years. If on the employer's part there are serious operational reasons, or reasons consisting in the special nature of the work, which would make it unreasonable to require an employer to conclude an employment relationship for an indefinite term with the employee who is to perform such work, the aforementioned limits do not apply as of 1 August 2013. The operational reasons as well as the conditions of conclusion of fixed-term employment relationship must be determined either by a written agreement concluded with a trade union or by the employer's internal regulation in case there is no trade union active at the employer.

Once the above-mentioned threshold has been met and the employment continues, the contract would automatically become indefinite (i.e. the position would be made a permanent one), with the exceptions described above. The minimum annual holiday is four weeks.

Working hours

The official workweek is 40 hours. The Labor Code sets strict limits on overtime work – total overtime work may not exceed 8 hours per week on average in a period lasting no longer than 26 weeks (52 weeks in case it is agreed on in the collective bargaining agreement), not including the overtime work for which compensatory time off was provided.

Employees must be paid the achieved wage, plus a bonus of at least 25% of the average earnings or time off in lieu of the 25% bonus for overtime work. Based on an agreement between the employer and the employee it is possible to include part of the overtime work into the employee's salary (i.e. in the maximum amount of 416 hours in case of managerial employees and 150 hours in case of other employees per calendar year). However, it is only possible when the salary itself is stipulated in the agreement between the employer and the employee (e.g. in the employment contract or in the agreement on salary).

Wages and benefits

The minimum-wage law is set out in Government Order No. 233/2015 Coll, and amounts to CZK 9,900 per month or CZK 58.70 per hour since 1 January 2016. The previous amount of minimum wage was set to CZK 9,200 and was valid since 1 January 2015. In 2017, the amount of minimum wage will be set to CZK 11,000 per month and CZK 66 per hour. The minimum wage is set at the subsistence level; actual wages paid are much higher. The minimum wage is paid to only 3.2% of employees, according to the Ministry of Labor and Social Affairs (Ministerstvo práce a socialních věcí), but it is important for calculating minimum bases for health-insurance and social-security contributions. Some trade unions (for example, agriculture and construction unions) negotiated higher minimum wages directly with their employers.

The average monthly wage in the year 2015 amounted to CZK 26,467. The average monthly wage in the period of the first to third quarter of the year 2016 amounted to CZK 27,000.

Further benefits specifically covered in the Labor Code include the following:

Vacation: Employees who have worked at least 60 continuous working days with a given company are entitled to paid annual vacation (on a pro-rata basis related to the number of days worked in the calendar year). The minimum annual vacation is four weeks. Where an employment contract lasts for less than one year, one-twelfth of the annual holiday is accrued for each 21 days worked.

Maternity: Maternity leave lasts 28 weeks (37 weeks for women giving birth to more than one child at the same time). This may be extended as a parental leave at the request of the mother until the child reaches three years of age. During maternity leave, the mother has no right to wages but qualifies for sickness benefits. Fathers may also apply for parental leave of up to three years.

Sick pay: If an employee is absent from work because of illness, he/she is provided with wage compensation by the employer for the first 14 calendar days. This compensation is granted from the fourth working day of temporary incapacity. From the 15th day of sickness, a sick payment from the social security insurance is paid to the employee. The sick payment amounts to 60% of the average earnings.

In case of work injury, employees are entitled to compensation on loss of earnings, compensation on pain and diminishing of social position, compensation on purposefully expended costs associated with the treatment and material damage. For the death of an employee, due to work injury, the surviving spouse would receive a one-off indemnification of CZK minimum 240,000 and each dependent child shall receive at minimum CZK 240,000. Parents of the deceased living with him/ her in the same household shall receive an aggregate sum of CZK 240,000. The survivors are also entitled to other compensatory payments.

Unemployment: Unemployment benefits are provided for up to five/eight/ eleven months (depending on the age of an unemployed person) at the rate of 65% for the first two months of unemployment, 50% for the next two months and 45% of the previous net average earnings for the remaining period. The total sum of unemployment benefits to be paid is capped at 58% of the average wage in the Czech Republic for the period from the first to the third quarter of the previous year..

5. Education

The Czech Republic combines an outstanding level of general education with strong science and engineering disciplines. For generations the Czech education system has generated high class, technical problem-solving skills in environments where standard solutions were impossible.

School education is compulsory from ages 6 to 15 (elementary and lower secondary school). After 9 years students may continue at three basic types of upper secondary school: vocational training centres, secondary schools and grammar schools (gymnázia). Undergraduate and graduate studies are offered by colleges (offering 3 to 4-year bachelor programmes).

The Czech education system has a very strong position in upper secondary education, which serves as the foundation for advanced learning and training opportunities, as well as preparation for direct entry into the labor market. The percentage of the adult population that had completed at least a secondary education in the Czech Republic is permanently among the highest in all OECD countries. More than 90% of the Czech population aged 24-64 had completed at least upper secondary education in 2013, compared to an EU average of 75% (Source: EUROSTAT).

Vocational education and training are thoroughly integrated into both secondary and higher education institutions, and enrolment in vocational education is exceptionally high by OECD standards.

The Czech Republic also has a very good position in tertiary education. There has been an increase in university-level skills in the adult population, as measured by educational attainment.

While public universities offer programmes ranging from economics, statistics and public administration to finance, accounting, international relations and marketing, a number of private institutions specialise in business administration courses. Several institutions and universities offer high- quality MBA programmes and are affiliated with foreign universities and colleges.

The Czech Republic provides a free and flexible choice in continuing education. Private training providers and non-profit organisations co-exist and complement secondary schools and universities. According to recent research, the most frequently taught courses include the use of PCs, accounting, management, finance, marketing and foreign languages.

6. Infrastructure

Road network

The Czech Republic already has the best road network in the region. The central government has administrative authority for developing and maintaining motorways totalling 1,228 km, as well as 5,810 km of national highways. Regional governments are responsible for secondary and local roads, which amount to 14,635 km and 34,129 km, respectively. The State Transport Infrastructure Fund spent CZK 26 bn on road infrastructure in 2013. Electronic tolls for vehicles over 3.5 tons are already effective, provided by administrative authority, covering some 1,450 km of roads.

Railway network

The Czech transport and communications system is good by eastern European standards but below the quality commonly found in western Europe. The railways are an important means of transport, with a network of 9,470 km.

Shipping and air transport

River transport, along the 303 km of rivers that are navigable, is comparatively unimportant; its main use is for the internal movement of goods on the Vltava and Labe river, north of Prague.

The national air carrier, Czech Airlines (2,773,700 passengers in 2013), has similarly small domestic significance, given the country's compact size. Since 2011, Czech Airlines merged into holding with Ruzyně Airport (11 million passengers in 2013) to form a stronger entity. In April 2013, 460,725 Czech Airlines shares (i.e. 44% shareholding) were sold to Korean Air.



Telecommunications

The number of fixed telephone lines peaked in 2001 – 2002 and is steadily decreasing, counting 1.4 million participants in 2013. Mobile phone penetration is more than 1 active SIM card per citizen. There were 68% of households with computer and 67% with internet access in 2013.

7. The Most Active Industries/Sectors

Automotive Industry

The automotive industry has been the most important production sector of the Czech Republic. It already accounts for 20% of manufacturing output and employs 200,000 people (Czech Statistical Office).

Key Players in the automotive industry

Some of the key players in the Czech automotive industry are major OEM's that are significantly boosting all automotive output in the Czech Republic. Skoda Auto a.s. – a Czech brand owned by the German VW group – has a major production facility in Mlada Boleslav. A significant portion of its output goes to the local and Central European markets. Other car producers are the TPCA (Toyota-Peugeot-Citroen Automobile) and HMMC (Hyundai Motors Manufacturing Czech). Together with Skoda Auto a.s., those three carmakers reached nearly 1.3 million units of overall production of passenger cars in 2015. The most important players among the automotive suppliers are subsidiaries of multinational companies, such as Aisin, Bosch, Continental, Denso, Faurecia, Johnson Controls, Magna, TRW Automotive and many others.

Engineering

Electrical engineering with its robust growth is becoming the Czech Republic's biggest industry overtaking the country's traditional industrial sectors of steel production and engineering.

Electrical and electronic industry

The growth of the electrical and electronic industry since the second half of the 1990s in the Czech Republic was based on the growth of both domestic consumption and export. In 2000, revenues from the sale of their own products and services in all branches reached CZK 185bn. In 2015, the revenues totalled CZK 581bn which, in current prices, amounts to more than a tripling of the volume of production. In that period, the workforce in the electrical industry increased by 31,000 (i.e. 25%).

Traditionally, the largest share of consumption was accounted for by heavy-current technology and by electronic components. The largest accumulation of consumption was observed in electronic components.

The Czech electrical and electronics industry has more than 140,000 employees and created an output of over CZK 580 bn in sales as of 2015 most of which is exported especially to other countries of the European.

The electrical industry is primarily marked by:

- the complementary character of its production in creating prerequisites for the competitiveness of other branches of the manufacturing industry and power industry;
- a high proportion of imported materials, components and parts for production and assembly;
- a wide range of technological processes;

- a high proportion of supranational capital in new investment projects, especially in connection with the introduction of advanced technologies;
- the use of logistic networks of supranational companies;
- a high proportion of science and research used in the production of computational and digital communications technology and the need for highly-qualified employees in research and in production.

Financial Services

The core of the commercial banking sector comprises three large banks that had their roots in the communist era, with three of the four hived off from the Czechoslovak State Bank's enterprise lending operations in 1990. Together, the three Komerční banka (KB), Česká spořitelna (CS) and the former foreign-trade bank, Československá obchodní banka (CSOB) accounted for 80% of all banking sector assets in 1994 (64% in 2011). These banks inherited a large volume of non-performing loans from the communist period (including foreign-trade credits to developing Soviet-bloc countries, and domestic credits for private and co-operative housing construction). Successive governments led by the Civic Democratic Party (ODS) in 1992-97 resisted their full privatisation owing to fears that, once in private hands, they would cease to support domestic enterprises.

Sizeable stakes were sold during voucher privatisation, but the resulting ownership structures were not conducive to restructuring. The banks controlled investment funds, which in turn controlled large parts of the formerly state-owned enterprise sector. The result was a non-transparent web of cross-ownership and continued insider lending that helped large enterprises avoid restructuring while adding to the state-owned banks' bad-loan portfolios.

Currently the Czech Republic has a very stable financial system. It was confirmed by the International Monetary Fund in its Financial System Stability Assessment Update from 4 April 2012 stating that banks in the Czech Republic, having ample capital and liquidity, and solid profitability, got over the effects of the global financial crisis relatively unscathed and that stress test results show that Czech banks are resilient against substantial shocks.

Construction

As with the rest of the economy, construction was almost entirely state-controlled under communism and has quickly been returned to private ownership. By 1996 more than 99% of all construction enterprises were in the private sector, which grew rapidly from 1990 both as a result of privatisation and through the establishment of new, often small, firms. However, the construction of larger apartment blocks fell dramatically with the end of the centrally planned system, hitting larger enterprises, and output contracted by almost 50% during the latter half of the 1990s, with the sector's share in value added falling to 5.7% in 2015, from 8.1% in 1990. The decline nonetheless appears to have bottomed out with the onset of an increase in demand for construction of greenfield production facilities, benefiting larger firms. Construction was severely hit by the recession following the global financial crisis in 2008. In 2014 and 2015, the construction sector enjoyed a recovery supported by the inflow of EU funds.

Retail

Following privatisation, Czech-owned companies consolidated a large number of small outlets into retail chains. However, as Czech investors lacked marketing and management skills, and their shops were often not in prime locations, they soon succumbed to foreign competition. Several European retail chains have invested heavily in the Czech retail market. Foreign companies have also spearheaded the move from small outlets to larger department stores and out-of-town supermarkets. The retail market was worth CZK 966bn and accounted for 7% of total employment in 2015.

Most consumer goods are manufactured locally. The local industries making consumer goods, especially the sectors producing white goods and personal computers (PCs), have received huge foreign investments in the past decade. Retail sales grew by 3.5% year-on-year in volume terms on average between 2001 and 2015.

8. Industrial parks

Due to a considerable inflow of FDI into the country in recent years, the availability and choice of office space has improved significantly. Most projects in the country are open-field constructions, with the exception of some reconstructions of objects in cities.

The Czech Republic boasts an excellent network of over 150 industrial zones, which are located on the outskirts of virtually every town of regional importance.

9. Investment Incentives

Investment in manufacturing, technology centres and strategic service centres are generally eligible for investment incentives granted by the Czech government. An amendment to the Act on Investment Incentives took effect from 1 May 2015.

Forms of Investment Incentives

Aid intensity is 25 % in the form of:

- Corporate income tax relief for 10 years;
- Job creation grants (CZK 100,000/200,000 per newly created job, only in regions with a high unemployment rate and CZK 300,000 in so called Special economic zones);
- Purchase of land at a reduced price;
- Cash grant for acquiring assets of up to 10-12,5% of the costs (no more than CZK 1,500 million for manufacturing, CZK 500 million for technology centres) assuming the conditions of the strategic investment project are met (see below);
- Relief on real estate tax up to 5 years in Special economic zones.

Aid above 25 %:

- Training and retraining grants (generally 25 % or 50% of total expenditures for training and retraining, only in regions with a high unemployment rate and in Special economic zones).

Selected Conditions for Specific Investment Projects

Work on an investment project (i.e. the acquisition of assets, including acquisition orders, or commencing construction) may not begin before CzechInvest approves the project. Other basic investment requirements (which must be fulfilled within three years from granting the investment incentives) are as follows:

Manufacturing

- Starting new or expanding existing production.
- The minimum investment is CZK 50 or 100 million (depending on the region), at least 50% of which must be invested in new machinery.
- Creating no fewer than 20 new jobs.

Technology Centres

- Activities qualifying as technology centres include applied research and the development and innovation of hi-tech products, technologies and production processes.
- The minimum investment is CZK 10 million and at least 20 new jobs must be created.

Strategic Service Centres

- Activities qualifying as strategic service centres include software development or innovation and repairs of hi-tech equipment, as well as handling the management, operations and administration of the internal affairs of companies.
- There is no minimum investment requirement; however 70 new jobs for repair and a shared service centre, (40 for software development and data centres and 500 for call centres) must be created.

Strategic Investment Projects

- Manufacturing
- An investment in assets of no less than CZK 500 million, of which CZK 250 million in new machinery while creating no fewer than 500 new jobs.

Technology Centres

- An investment in assets of no less than CZK 200 million, of which CZK 100 million in new machinery while creating no fewer than 100 new jobs

The eligible costs are calculated as the eligible fixed assets for production or as the payroll costs of the new jobs incurred with respect to the project during 24 months after filling the vacancy in the case of technology centres and strategic service centres.

10. Foreign Direct Investment (FDI)

The stock of inward foreign direct investment (FDI) in the Czech Republic was US\$122.9 bn at the end of 2012. The country now has only a few state enterprises left to sell, the most important being the energy company, CEZ. Although privatisation opportunities will soon dry up, steady inflows of FDI should come from reinvested earnings of foreign-owned firms and some new greenfield investment.

Germany is the largest foreign investor, with 23% of the inward FDI stock at the end of 2012 (the latest available data).

The second and third largest foreign investors are the Netherlands (with 15% of the inward FDI stock at the end of 2012) and Austria (with 14% of the inward FDI stock at the end of 2012). A significant portion of FDI inflows into the Czech Republic has been concentrated in manufacturing and financial intermediation (both about 24% of total FDI at the end of 2012), and disproportionately in the capital, Prague, and other large cities. Real estate and business activities have been the second-largest beneficiary (with 15% of the total). More investment is being directed towards transport, storage and communications and trade, hotels and restaurants (Source: Czech Invest, Czech National Bank).

11. Expatriate life

Although in most respects life in the Czech Republic has rapidly approached Western standards of living, the cost of living remains substantially lower than in Western Europe. According to the Union Bank of Switzerland average prices of goods and services in Prague are only 49.2% of those in Zurich. Domestic purchasing power in Prague is 45.1% of Zurich's level, which is the highest purchasing power in CE.

With respect to accommodation Prague and all larger cities boast a wide range of rented furnished and unfurnished accommodations for expatriates and their families, ranging from centrally-located apartments to spacious villas in leafy suburbs. Many real estate agencies offer relocation services for a charge of one to two months' rent.

Prague and many cities in the Czech Republic are famous for their architectural heritage, museums, theatres, cinemas, galleries, historic gardens and cafes.

12. Weather and climate

The Czech climate is mixed. Continental influences are marked by large fluctuations in both temperature and precipitation, while moderating oceanic influences diminish from west to east. In general, temperatures decrease with increasing altitude but are relatively uniform across the country at lower elevations.

The mean annual temperature at Cheb in the extreme west is 45° F (7° C) and rises to only 48° F (9° C) in Brno in southern Moravia. High temperatures can reach 91° F (33° C) in Prague during July, and low temperatures may drop to 1° F (-17° C) in Cheb during February. The growing season is about 200 days in the south but less than half that in the mountains.

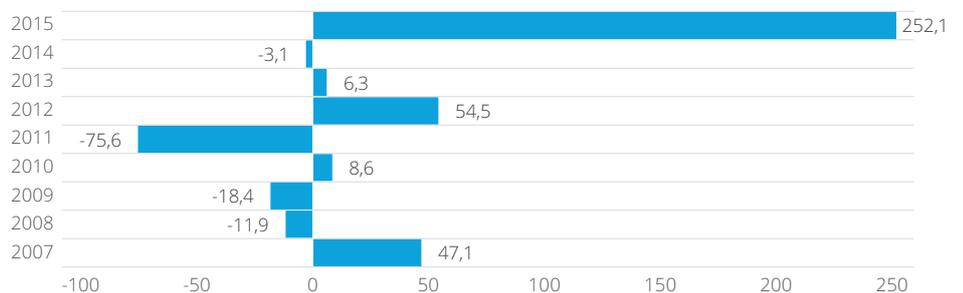
Annual precipitation ranges from 18 inches (450 millimetres) in the central Bohemian basins to more than 60 inches on windward slopes of the Krkonose Mountains of the north. Maximum precipitation falls during July, while the minimum occurs in February. There are no recognisable climatic zones but rather a succession of small and varied districts; climate thus follows the topography in contributing to the diversity of the natural environment.

Reinforced relationships and attractiveness of the Czech Republic

In December 2005, Jiri Paroubek and Wen Jia-pao, prime ministers of the Czech Republic and China respectively, executed 14 agreements defining general conditions of mutual cooperation in economic, political and cultural areas. One of the agreements was the agreement on the promotion and protection of investments between the Czech Republic and China that initiated the inflow of Chinese capital. During the 2014 China Investment forum held in Prague, among many other CEE countries, the Czech Republic signed a Memorandum of Understanding on further development of mutual cooperation in said areas. In March 2016, on the invitation of Mr. Zeman, the president of the Czech Republic, Mr. Xi Jinping, the president of the People's Republic of China visited Prague and concluded tens of commercial memorandums which open up a new page in the two nations' communications.

The mutual economic relations between the Czech Republic and China are supported by CzechInvest, the investment and business development agency of the Ministry of Industry and Trade, which is in charge of attracting foreign direct investments to the Czech Republic. Since 1993, CzechInvest has mediated foreign direct investments totalling EUR 55m for the following Chinese companies: Changhong, Shanxi Yuncheng Plate-Making Group and YAPP Automotive Parts.

Chinese FDI in the Czech Republic (2007-2015), EUR mn



In July 2009, the agreement on cooperation between CzechInvest and the China Council for the Promotion of International Trade was concluded. It has been guarantying mutual recommendation of business opportunities and contacts, organisation of joint trade missions, exchange of information and other support in order to attract new Chinese investors to the Czech Republic.

CzechInvest is actively promoting the Czech Republic as an ideal target country for Chinese investments, e.g. it participated in the Chinese Outbound Investment Summit, one of the most important summits for Chinese foreign investors.

The number of Chinese companies establishing operations in the Czech Republic has been increasing steadily over the past decade. The most significant ones

are active in the technology, automotive manufacturing and environmental industries.

At the beginning of 2011, CzechInvest moved its office from Hong Kong to Shanghai. This step is assumed to attract more potential investors and a higher number of Chinese investments in the future. Moreover, another office of CzechTrade, an agency for promotion of export under the Ministry of Industry and Trade has been established in Chengdu, the third office in China (along with Beijing and Shanghai).

Czech-China mutual economic cooperation was not only developed and launched at the state level but also in private sectors, such as the investments of CEFC in 2015.

The highest interest is expected from Chinese companies engaged in technological, energy, biotechnical, construction and electro-engineering industries. Chinese investments in the Czech Republic are coming from both already existing and newly incoming Chinese companies. The key recent or upcoming Chinese investments in the Czech Republic are listed in the table below.

Major Chinese companies in the Czech Republic

Company	Industry	Year of investment	Short description
Huawei	IT, communication	2005	Huawei is a leading telecom solutions provider. Through continuous customer-centric innovation, the company has established end-to-end advantages in Telecom Networks, Global Services and Devices. Owned by Huawei Technologies Coöperatief U.A.
ZTE	Communication	2005	ZTE Corporation is a global provider of telecommunications equipment and network solutions operating in more than 140 countries. It offers a wide choice of products ranging from voice, data, multimedia and wireless broadband services.
Changhong	War industry, household appliances, IT	2005	One of the world's biggest LCD TV manufacturers. The factory, established by Changhong in 2005, is located in the Industrial Zone of Nymburk city, 42 km east of Prague. There are four assembly lines with production of up to 1 million LCD TV's per year. The total investment is USD 10.89m.
Shanghai Maling Aquarius Co., Ltd	Food	2006	The company, subsidiary of SHANGHAI MALING AQUARIUS Co., Ltd., is engaged in the production and sale of canned meat products and ready-made meals under the brand Mailing and Guiding, respectively.
Yuncheng Plate Making Printing Machinery Co., Ltd	Plate-making	2007	Czech Yuncheng Plate making Co., Ltd is a professional rotogravure cylinder making company with 2 working lines and an annual output of 12,000 cylinders. The company's products include: pre-press, bases, gravure rollers, etc.
YAPP Automotive Parts Co., Ltd	Automotive	2010	YAPP is engaged in the production of plastic fuel tanks in Mlada Boleslav. Its products are supplied to leading car makers such as Volkswagen, AUDI, GM, Ford, PSA, Hyundai and Kia. Total investment of USD 12.75m.
COSCO	Shipping	2011	China Ocean Shipping (Group) Company (COSCO), one of the major multinational enterprises in the world, is China's largest and the world's leading Group specialising in global shipping, modern logistics and ship building and repairing, ranking the 327th in Fortune Global 500.
Noark	Electric	2011	Noark has invested 3m EUR and engaged in R&D, manufacturing and distribution of electro technical machines and components; Prague is one of three regional centres (besides Shanghai and Chicago).

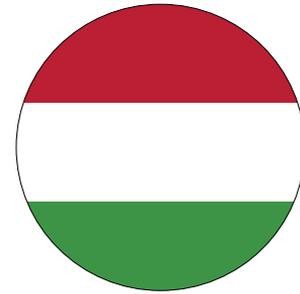
Company	Industry	Year of investment	Short description
Buzuluk Komarov	Engineering	2011	BUZULUK a.s. is an engineering plant, it is a subsidiary of Dalian Xiangsu and designs, develops and produces: 1. A wide range of machines and equipment for the rubber industry; 2. A wide range of piston rings. Dalian Xiangsu has invested 13m EUR in this deal.
SaarGummi	Automotive	2011	Subsidiary of Chongqing Light Industry & Textile Holdings (Group) Co., Ltd. manufacturing sealing systems for the automotive industry including window seals, door weather strips, roof frame seals etc. Car makers using SaarGummi parts: Volkswagen, AUDI, Škoda, Seat, Porsche, GM, Opel, BMW, Daimler, Ford.
China CNR Co., Ltd	Railway traffic equipment	2013	CNR Co., Ltd. has invested EUR 10m in the Czech Republic and will carry out systematic scientific research on rail transportation and other areas of new technologies, new processes, new products and platform construction.
CEFC		2015	CEFC China Energy Company Limited represents the largest private company in Shanghai and the sixth largest private company in China and operates in many areas of industry, mainly in the finance and power industry. CEFC acquired shareholdings in many significant Czech companies.
HiSense	Electronic appliances	2015	Multinational white goods and electronics manufacturer with publically traded subsidiaries. Currently operating in 13 manufacturing facilities in China and several others in Europe and Africa.
Bank of China	Finances	2015	One of the 5 biggest state-owned commercial banks in China. It was founded in 1912 by the Republican government. It is the oldest bank in mainland China still in existence. In 2015 a branch of the Bank of China was established in the Czech Republic.

Major Chinese investments in the Czech Republic

Company	Industry	Year of investment	Short description
Živnobanka	Finance	2015	Živnobanka building in Prague was founded in the 19th century and for a long period served as the seat of banking institutions. Today Živnobanka is a cultural monument. The building was bought by CEFC.
MÉDEA GROUP and EMPRESA MEDIA (TMT)	Marketing, media	2015	Médea Group and Empresa Media represent the largest communication and media group in the Czech Republic. Within the agreement on strategic cooperation with CEFC, Médea Group and Empresa Media acquired a significant strategic and financial partner for further development in marketing and the media area.

Company	Industry	Year of investment	Short description
Travel Service (airlines)	Air transport	2015	Travel Service is the biggest Czech airline company. Travel Service operates regular flights under the SmartWings brand, charter flights and private flights in the Business Jet category. Travel Service planes fly to more than 300 airports on 4 continents. Travel Service is present on the market not only in the Czech Republic but also in Slovakia, Poland and Hungary, where the company has its subsidiary companies. In 2015 CEFC joined as a minority shareholder.
Pivovary Lobkowicz	Brewing industry	2015	Pivovary Lobkowicz Group, a.s. is the Czech no. 4 brewing group by local sales and no. 5 by total production. It consists of seven regional breweries located throughout Bohemia and Moravia. Commencement of their activities dates back to the Middle Ages and the oldest brewery was founded as early as in 1298. The Group produces a wide portfolio of beers that differ from each other by the large spectrum of their taste. Pivovary Lobkowicz is majority-owned by Chinese company Lapsan/CEFC.
EKOL, spol.s.r.o.	Engineering industry	2015	EKOL group is a flexible and rapidly developing Czech company founded in 1991, which is currently a respected European manufacturer and supplier of equipment for the production of heat and electricity. In 2015 the Chinese engineering company XiAn Shaangu Power acquired a 75 % stake in EKOL.
Le Palais Art hotel	Hotel services	2016	The five-star hotel, Le Palais Art Hotel Prague, offers a unique and elegant experience in an exclusive residential neighbourhood of Prague. The hotel was built as a residential palace in 1897 and is one of the finest examples of Belle Époque architecture in Prague. The hotel was bought by CEFC.
Mandarine hotel	Hotel services	2016	Hotel Mandarin Oriental, Prague is both a five-star luxury hotel and a wonderfully preserved piece of history. The hotel offers a truly unique hotel experience with an acclaimed spa and beautiful rooms. It was bought by CEFC.
Slavia Praha & Eden stadium (football)	Sport	2016	Eden stadium is the most modern football stadium in the Czech Republic. It is the home venue of SK Slavia Prague. In 2016, CEFC, which owns a majority stake in SK Slavia Prague, bought a 70% stake in the stadium and plans to improve the stadium capacity and turn it into the main national stadium for the Czech Republic national team.
ŽĎAS (Železárne Podbrezová)	Engineering industry	2016	ŽĎAS, which commenced operations in Žďár nad Sázavou over 60 years ago, is focused on the production of forming machines, forging presses, metal scrap processing equipment, rolled product processing equipment, castings, forgings, ingots and tooling, especially for the automotive industry. In 2016 ŽĎAS was taken over by CEFC.
Invia.cz	Travel agency services	2016	Invia.cz, Inc. is the largest online seller of vacation packages in Central Europe, offering tours from more than 300 travel agencies. Invia was founded in 2000. In 2005 the company achieved a turnover of CZK 605m per year. Invia.cz is majority-owned by CEFC.





Hungary

1. General Overview of the Economy

Hungary has made the transition from a centrally planned economy to a market economy, with its per capita income amounting to half of that of the Big Four European nations. The country continued to demonstrate strong economic growth and joined the European Union in May 2004. Hungary is also a member of the World Trade Organization (WTO) and is a signatory to the WTO Agreement on Financial Services. It participates in the Pan-European Cumulation, comprising the EU, the European Free Trade Association (EFTA), the Central European Free Trade Agreement (CEFTA) countries and Turkey.

The private sector has increased significantly since the 1990s due to the effective early privatizations and a productive industrial sector supported by greenfield investments. Foreign ownership of and investment in Hungarian firms are extensive, with cumulative foreign direct investment totaling more than EUR 60 billion since 1989. Hungary was severely hit by the economic crisis, with the budget deficit becoming extremely difficult to finance and the Hungarian forint quickly losing value. The country received a EUR 20 billion credit facility from the IMF

which helped stabilize the situation at the end of 2008 and has been repaid since. As stipulated in the agreement with the IMF, the government introduced severe austerity measures in 2009 to reduce the budget deficit to the required levels.

As a result, the economy began to recover in 2010 and recorded a GDP growth of 1.1%. Although the country's economy fell back into recession in 2012, it emerged from it in the following year (growing by 1.1%). This progress continued during 2014 when Hungary's GDP increased by 3.6% compared to 2013 and the country reached the second highest growth of output in the EU rankings. This is due to increasing exports of manufactured goods, strong inward investment and a developing credit environment. These factors will continue to enhance growth through much of 2015 and are likely to expand the economy by 2.9% for the year as a whole.

In 2016 GDP is expected to increase at an annual rate of 2.0% which is above the regional average. Further growth is forecasted for the next 2 years, an annual increase of 2.3% in 2017 and 2.7% in 2018 indicating a better performance than the European average of 1.2% and 1.6%.

Additionally, while the financial crisis temporarily reinforced the low employment level and the high rate of unemployment, the employment rate changed favorably in 2013 and continued to improve in 2014 (to 61.8%), while the unemployment rate declined (to 7.8%). In the second quarter of 2015 this number continued to decrease and fell to 6.9% while employment rate changed as expected, and rose to 63.8%. To compare, the Central European average of unemployment rate was approx. 15%. Predictions indicate that unemployment rate will decrease to 6.4% by 2017 while employment rate is likely to be at 66.4% in 2016.

Political system

Hungary is a parliamentary democracy with a unicameral parliament called the National Assembly. The country's legal system is based on a new constitution which replaced the previous constitution of 1949 (which had been considerably changed in October 1989). It entered into force on 1 January 2012. The Assembly is the highest organ of state authority and initiates and approves legislation supported by the prime minister.



The president of Hungary, elected by the National Assembly for a five-year term, has a largely ceremonial role, but his/her powers include appointing the prime minister and choosing the dates of the parliamentary elections. The prime minister selects cabinet members and has the exclusive right to dismiss them. Each cabinet nominee appears before one or more parliamentary committees in consultative open hearings and must be formally approved by the president. A constitutional court has the authority to challenge legislation on the grounds of unconstitutionality.

2. Tax structure Business taxation

Overview

The chief national taxes are the corporate income tax (CIT), local business tax (LBT), value added tax (VAT), innovation contribution and a special surtax on certain companies (e.g. the financial sector). Hungary's corporate tax rate is competitive in the region, although the relatively low corporate rate is balanced by high local business taxes levied by the municipalities. Other taxes include transfer tax and the real estate property tax. A minimum tax can apply in certain circumstances. There is no branch profits tax, excess profits tax or capital tax.

No withholding tax is levied on dividends, interest or royalty payments made to corporate entities. The absence of withholding tax, combined with the participation exemption available for capital gains on qualifying shareholdings and the 50% exemption for royalty income along with capital gain exemption on qualifying intellectual properties, makes Hungary an attractive location for holding and licensing companies.

Hungary has fully implemented the EU parent-subsidiary, interest and royalties, merger and savings directives into domestic law. Tax laws in Hungary are passed

by the parliament and apply uniformly throughout the country, although the Local Taxes Act empowers local governments to levy certain taxes within their jurisdiction. The tax authority, the National Tax and Customs Administration (NAV), is responsible for the enforcement and collection of tax.

Residence

A company is resident in Hungary if it is incorporated under Hungarian law or has its place of management in Hungary. A foreign company is deemed to be resident in Hungary if its effective place of management is in Hungary.

Taxable income and rates

Hungarian resident entities are subject to tax on their worldwide income. The taxable income of both resident and nonresident corporate taxpayers is based on pretax profits, calculated in the profit and loss statement and prepared in accordance with the Hungarian accounting rules, with a number of corrections to the differences in deductible and nondeductible items recognized by accounting and tax law.

Hungarian-registered subsidiaries of foreign companies are taxable under ordinary domestic rules. Registered branch offices and non-registered permanent establishments (PEs) are taxed under the same regime applicable to Hungarian-registered firms. As of 1 January 2017 the CIT rate is 9%.

Minimum tax

A minimum income applies to taxpayers that incur losses or earn low profits. Minimum income generally is calculated as 2% of the total revenue. A taxpayer whose pretax profit and tax base are both less than 2% of the income minimum may opt to pay minimum tax or submit a declaration stating that its tax base is legitimately calculated, and support its declaration with certain information. If the taxpayer elects to file a statement, the tax authorities will

process the declaration using a risk analysis program. If the analysis shows that there is a high risk that the loss was generated as a result of unlawful cost accounting or understated revenue, the authorities may initiate an audit.

Taxable income defined

The basis of the computation of taxable income ("taxable base") for CIT purposes is the accounting profit or loss, which is adjusted by several increasing and decreasing items in accordance with the relevant provisions of the CIT Act. Based on the applicable double tax treaty, foreign-source income may be exempt or foreign paid tax may be credited. In addition, a major part of the foreign tax paid may be credited even in the absence of a double tax treaty between Hungary and the relating country (subject to certain conditions).

Deductions

In determining the taxable base, allowable deductions from the profit and loss statement include (among others):

- release of provisions for anticipated liabilities and recaptured costs accounted for as revenue in the tax year;
- extraordinary depreciation rebooked, that increased the CIT base in previous tax years;
- dividends received accounted for as revenue (except dividends from a controlled foreign company (CFC));
- losses carried forward;
- loss in value of receivables rebooked;
- unrealized foreign currency gains related to financial investments and long-term liabilities; and
- depreciation and amortization of assets as set out in the CIT Act.

Dividends received by a Hungarian company are exempt from CIT (and withholding tax), regardless of the extent of the participation. The participation exemption applies to capital gains derived from the sale or in kind contribution of participation. However, the taxpayer must hold at least 10% of the subsidiary (which should not be regarded as a CFC) for at least one year (see below) and report the acquisition of the participation to the tax authority within 75 days after the acquisition. Similar exemption rules apply for capital gain deriving from the sale of qualifying intellectual property.

Corporate taxpayers can deduct 50% of royalty income derived from certain intangible assets (e.g. patents, software copyrights, property rights etc.) (so that 50% of such income can be exempt from CIT). Taxpayers are eligible for a tax allowance based on the income from royalties to an extent to which the intangible assets are generated as a result of their own R&D activities. However, the deduction may not exceed 50% of the taxpayer's total pretax profits.

The tax base can be reduced by R&D costs (i.e. the R&D costs may be deductible twice). Once as an accounting expense and once as a tax base adjustment see also under 9. "Investment Incentives").

The CIT Act includes the concept of "costs incurred not in relation of the profit generating activity of the enterprise," largely to cover items that could be used for tax avoidance purposes. Expenses may not be deducted if they are not incurred for business purposes. Consideration paid for a service, if the use of the service conflicts with the reasonable management principle, is not deductible. Other nondeductibles include expenses due to subsidies, assumed liabilities and assets given free of charge to non-Hungarian companies, as well as receivables waived against related parties and fines.

Depreciation

Accounting depreciation of assets is generally calculated by the straight-line method, under which the same percentage of the original value of the asset is deducted each year. Tax depreciation is more stringently regulated, with the law setting the mandatory rates for most asset types. Although taxpayers may apply lower depreciation rates for tax purposes (than the one set forth by the CIT Act), the selected rate cannot be lower than the rate applied for accounting purposes.

A three-year tax depreciation period (33% per year) applies to computers, office equipment, advanced industrial equipment, and many types of environmental protection, medical and laboratory equipment. Motor vehicles are depreciated over five years (20% per year). Other fixed assets, not specifically included in the depreciation table, are tax-depreciated at 14.5% per year.

Taxpayers may apply 10% tax depreciation on goodwill, on condition that the taxpayer provides a statement in its tax return declaring that calculation or derecognition of goodwill took place under the principle of due course of the law.

Tax depreciation may be accelerated by applying a 50% rate instead of a 33% or 14.5% rate to computers, computer accessories and new tangible assets purchased or produced in 2003 or later. Equipment used for film and video production may be amortized at a 50% rate.

In relation to buildings, tax depreciation is set at 50 years (2% per year) for structures of long duration, 3% for those of medium duration and 6% for those of short duration. Buildings that are leased out are depreciable at 5% per year. An owner of assets (other than real estate) leased to another party may use accelerated depreciation up to 30% of the acquisition cost of the leased assets.

Industrial and agricultural structures are depreciable at annual rates of 2% and 3%, respectively. Other structures depreciate at annual rates ranging from 2% to 20%. Non-depreciable assets include registered land (except some land that has been used for waste disposal) and works of art. Write-off periods tend to correspond to international standards.

For intangible assets the accounting depreciation is accepted for taxation purposes. The Accounting Act recognizes revaluation of assets under certain conditions. Enterprises may revalue certain assets at the balance sheet date, these include: rights, intellectual property, tangible assets (except investments) and financial investments (except for securities loans).

In revaluing assets, where market value is less than the book value, the difference must be accounted for as an extraordinary depreciation expense. Where the market value is greater than book value, the difference should be accounted for in a valuation reserve, under the equity account, and as a valuation adjustment, under the relevant asset account. Generally, the revaluation increases the valuation reserve if the adjustment value of the current year exceeds that of the previous year (up to the value of the reserve adjustment); it decreases the valuation reserve if the adjustment value of the current year is less than that of the previous year. The value adjustment must be performed separately for all assets, and revaluations are not included as income in the taxable base.

Losses

Tax losses generated up to the last day of the tax year started in 2014 may be utilized by no later than in the tax year including 31 December 2025 (with the conditions applicable at the time when the tax losses occurred). Tax losses generated subsequent to 1 January 2015 may be utilized for 5 tax years following the year of generation. Generally, no tax carry back is allowed.

Furthermore, the utilisation of tax losses carried forward is limited to 50% of the current year's taxable base (excluding the tax losses to be utilised). Tax losses should be utilised in the chronological order of their creation (i.e. in accordance with the first-in-first-out method). Further restrictions apply to the carry forward of losses in the course of transformations (i.e. mergers, de-mergers) or changes in the direct or indirect control of the taxpayer under the Civil Code.

In case of change in the direct or indirect majority control tax losses may be carried forward only if:

- The new majority shareholder (or its legal predecessor) and the subject company were related parties in the past two tax years before the acquisition on a continuous basis; or
- At least part of the shares of the taxpayer, or shares of the entity acquiring the majority control are listed on a regulated stock exchange; or
- The taxpayer continues its activity, which is not significantly different in nature from the activity carried out before the majority control was acquired, in the next consecutive two tax years, and generates income from such activity in both years.

In case of transformations tax losses may be carried forward only if:

- The shareholder who acquires direct or indirect majority control in the successor due to the transformation or its related party had direct or indirect majority control in the predecessor at day preceding the effective date of the merger; and
- The successor generates income from at least one of the predecessor's activities for at least two consecutive tax years subsequent to the merger.

Capital gains taxation

Gains derived from the sale of assets are treated as ordinary business income. Thus, capital gains are included in the corporate tax base and taxed at a 9% flat rate unless the participation exemption applies. Under the participation exemption, capital gains realized on the sale or in kind contribution of (Hungarian and foreign) participations are exempt from CIT if the following requirements are met:

- The participation represents at least 10%;
- The taxpayer has held the participation for at least one year; and
- The taxpayer has reported the acquisition to the Hungarian tax authorities within 75 days of the acquisition.

Any loss (including capital loss, foreign exchange loss or loss in value) relating to participation under the participation exemption is nondeductible. Capital gains related to qualifying intellectual property should be tax exempt as well. Operating in a manner similar to the regime for capital gains on shares, any gains (calculated with a proper ratio) on the sale or contribution in kind of qualifying intellectual property is exempt from tax provided the taxpayer reported the acquisition or production (the registration in the books) of the intellectual property to the Hungarian tax authorities within 60 days and holds the property for at least one year. Even if a sale of intellectual property does not qualify for the participation exemption, gains (calculated with a proper ratio) realized will be exempt if the taxable amount (gain) is used to purchase qualifying intellectual property within three years of the sale. Taxation of capital gains may be deferred if the transaction qualifies as a "preferential transaction" in accordance with the Merger Directive, and certain formal requirements are met. Capital gains resulting from the following transactions may apply the favorable treatment if the necessary conditions are fulfilled:

- revaluation of assets in mergers, de-mergers,
- transfer of certain assets and liabilities forming a business unit, or
- exchange of shares.

Non-resident capital gains tax may apply if a non-resident entity directly disposes (sells, contributes in kind, etc.) a participation in a Hungarian entity, which qualifies as a real estate holding company as defined by the CIT Act. In this case, the realized gain should be subject to 9% Hungarian CIT provided that the double taxation treaty effective between Hungary and the country where the disposing entity is resident allows the taxation of such transaction.

Double taxation relief**Unilateral relief**

Foreign-source income is taxable in Hungary, with a credit granted under domestic law for foreign tax paid, even if there is no tax treaty with the country of source.

Tax treaties

Hungary has a broad tax treaty network, which generally follows the OECD model treaty. Hungary's tax treaties provide for credit for foreign tax paid or an exemption of the foreign income. Hungary has implemented OECD-compliant exchange of information provisions.

No special procedural requirements apply to obtain benefits under Hungary's tax treaties (but Hungary does not levy withholding tax on dividends, interest or royalties under its domestic law).

Hungary Tax Treaty Network

Albania	France	Macedonia	Singapore
Armenia	Germany	Malaysia	Slovakia
Australia	Georgia	Malta	Slovenia
Austria	Greece	Mexico	South Africa
Azerbaijan	Hong Kong	Moldova	Spain
Bahrein	Iceland	Mongolia	Sweden
Belarus	Indonesia	Morocco	Switzerland
Belgium	India	Montenegro	Taiwan
Bosnia	Ireland	Netherlands	Thailand
Brazil	Israel	Norway	Tunisia
Bulgaria	Italy	Pakistan	Turkey
Canada	Japan	Philippines	Ukraine
China	Kazakhstan	Poland	United Arab Emirates
Croatia	Korea (R.O.K.)	Portugal	United Kingdom
Cyprus	Kosovo	Qatar	United States
Czech Republic	Kuwait	Romania	Uruguay
Denmark	Latvia	Russia	Uzbekistan
Egypt	Liechtenstein	San Marino	Vietnam
Estonia	Lithuania	Saudi Arabia	
Finland	Luxembourg	Serbia	

Anti-avoidance provisions

Transfer pricing

Hungary's transfer pricing rules, which are generally based on the OECD guidelines, specify that transactions between related entities should be considered for taxation purposes at the same price as equivalent transactions between unrelated parties. If an individual or an organization, directly or indirectly, has more than 50% ownership or voting rights in another entity, or direct or indirect management control of another entity, the entities are related parties. For private individuals, the law includes family members. As of 2015 the taxpayer and any other person would also be considered as related parties, if the same management may influence the financial and business decisions of the parties.

The following transfer pricing methods may be used: comparable uncontrolled price method, resale minus method, cost-plus method, the transactional net margin method and the profit split method. If none of these methods lead to a proper result, the taxpayer may apply any other defensible method. If the price applied between related enterprises differs from the market price, the taxpayer or the tax authorities may adjust the tax base to reflect the market price. If the tax authorities make an adjustment, however, they may impose a fine of up to 50% of the additional tax liability and the taxpayer may have to pay late payment interest.

Branch offices are subject to the same arm's length pricing requirements as all enterprises in Hungary, even for transactions between the branch and its head office.

Related parties must prepare documentation justifying their transfer prices, although an exemption from the obligation to prepare a transfer pricing report applies – among others –

- for transactions in small value (less than HUF 50 million, approx. EUR 167,000 per year), or
- where an advance pricing agreement is obtained with respect to the arm's length price of the transaction.

Separate transfer pricing reports have to be prepared for each related party agreements, however, a combined documentation can be prepared for more agreements if their content is similar or the same.

Simplified reporting is allowed for certain low value added intragroup services (e.g. specific IT services, legal activities, etc.) if specified requirements are met. For instance, the relevant transaction cannot be related to the core activity of any of the parties and its value may not exceed a ceiling set by law. An exemption may be available for low value added intragroup services if the margin applied is between 3% and 10%.

Anti-hybrid rules

As of 1 January 2015 a new general principle was introduced into the Hungarian tax legislation which intends to eliminate double non-taxation resulting from international treaties.

Thin capitalization

Under the thin-capitalization rule, according to the CIT Act, interest paid or accounted for on that part of the liabilities that is in excess of the borrower's equity as multiplied by three is not deductible for corporate tax purposes (the debt to equity ratio is 3:1). With regards to this rule, any liabilities relating to which interest is paid (with the exception of bank loans) should generally be taken into consideration, however, certain receivables may be deducted from the liabilities. Interest-free loans and loans with not market interest rates should also be considered for thin-capitalization purposes if deemed interest deduction is performed under the transfer pricing rules. The thin-capitalization rule applies for liabilities between unrelated parties as well.

Controlled foreign companies

Certain income, such as dividends received from controlled foreign companies that would normally be exempt, is taxable. Meanwhile certain expenses incurred, such as impairment, which are deductible under general rules, are non-deductible if incurred in relation to a controlled foreign company. In addition, undistributed profit of the controlled foreign company is also taxable at the hands of the Hungarian resident shareholder. A controlled foreign company is a foreign company which derives most its income from Hungary (or in which a Hungarian individual directly or indirectly holds at least 10% of shares), and the foreign company is effectively taxed at less than 9%. A company with a seat or tax residency in an EU or OECD member state or a country that has concluded a tax treaty with Hungary is not a controlled foreign company if it has real economic presence in that foreign country.

General anti-avoidance rule

The substance over form principle applies; contracts, transactions and similar operations are examined in accordance with their true content. The tax authorities can disallow tax benefits of contracts and other transactions concluded with the intent to evade tax.

Administration**Tax year**

The tax year is generally the calendar year, although taxpayers may elect a different financial year that also applies for tax purposes. All businesses, other than financial enterprises, credit institutions and insurance companies, are allowed to adopt a financial year different from the calendar year, subject to certain criteria (e.g. being able to justify the use of the different tax year).

The tax year is generally 12 months, but can be shorter in certain cases. If a different tax year is chosen, the tax authorities must be informed of the change.

Filing and payment

CIT is assessed on an annual basis. A selfassessment system applies, under which the taxpayer establishes the amount of the corporate tax payable.

Advance tax payments are due on a monthly basis for companies whose tax liability exceeded HUF 5 million (approx. EUR 16,092) in the preceding year, and the payments are due by the 20th of each month. All other companies must make quarterly advance payments. Companies exceeding a net sales revenue of HUF 100 million (approx. EUR 332,000) are liable to pay the difference between their expected annual CIT liability and the CIT advances paid during the year (so called top-up obligation) by the 20th day of the last month in the tax year.

The final payment of tax is made at the time the annual tax return is filed. Most returns are due by 31 May following the income year. If the fiscal year is different from the calendar year, annual tax returns are due by the last day of the fifth month following the end of the fiscal year.

Most companies in Hungary must file tax returns electronically. Electronic filing requires registration for a distinct code, which can be obtained through local government offices.

Consolidated returns

Hungarian law does not provide for group taxation for income tax purposes, as a result it is not possible to file a consolidated tax return.

Statute of limitations

The general statute of limitations is five years from the end of the year the tax return is due and the period for the enforcement and collection of tax is five years starting from the end of the year in which the tax is due.

Tax authorities

The tax authorities in Hungary comprise the state tax authority and the customs authority (referred as National Tax and Customs Administration (NAV)) and the notaries of the municipal governments (local tax authority). The tax authorities' responsibilities include maintaining taxpayer records, assessing tax, collecting and enforcing taxes and other public dues enforced as taxes, controlling and supervising compliance with tax obligations, disbursing central subsidies and effecting payment of tax refunds.

Rulings

A binding tax ruling is available in Hungary, upon submission of a request to the Ministry for National Economy (Ministry). The application is subject to a flat fee of HUF 5 million (approx. EUR 16,000). The Ministry has 90 days to decide on the ruling after the submission of the request (which may be extended once by 60 days). A taxpayer also may request an accelerated procedure, where the fee is HUF 8 million (approx. EUR 25,000), and the deadline for a decision is 60 days (which may be extended once by 30 days). If the tax treatment cannot be assessed by the Ministry, the taxpayer is entitled to a refund of 85% of the statutory fee.

Rulings are binding only for that entity which files the request. They can be requested for future and past transactions as well, however, rulings for past transactions can cover only certain annual income tax types. These ruling requests should be filed until the filing day (or due date) of the relevant tax returns.

A special binding ruling is available for large taxpayers (i.e. those employing more than 200 persons or having a balance sheet total exceeding HUF 1 billion, approx. EUR 3,225,108) in terms of CIT purposes that will not be affected by future corporate tax changes. This ruling is binding for three years irrespective of tax law changes. In these circumstances the Ministry's fee is HUF 8 million (approx. EUR 25,000), and HUF 11 million (approx. EUR 35,479) if an accelerated procedure is required.

A tax ruling cannot be applied to determine the arm's length price in related party transactions, but an advance pricing agreement (APA) can be requested from the tax authorities regarding the determination of the applicable transfer pricing method and the arm's length price or price range.

APA requests can be submitted to the tax authorities. The application is subject to a statutory fee from HUF 500,000 to HUF 10 million (approx.. EUR 1,612 to EUR 32,253). If the exact fair market value can be determined, the statutory fee is equal to 1% of the fair market value. An APA is valid for at least three years and a maximum of five years (with the possibility of a one-time extension for an additional three years). Bilateral and multilateral APAs are also available. After submission of the request, the tax authorities have 120 days to decide on the APA, which can be extended twice by an additional 60 days. If the application is rejected, the taxpayer is entitled to a refund of 75% of the statutory fee.

Other taxes on business

Local business tax

Local business tax (LBT) is imposed by local municipalities, where the company has its registered seat or permanent establishment for LBT purposes. The base of the LBT is the net sales revenue (excluding royalty income) minus the cost of goods sold, the value of intermediated services, subcontractors' fee, costs of materials and the direct cost of R&D activity. Depending on the revenue volume (above net sales revenue of HUF 500 million, approx. EUR 1.6 million), the deduction of cost of goods sold and cost of intermediated services is subject to limitations.

Depending on the decision of the local municipality, and at its discretion, the maximum rate of LBT may reach 2%. Certain municipalities do not levy LBT. The annual LBT return is due on the last day of the fifth month following the given year. Tax advance payments are due twice a year (in the third and ninth day of the tax year) and, similar to CIT top-up, obligation also applies at year end.

Innovation contribution

Innovation contribution is collected by the government to generate more funds for corporate R&D. With a rate of 0.3%, the base of the innovation contribution is identical to the local business tax base. Newly registered companies in the year of registration, businesses qualifying as a micro or small sized enterprise, and Hungarian branches of foreign entities are exempt from the innovation contribution.

Special tax on financial institutions

Credit institutions, investment companies, stock exchanges, commodity traders, venture capital fund management companies, and investment fund management companies are subject to a special tax. The base and rate of the tax is determined separately for all the above types of financial enterprises.

Financial transaction tax

Financial transaction tax applies to payment service providers, credit institutions authorized to pursue currency exchange activities and intermediaries of currency exchange services resident in Hungary. The subject of the financial transaction tax – among others – is any transfer of funds, direct debit, cash withdrawals from payment accounts, loan repayment and commissions and fees as charged. The payable financial transaction tax is 0.6% of the transferred amount in case of cash withdrawals (with certain exemptions), annual HUF 800 (approx.. EUR 3) for payments made with credit/debit cards (in case of PayPass cards HUF 500 [approx.. EUR 2]) and 0.3% of the transferred amount in all other cases (capped at HUF 6,000 [approx. EUR 20] per payment transaction).

Withholding Taxes

Dividends

Hungary does not levy withholding tax on dividends paid to foreign companies.

Interest

Hungary does not levy withholding tax on interest paid to foreign companies.

Royalties

Hungary does not levy withholding tax on royalties paid to foreign companies.

Branch remittance tax

Hungary does not levy a branch profits tax.

Wage tax/social security contributions

The employer generally is responsible for assessing and withholding the amount of the employee's personal income tax and social security liability on a month's wages.

Corporate taxpayers are subject to a variety of social security taxes. Based on the gross wages of their employees, firms are required to pay a social tax of 27%, which replaced the employer's social security contribution; and the gross salary's 1.5% is paid as training fund contribution.

Indirect Taxes

Value added tax

Domestic supply of goods and services as well as intra-Community acquisitions and imports are subject to VAT in Hungary.

The standard VAT rate on products and services is 27%. An 18% rate is applicable to basic food products (milk, dairy products, bread, etc.), the provision of accommodation, internet and restaurant services. A 5% rate applies to pharmaceuticals and certain medical equipment, aid for the blind, books and newspapers, district heating services, certain meats, milk (with the exception for UHT and ESL milk), eggs and the sale of newly built residential real estates (certain limitations apply).

Transactions exempt from VAT include: with an occupancy permit issued more than two years ago or the rental of buildings (with an option for taxable treatment), postal and financial services, education, certain health and public television services, sport and gambling services. The few exempt products include basic medical materials and folk art products. Rights and intangibles also are subject to VAT. Bad debt relief is not available in Hungary for VAT purposes.

Following the elimination of trade barriers with the EU, sales transactions between Hungary and other EU member states are considered intra-Community acquisitions or supplies. In intra-Community supplies the taxpayer may issue an invoice to its EU-based purchaser - who is in the possession of a valid VAT number in the country of destination - without charging VAT if the taxpayer has proof that the goods left Hungary. EU-based taxpayers carrying out domestic taxable transactions in Hungary may request VAT registration. Non-EU-based taxpayers carrying out domestic taxable transactions in Hungary must use a fiscal representative for Hungarian VAT registration.

Nonresident companies may reclaim Hungarian VAT if they are registered for VAT purposes in their home country. For firms registered outside the EU, Hungarian VAT may be reclaimed based on bilateral agreements (such agreements exist with Liechtenstein, Switzerland and Norway). Branch offices of foreign companies in Hungary are subject to VAT. Each branch of a foreign company in Hungary must file VAT return. The supply of services between a branch and its head office falls outside of the scope of VAT unless the branch is member of a Hungarian VAT group or the head office is a member of a VAT group in another Member State.

All Hungarian entity and foreign entity's branches with a business establishment in Hungary are eligible for group taxation and are collectively regarded as a single taxpayer for VAT purposes. Services and products provided within a VAT group fall outside of the scope of VAT.

In the recent years new control mechanisms have been introduced in Hungary, by which the tax authority can access information relevant for VAT purposes. Realtime tracking is required regarding the transport of goods made with trucks and cash registers in certain industries are required to have online connection with the tax authority. Domestic transactions exceeding a certain value have to be reported separately in the periodic VAT returns and in the future such transactions and every other outgoing invoice will have to be reported realtime. Until the introduction of this real time reporting specific xml report should be generated upon the request of the tax authority in the case of a tax audit.

Capital tax

Hungary does not levy capital tax.

Real estate tax

Building tax

Building tax should be paid by the owners of buildings. The introduction of the tax is dependent on the decision of the local municipality where the building is located. The tax may be based on the net floor space of the building expressed in square meters or on the adjusted market value of the building. The maximum tax liability may be HUF 1,100 (approx. EUR 4) per square meters (which is adjusted in every year by the changes in consumer prices, published by the Hungarian Central Statistical Office) or 3.6% of the adjusted market value.

Land tax

Land tax should be paid by the owners of land. The introduction of the tax is dependent on the decision of the local municipality where the land is located. The tax may be based either on the area of the land in square meters or on the adjusted market value of the land. The tax rate is determined by (and at the discretion of) the local government, and it should not exceed HUF 200 (approx. EUR 0,6) per square meters (which is adjusted in every year by the changes in consumer prices, published by the Hungarian Central Statistical Office) or 3% of the adjusted market value.

Real estate transfer tax

See under "Transfer tax."

Transfer tax

The sale or transfer of real property, rights related to real estate or the sale of the shares of a Hungarian real estate holding company is subject to transfer tax. The tax, payable by the purchaser, is levied on the fair market value of the property. The transfer tax rate is 4% up to HUF 1 billion (approx. EUR 3.3 million) and 2% for the exceeding amount, capped at HUF 200 million (approx. EUR 650 thousand) per property. For transfer tax purposes, real estate holding company is presumed to mean an entity with Hungarian real estate(s) with a book value exceeding the 75% of the total asset value less cash assets, cash receivables, accrued income and loans or a company holding 75% participation in a company with such a real estate value percentage.

The transfer of motor vehicles and rights related to motor vehicles are also subject to a transfer tax. The amount of tax depends on year of production and engine power.

Stamp duty

Administrative and court procedures are subject to procedural fees. In general, no stamp duty is levied on the conclusion of a loan or other agreements.

Customs and excise duties

No customs apply in relation to trade among EU member states; rates determined by the Community Customs Code apply in respect of goods imported from outside the EU.

Excise tax is levied on items such as alcoholic beverages, petrol and tobacco products.

Environmental taxes

The main types of environmental taxes include product charges, charges on emission and energy tax. Product charges are levied on the first domestic sale as a main rule, on products which endanger the environment, e.g. fuel and mineral oils, tire, cooling devices, packaging material, promotional paper and electronic devices. Charges on the emission of polluting substances for the environment are levied in proportion to the amount of the substance that seeped into the air, soil or landscape water. Energy tax is assessed on electricity, natural gas and coal.

The first domestic sales of certain products fall outside of the scope of the environmental tax, since these products should be recollected (i.e. batteries, fluorescent lamps, etc.) by the first domestic seller.

Taxes on individuals

Individuals in Hungary are subject to a variety of taxes, including the personal income tax, social security contributions, real estate tax, and inheritance and gift tax. Entrepreneurs may be entitled to opt to be subject to the simplified enterprise tax (EVA) or entrepreneurs taxed under the fixed rate tax of small taxpayers (KATA). There is no special regime for expatriates.

Hungary has limited social security exemptions for third country national expatriates (non-EEA citizens) assigned to Hungary under certain circumstances and their foreign employers. If a Hungarian company employs a foreign individual, social security charges on both the employee and the employer are due in Hungary. Any exemptions from Hungarian social charges are based on the conditions of the assignment structure, EU social regulations or an applicable bilateral social security agreement.

Hungary Quick Tax Facts for Individuals

Income tax rates	15%
Capital gains tax rates	15%
Basis	Income
Double taxation relief	Possible
Tax year	2017 calendar year
Return due date	20 May 2018
Withholding tax	
- Dividends	
- Interest	15% or based on the DTT
- Royalties	
Net wealth tax	N/A
Social security	EE: 18,5%, ER: 22% or 23.5%
Inheritance tax	18% or 9%
Real estate tax	Subject to the decision of the municipality
VAT	27%

Residence

Individuals with Hungarian citizenship (excluding dual citizens with no permanent residence in Hungary) and foreigners with a Hungarian settlement permit are tax residents. A foreigner without a Hungarian settlement permit is considered tax resident if he/she has a permanent home exclusively in Hungary. If the individual also has a permanent home in another country or has no permanent home in Hungary, the individual is regarded as a Hungarian tax resident if his/her center of vital interests is in Hungary. If the individual's center of vital interests cannot be determined, the individual is regarded as a Hungarian tax resident if he/she has a habitual abode in Hungary (e.g. he/she stays in the country for more than 183 days in a calendar year). An EEA national will be deemed tax resident if his/her stay in Hungary exceeds 183 days in the calendar year. Residence status may be affected by a tax treaty.

Taxable income and rates

Hungarian resident individuals are subject to tax on their worldwide income (i.e. income from any source, such as income from employment, the carrying on of a business, capital gains, income from investments, etc.). For nonresidents, only Hungarian-source income is taxable (including income from employment, business activities or real property transactions in Hungary). Hungarian source income is defined as income received domestically or offshore for activities performed in Hungary, or income earned from Hungarian assets.

Gross income is considered the taxable base, which must then be aggregated with income from other sources (excluding income taxed separately such as dividend income, capital gains, etc.).

Certain categories of income are exempt, these include: benefits paid under the state social welfare provisions or by social insurance, allocations for childcare and state pension income, scholarships for full-time study and tax refunds.

Deductions and reliefs

For foreign employees sent Hungary without an employment contract with a Hungarian firm, housing could be considered as a non-taxable benefit. Employers may provide housing or a housing allowance to local employees as a non-taxable benefit up to 5 years provided certain criteria are met. Furthermore, employers may also provide daycare and kindergarten care and services to the employees' children as tax free benefits.

Families with one child are entitled to a tax base decrease of HUF 66,670 (approx. EUR 215) per child per month, HUF 100,000 (approx. EUR 323) per child per month for families with two children and HUF 220,000 (approx. EUR 710) per child per month for families with three or more children.

If the situation arises such that the family does not have enough income to use the whole amount of the family tax credit, the family is able to claim the outstanding amount from their social security contributions in the form of a family contribution credit.

Newlyweds are entitled to a tax base decrease of HUF 33,335 (approx. EUR 107) per month per couple for two years following the date upon which they were married if certain conditions are fulfilled. The newlyweds are required to jointly verify the validation of the allowance.

Rates

The personal income tax is a flat rate of 15%. Passive income, such as dividends, interests and rental income is also subject to a 15% tax.

A 14% health tax is imposed on certain passive income, e.g. dividend income, capital gains and income exceeding HUF 1 million (approx. EUR 3200) from the renting out of real property. A 22% health tax may be imposed on gross taxable income (excluding income taxed separately such as dividend income, capital gains, etc.) that is received from an entity other than the legal employer.

Inheritance and gift tax

Inheritance duty amounting to 18% is levied with regards to assets and 9% with regards to property. Furthermore, special rates are applicable in the case of motor vehicles and infields. A full exemption applies to inheritances received by direct descendants (including the spouse of the deceased). Moreover, an exemption of up to HUF 20,000,000 (approx. EUR 64,499) applies to assets inherited by step and foster children.

Gift tax is due on gifts of real estate, movable property and the granting of a right, surrender of a right or exercise thereof without consideration, and the waiver of a right without consideration. A full exemption applies to individuals who receive gifts from direct descendants and spouses. Similarly to the inheritance duty, the gift tax rate is 18% in the case of assets and 9% in the case of property. If the value of the asset or property is less than HUF 150,000 (approx. EUR 483), the transaction is exempt from gift tax.

Net wealth tax

None

Real property tax

A local tax may apply to dwelling places and land; municipalities have the right to impose such taxes and determine the rates, up to specified limits.

Social security contributions

Employees are required to make social security contributions of 18.5% from their gross salary, withheld by the employer.

Employers are required to make social security contributions of 22% above the gross salary of the individual and 1.5% training fund contribution.

Other taxes

The municipalities levy a tax on motor vehicles.

Compliance

The taxable period for individuals is the calendar year.

The deadline for the filing of tax returns is 20 May of the year following the relevant taxable period, although an extension to 20 November may be obtained.

3. Legal Entity

Principal forms of business entity

Under the Act on the Investments of Foreigners in Hungary, with few exceptions specified in the Act, foreigners are entitled to carry out business activity in Hungary only if they register a branch or establish a Hungarian company. Under the terms of the Civil Code, a company in Hungary may be established under a variety of legal forms. The most common for foreign investors are the company limited by shares (részvénytársaság, Rt.) and the limited-liability company (korlátolt felelősségű társaság, Kft.). These organisational forms correspond closely to the German AG (Aktiengesellschaft) and GmbH (Gesellschaft mit beschränkter Haftung). Foreign investment may take two other legal forms: the limited partnership (betéti társaság, Bt.) and the general partnership (közkereseti társaság Kkt.). These latter forms of organisation require unlimited legal liability of the members. All members of a Kkt. are jointly and severally liable; at least one member of a Bt must have unlimited liability.

An Rt. may be established only in a closed form (Zrt.). After the Zrt. has started its operations, its shares may be listed on any stock exchange and then the company shall be registered as an opened form Rt. (Nyrt.).

Formalities for setting up a company

Owing to less stringent registration and operating procedures and to lower minimum capital requirements, most new private sector firms incorporating in Hungary now choose the Kft. form. The shareholders of a company may differ from the provisions of the Civil Code unless (i) it is prohibited by law, (ii) where any derogation violates the interest of the company's creditors, employees and minority members, or it is likely to prevent the exercise of the effective governmental supervision over the company.

The supreme body of the Kft. is the members' meeting (taggyűlés), and the shareholders' general meeting (közgyűlés) for Rts. If the Kft. or Zrt. has only one member/shareholder, the competence of the supreme body is exercised by that person.

A supervisory board of at least three members must be established if the annual average number of employees exceeds 200, otherwise a supervisory board in general is optional. If a supervisory board is required, because of the number of the employees, then one-third of the members of the supervisory board must be elected by the employees.

With regard to Zrts., the management of the company is conducted by a board of directors (igazgatóság) or by a sole chief executive officer (vezérigazgató), while for a Kft., the Hungarian legislation does not recognize the concept of board of directors, and the management is conducted by one or more managing directors.

In Hungary, the registration of companies belongs to the competence of the Court of Registration of the respective county, and it is statutory to be represented in the procedure by an attorney-at-law. The registration procedure takes approximately 2-3 weeks after the filing of all necessary corporate documents. The judge is entitled to require additional information or documents that may extend the procedure. There is a registration fee of HUF 100,000 (approx. EUR 323) in the case of Zrts. and Kfts.

Forms of entity

Requirements for Rt. and Kft.

Company limited by shares (Rt.)

Minimum capital is HUF 20 million (approx. EUR 64,499) in case of Nyrt.s and HUF 5 million (approx. EUR 16,126) in case of Zrt.s. Furthermore, the share capital of the company in general must be secured completely by subscription. The amount of cash contributions at the time of foundation may not be less than 30 % of the share capital. With certain exceptions, the amount of capital contributed in kind must be declared in writing and must be audited by certified auditors.

There are no restrictions on the number of shareholders or founders, or on their nationality or residence. An Rt. may issue ordinary or preference shares. Nominal value of preference shares may not exceed 50% of the total share capital of the company.

The transfer of registered shares issued by a Zrt. may be limited in the articles of association. Simple majority is enough for most decisions; however, a majority of at least 75% is necessary for major decisions, such as amending the articles of association, deciding on transformation or termination without legal successor of the company. Shareholders representing at least 5% of shares with voting rights may ask the board of directors to add certain items to the agenda of a general meeting or to have the management of the company be investigated.

Setting up a supervisory board is mandatory for a Zrt. if the shareholders representing at least 5% of the votes require so. Management is conducted by the board of directors (igazgatóság), which consists of at least 3 members elected by the shareholders at the general meeting. No restrictions apply regarding the nationality or residence of the directors. Nyrt.s. have extensive publishing and disclosure obligations.

Limited-liability company (Kft.)

Minimum capital is HUF 3,000,000 (approx. EUR 9,692). A Kft. may be formed by one or more owners. Additionally, it is not permitted to solicit others publicly to become owners. Contributions can be made in cash or in kind.

There are no restrictions on the number of members or founders, or on their nationality or residence. A simple majority is usually sufficient for most decisions; however, a majority of at least 75% of the quota holders is necessary, for instance, to amend the articles of association or to remove a managing director.

Management can be conducted by one or several managing directors elected by the members for a definite or indefinite term; alternatively, the articles of association may provide that all equity holders are entitled to manage the Kft. as managing directors.

The representation rights of managing directors may be restricted or distributed among several managing directors in the articles of association. However, such restriction or division is ineffective towards third parties, i.e. the act of the managing director will be binding to the company even if he/she acted beyond his/her power that has been limited internally by the articles of association. The managing director of the company may authorize certain employee(s) to represent the company within a particular scope, concerning specific matters if prescribed in the company's articles of association.

Branch of a foreign corporation

Foreign firms have been able to establish a branch office in any sector since January 1st 1998, under Act CXXXII of 1997 on Branch Establishments. A branch office in Hungary qualifies as an entity without legal personality; therefore, the foreign firm bears responsibility under Hungarian law. The Act

CCXXXVII of 2013 on Credit Institutions and the Act CXX of 2001 on the Capital Market permit the establishment of branches of regulated financial entities. A branch may engage only in activities that comply with the laws of both Hungary and the country of the head office.

Legislation in all areas (for instance, tax law) has been drafted with the expressed intent to create a level playing field for branch offices – that is, neither giving them advantages over domestically registered companies nor subjecting them to disadvantages. The procedure for registering a branch office is very similar to that of a legal entity, with some differences.

Regulation of business

Mergers and acquisitions

Mergers require permission from the Hungarian Competition Authority (GVH) if, based on the previous year: (1) the merging companies have combined annual revenue exceeding HUF 15 billion (approx. EUR 48,380,594); and (2) the net sales revenue of the merging companies exceeds HUF 500 million (approx. EUR 1,612,686). In calculating the HUF 500 million (approx. EUR 1,615,415) threshold, the revenue of firms acquired by the participating companies or groups in the preceding two years must be taken into account, even if the transactions are still awaiting regulatory approval. In case of the merger of credit institutions or commercial banks, the HUF 15 billion (approx. EUR 48.462million) threshold is calculated on the basis of revenue from interests, fees and securities transactions. Furthermore, for the merger of financial institutions as well as when any shareholder increases its stakes above 20%, 33% or 50%, the permission of the National Bank of Hungary (being the financial supervisory authority) is also required.

The law does not distinguish between horizontal and vertical mergers. The GVH may not reject a merger unless it creates or strengthens a dominant position, hinders competition and results in disadvantages that outweigh any possible advantages arising from the transaction. The GVH must also review international acquisitions for the merger of local subsidiaries if they exceed the prescribed sales revenue threshold. The GVH may call for the separation or divestiture of merged entities if the parties fail to apply for authorization.

Legally, a merger is regarded as a concentration of undertakings under the Competition Act, which includes standard mergers or acquisitions of ownership shares or assets, but also the acquisition of control over another undertaking (irrespective of any specific ownership stake) and the establishment of certain joint ventures.

The Capital Market Act regulates the acquisition of public companies to protect small investors and improve transparency in acquisitions. Once a shareholder accumulates a 33% direct or indirect stake in a company, a public offer must be made on the full share package in the given company. If no single shareholder owns more than 10% of the company, the threshold for mandatory public offers is 25%. Shareholders increasing their ownership to more than 5% in a public firm must report their shareholding to the National Bank of Hungary. Company bylaws may impose stricter requirements, such as reporting requirements starting at 2% ownership.

Monopolies and restraint of trade

Monopolies and market dominance are not prohibited per se. Rather, the Competition Act bans the abuse of a dominant position that restricts competition. A dominant position arises when substitute goods cannot be acquired elsewhere, or can be acquired only under substantially less favorable conditions; when a company's goods cannot be sold to another party, or can be sold only to a party under substantially less favorable conditions; or when a company can pursue its economic activities in a manner significantly independent of other participants in the market or without having to consider the attitudes of its competitors, suppliers, customers or other business partners. The Competition Act includes the following nonexclusive list of agreements or concerned practices that might not be permitted if they have, as their object or effect, the prevention, restriction or distortion of economic competition:

- Price fixing or defining other business conditions;
- Restricting or controlling manufacturing, distribution, technical development or investment in a product or industry;
- Dividing purchasing sources, restricting freedom of choice in purchasing or excluding others from the purchase of goods;
- Dividing a market, excluding others from selling, restricting sales choices;
- Preventing others from entering a market;
- Discriminating against business partners through sales or purchase price or conditions; and
- Tie-in contracts, i.e. requiring specified purchases besides the original contract item.

Agreements between companies to engage in the above practices are not prohibited if the combined market share of the parties does not exceed 10% or if the companies are part of the same group.

The Trade Act defines the concept of significant market power in the context of wholesale/retail businesses and their suppliers, and prohibits the abuse of such power.. Such power exists, among others, if a company has a dominant bargaining position under market conditions.

Accounting, filing and auditing requirements

The appointment of an auditor is mandatory if the company's average annual net sales revenue of two consecutive business years exceeds HUF 300 million (approx. EUR 969 thousand), or the average number of employees exceeds 50 in two consecutive business years. Otherwise, the appointment of an auditor is optional. The auditor must be a legal person or an individual registered with the Hungarian Chamber of Auditors.

The Hungarian accounting system is based on the Hungarian Accounting Act, which incorporates Hungarian Accounting Standards. As a member of the EU, Hungarian law is in accordance with European Commission (EC) Regulation No. 1606/2002, which requires the application of IFRS in the preparation of consolidated financial statements of listed companies. Hungarian Accounting Standards are supplemented by government decrees based on special requirements for banks, insurance companies, stockbrokers, investment funds, pension funds and various nonprofit institutions.

Hungarian companies should prepare their unconsolidated financial statements based on Hungarian law. Consolidated financial statements, if necessary, can be prepared based on the Hungarian Accounting Law or IFRS. The annual financial statements must be submitted electronically to the Company Service. Public companies limited by shares have more extensive publishing and disclosure obligations. Issuers on the Budapest stock exchange must compile and publish earning reports on a quarterly or semi-annual basis, depending on capitalization or the number of shareholders.

Unconsolidated financial statements are also prepared to provide a basis for the determination of corporate income tax with certain adjustments.

The deadline for submitting financial statements (other than consolidated financial statements) is The last day of the fifth month following the balance sheet date of the fiscal year, thus harmonizing the deadline for submitting the statements with the tax return filing date for calendar year companies. The document retention obligation for accounting source documents, financial statements, general ledgers and other analytical records is eight years.

4. Labor and wages Employee rights and remuneration

The Labor Code contains minimum provisions for employment contracts, job descriptions, place of work, hiring out labor and rules for the termination of employment.

Employees are entitled to organize trade unions. Subsequently, these trade unions may inform their members of their rights and obligations concerning financial, social, cultural as well as living and working conditions. They also may represent their members vis-à-vis the employer and before government agencies in matters concerning labor relations and employment.

Employees as a group are entitled to participate in the company's matters; these rights are exercised by the works council or the employees' trustee elected by the employees. Employers must inform the works councils or trade unions (if any) before decisions are made regarding a mass redundancy.

Discrimination against employees based on nationality, language, ethnicity, sex or sexual orientation is prohibited, as is discrimination with regard to establishing or terminating employment, application procedures, training and the determination of working conditions.

Working hours

The statutory number of daily working hours is 8; this may not exceed 12 hours, including overtime. Employees are entitled to two non-working days per week. Sunday workers, i.e. if the work is performed in their regular working hours, must receive 150% of their regular daily salary and be provided with another day off. Exemptions to this rule may apply to special working schedules, but employers must provide adequate rest time for workers.

Workers must be paid minimum premiums of 15% for night work and 50% for overtime work. The maximum overtime can be 250 hours annually, and 300 hours if provided so by the collective agreement.

Each employee is entitled to a regular vacation every calendar year. The minimum duration of the vacation is 20 days. However, there are additional vacation days indicated according to the age of the employee so that when the employee is 45 years old the duration of regular vacation is 30 days. Supplementary vacation days are given, among others, if the employee has children.

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Wages and benefits

The Labor Code sets a basic minimum salary in hourly and monthly terms for all types of work, and the monthly minimum salary requirement must be adhered to. The prevailing minimum salary is HUF 111,000 (approx. EUR 358) per month in 2016. According to Hungarian sources, the average monthly gross salary in 2015 was HUF 247,800 (approx. EUR 800). The Labor Code allows a range of other specific minimum-salary levels and guidelines for certain types of work (for example, by skill level, degree of responsibility and industry).

Salary levels vary widely. Wages in the state sector or at wholly Hungarian-owned enterprises are generally lower than at multinational companies. Skilled white-collar labor commands a premium, particularly for qualified information-technology specialists. There are also wide disparities among different regions of the country: salary levels in Budapest and the western counties are higher than in the depressed eastern regions.

The Labor Code adopted the principle of equal wage for equal work, meant to address discrepancies between wages for male and female employees. Hungary is signatory to and adheres to ILO conventions protecting worker rights.

Pensions

Hungary has a two-pillar pension system (a third pillar was abolished as from 2011):

1. Mandatory State Social Security Pension (funded by the employer and employee contributions outlined on the previous pages); and.
2. Voluntary Mutual Pension Fund (funded by voluntary employer and employee contributions into a self-administered taxsheltered fund).

Social insurance

The social tax payable by both the employer and the employee generally covers pension and healthcare insurance. Based on the gross wages of an employee, the employer pays 27% social tax. Companies must additionally pay 1.5% to the vocational training fund. The employee contributes 10% for pension insurance (uncapped) and 7% for healthcare (uncapped as well), and 1.5% of gross wages to the unemployment fund.

The employee contributions are assessed and withheld by the employer. The general rate of sick pay is 60% if the employment period was longer than two years, and 50% if the employment period was less than two years and certain conditions are met; the maximum amount of sick pay cannot exceed two times the minimum wage (maximum HUF 7,400/day (approx. EUR 23)). The employer must pay 70% of wages for a maximum of 15 work days per year in case of illness.

Other benefits

Besides the regular annual holiday leave of 20 days and the additional days depending on the age of the employee as described above, extra days may be awarded to employees younger than 18 (five days) and parents with children (up to seven days depending on the number of children). Maternity leave is provided up to 24 weeks.

Fringe benefits can be provided to employees in the form of food vouchers, meals at workplace canteens, Szechenyi holiday card (used for accommodation, food and beverages and recreation), schooling assistance, travel passes etc. The tax rate for fringe benefits is 15% but the tax base adjustment is 19% resulting in an effective tax rate of 17.85%. Furthermore for fringe benefits there is also a health tax payment obligation which is 14% but the tax base adjustment is 19% resulting in an effective health tax rate of 16.66%. (Total effective tax rate of 34.51%). This

favorable taxation could be applied up to the total annual amount of HUF 200,000 (approx. EUR 646) per year of the fringe benefits excluding the benefits provided on the Szechenyi holiday card and up to the total amount of HUF 450,000 (approx. EUR 1,454) including the benefits provided on the Szechenyi card. Based on the tax law changes for 2017, there will be significant changes in benefits that qualify as fringe benefits as of 1 January 2017. The vast majority of these benefits that used to be available, including workplace catering, schooling assistance, etc. will no longer qualify as fringe benefits with favorable taxation.

Benefit in kind can also be provided to the employees provided that the benefits are available for all (or a specifically defined group) of the employees. Benefit in kind can be, for example, employee discounts, entertainment etc. The tax rate for benefit in kind is also 15% but the tax base adjustment is 19% resulting in an effective tax rate of 17.85%. Furthermore, for benefit in kind there is also a health tax payment obligation which is 27% but the tax base adjustment is 19% resulting in an effective health tax rate of 32.13%. (Total effective tax rate of 49.98%).

Termination of employment

An employer must give a specific reason for dismissing an employee. Employees have the right to sue for damages for unfair dismissal if the reason for dismissal is untrue or unclear.

The rights of an employee remain in effect after a sale of the employer company. The minimum notice period for dismissal increases with the length of employment of the employee (between 30 and 90 days).

Labor-management relations

There is a prescribed seven-day conciliation period before a strike may be held. It is customary, but not required, for notice of a strike to be given one to two days before the strike. A national mediation and arbitration service exists to help settle labor disputes, but its services are not obligatory.

Works councils are mandatory in all workplaces employing 50 or more persons. (For companies employing more than 15 but fewer than 50 persons, appointment of an employee delegate is mandatory.) The councils are forums for employee representation; the company's employees elect the members, who can then negotiate employment terms on behalf of the staff. Members of works councils are often union representatives as well.

Individual labor contracts are standard practice among companies in Hungary, and the Labor Code requires them for employment relationships. Collective bargaining agreements for workers are negotiated at the enterprise level and are rare, although trade unions have been working to establish such contracts in several industries. Works councils may negotiate collective agreements in enterprises where there are no trade unions.

Employment of foreigners

Different rules apply depending on whether the employee is an EEA national or a national of a third country (i.e. a non-EEA country). EEA citizens and their family members do not need a work permit in Hungary. The employer must notify the competent labor center of the employment that is not subject to a work permit. The commencement of the employment must be reported no later than the start date of the employment; the termination of the employment must be reported on the day following the termination.

As a general rule, a third country national can only be engaged in employment (with very few exceptions) if he/she has a valid combined work and residence permit. The combined work and residence permit is issued by the Office of Immigration and Nationality. The following documents are necessary for the application: pre-agreement on employment, a document certifying accommodation in Hungary, evidence of having the necessary qualifications for filling the position, certificate of expected annual income and health insurance. The labor center should give their approval for Hungarian employment as part of the application process and upon a showing that the individual's skills are needed in Hungary. Although a pre-agreement on employment is required for the application process, the final employment contract may be concluded only after the combined work permit and residence permit is issued and may only last for the period set by the permit.

The above rules also apply to EEA or third country nationals that are to be employed by a foreign company and transferred to Hungary on a secondment.

5. Education

Educational attainments are comparable to those in Western Europe. A high standard of general education has played a crucial role in attracting foreign employers to Hungary, especially in the new technology sectors.

The Hungarian education system is divided into three levels (elementary, secondary and higher education), including both publicly owned and some privately owned institutions. An increasing number of primary and secondary schools teach English and German as second languages. Additionally, French, Spanish and Chinese bilingual schools are also available in Hungary.

Schooling is compulsory for children between the ages of 6 and 16 and, in broad terms, the structure of the education system has changed little compared to the pre-transition period. General elementary or primary school is usually followed either by a "vocational school" (for the training of skilled workers), a "vocational secondary school" (which offers a mixture of vocational and academic studies) or the purely academic "high school". The high school remains the primary feeder of students to universities, although various types of universities often accept students from vocational secondary schools.

There was a rapid expansion of university and college education in the 1990s and in 1999 Hungary joined the Bologna Process. According to the Hungarian Central Statistical Office, the total number of students in formal education – public education and higher education in total – was 1.9 million in 2014/2015. The educational level of the population is gradually evolving. Nearly 55% had at least a GCSE in 2014, while more than 23% of the population aged 25 to 64 possessed a university or college degree. The number of students in tertiary education in 2014/2015 reached more than 370,000 and the proportion of foreign students within full-time students has more than doubled since 2005. The number of students in vocational schools decreased in 2014 (by 21%), while that of high school students grew to 39%.

6. Infrastructure

Road network

Hungary ranks fifth in the region regarding infrastructure quality in the 2015-2019 forecast period as a result of its well-developed road and telecoms networks. Hungary has made significant investments in upgrading and extending its motorway network and road infrastructure over the last few years, many of them with the help of EU-funded projects. The country's national borders and other regions are easy to access through its main motorways and trunk roads. There are 199,567 km of roads, approximately 38% of which is paved. Hungary's central location in Europe and having one of the densest motorway networks in Europe provides an essential competitive advantage. The four vital European transport corridors (from Northern Germany/North Sea to the Black Sea; from the Adriatic ports to Kiev-Moscow; the river Danube and the Rhine-Main canal from the North-Sea; and the "North-South" corridor from the Baltic states to Turkey and Greece), which pass through the country, provide unique access to Europe, including the fast-growing CIS market and key European ports.

Recently, international cooperation has been strengthened with neighboring countries to foster this endeavor by harmonizing road network developments. A top priority of the Hungarian government is to further extend and reconstruct the road network in Hungary.



Railway network

Hungary has an extensive railway network due to the country's central location: railways cover the entire country and is well connected to the international railway network. Numerous key train lines regularly link the country with the main ports of Western Europe (e.g. Hamburg, Bremerhaven, Rotterdam) and those of the Adriatic (Koper, Trieste). The state-run domestic railway system, operated by MÁV, is widely used for industrial freight transport and the company has earned profits from its operations in recent years. Over 20% of total freight traffic is carried by rail transport, which significantly exceeds the EU average. Road transport has replaced the rail network as the primary choice for freight haulage, despite the recently increased road tolls, however the government launched a reconstruction projects with the support of EU funds. There are approximately 8,000 km of railways, most of which have a standard gauge and a third are electrified.

Air transport

In recent years, air traffic has grown rapidly, particularly regarding passenger transport. This increase occurred after the introduction of discount airlines which the Hungarian airport authorities were forced to allow due to the non-discriminatory terms accepted upon EU accession. Hungary has several domestic and international airports across the country.

The largest airport is the Liszt Ferenc International Airport in Budapest, and they are currently striving to make it the second biggest airport among the countries in the region in terms of the number of passengers. Other international airports of regional importance include Debrecen (Northeast Hungary) and Balaton-Sármellék (West-Southwest Hungary).

Water transportation

Hungary's main river, the Danube, crosses the whole country from North to South, providing the country with outstanding waterway connections. The Danube-Rhine-Main canal in Europe links the North Sea with the Black Sea, and the Adriatic seaports also provide alternative shipping routes from Asia.

7. The Most Active Industries/ Sectors

Automotive industry

Starting almost from scratch at the beginning of the 1990s, the vehicle manufacturing sector has become a vital source of foreign investment, accounting for 20% of total exports. Despite the decline in European demand, the automotive production began expanding again in 2011/2012 and became the key driver of growth in Hungary: its production represented more than a quarter of the manufacturing output and increased by 21% in 2014. Only 3% of the companies in Hungary is considering the relocation of its production facility to another country in Central Europe in the next five years.

The country's automotive industry relies severely on foreign direct investment, focusing on the assembly of engines, components and cars. Today, passenger cars make up nearly all of the domestic production. In the last two years, numerous significant investments, particularly from the German companies Mercedes, Opel and Audi, have enhanced capacity and led to the construction of more technologically advanced plants.

One of these advances in capacity and technology includes the opening of an EUR 800 million plant of Daimler (Germany) in Kecskemét in 2012 which aimed for a production volume of about 100,000-120,000 Mercedes passenger cars. In less than 4 years the plant produced a total of 500.000 cars, meaning a better performance than expected. In their recent statement Daimler announced that the company will spend EUR 1 billion by 2020 to expand its existing site in Kecskemét which will almost double its capacity.

Audi also expanded its capacity to 125,000 cars a year and added an additional shift at the plant in 2014, and a second phase of expansion is planned in Győr in 2017/18. Furthermore, Renault-Nissan (France/Japan) established a regional spare parts supply center in Győr with the aim of supplying to Central and Eastern European markets, and General Motors invested EUR 500 million in its Opel engine manufacturing facility in Szentgotthárd in order to expand its capacity. The new-car market has seen a significant growth in recent years, however it is still far smaller than it was in 2003. In 2015 there were 77,171 new passenger car-registrations which is 14% higher compared to results in 2014, and significantly higher than the EU average of 9.3%. Further growth is expected at a value of 7% in 2016 due to the economic growth.

14 of the top 20 suppliers worldwide, such as Bosch (Germany), Bridgestone (Japan) and Hankook (South Korea), are also present in Hungary. The country's most significant national component manufacturer, with a strategic importance for the economy, is Rába (based in Győr). The Bosch production facility in Hatvan, which was established in 1998, has become the world's largest in the Bosch Automotive Electromics division and contributed products to more than 500 million vehicles worldwide since it opened.

Both medium and long-term prospects for the automotive industry in Hungary are good. The satisfaction and loyalty of companies with their current locations are notably high and they plan to expand capacity over the next five years, produce new products and hire staff.

Manufacturing

Hungarian manufacturing underwent radical transformation in the transition period. Formerly characterized by large heavy industrial plants that were dependent on cheap energy imports and sheltered from competition, the Hungarian industry today is largely modern and efficient, thanks principally to the early entry of foreign investors.

The production volume of manufacturing increased by 8.1% in 2015, representing 95% of industrial output, following an 8.6% increase in 2014, which continued to be significantly influenced by sales on external markets. Although output grew in each of the sectors, the manufacture of transport equipment represented the most significant growth with an increase of 17%.

Hungarian electronics manufacturing ranks first in the Central and Eastern European region and is highly ranked globally. This is led in part by segments brought to Hungary by foreign investors as greenfield investments such as mobile telecommunications and other high-technology equipment, for which Hungary has become something of a center.

Other manufacturing sectors with high export levels, such as the chemical and food industries, have a longer tradition in Hungary, although these two have gone through major restructuring and modernization.

Information and communication technology

The availability of comparatively cheap and technically skilled labor as well as the presence of nearby EU markets has attracted a number of leading electronics and software firms to Hungary. The country has become a major European manufacturing center for mobile telephone handsets, led by output from contract manufacturers such as Nokia, Elcoteq (both Finland) and Flextronics (Singapore).

The increase of per capita disposable income led to the expansion of the telecommunications industry outside the fixed-line sector. The market expanded to include three main players: T-Mobile (subsidiary of Deutsche Telekom), Telenor (Norway) and Vodafone (UK) with 48.1%, 28.6% and 23.4% market share respectively.

The mobile market is saturated as there was only a growth of 0.3% in the number of new subscribers between June 2013 and June 2014. Meanwhile the number of Internet users increased by 17% from 2010 to 2014 and it is likely to further grow by 6% by 2019 due to the rapid growth of mobile Internet use, rising personal incomes, falling prices and improved service provision and online content. Fast broadband access technologies are available to 74% of homes, which is above the EU average of 62%. Due to the strong inflow of EU infrastructure funding for information technology (IT), the number of personal computers (PCs) is forecast to increase by over 40% between 2012 and 2018.

Today, the major Internet service provider is Magyar Telekom which holds more than 46% of the market, followed by UPC, Telenor and Vodafone, each controlling around 10% of the market.

There is an increasing number of Asian companies, including Chinese firms, which are expanding their production to Hungary in order to serve EU markets. For example, Huawei Technologies Hungary is set to spend approximately USD 36.66 million on the development of broadband technology in Hungary. Huawei supplies all of the top telecommunications companies and is the second biggest Chinese investor in Hungary. Moreover, the company is expanding its regional innovation center situated outside of Budapest.

The range of both business-to-business and business-to-consumer e-commerce offerings widened rapidly. Most international e-commerce businesses are available in the country however at a higher price due to the smaller market therefore fewer economies of scale and the low level of competition.

Chemicals and pharmaceuticals

Hungary inherited an important pharmaceutical industry from the communist period, and today it is one of the most important manufacturing sectors in Hungary, representing 0.9% of the value of the European pharmaceutical market. Hungary has several new small and medium-sized biotechnology companies, as well as a solid presence of large pharmaceutical companies, numerous fast-growing research institutions and skilled workforce with a moderate cost of labor.

Richter Gedeon, the largest pharmaceutical company and the only major manufacturer not controlled by a foreign investor, is a leading producer of generics and active ingredients and is one of the most important foreign drug suppliers on the Russian market. Its active ingredient production has led to extensive exports to the US and Japan. Other leading firms are Egis (51% owned by Servier of France), Teva (Israel) and Chinoin, a subsidiary of Sanofi-Aventis (France).

The supply of chemical products represented 39% of domestic sales in the whole processing industry. The chemicals sector was already a major industry before Hungary's transition, and the two largest companies, BorsodChem (the Hungarian subsidiary of the Chinese Wanhua Industrial Group) and TVK, have complementary buyer-seller roles. TVK, now controlled by the oil and gas company MOL, is more closely linked to the oil and petrochemical value chain as a major supplier of polyethylene, polypropylene and other products. BorsodChem and TVK have both become important European players in their respective markets and have completed coordinated, large-scale investment programs.

Agriculture

Agriculture and viticulture have traditionally played an important role in the economy due to Hungary's favorable climate and fertile soil. Major crops include wheat, maize and barley, sunflower seeds, sugar beet and a variety of vegetables and fruits. Animal husbandry and dairy production are also important.

Hungary has nearly 5.3 million ha of agricultural land, comprising 57% of the country's total surface area. By including forests, the total productive land area rises to 7.2 million ha. Over the period between 2005 and 2013, the total spending of Common Agricultural Policy (CAP) expenditure in the country was EUR 11.94 billion. In 2014 the agricultural sector was approximately 4.4% in gross value added. Agricultural output grew by 9.6% in volume as crop production (13% volume growth) contributed to the success of the sector and, at the same time, the production volume of livestock and animal products also improved (by 5.6%).

The new Széchenyi 2020 development plan for 2014–20 will offer funding opportunities to agricultural businesses as part of the planned Environment and Energy Efficiency Operational Programme, the Regional and Settlement Development Operational Programme and the Hungarian Fisheries Operational Programme.

Financial services

After an early recapitalization program, followed by comprehensive privatization that brought in foreign strategic partners, Hungary now has one of the region's most advanced banking sectors. Budapest, the capital, is Hungary's financial center. The privatization of the major banks began in the mid-1990s and by the end of 1996 most banks had been sold to foreign investors.

In the beginning of 2016 the Growth Supporting Programme (GSP) was launched which is the final phase of the Funding for Growth Scheme (FGS) that will provide further support to the banking sector in order to encourage lending to small and medium-sized enterprise (SMEs).

The banking sector in Hungary is greatly concentrated, with a few banks dominating deposit-taking and lending. The share of majority foreign-owned banks' in total sector assets exceeds 80%. On the other hand, the non-bank financial sector, which includes insurance companies, asset management companies and venture capital and private equity firms, plays a less significant role. The vast majority of these firms are owned by commercial banks.

With increasing demand from foreign and domestic corporate clients for simple and responsive services, more financial institutions are providing universal banking, which ranges from straightforward lending to investment banking and securities trading. Most foreign firms tend to access local credit and capital markets through financial institutions from their home country that have opened branches in Hungary.

The first financial institution established by Bank of China in Central Europe opened in 2003 in Budapest and is planning to expand its business scope.

8. Industrial parks

Hungary offers the widest selection of industrial parks in the region: investors can choose from more than 200 operating industrial parks according to their business, professional or cultural demands. Furthermore, the government is planning to invest more than EUR 482 million in the construction and development of industrial parks in 25 cities across the country between 2016 and 2018.

Establishing a business is facilitated by highly favorable conditions, including management that is familiar with local circumstances, support from municipalities and various tax benefits. Another very important point is that investments are usually implemented in a fairly short period of time (a few months).

- 210 well equipped industrial parks
- Several large multinational companies have some part of their operations in industrial parks in Hungary
- 4,200 companies employing over 200,000 people
- Nearly half of industrial parks are located along motorways, and investors can expect professional logistics services almost everywhere.

9. Investment Incentives

Investors are eligible for subsidies, distributed primarily through government schemes.

Cash grant opportunities

The main types of cash incentives related to investments are focused on asset investment (e.g. purchasing assets, construction work, etc.), creating new jobs, and training employees. The Hungarian Government makes a VIP subsidy opportunity available for investments greater than € 5, 10 or 20 million that create a certain number of new jobs (50/100), depending on the purpose and location of the investment. An investment exceeding EUR 30 million can be eligible with a job creation of only 25 regardless of the region. The conditions of the VIP subsidy are determined in a negotiation procedure between the investor and the Hungarian authorities. The main areas that attract support are asset investment (greenfield, brownfield or capacity extension) and investments aimed at job creation. Beyond the VIP subsidy opportunity, an additional job-creation grant is also available for investors creating at least 250 new jobs. The amount of the job-creation grant is € 3,000 per new employee.

The VIP cash grant is also available for R&D projects with costs exceeding EUR 3 million. The maximum aid intensity of the R&D VIP cash grant is 25%.

The Hungarian Government also offers a VIP subsidy opportunity for training employees. The subsidy is available to investors creating at least 50 new jobs, the amount of the subsidy per capita cannot exceed the amount of € 3,000. This subsidy is provided for trainings with maximum aid intensity of 50%. The aid intensity can be increased further in the case of small- and medium-sized enterprises and for training of disabled or disadvantaged workers.

Approval for foreign investment is required in only a few industries or circumstances, such as financial institutions, telecommunications networks, investments with a major environmental effect and firms building a new shop or other business installation.

A variety of other cash grant opportunities, funded primarily by EU funds, are available for small and medium-sized companies, as well as startups and, in some cases, with single or consortia based applications. EU funded grant opportunities, as opposed to the VIP cash subsidy, are only available for a certain period of time and even if applicants comply with all application criteria, budgets allocated to the specific calls for grant application may only honor top quality projects. A large proportion of EU funded cash grant opportunities for the corporate sector are allocated for research, development and innovation projects. Investment grants are typically available for small and medium-sized enterprises but not for large companies.

Beyond cash grant incentives, financial instruments (e.g. subsidized loan, guarantee, risk capital, etc.) are becoming even more important going forward. Financial instruments provide a repayable benefit for applicants (as opposed to grants) but the terms of these instruments are more favorable than similar instruments under market terms.

Development tax allowance

The development tax allowance is available for investments under the following conditions:

- Investments that exceed HUF 3 billion (approximately EUR 10 million) eligible expenditure;
- Investments in promoted areas that exceed HUF 1 billion (approximately EUR 3.3 million);

- Investments aiming at job creation;
- Investments with minimum HUF 100 million (EUR 330,000) eligible expenditure that are promoting environmental protection, film and video making, basic research, applied research and/or experimental development;
- Investments made by small and medium-sized enterprises that exceed HUF 500 million (EUR 1.7 million). If the enterprise increases the number of employees by 5 (for small enterprises) or 10 (for medium-sized enterprises) within the following four years or increases its wage costs by at least 10 times (small enterprises) or 25 times (medium-sized enterprises) the annual minimum wage;
- Investments promoting the process and distribution of agricultural products, and
- Investments with minimum HUF 100 million (EUR 330,000) eligible expenditure in a free enterprise zone.

Companies realizing investments referred to in the first 2 bullet points above must meet, for a four-year period following the first incentive year, additional requirements: either increase the number of employees by at least 50 (or 25 in underdeveloped regions) or increase the wage costs by at least 300 times (or 150 times in under-developed regions) the annual minimum wage.

A development tax allowance for investments exceeding 100 million euro eligible expenditure (which is in accordance with EU regulations on government subsidies) is available on a case-by-case basis through a permit issued by the Ministry of National Economics. Under the allowance, 80% of corporate income tax payable can be deducted normally for up to 10 years. The development tax allowance is not available in Budapest and in some part of the Central Hungarian region.

Tax allowances related to corporate R&D activity

R&D costs related to the business of a Hungarian company (or its associated entities) may be taken as an item reducing the profits for tax purposes, without the taxpayer having to satisfy any other conditions.

The IP box regime provides a super deduction to the corporate income tax base of certain R&D costs, resulting in a double deduction of such costs. The R&D costs eligible for the 200% super deduction must qualify as direct costs of fundamental research, applied research or experimental development (defined below). These direct costs generally include the costs of activities carried out by the company itself with its "own" employees and equipment, although costs of outsourced R&D activities performed under a cost sharing agreement also may qualify.

The R&D costs can be deducted also when computing the local business tax base and the innovation contribution base. Moreover, corporations employing researchers with academic grades or titles are relieved from paying social tax (27% on gross wages) and training fund contribution (1.5% on gross wages) up to a monthly gross income wage amount of HUF 500 thousand (EUR 1.6 thousand).

If the corporate income tax base is negative due to the utilization of the R&D deduction and the taxpayer meets certain conditions, it may decide to use 50% of potential corporate income tax benefits available based on the deferred losses created by the deduction of R&D costs to reduce its social tax payable instead.

Local municipalities have the right to provide enterprises with tax incentives from local business tax in an amount equivalent to 10% of the direct costs of basic, applied or experimental research.

Application of the R&D tax benefit is based on self-assessment in Hungary; it is not necessary to obtain approval from the tax authorities. However, the Hungarian Intellectual Property Office (HIPO) is responsible for determining whether projects qualify as R&D, the proportion of various R&D activities (experimental development, industrial research and fundamental research) and/or whether the activities qualify as “own R&D activity” within the meaning of the Corporate Income tax Act (i.e. R&D carried out as part of a company's operations). The decision of HIPO is binding upon any authority (including the tax authority). For ongoing or past (already completed) projects “expert opinion” could be obtained from HIPO which is not binding on the authorities; however, it is accepted so far in all cases by the tax authority. The tax authority itself requests HIPO for their professional opinion on past R&D projects during tax audits, so the tax authority recognizes the technical expertise of HIPO.

Starting in 2017, a new R&D qualification method will be introduced based on which taxpayers could request the qualification of groups of projects carried out in the same financial year.

10. Foreign investment

Hungary generally welcomes foreign direct investment and the country provides a stable and secure legal framework for conducting business. Foreign participation is often recognized by local businesses as an opportunity to access more advanced technology, export markets and critical working capital. Hungary has several advantages which attracts foreign investment inflows including its geographical locations which provides a link between Eastern and Western Europe. Good infrastructure and the favorable tax system are also strong points of the country encouraging foreign investment.

Foreign investors may establish wholly foreign-owned companies and joint ventures in various legal forms. New companies must register with the court of registration. The Civil Code, as well as the Act on Public Company Information, Registration of Companies and Company Dissolution (Act V of 2006) and its amendments of 2007, provide for relatively simple company registration procedures, although they include strict corporate responsibility requirements.

Foreign investors can carry out “greenfield” investments or acquire all or a part of state-owned enterprises being privatized, although private ownership (foreign or domestic) is restricted or forbidden in certain state-owned enterprises. The EU restricted available government subsidies in 2004; however, Hungary provides a wide variety of incentives to investors and subsidy schemes to SMEs.

Hungary is among the top performers in the region and has one of the highest rates of FDI stock per capita. It is ranked third out of 16 countries in the regional ranking in 2015-2019 considering factors such as government policy towards foreign capital, the availability of investment protection schemes and the national culture's degree of openness to foreign influences. In 2014 the main invested sectors were the financial and insurance services with 48.6%, and the manufacturing industry with 35.6%.

fDi Magazine, an investment publication of the Financial Times Group, named Budapest as the most attractive Eastern European city for FDI in 2014-2015. Additionally, Hungary was ranked among the top ten in terms of cost effectiveness (7th place), FDI strategy (8th place) and business friendliness (5th place). Furthermore, two Hungarian

regions are included among the top ten most competitive regions: the South Transdanubian region was ranked as the 6th most cost-effective region, while the Great Plain and the Northern region were ranked 3rd among the large European regions.

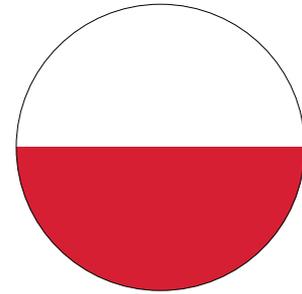
11. Expatriate life

The quality of life that Hungary offers foreign investors and employees in Budapest and throughout the country is an important factor when businesses consider establishing a presence here. Expatriates working in Hungary for extended periods have so far not been disappointed: they have found living in Hungary pleasant and Budapest exciting and less expensive than other major European capitals. Moreover, the country boasts a rich and internationally recognized culture, distinctive cuisine, superb wines, a centuries-old spa tradition, excellent schools and numerous leisure activities and facilities. With its millennium-old culture and inspiring technological legacy, it is not surprising that many global businesses make Hungary their Central European home.

12. Weather and climate

The climate in Southeast Hungary is very different from the climate of Northern and Western Hungary and is similar to the climate of the Mediterranean. The summers are long, hot and with hardly any rain. The temperature can rise up to 38 degrees. Autumn remains, like the Indian summer, warm and without much rain. The start of the canoeing season is the middle of April, although October is still a good month for canoeing. Higher rainfall occurs at the beginning of June but without rainy periods of over several days.





Poland

1. General overview of economy

Poland is located in Central Europe, between Germany and Belarus and Ukraine, with some above 500 kilometers of Baltic Sea coastline. Since the start of economic transition in early 1990-ties, Poland has had democratically elected governments that adopted structural reforms program, that allowed Poland build democracy and a market economy.

Accession to the EU in 2004 intensified economic growth. Duty-free access to the vast Western European market and the additional legal security resulting from the EU membership, combined with Poland's comparatively low labor costs, have attracted foreign direct investment. These new investments have turned Poland into an open, internationally integrated economy.

After joining the EU in May 2004, Poland is the eight economy in the European Union and 24 economy in the world (2015, IMF) in terms of GDP. Domestic product (PPP) per capita was estimated by the IMF for nominal 23,926 USD (end of 2013). Economic growth puts Poland among the fastest growing countries in Europe. In 2013 GDP grew by 1.7 % and in 2014 accelerated to 3,3%, while 2015 estimate reaches 3,5% (IMF). Of the total GDP, the services sector generates approx. 64%, industry 31% and agriculture 5%.

At the year of global recession in 2009, Poland did not escape the effects of the crisis, although domestic demand kept the economy far from recession. Poland was the only EU economy registering positive GDP dynamics (1.7 percent) fuelled by domestic consumption and public investments. The former was attributed to continued wage growth in line with labor productivity, while the latter came as a result of EU structural funds, which Poland is the biggest beneficiary among the new EU members. Poland's economy is a mixed economy. Income per capita is only around half of Western European EU member states, and productivity gains have bypassed many domestically-oriented service providers and the large agricultural sector.

The state sector currently produces about 20% of GDP which is below level of Western countries. Polish regions are very diverse in terms of economic development. The richest province of the country is Masovian Voivodeship that cumulates gross national product per capita at 87.1 % of the EU average and 22,7% of Poland GDP (2012). By expansion of IPOs and privatization, the Warsaw Stock Exchange became one of the best performing markets in the EU. Also, financial sector in Poland did not face a single bankruptcy or deleveraging problems widespread in other EU economies.

Polish main trading partners are the European Union countries, Russia and China. Germany is responsible for over 26% of Polish exports and 22% of imports. Poland has a negative balance of foreign trade.

The biggest problems of the Polish economy is the difficulty in doing business due to excessive bureaucracy and unclear laws, and the high administrative costs imposed on citizens, underdeveloped infrastructure (roads network) and difficulties in the labor market resulting in low wages. In June 2015, the average monthly gross wages and salaries in the national economy amounted to 4 040 PLN, i.e. they were by 2.5% higher than in the same period of 2013. 

However, in 2013-2020 Poland again will be the biggest beneficiary of EU funds that will strengthen domestic entrepreneurs to reap the rewards of membership via booming exports to the EU. The new EU Multiannual Financial Framework gives Poland 105.8 billion euro of which 72.9 billion would be earmarked for implementation of the cohesion policy, and 28.5 billion for the agricultural policy. This means that in the years to come Poland will be the largest beneficiary of the EU cohesion policy funds among all Member States. Although the EU budget for 2014-2020 is generally smaller than the previous one, Poland will receive almost 4 billion euro more than in the current field's framework for 2007-2013.

Political system

Poland is a parliamentary democracy with a bicameral Parliament, consisting of the Sejm (the lower house) and the Senate. The 460-member Sejm is elected under a proportional representation electoral system for a four-year term. When sitting in joint session, members of the Sejm and Senate form the National Assembly. The National Assembly is formed on rare occasions, such as taking the oath of office by a new president.

The Senate has 100 members elected for a four year term in 40 multi-seat constituencies under a rare plurality bloc voting method, where several candidates with the highest support are elected from each electorate.

The President is elected directly by popular vote for a five-year cadence, and his powers include calling a referendum, choosing the date of elections or using his veto to stop legislation.

Most of the executive power is in the hands of the Prime Minister, who is free to select his co-workers members of the Council of Ministers. The cabinet he selects must be approved by the Sejm by granting him the vote of confidence.

The Constitutional Court can rule on the unconstitutionality of laws or other legislation.

2. Tax structure

The taxation system is uniform across the Republic of Poland, and only small differences may appear in local taxes. In general, foreign companies and individuals pay the same taxes as Polish legal entities or private individuals (with some exceptions applicable to non-resident individuals). The exceptions to this rule may result from international treaties signed by Poland (Agreements on the Avoidance of Double Taxation).

The main taxes in Poland are:

- Corporate income tax (CIT);
- Personal income tax (PIT);
- Tax on goods and services (VAT);
- Excise duty;
- Tax on civil law transactions;
- Real estate tax;
- Stamp duty.

All companies intending to conduct business activities are given a tax identification number (NIP) after registration with the appropriate local Tax Office.

The Tax System and Regulations

All taxes in Poland are imposed by the tax law acts which set the rules for imposing taxes, their rates and duties, as well as the responsibilities of taxpayers. The Minister of Finance may be authorized by an Act to issue regulations. All legislation is published in Official Journal of Laws (Dziennik Ustaw – Dz. U.) and/or in Official Journal of the Republic of Poland (Monitor Polski – M.P.). The Tax Ordinance (Tax Code – Ordynacja podatkowa) is the most general tax regulation which defines:

- the tax administration structure;
- Advance Pricing Agreements;
- general and individual tax rulings;
- general taxation regulations, e.g. payment deadlines and tax arrears (tax underpayments);
- tax liabilities of third parties;
- tax information;
- tax proceedings;
- fiscal confidentiality;
- exchange of tax information with other countries;
- tax certificates.

Other relevant legislation includes the Corporate Income Act, Personal Income Act, Value Added Tax Act, Civil Law Transactions Act (for capital duties and transfer tax), Local Taxes Act (including, e.g. real estate tax). Parliament passes tax legislation with a simple majority of votes.

Taxes in Poland are generally administered by:

- Tax Offices – units supervising the collection of taxes in their territories. They also issue individual administrative decisions in taxation cases.
- Fiscal Audit Offices – units that perform taxation and procedural audits of fiscal accounting.
- Tax Chambers – supervise the tax offices and are empowered to review the administrative decisions of tax offices and fiscal audit offices.
- The Minister of Finance – is responsible for Polish budgetary policy and supervises the entire taxation system.
- Some taxes are administered by the local authorities, e.g. real estate tax.

Taxpayers may appeal to the Tax Chamber against the decisions of the local Tax Office or Fiscal Audit Office. An appeal against a decision of the Tax Chamber may be directed to the Regional Administrative Court. Taxpayers are also entitled to resort to the Supreme Administrative Court to review judgments of the Regional Administrative Courts.

Rulings

Two types of tax ruling are available in Poland: general and individual. General rulings (issued by the Minister of Finance) are aimed to ensure that application of the tax law by the tax authorities is uniform; general rulings may be applied by all taxpayers. Individual rulings, which may only be applied only by the taxpayer obtaining the ruling, are issued by selected Directors of the Tax Chambers (based on the authorization made by the Minister of Finance) upon written request – the taxpayer has to set out the actual facts of the case or planned events, the question(s) and present its own opinion on the issue. The taxpayers

may apply for individual tax rulings to the Minister of Finance (in practice, directly to the selected, authorized Directors of the Tax Chambers) or the local tax authorities (with respect to the local taxes).

Obtaining the ruling can help to avoid certain negative consequences in the event of the tax authorities taking a different view on a matter in the future, i.e. fiscal penal responsibility and penalty interest. The individual tax ruling remains valid until changed by the tax authorities (possible only in specific situations; change comes into effect starting from next settlements period, e.g. next year for CIT) or when the underlying provision of law is changed rendering the ruling irrelevant or when the actual facts of the case or planned events (presented in the motion for tax ruling) are changed.

Moreover, if:

- during a tax audit the tax authorities question tax consequences of the transaction covered by a tax ruling and assess additional tax,
- these consequences occurred after obtaining the ruling,
- the taxpayer acted according to this ruling,
- the taxpayer will not be obliged to pay the tax assessed by the tax authorities.

Corporate Income Tax (CIT)

Pursuant to the Polish tax law, capital companies (corporations), companies in organization, organizational units and limited joint-stock partnerships (with the exception of other partnerships) having their registered seat or place of management in Poland are subject to corporate income tax on their worldwide income (tax residents). Income derived by residents from sources abroad is generally subject to CIT under the same rules as income earned from Polish sources,

usually with a foreign tax credit granted, unless a tax treaty provides otherwise. Non-residents (companies having their registered seat or place of management abroad) are liable to CIT only with respect to income earned in Poland.

The amount of income (loss) is determined on the basis of accounting books, with adjustments made according to tax law.

A branch of a foreign company is generally taxed the same as a subsidiary, unless otherwise provided in a tax treaty.

In general, a calendar year is deemed to be a tax year. However, a taxpayer may change its tax year by notifying the appropriate tax office and indicating a different period as a tax year.

As a result of the accession to the EU, Poland has implemented the Parent Subsidiary Directive (PSD), the Merger Directive and the Interest Royalty Directive (IRD).

Double Tax Treaties

Polish PIT and CIT regulations provide that a credit method of avoiding double taxation is used, unless the specific double tax treaty states otherwise. Poland has signed Double Tax Treaties with 91 countries. Most of the treaties signed by Poland are based on the 1977 OECD Model Convention, although some exceptions appear in several treaties.

Taxable income

Taxable income comprises all revenues earned in a tax year, both financial and operating (with some exceptions) decreased by tax-deductible costs. A company's profits consist of business / trading income, passive income (e.g. dividends, interest and royalties) and capital gains. Business income earned abroad is aggregated with other income and is subject to Polish CIT.

Depreciation / amortization

Fixed assets and intangibles are subject to depreciation / amortization if the projected useful economic life of the asset is longer than one year and they are related to the taxpayer's taxable income. Fixed assets and intangibles assets with a value up to PLN 3,500 may be directly expensed. As a rule, tax depreciation / amortization is calculated on a straight-line basis. However, the reducing balance basis may be used for certain categories of assets. Certain assets, such as land and works of art, cannot be depreciated for tax purposes.

Rate

Income (tax base) that is calculated in accordance with the tax provisions is subject to CIT at a rate of 19%. As partnerships (with the exception of limited joint-stock partnerships) are tax transparent, revenues / tax-deductible costs generated by a partnership are added to each partner's revenues / tax-deductible costs in proportion to their interest in that partnership; thus, the partnership's income is effectively taxed at the level of each partner.

Relief for the purchase of new technologies

At the beginning of 2016, a new tax relief for research and development (R&D) was introduced. Thanks to this, taxpayers gained the possibility of additional tax deduction of up to 30% of selected costs incurred for R&D.

Taxation of dividends

As a rule, income arising from participation in the profits of a legal entity with its registered office or the place of management in Poland, including the income from dividends, is taxed with the withholding tax at the rate of 19%.

Dividends paid by Polish companies to non-residents

In the case of dividend payment to the EU resident companies, European Economic Area (EEA) resident companies and Swiss companies the exemption from withholding tax will apply upon the condition of at least 10% (25% for Swiss companies) shareholding for an uninterrupted period of at least 2 years.

The two-year period condition can be fulfilled after the dividend is paid.

To benefit from a reduced rate, the foreign recipient should provide the Polish payer with a certificate of tax residence issued by the tax authorities in the recipient's home country (if the said certificate does not provide for the period of its validity, it is considered to be valid for a period of 12 months from the date of its issuance). Additionally, the dividend recipient has to provide the Polish tax remitter with a signed statement confirming that it is not exempt from tax on all its income at the state of tax residence, regardless of the income's source.

The above exemption is also available if the dividend is received by the foreign permanent establishment of the dividend recipient from EU / EEA.

If the aforementioned exemption does not apply, dividends paid to non-residents are subject to withholding tax. The rate of withholding tax depends on whether there is a tax treaty between Poland and the shareholder's country of residence:

- if no tax treaty exists between Poland and the shareholder's country of residence, the withholding tax rate is 19%; or

- if a tax treaty exists between Poland and the shareholder's country of residence, the withholding tax rate depends on the tax treaty. The rate ranges from 0% to 15%. Application of the decreased rate may depend on other conditions, usually the level of shareholder(s).

The decreased rate of withholding tax specified in the tax treaty is available provided that the dividend payer has a valid certificate of residence of the dividend recipient.

Dividend received by the Polish companies from foreign companies

As a rule, dividends received by Polish tax residents from foreign companies are aggregated with other taxable revenues subject to CIT under the general rules. However, the withholding tax payable abroad may be credited against CIT liability in Poland (although the credit must not exceed CIT attributable to the dividend type income).

In case of dividend payment received from EU resident companies, EEA resident companies and Swiss companies, the exemption from withholding tax will apply upon the condition of at least 10% (25% for Swiss companies) shareholding for an uninterrupted period of at least 2 years. The two-year period condition can be fulfilled after the dividend is paid. This exemption is also available for EU and EEA companies if they conduct their business activity through a permanent establishment located in Poland and the received dividend is connected with the permanent establishment. The exemption is not applicable if the dividend income is received as liquidation proceeds.

Furthermore, the Polish tax regulations also provide for underlying tax credit related to dividends (and other dividend-type income excluding liquidation proceeds) received by a Polish company from an entity which:

- is not a resident of EU, EEA state or Switzerland; however
- Poland has concluded a double tax treaty with the country of dividend payer's tax residence.

This underlying tax credit is available upon the condition of at least 75% shareholding for an uninterrupted period of at least 2 years. The two-year period condition can be fulfilled after the dividend is paid.

Taxation of Controlled Foreign Corporations (CFC)

Please note that as of 2015 new rules regarding taxation of CFC entities were introduced to Polish tax law. Key assumptions of those rules are as follows:

- the CFC regulations provide for 19% tax on the income generated by CFC corporation at the level of a participating Polish taxpayer,
- the amendments are aimed to counteract the shifting of assets that generate passive revenues, such as revenues from dividend, copyrights and interest, to countries with preferential tax regimes,
- in principle, analogous CFC provisions apply to taxpayers falling within the scope of both Polish income tax acts (CIT, PIT), i.e. companies seated in Poland and natural persons that are Polish tax residents,

- the definition of a controlled foreign corporation generally embraces the following entities: (i) entities whose registered office is located in a country applying harmful tax competition, (ii) entities whose registered office is located in a country with which Poland or European Union has not signed an agreement forming the grounds for obtaining tax information (e.g. a double tax treaty), and (iii) foreign entities that meet the criteria predefined in the Act – in simple terms: primarily those generating passive revenues that are subject to a rate lower than 14.25% (potential exemption or exclusion of such revenues from taxation),
- certain tax exclusions of controlled foreign corporations, e.g. in case they carry out "actual business activity" or if they do not exceed a certain revenue threshold (EUR 250k) are permitted,
- the possibility to deduct in Poland the tax paid in by a controlled foreign corporation in the country of its seat/ management and availability of other preferences / deductions.

Taxation of interest, royalties and intangible services

Generally, interest paid to foreign tax resident is subject to a withholding tax at a rate of 20%, unless a relevant double tax treaty provides for a reduced tax rate. Similarly, the 20% withholding tax applies to royalties and certain intangible services (such as consulting, accounting, market research, legal services, advertising, management and control, data processing, human resources, guarantees and other services of a similar nature), unless a relevant double tax treaty provides otherwise. In general, payments for intangible services are classified under double tax treaties as business profits that are not subject to withholding tax in the source country.

To obtain a lower treaty rate or to eliminate WHT taxation based on double tax treaty, the payment recipient must provide the tax remitter with a valid certificate of its tax residence issued by the respective tax authorities.

Additionally, according to the CIT Act, starting from July 1st, 2013 interest and royalty payments may be in some cases exempted from withholding tax (based on implemented IRD). In principle, in order to benefit from the above exemption, the following conditions should be met:

- the said payments are made by a taxpayer having its place of the registered office or place of management in Poland or (under certain conditions) by a Polish permanent establishment of a company being a taxpayer in another EU country on its world-wide income;
- the said payments are made for the benefit of a company which is a taxpayer in another EU/EEA country or Switzerland on its world-wide income;
- the recipient of the said interest payments is a company mentioned above or (under certain conditions) its PE situated in EU;
- there is at least a 25% direct shareholding relation between the recipient and the payer (i.e. the recipient has at least 25% of shares in the payer or the payer has at least 25% of shares in the recipient), and the shares are held or will be held uninterruptedly for at least a 2-year period;
- this benefit is also available when the recipient of the interest (royalties) is a sister company of a Polish company paying the interest (royalties), provided that the parent company directly holds at least 25% of shares in both sister companies uninterruptedly for at least 2 years.

The two-year period condition can be fulfilled after the interest (royalty) is paid. If the shares are disposed of before the lapse of 2-year holding period, the exemption expires and the company paying the interest (royalties) is required to pay the 20% withholding tax or may apply the WHT rate resulting from a relevant double tax treaty and, as the case may be, it may be also obliged to pay penalty interest.

The above mentioned regulations apply to companies incorporated in EU member states, and to the companies from the Swiss Confederation. The list of the above companies is specifically provided in an enclosure to the CIT Act.

Generally, the entity paying out interest, royalties or remuneration for purchase of intangible services is obliged to withhold and remit to the tax authorities the WHT at the moment of payment. According to the definition included in the Polish CIT Act "payment" means fulfillment of the obligation to repay the debt in any form, including set-off or capitalization of the interest.

It should be stressed that according to CIT Act, interest, royalties or remuneration for purchase of intangible services received in connection with activity realized by permanent establishment of foreign entity in Poland is basically treated as a taxable income of such a permanent establishment and subject to taxation under general rules. In such a case entity performing payment may not remit the tax, however, relevant certificate of residence as well as written statement confirming that the said payments are connected with activity of permanent establishment should be provided by a foreign entity.

Carrying Losses Forward

Losses incurred by a taxpayer may be carried forward and set off against income over 5 following tax years from the year the loss is incurred, but only up to 50% of the loss may be utilized in a given tax year. Losses cannot be carried back. The right to carry losses forward is always linked to the entity that incurred the losses, rather than to the entity's specific assets. Thus, the tax losses are not transferable with assets or the business (e.g. even if whole taxpayer's operations are transferred to/merged into another entity).

Tax Capital Group

The CIT Act allows for the creation of a "fiscal union" (or tax capital group), under which companies in a capital group are treated as a single taxpayer for CIT purposes.

The basic requirements for obtaining the status of a tax consolidated group are the following:

- the capital group may be established only by limited liability companies or joint stock companies seated in Poland;
- the average share capital of each member company should amount to at least PLN 1,000,000;
- the holding company should hold at least 95% of the shares in the remaining group companies;
- subsidiary companies cannot be shareholders in the holding company or in other subsidiary companies in the group;
- none of the members of the group may have tax arrears in taxes which are state income;
- the tax capital group need to be established for a period of at least three tax years by means of a notarial deed; the agreement must also be filed with the tax office which issues an administrative decision and registers the capital group if all the conditions are met.

After the creation of the tax capital group, the companies forming that group should additionally satisfy the following requirements:

- none of the companies included in the group can singularly benefit from income tax exemption resulting from non-CIT act;
- the annual level of tax profitability of the group cannot be less than 3%;
- companies closed up in the tax capital group cannot maintain *non arms' length* relations with related companies from outside the group.

The tax capital group formed and registered with the relevant tax authorities is treated as a separate entity for CIT purposes, which results in particular in the following advantages:

- the losses of some of the members of the tax capital group can be offset against the taxable income of its other members;
- the regulations on transfer pricing do not apply to transactions between companies within the group;
- donations between companies within the group are deemed to be a tax-deductible expense for the donor;
- the simplification of tax formalities, as only one company in the group prepares a joint tax return.

Tax on Civil Law Transactions

The following acts/actions are subject to tax on civil law transactions:

- contract of sale and exchange of things and property rights;
- contracts of loan (of money or things designated only as to their kind);
- contracts of donation – in the part relating to the donee taking over debts and burdens or obligations of the donor;
- contracts of annuity;

- contracts of division of inheritance and contracts of dissolution of co-ownership – in the part relating to repayments or additional payments;
- establishment of mortgage;
- establishment of usufruct for consideration, including irregular usufruct, and servitude for consideration;
- contracts of irregular deposit;
- partnerships / companies deeds (articles of association);

Moreover, any amendments to the above-listed acts resulting in the increase of the tax base are also subject to tax on civil law transactions as well as court judgments and settlements having the same result as above transactions or amendments to the above transactions (which result in the increase of the tax base).

In principle, the tax liability arises upon performance of an act / transaction in civil law. The taxpayer is obliged to submit the tax return and to pay the tax within 14 days from the day when the tax liability arose, unless the tax is collected by a tax remitter (i.e. by notary public).

The exemplary tax rates are as follows:

(a) on contracts of sale:

- of the real estate, other tangibles and selected property rights related to the real estate – 2% of their fair market value;
- of other property rights – 1% of their fair market value;

(b) on loan agreements – 2% of the amount of the loan (0% in case of loans from direct shareholders of capital company);

(c) on the establishment of mortgage:

- to secure existing debts – 0.1% of the amount of secured debt;

- to secure a debt whose amount is not determined – PLN 19;

(d) on partnerships / companies deeds:

- 0.5% of the value of the contribution to the partnership or 0.5% of the company's share capital;
 - 0.5% of the increase in the contribution or 0.5% of the increase in the share capital;
 - 0.5% of the amount of the additional payments;
 - 0.5% on the annual market value of the usufruct of objects or property rights vested in the partnership without consideration, etc.
- Tax liability shall be borne *inter alia*:
- in the case of contract of sale – by the buyer;
 - in case of loan agreement – by the borrower;
 - in case of partnerships / companies deeds – by the partners, and in case of other partnership or company deeds – by the partnership or company.

A notary public is a remitter of the tax when civil law transactions are executed in the form of a notarial deed.

Thin capitalization

The Polish CIT Act contains provisions restricting interest tax-deductibility.

(1) Thin cap restrictions

Starting from January 1, 2015, the thin cap method which will be applicable automatically, unless the taxpayer chooses the alternative thin cap method (please see details below).

Interest deductibility limit

According to thin cap regulations, the limit of indebtedness above which the part of the interest may not be treated as tax-deductible amounts to the value of taxpayer's equity.

Restricted entities

Thin cap limitations apply to the interest on the loans obtained from: (i) the direct parent and sister companies as well as (ii) the companies which indirectly hold at least 25% of shares and (iii) from the companies in which the same entity holds directly or indirectly at least 25% of shares which holds also directly or indirectly at least 25% of shares in the given taxpayer. For the purpose of determining the amount of shares held indirectly by the particular entities, the transfer pricing regulations will apply.

Equity

For the thin cap purposes, the value of the equity should be determined at the end of the month preceding the month in which the interest is paid. While the equity is an accounting law term (Polish "kapitały własne"), the CIT law introduces modifications to this term. Namely, the value of the equity shall not include the revaluation reserves and the part of equity derived from the received subordinated loans. Moreover, the value of equity shall be reduced by the amount of the share capital which was not actually transferred to that capital, which was covered by the shareholder's receivables resulting from the loans and the interest on such loans or which was covered by the intangible assets which are not subject to amortization for the CIT purposes.

(2) Alternative thin capitalisation method

As of January 1, 2015, the taxpayers are allowed to choose the thin cap method alternative to the one described above. In the alternative method, interest on the loans granted by related or unrelated entities is recognized as tax-deductible cost in the given year in the amount not exceeding the tax value of the assets (excluding intangible assets) multiplied by reference rate of the Polish National Bank increased by 1.25 percentage point. At the same time, the value of the tax-deductible interest recognized in a given year should not exceed the value of 50% of operating income.

In this method the interest encompasses all costs of financing incurred by the taxpayer, such as commissions, bonuses, late payment fees (but does not include charges arising from derivative financial instruments).

The interest classified as tax non-deductible costs based on the alternative thin cap method may be deducted for tax purposes in the next 5 tax years, however, within the limit calculated for a given year. Please note that such deduction is possible only if the taxpayer continues to apply the alternative thin cap method in such period.

It must be noticed that the taxpayers who decide to choose the alternative thin cap method are obliged to inform in writing a competent head of the tax office about choosing of such method. The alternative method should be applied at least for 3 consecutive tax years, only after that period the change of the calculation method would be possible.

Transfer Pricing

1) Transfer Pricing – current regulations

General

In principle, the Polish transfer pricing rules are based on the OECD Transfer Pricing Guidelines. As such, they introduce the concept of the “arm’s length” level of transfer prices. If related parties conclude transactions on terms that differ from market practice and, as a result, the Polish entity discloses taxable income lower than it would otherwise have disclosed, the taxable income of this entity will be adjusted in accordance with this principle.

Transfer pricing requirements apply also to Polish permanent establishments of foreign entities.

According to the Polish tax regulations two entities are considered to be related if there is the direct or indirect ownership of at least 5% of shares between them.

The relationship shall be deemed to exist also where subjects or persons performing managerial, supervising or inspecting duties are connected by family, capital and property links or the links resulting from employment relationship. Such relationship shall also be deemed to exist where any of the above persons combines managerial, supervising or inspecting duties.

Statutory transfer pricing documentation - current regulations

In order to facilitate transfer pricing audits, the regulations put on taxpayers the requirement to prepare special documentation concerning the terms of transactions concluded with related parties (a statutory transfer pricing documentation). The current requirement relates to each transaction with related entity (both cross-border and domestic), where the total amount arising from the contract or the amount actually paid in the tax year exceeds:

- EUR 100,000 – if the value of the transaction does not exceed 20% of the share capital defined in accordance with the regulations on thin capitalization; or
- EUR 30,000 – if the transaction concerns provision of services, sales or use of intangibles; or
- EUR 50,000 – in all other cases.

The recent judgements issued by Supreme Administrative Court have presented a stance according to which when the sum of all transactions with a given related entity exceeds thresholds presented above, the taxpayer is obliged to prepare the transfer pricing documentations covering all of the transactions concluded with such related entity. Consequently, such approach requires documenting even minor transactions if the sum of all transactions e.g. related to provision of services, sales of intangibles or granting access to intangibles exceeds the specified materiality threshold.

The duty to prepare statutory documentation also relates to transactions where the payment is made directly or indirectly to an entity having its registered office in a tax haven. In these cases the threshold amounts to EUR 20,000.

Additionally, since 1st January 2014 limited joint-stock partnerships are considered legal entities subject to corporate income tax. As a result, the transactions between these companies and their related parties are subject to the transfer pricing regulations and documentation.

Apart from the above, according to current legislative considerations, statutory transfer pricing documentation is going to be obligatory also with respect to agreements constituting partnerships (in case the total value of contributions in kind exceeds EUR 50,000 or EUR 20,000 in case one of the partners in an entity from tax haven country).

The statutory transfer pricing documentation must be prepared in Polish language and presented within 7 days of the tax authorities' request. If the authorities find out that the taxpayer's profit is higher (or the loss is lower) than declared in connection with related party transactions, and the taxpayer does not provide them with the statutory transfer pricing documentation, the difference between the profit declared by the taxpayer and the profit determined by the authorities is subject to 50% taxation.

In July 2013 the "Ordinance of the Minister of Finance of 10th September 2009 on the Mode and Procedure of Determining Legal persons' Income by Estimation and on the Mode and Procedure of Eliminating Legal Persons' Double Taxation in Connection with the Adjustment of Profits of Associated Entities" has been significantly changed. The changes reflected the update of the OECD Transfer Pricing Guidelines and implemented conclusions developed by the EU Joint Transfer Pricing Forum. The changes include:

- introduction of the regulations on the business restructuring,
- the most adequate method rule,
- definition of low value added services,
- transfer pricing methods for R&D services,
- definition and examples of shareholder costs,
- obligatory elements of the comparability analysis and transfer pricing methods used by the tax authorities during transfer pricing audits,
- possibility of conducting dispute resolution procedures to avoid double taxation involving three countries.

Advance Pricing Agreements (APA)

The provisions related to the APA procedure came into force on 1st January 2006. They allow taxpayers to verify the correctness of the pricing methodology applied in the domestic / cross-border related party transactions and ascertain its up-front acceptance of the transfer pricing methodology by the tax authorities.

There are three kinds of APA's:

- unilateral;
- bilateral; and
- multilateral agreements.

Before submitting the APA application, the taxpayer may request that the Ministry of Finance clears doubts regarding the individual case, in particular if it is useful to seek an APA, what information is necessary, what is the procedure and when the decision can be expected.

The APA application can be submitted by the Polish entity only. The fee should be paid within 7 days afterwards. In the case of any doubts regarding the pricing method chosen by taxpayer or documents enclosed to the application, the Ministry of Finance may request additional explanations. In the end, the taxpayer receives a decision with a validity of no more than 5 years. Upon request it can be extended for further 5-year periods.

The proceedings should be finalized as follows

- unilateral APA – no later than in 6 months,
- bilateral APA – no later than one year, and
- multilateral APA – no later than in 18 months.

The fee is 1 percent of the transaction value, up to the limit of EUR 1,250 – 50,000 (depending on the type of APA). The fee for prolongation of APA amounts to half of the fee for application for the agreement.

Taxpayers requesting APAs in Poland must choose one of the pricing methods, describe how it will be applied, indicate the circumstances which may influence the correctness of the pricing methodology, prepare documentation used as a basis for setting the level of transactional prices, inter alia agreements and other documents indicating the intentions of both parties and propose tax years to be covered by the APA.

In April 2015, the Ministry of Finance proposed a number of material changes to the Polish advance pricing agreements regulations which came into force on 1st January 2016. The main changes comprise:

- indication that the APA decision pertains to the "terms and conditions" agreed between related parties, not exclusively to "transactions" – the changes aim to remove selected limitations regarding the object and scope of agreements;
- extension of the catalogue of entities that may apply for an APA (i.e. entities without legal personality);
- clarification of an obligatory APA application elements and addition of a description of critical assumptions, i.e. boundary conditions for using a given pricing method;
- introduction of the new procedure i.e. renewal of an APA decision replacing the procedure of extension of APA validity period;

- limited roll-back of the APA: the APA decision to be binding from the date of submitting the APA application to the Ministry of Finance – this change allows the APA decisions to cover the period between the filing of the APA request and the issuing of the decision; it adjusts the Polish law to the regulations of other countries;
- new rules on delivery of decisions on cancelation of APA proceedings by the Ministry of Finance to the head of the tax office or director of the tax inspection office, whichever is proper for the taxpayer;
- clarification that several transactions / cost sharing agreements may be covered by one APA application – in such case each transaction / agreement is subject to a separate fee due to the Ministry of Finance.

2) Tax information

Taxpayers conducting transactions with foreign parties are subject to certain notification requirements. In particular:

- where a taxpayer and a related foreign entity engage in transactions exceeding EUR 300,000 in the tax year, the tax authorities must be informed of the transaction within three months from the year end;
- where the foreign entity has an enterprise, a representative office or an establishment in Poland, the tax authorities must be informed if the value of a transaction exceeds EUR 5,000.

Other transactions may have to be disclosed at the tax authorities' request.

3) Branches of Foreign Companies

Foreign companies have been able to establish branches in Poland since 1st January 2000. The range of activities of these branches is limited to the scope of activities of the foreign entity. Establishing a branch requires registration in the National Court Register. Branches are subject to similar tax rules as those imposed on limited liability and joint stock companies.

Foreign companies may also operate in Poland in a form of representative offices. The range of activities of representative offices is limited to representation and advertising.

4) Significant changes to come into force on the date of submission of the tax return for the 2017 i.e. in general, as of 31st March 2018

Transfer pricing documentation requirements

According to action 13 of the OECD's BEPS Action Plan, aimed at re-examining transfer pricing documentation requirements — and in particular providing for more information from taxpayers, Poland is introducing significant changes in such area of transfer pricing. The above mentioned changes extend the scope of the information about related-party transactions to be provided to tax offices, which might streamline the process of selecting entities for tax audits and the tax audits themselves.

The changes that are to be implemented include, in particular:

- modification of related parties' definition – related parties should be understood as entities that possess interest (direct or indirect) in the capital of another entity which is equal to not less than 25% (current regulations indicate the threshold of 5%);

- introduction of a three-tiered approach to transfer pricing documentation, i.e. local documentation ("Local File"), documentation for groups of companies ("Master File") and a report on global allocation of income and tax within the group ("Country-By-Country Reporting");
- further instruction which taxpayers must maintain what category of documentation, i.e.:
 - Local File should be prepared by the taxpayers whose revenues or costs exceed the equivalent of EUR 2 M in the year preceding the tax year that the transfer pricing documentation is to be prepared for;
 - taxpayers whose revenues or costs exceed the equivalent of EUR 10 M in the year preceding the tax year will be obliged to prepare respective benchmarking studies;
 - Master File should be additionally prepared if the taxpayer's revenues or costs exceed the equivalent of EUR 20 M in the year preceding the tax year;
 - the largest Polish entities whose consolidated revenues exceed the equivalent of EUR 750 M in the year preceding the tax year, will be obliged also to produce Country-By-Country Report, i.e. a report on the income and tax paid in by subsidiaries, their places of conducting business as well as their permanent establishments;
- the materiality criterion has been defined in quantitative and qualitative terms, i.e. transactions are deemed material for taxpayers, if in the year preceding the analysed tax year the taxpayer's revenues or costs exceeded the following thresholds:
 - EUR 2 M but not more than EUR 20 M – transactions or other events of the same kind whose total value exceeds the equivalent of EUR 50,000 increased by EUR 5 000 per each EUR 1 M

- of revenues or costs in excess of EUR 2 M are considered material;
- EUR 20 M but not more than EUR 100 M – transactions or other events of the same kind whose total value exceeds the equivalent of EUR 140 000 increased by EUR 45 000 per each EUR 10 M of revenues or costs in excess of EUR 20 M are considered material;
- EUR 100 M – transactions or other events of the same kind whose total value exceeds the equivalent of EUR 500 000 of revenues or costs are considered material.
- an obligation for the taxpayers to draw up tax documentation not only in respect of their transactions with related parties but also concerning other events recognized in the books of accounts where such events have a material impact on the taxpayers' income (loss) amount, as well as other events the terms of which have been determined (or imposed) with their related parties, including the contracts for finance management (e.g. cash pooling), cost sharing agreements, agreements related to incorporation of entities that are not legal persons, joint venture contracts and other comparable agreements;
- introduction of the new content of transfer pricing documentation (depending on the above-mentioned materiality criterion);
- introduction of the new CIT TP form accompanying the annual tax return containing detailed information of related-party transactions as well as other events on account of which dues are paid to entities seated in tax havens (an obligatory form for taxpayers whose revenues or costs within the meaning of the accounting regulations exceed the equivalent of EUR 10 M in the tax year);

- indication that the new transfer pricing documentation requirements will also apply to taxpayers that conduct their business operations without having legal personality (e.g. partnerships), giving them the possibility to appoint a partner responsible for drafting the documentation.

The above described changes will have a significant impact on the scope of the taxpayers' responsibilities in connection with the preparation of transfer pricing documentation. The changes extend the scope of the information about related-party transactions to be provided to tax offices, which might streamline the process of selecting entities for tax audits and the tax audits themselves.

That transfer pricing documentation compliant with new requirements should be prepared not later than until the date of submission of the tax return for the 2017 i.e. in general, as of 31st March 2018. Furthermore, according to the implemented regulations, the Country-By-Country Report should be prepared for the tax year beginning after 31st December 2015 (but later than 1st January 2017) and should be filed to the tax office within 12 months after the end of the year.

VAT Rates and Regulations

General rules

Generally, the Polish VAT regulations are based on EU VAT Directives. The VAT regulations were subject to significant changes in 2014. The changes concerned mainly various aspects and areas of VAT regulations, such as taxpoint recognition, input VAT recovery, etc., which were aimed at further adjusting the Polish VAT regulations to EU Directive principles.

Moreover, due to economic downturn the VAT rates with respect to majority of goods and services were increased starting from 1 January 2011. The general principles of the system are presented below, including new significant regulations implemented in 2016.

VAT is a broad-based tax levied on the supply of goods and services in Poland. A Polish entity is required to register for VAT once its annual turnover on transactions subject to VAT exceeds PLN 150.000 (if the entity starts business activity during the year, the limit is calculated as proportion of number of days of running business activity in the year and the limit for whole year). Foreign entrepreneurs have to register for VAT in Poland before they start any VAT-able activity in Poland (except for limited clearly enumerated cases). Generally, VAT is imposed on every supply of goods and services at the base or reduced VAT rate, unless the transaction is exempt from Polish VAT.

The base rate of VAT is 23% and is charged on most goods and services. A reduced VAT rate of 8% is imposed on the sale of such products or provision of services as:

- selected foodstuffs (not being subject to 23% VAT rate);
- specific medicines and goods used in health care;
- catering and restaurant services;
- veterinary services;
- selected services related to TV and radio broadcasting;
- selected transport services;
- municipal services (e.g. mains water supply, sewage treatment, street maintenance, plowing etc.);
- fertilizers.

A reduced VAT rate of 5% is imposed on the sale of such products as:

- selected foodstuffs (not being subject to 8% or 23% VAT rates);
- books and magazines for experts.

A reduced 0% VAT rate is levied (under specific conditions) on the intra-Community supply of goods, exports of goods, as well as some international transport services and services related to international transportation.

A reduced 0% VAT rate may be applied to some domestic supplies, e.g. equipment for selected ships and airplanes. Selected health care, financial, insurance, educational and cultural services etc. are exempt from VAT, which accordingly prevents the taxpayer from recovering input VAT incurred in relation to such services.

The tax due to the Tax Office is calculated as the surplus of output VAT charged on sales over recoverable input VAT stated on purchase invoices.

Transactions between VAT taxpayers must be documented with a VAT invoice. Sales to individuals who do not conduct business activities must be registered by a fiscal cash register if the turnover with individuals exceeds a specific threshold. This threshold generally amounts to PLN 20,000 (approx. EUR 4,700) but sales of several kind of goods need to be registered in a fiscal cash register independent of the value of sales during the year.

Registered VAT taxpayers are obliged to submit monthly VAT returns (or quarterly VAT returns) to the appropriate tax office and keep registers of purchases and sales subject to VAT. In addition, EC Sales and Purchase Lists and Intrastat (in case the statutory thresholds are exceeded) declarations must be submitted by the taxpayer with respect to its intra-EU transactions.

Starting from 1 July 2016, Standard Audit File for Tax (SAF-T) regime has been implemented to the Polish tax system. SAF-T enables tax authorities to receive (in a form of a xml file) a complete list of all taxable transactions (sales, purchases, stocks, invoices etc.). The regime allows Polish tax authorities to run their own analytical tests and tax calculations ahead of tax audits. Although complete SAF-T is required from Polish-based companies, a company without its economic seat in Poland but VAT registered in Poland is required to issue certain parts of SAF-T.

The new requirement did come into force in 1 July 2016 for large companies. In particular, a large taxpayer is considered to be a taxpayer with more than 250 employees or with more than EUR 50 million of net turnover and EUR 43 million of assets (if employing less than 250 people) in at least of the previous two fiscal years. Small and medium taxpayers (generally less than 250 employees) will be required to implement the requirement by 1 July 2018.

VAT that is due must be paid by the 25th day of the month following the month (quarter) in which the VAT obligation arises.

Although Polish VAT law is generally compliant with the 112 EU Directive, it contains various country-specific provisions and requirements, which are not common in other local VAT regimes. These are usually very troublesome for foreign entrepreneurs. In consequence VAT and Intrastat compliance is often a challenge and is being outsourced to firms experienced in Polish VAT settlements. Deloitte offers such assistance.

In the situation when a foreign entity (from outside the European Union) not registered for VAT purposes in Poland purchases goods/services in Poland, based on certain rules defined in the decree of the Ministry of Finance, it may apply under several conditions for a refund of input VAT incurred on purchases in Poland, on a reciprocity basis. Foreign entities within the EU may apply for a refund of input VAT by submitting electronic VAT refund applications.

Gambling tax

The economic activity in the area of games of chance and mutual betting is in general VAT exempt. Instead of this, the entrepreneurs conducting this type of activity are subject to gambling tax.

Excise Duty

Excise duty is a consumption tax levied on certain goods which could be divided into four general groups: energy products, electricity, alcohol beverages and tobacco products (including tobacco „greenleaf“). Excise duty is also imposed on cars.

The excise duty legislation is set out in a number of EU Directives, which means that each EU Member State may charge its own rates of excise duty along with differences in local country policy (e.g. with regard to exemptions).

The following activities are subject to excise duty:

- the production of excise goods;
- the movement of excise goods outside a tax warehouse;
- import of excise goods;
- intra-Community acquisition of excise goods excluding intra-Community acquisition to a tax warehouse;

Excise regulations indicate some other activities which may be subject to excise duty.

There are special rules concerning taxation of electricity, gas and coal, which are chargeable at the moment of supply to end user.

Excise duty is calculated either as a percentage of the value of goods (or the customs value of the commodities) or on a volume basis (fixed rate per unit).

The production of excise goods must in general be performed in a tax warehouse (excluding electricity, gas, coal and cars).

The holding and movement of excise goods is subject to strict controls and special procedures apply. In respect of excise goods, there is possible to apply the excise duty suspension procedure. However, there are some conditions (documentation requirements, excise guarantee) which should be fulfilled in order to apply this procedure.

Currently, intra-EU movement of excise goods under duty suspension procedure is based on an electronic system "EMCS".

Please note that from 1st of January 2016 r. a major amendment of excise tax act comes into force and thus some of the abovementioned facts may change.

Tax on Income Derived From Capital (Natural Persons)

As a rule, capital gains derived in Poland are subject to a 19% flat rate tax. From 1 January 2005, capital gains also realized outside of Poland are subject to 19% flat rate tax (previously, they were subject to progressive taxation). Income derived from the sale of shares is subject to a 19% flat rate tax and should be declared in the separate annual tax return PIT-38 disclosing the capital gains realized during the given tax year. Subject to tax is only

the difference between the sale price and cost of acquisition of the shares borne by the taxpayer.

The following sources of income are also subject to a 19% flat rate tax:

- interest,
- dividends,
- proceeds from investment funds, etc.

Personal Income Tax (PIT)

Under the Polish PIT Act, individuals may be subject either to limited or unlimited tax liability in Poland. The tax status of a given individual depends solely on whether he / she has his / her place of residence in Poland. Up to 1 January 2007, the term "place of residence" was not defined under the Polish PIT Act and the common practice was to turn to its Civil Code definition, which stipulated that the "place of residence" was a place in which given individual stays with the intention to stay permanently. Starting from 1 January 2007, the amendment to the PIT Act introduced the definition of residency for PIT purposes.

Given person is considered to have a place of residence in Poland if he / she:

- has closer economic or personal links with Poland (centre of vital interest), or
- stays in Poland for a period exceeding 183 days in calendar year.

Polish PIT Act provisions on tax residency status should be applied taking into provisions of double tax treaties concluded by Poland.

Individuals not having their place of residence in Poland are viewed as Polish tax non-residents subject to limited tax liability in Poland, whereas those having their place of residence in Poland are regarded as Polish tax residents subject to unlimited tax liability in Poland.

The status of a Polish tax resident implies that the total worldwide income received by a given individual is subject to taxation in Poland taking into account relevant provisions of double tax treaties. Polish residents for personal income tax purposes are obliged to disclose in their Polish tax returns also private income such as interest, dividends, royalties, capital gains, sell of real estate, rental income or income derived from personal business activity (including participation in civil partnership and limited partnership). In case the above income is derived from abroad it should be reported and taxed in Poland taking into account relevant double tax treaty provisions to avoid double taxation of this income in two countries (Poland as a country of residency and the other country being the source country of given income).

An individual regarded as a Polish tax non-resident is, on the other hand, subject to Polish taxation only on income derived from Polish sources (including income from employment exercised in Poland) subject to provisions of given double tax treaty. Polish tax non-residents are entitled to 20% flat taxation on specific types of income (e.g. fees received under the civil law contracts or board fees payable on the basis of resolution of shareholders) as opposed to progressive taxation of 18% and 32%.

The tax year for individuals is equal to the calendar year.

In general, cash and benefits in-kind received by an individual constitute his / her taxable income, unless a particular income is tax exempt in Poland according to Polish domestic law and the appropriate double tax treaty (if relevant).

Examples of income exempt from taxation in Poland:

- amounts due to the individual with respect to business trips (per diems, travel and accommodation expenses), up to the limits defined in the provisions of the Polish law,
- amounts paid by the employer for raising of the professional qualifications of its employees (e.g. the value of courses and trainings which have been undertaken in order to raise professional qualifications as agreed by employer).

Selected possible deductions from income for tax purposes (decreasing taxable base):

- employee's contributions paid to the obligatory Polish social security system,
- mandatory social security contributions due in other EU, EEA countries or Switzerland paid in the given year provided that they were not deducted for tax purposes in this other country and were not due on the income exempt from taxation in Poland,
- donations granted for Polish and equivalent organizations in the EU states or EEA countries conducting activities in the field of public welfare, donations granted for religious purposes (except for donations to natural persons) and the volunteer blood donations – total deduction from the said types of donations limited up to a level of 6% of the individual's income,
- donations for church charity purposes (applicable only to church legal entities) no deduction limit provided (some additional conditions must be met to take advantage of this deduction),

- payments made to taxpayer's Individual Pension Insurance Account (Indywidualne Konto Zabezpieczenia Emerytalnego – IKZE) decreasing taxable income (deduction limited to the annual amount which, as per respective legislation, may be transferred to IKZE),
- interests on loans drawn for housing purposes (under specific conditions if the loan was granted between 1 January 2002 and 31 December 2006).

Selected possible deductions from tax:

- 7.75% of the assessment basis of healthcare contributions paid by an individual in a given calendar year for either his or her national healthcare insurance in Poland or mandatory contributions for health insurance paid in another EU or EEA countries or Switzerland provided that they were not deducted for tax purposes in this other countries and were not due on the income exempt from taxation in Poland;
- Child tax deduction in the amount of PLN 1 112,04 per year per child – amount applicable for 1st and 2nd child. Deduction increases to PLN 2 000,04 for 3rd child and PLN 2 700,00 for 4th and each next child. Deduction for one child is not applicable if individual's income threshold exceeds PLN 56 000,00 (PLN 112 000 for married tax payers and lone parents). This deduction is applicable for parents bringing up children under 18 years of age or children under 25 years of age, if they study at school or at the university.

Additionally please note that under Polish PIT Law regulations, it is possible to allocate 1% of the annual tax liability to a selected Polish welfare organization. It does not influence the final tax liability of the individual (funds are transferred by the tax office based on the taxpayer's suggestion indicated in the annual tax return).

PIT rates for 2015 are as follows:

Polish tax brackets valid in 2015

up to PLN 85 528	18% of taxable base less PLN 556.02
over PLN 85 528	PLN 14 839,02 plus 32% of excess over PLN 85,528

As a rule, the PIT rates indicated in the above table are applicable to an individual's total income.

Notwithstanding the above, the Polish PIT Act provides for flat / linear taxation on certain sources of income (which applies instead of progressive taxation). The following items are subject to a flat tax rate:

- capital gains – 19%,
- income from the sale of real estate which was purchased from 1 January 2009, provided that it is not related to the business activity carried by a given person; if the sale of the real estate takes place after five full calendar years from the date of purchase or the sale takes place before five full calendar years but specific conditions (allowing for tax exemption) are met, no tax is levied, otherwise 19% tax on the proceeds from the sale of the real estate,

- Polish source income derived by non-residents from independent artistic, literary, scientific, educational and journalistic activities, copyrights and inventions, as well as from personal service contracts, specific task contracts, managerial contracts, or similar contracts and from board member fees – 20%,
- income derived from conducting business activities in Poland – 19% (provided that the entrepreneur declares his choice of 19% flat tax rate by the date as determined in PIT Act; otherwise he is subject to taxation of his business activity income under general rules, i.e. progressive (18% and 32%) taxation).

Apart from the above, according to the provisions of the Act on lump-sum taxation of certain revenues earned by private individuals, the taxpayer may enjoy lump-sum taxation on certain sources of income if he chooses to apply this taxation system instead of applying the progressive taxation governed by the provisions of PIT Act. Lump-sum taxation may be applicable to such income as:

- revenues derived from renting real estate (if such tax regime is chosen by the taxpayer by the due date) 8.5% total gross proceeds (applicable as of 1 January 2010),
- revenues derived from performance of certain types of business activity.

Tax is generally due on a monthly basis (under certain circumstances, an entrepreneur may pay taxes due on a quarterly basis). Polish employers are obliged to calculate, withhold and pay the tax advances due on their employees' remuneration to the tax office relevant for the employer's place of the registered office.

Individuals who receive income from abroad are personally responsible for the payment of monthly tax advances due on this income (there is no obligation to file monthly tax returns).

As a rule, every taxpayer is obliged to file an annual tax return disclosing his aggregate annual income derived during given tax year. The deadline for filing the tax return (except for income subject to lump sum tax) and paying the annual tax liability is 30 April of the year following the tax year for which the return is filed.

Taxpayers may file the annual tax return jointly with their spouses if the following conditions are met simultaneously:

- spouses are subject to marital co-ownership for the entire tax year (no prenuptial/postnuptial agreement was put in place between spouses indicating how their assets would be allocated in case of divorce),
- spouses are married for the entire tax year,
- neither of the spouses conducts business activity proceeds from which are taxed at linear or in accordance with the provisions on lump sum taxation (including participation in partnerships).

Additionally, to qualify for joint filing:

- both spouses should be subject to unlimited tax liability in Poland (Polish tax residents), or
- one spouse should be subject to unlimited tax liability in Poland and the other spouse should be subject to unlimited tax liability of another EU or EEA country or Switzerland (possessing certificate of tax residency issued by this other country) and at least 75% of their world-wide income should be taxable in Poland or both spouses should be subject to unlimited tax liability of another EU or EEA country or Switzerland, should possess certificates of tax residency issued by this other country and at least 75% of their world-wide income should be taxable in Poland.

Tonnage tax

As from 1 January 2007, based on the Tonnage Tax Act, the qualified ship-owners performing certain commercial shipping activities in international traffic are entitled to subject their incomes to tonnage tax instead of income tax.

Please note that since tonnage tax is regarded as a sort of public aid (income subject to tonnage tax is out of scope of CIT / PIT taxation) the Tonnage Tax scheme should be authorized by the European Commission. The respective authorization was granted in the decision of 18 December 2009 C 34/07 (ex N 93/2006).

In its decision the Commission considered that the scheme is compatible with the internal market and can contribute to the Community's interest in the field of maritime policy, however the Act of 2006 which introduced the tonnage tax, required adjustments.

Therefore, on the 27th of December 2012, Polish President signed amendment to the Polish Tonnage Tax Act, which adjusts the Polish legislation to the European Commission's decision.

Accordingly, the qualified ship-owners are:

- individuals and legal entities being the Polish tax residents performing commercial shipping activities in the international traffic listed in the Tonnage Tax Act,
- foreign tax residents (i.e. individuals as well as legal entities) performing the above activities in Poland, which for the purposes of performing these activities use the vessels of the minimum capacity of 100 gross register tons (GT) each.

The main activities that can be taxed with tonnage tax are transportation of passengers and cargo as well as selected offshore operations. Please note that some other commercial activities (e.g. lease of the containers, ship management services) may also be subject to tonnage tax provided that they are related to the activities mentioned above. Certain activities however (e.g. fishing or fish processing, the construction of ports or repair of port infrastructure) can never be taxed with tonnage tax.

Generally, the tonnage tax base is calculated as a multiplication of the daily rate (determined in the Tonnage Tax Act and depending on the capacity of a given vessel) and the period of exploitation in a given month of the all ship-owner's vessels subject to tonnage tax. The standard tonnage tax rate is 19%. Income (in the part not re-invested in the ownership, renovation, modernization or reconstruction of another vessel within 3 years) from the sale of ships is subject to taxation with the application of 15% tax rate.

The Polish tonnage tax scheme is also a subject to a lock up period. Therefore, it is only possible to enter the tonnage tax regime for a fixed period of 10 years. A choice must be made until 20 January of the first year of the tonnage taxation period or in the case of a shipping company commencing the activities subject to tonnage taxation in the course of the tax year, until the day preceding the day of commencing these activities.

Inheritance and gift tax

Polish tax system includes also an inheritance and gift tax imposed on the acquisition (e.g. via donation, inheritance, etc.), by the individuals, of property located in Poland and property rights exercised in Poland. Acquisition of movables and property rights exercised in Poland is excluded from taxation if at the moment of agreement neither the donator nor the donee were Polish nationals or had permanent residence in Poland.

Other taxes

Other taxes include *inter alia*:

- real estate tax,
- road vehicle tax (imposed only on trucks and buses),
- agricultural tax,
- forestry tax,
- bank tax (starting from 1 February 2016),
- retail sales tax (starting from 1 September 2016).

Please note that local governments/bodies are entitled to establish rates for certain local taxes. However, those rates cannot exceed the maximum limits set by the Parliament or regulations of the Minister of Finance.

Stamp Duty

Stamp duty is chargeable on certain submissions and administration acts, including:

- performance of an official acts in individual matters on notification or on request,
- issuance of a certificate on request,
- issuance of a permission (permit, concession),
- other documents, e.g. power of attorney.

Rates vary from PLN 1 to PLN 12,750.

General Anti-Avoidance Rule (GAAR)

Starting from 15 July 2016 r. new amendments to Tax Ordinance Act which introduce General Anti-Avoidance Rule (GAAR) into Polish tax law entered into force. The GAAR shall apply transactions if they meet all (logical conjunction) the following three conditions:

- they are performed primarily in order to obtain a tax benefit,
- they are contrary to the subject matter and objective of the provision of the tax act, and
- they are performed in an artificial way.

If these conditions are met, the given transaction(s) / action(s) do not result in obtaining the said tax benefit.

A transaction shall be deemed to be performed primarily in order to obtain a tax benefit if other aims of the transaction / action, as indicated by a taxpayer, shall be deemed insignificant.

A transaction shall be deemed to be performed in an artificial way if under existing circumstances it would not be performed by a person who acts reasonably and is guided by lawful goals other than obtaining a tax benefit being contrary to the objective of the provision of the tax act.

The GAAR is to be limited to cases when a taxpayer achieved an aggregate "tax benefit" in excess of 100.000 PLN in a given settlement period.

3. Legal Entity

Principal forms of doing business

The Polish law provides for two types of capital companies:

- a limited liability company (spółka z ograniczoną odpowiedzialnością – abbreviated as “Sp. z o.o.”), and
- a joint-stock company (spółka akcyjna – abbreviated as “S.A.”).

Capital companies have legal personality and may acquire rights and incur obligations in their own name, as well as sue and be sued.

Joint-stock company (S.A.)

Management of joint-stock companies is more formalized than in case of limited liability companies and they are relatively expensive to run. This type of company is frequently used where this form is required by the law (e.g. banks, insurance companies) or where the company is planning floatation on capital markets.

The on-going operations of the company are carried out by the management board which is also a representative and executive body of the company. The management board must consist of at least one member, depending on the wording of the Company Statute.

The supervisory board in a joint-stock company is mandatory. It should consist of at least three (in public joint-stock companies five) members appointed by the general meeting. The board exercises permanent supervision over all areas of the activities of the company.

The shareholders are not liable for the company's obligations; a joint-stock company is solely liable for its own obligations. In certain situations also the members of the management board may be held liable.

The minimum initial capital for a joint stock company is PLN 100,000, 25% of which must be paid up before registration.

A joint-stock company may be founded by at least one individual or legal person who must sign the Company Statute. After the Company Statute is signed and before its formal registration, the company may start operating as a “joint-stock company in organization”.

Reserve capital is 8% of annual net profits, until reserve reaches one-third of share capital. The minimum value of a single share is PLN 0,01 (1 grosz). Shares may be registered, bearer, common or preferred.

Capital companies are separate taxpayers subject to CIT, as well as they are taxpayers of VAT and other taxes in an ordinary fashion.

Limited liability company (Sp. z o.o.)

A limited liability company is the most popular form of conducting business activity in Poland, as its shareholders do not bear liability for the company's debts and, at the same time, its management is less formalized and it is less expensive to run in comparison with the joint-stock companies. Limited liability companies may be used for any purpose allowed by law. They are often used as special purpose vehicles, holding companies and as national operating companies controlled by international corporations.

The supervisory board, as a general rule, is optional in limited liability companies. If appointed, it is the main body responsible for controlling the business of the company. The main responsibility of the supervisory board is to examine the company's financial statements, the reports of the management board on the company's operations as well as to provide day-to-day supervision of the company's affairs.

The on-going operations of the company are carried out by the management board which is also a representative and executive body of the company. The management board must consist at least of one member, depending on the wording of the articles of association.

The shares of a limited liability company do not take the form of a document and cannot be listed on the stock exchange. There are no limitations with respect to the transferability of shares, unless articles of association provide otherwise (e.g. by introducing preemption rights).

The incorporation of a limited liability company requires undertaking the following steps: (i) drafting the articles of association in the form of a notarial deed, (ii) appointing the company's governing bodies, (iii) paying the entire share capital or providing the company with in-kind contribution (the minimum amount of the share capital amounts to PLN 5,000 which is an equivalent of approx. EUR 1,200 – 1,500), (iv) registering the company in the register of entrepreneurs of the National Court Register.

Prior to its formal registration, the company may operate as “limited liability company in organization”.

Starting from 2012, as an alternative, the formation and registration of the limited liability company is possible based on a simplified internet procedure, by using official forms and standard corporate documents.

Establishing a branch or representative office

According to the Polish law, foreign entrepreneurs may set up branch offices on Polish territory, to carry out business activity. A branch constitutes an internal part of the foreign enterprise and cannot acquire rights or incur obligations in its own name, sue or be sued. The scope of business activity of the branch may not go beyond the foreign entrepreneur's scope of activity.

Some special regulations (both Polish and European Union) regarding opening of the branch may be applicable in the case of specific industries. The branch is not a separate taxpayer of income tax in Poland. Polish income tax provisions refer to the foreign enterprise as a taxpayer and the branch is normally considered as their permanent establishment in Poland. Should that be the case, only income related to the activities of this branch in Poland is subject to 19% CIT. A foreign entrepreneur (not the branch) is also a taxpayer with respect to VAT in an ordinary manner. If the branch is employing, then it must be registered for tax purposes (i.e. acquire a NIP number).

Similarly as in the case of a branch, foreign entrepreneurs may open their representative offices in Poland. The major difference between the branch and the representative office is that a representative office may be used only for running the marketing and advertising activities of a foreign entrepreneur in Poland. The representative office does not constitute a separate legal entity and is treated as part of a foreign enterprise. It cannot acquire rights or incur obligations, sue or be sued. Setting up a representative office requires registration in the Register of Representatives Offices of Foreign Business Entities kept by the Minister of Economy.

4. Labor and wages The employment market

The unemployment rate in Poland according to the Central Statistical Office (Główny Urząd Statystyczny) stands at 8.8% at the end of June 2016.

The labor market in Poland shows the growing number of qualified staff, relatively low labor costs, yet high working standards and quality of work. In recent few years an increased interest of young people studying technical and industry oriented specializations can be observed. Human resources directors see an increase in skilled staff available on the market and point out the positive changes in the curriculum, which goes hand in hand with growth and development in the profile of the companies. Consequently, finding local managers is becoming less difficult.

Skilled labor is generally concentrated around bigger cities, specifically in the regions of Warsaw, Gdansk, Wroclaw, Krakow, Silesia and Poznan. The eastern border regions still suffer from the highest structural unemployment in the country and low levels of investment. English-language skills are now a basic requirement for most white-collar positions.

Employees' rights and remuneration

Poland's Labor Code as well as a large number of other labor law acts, regulate working hours, work safety, minimum wage, non-discrimination in employment and collective bargaining, personnel files and employment termination. Contracts may be concluded for an indefinite period of time or for a definite period (including also contract for substitution of an employee during her/his absence at work). Any such contract may be preceded by a contract concluded for a trial period.

Employers must provide at least the minimum terms and benefits specified in the Labor Code, modifying them only to provide more favorable terms for employees. Some issues with regard to the employment relationship may be also regulated in collective-bargaining agreements, either single-enterprise or industry-wide. Accordingly, they also may provide only for more favorable terms for employees. Industry-wide agreements must be registered with the Ministry of Labor and Social Policy and single-enterprise agreements with a regional labor inspector.

Trade Unions, if present in the company, have some influence on dismissal of employees and other labor issues, but their role is mainly consultative. Wage bargaining is almost always conducted at the enterprise level. Workers who are not members of a recognized union are still entitled to have their rights protected by a union. Unions must give employers relevant information about members in the workplace; failure to comply with the request releases the employer from the agreement with the union.

Discrimination based, in particular, on sex, nationality, race or union membership is illegal.

Working hours

The standard average working time cannot be longer, on average, than 8 hours per day and 40 hours a week. If it happens that these limits are exceeded, the employee is entitled to extra remuneration for overtime in the amount of either 50% premium or 100% premium for each hour of work, depending on when the overtime work was performed.

Wages and benefits

The Council of Ministers set the gross minimum monthly wage at PLN 1850 as of 2016. There is only one minimum wage across all sectors, regions and occupations. Average wages in the public sector are higher than those in the private sector, PLN 4371 and PLN 3572 respectively (data for 2014). Currently, more and more Poles in managerial positions earn salaries comparable to expatriate personnel.

5. Education

Since 1989, the Polish system of higher education has done much to catch up and broaden its curriculum. The state sector's activities have been complemented by a thriving private sector, as both sectors expanded to meet a rapid increase in demand. The participation rate in higher education has also increased sharply. Number of university students increased from 403th in the academic year 1990/91 to 1,677th in academic year 2012/13, a figure that compares well with western Europe. In 2013 there were 453 HEI (higher education institutions) in Poland.

As academic salaries fell behind in the 1990s, many teachers with tenured posts in the state system also worked in the private university-level schools, of which there were 305 in 2012/2013. Today there are approx. 320 non-public universities which provide education to almost 1/3 of Polish students. Some 305 of them are vocational schools, while 15 are academic schools.

Of 1,6 million of students in 2012/13, almost 450 th were at private institutions, where the most popular specializations were business and administration, with a lower interest in pedagogy and social sciences. Today, according to the Main Statistical Office (GUS) there are approx. 36th foreign students learning in Polish HEIs, which is 7 th more than last year. Governmental objective for 2010 is 5% foreign students in Poland. Universities (both public and private) have also started to cater to the needs of working students by providing part-time, evening and weekend studies.

There are currently 19 fully accredited traditional universities in Poland, 23 technical universities, 9 medical universities and 5 universities specialized in economics. In addition to these institutions there are then 10 agricultural academies, 4 pedagogical universities, a theological academy and 2 maritime service universities. Amongst these there are 8 higher state academies of music. Public academic institutions are supplemented by a number of private educational institutions. Altogether there are over 500 higher education entities in Poland being one of top rates in Europe. The OECD's International Student Assessment Programme, ranks Poland's educational system as the 23rd best in the world, which is around OECD average. According to Pearson Report in 2014 Poland's educational system was ranked 10th in the World and 5th in Europe.

6. Infrastructure

Infrastructure Road network

The poor state of the road network is one of the weakest aspects of Poland's infrastructure. There are a few stretches of highways and expressways (3100 km in January 2015) and two-lane roads connecting most major cities (1800 km). Road improvement and motorway building have been critical components of Polish government infrastructure projects. However, many practical difficulties including land purchase and other planning problems – can be a restraint for the government to implement new motorways development programs. Though, in recent years – road construction projects has increased due to EU Funds for infrastructure investments. Three major motorways connecting the entire country will be completed before 2017.

Many road intersections projects are in a preliminary stage – either with contracts signed or construction in progress. Most of them are planned to be executed in 2014-2015, when eight of ten largest Polish cities will be connected by a motorway network, being a part of Paneuropean transport network.

As the sections of the A1 and A4 highways have been cancelled, they are not expected to be accomplished before the end of 2016. The A4 project has been divided into sections and separate tenders were announced. Austrian Strabag and Polish Budimex have jointly won a tender to build a 41km section of the A4 highway from Rzeszow to Jaroslaw (SE Poland). Works are worth approx. 170 mn EUR and consist of 3 three highway interchanges and 78 bridges. Works are supposed to start in October 2015 and to be completed by 2016.

Also for S3 and S7 expressway segments Strabag/Heilit+Woerner were awarded a design-and-build contract worth approx. 40 mn EUR to build a 8 km bypass around Koscierzyna (northern Poland). As part of the project, the consortium will build three traffic lanes and one additional lane.

Source: Poland Infrastructure Report - Infrastructure And Construction - Q4 2015

Road network

Motorways and express roads are part of national roads network. As of 4Q of 2014 Poland had 412,264 km of public roads. Although Poland is missing the minimum required density of motorways and expressways, the total length of roads is relatively high and according to GDDKiA national roads condition report in 2012, 62% of national roads were confirmed to be in “good” condition, handling 11.5 tons per axle loads. 4,808 km (2,990 mi) of the Polish routes were classified as a part of TINA European transport corridors.



Poland will spend over 10 bln eur from its own budget and additional 11 bln euro from the EU Funds (Connecting Europe Facility instrument) between 2014 and 2016 on roads investments. All the highways and expressways under construction will be finished, especially those belonging to European TEN-T network.

Under this program the EU wants to focus on 9 communication corridors construction running throughout the whole EU territory, two of which running through Poland: Baltic-Adriatic and North Sea-Baltic corridors. A1 Tri-city-Czech Republic Highway, A2 Germany-Belarus Highway and A4 Germany-Ukraine Highways are all listed as so called TEN-T key-projects. The list also includes S3 Świnoujście-Wrocław Expressway, S1/S69 Silesia-Slovakia Expressway, S8/S61 Warsaw-Lithuania Expressway, S7 Gdansk-Warsaw Expressway and S8 Wrocław-Warsaw Expressway.

Rail Network

The rail network in Poland is about 19,000 km long, is generally electrified, and the vast majority was built before World War II. Due to the average age of the network and lack of sufficient maintenance, many sections are limited to speeds below 100 km/h (62 mph) even on trunk lines. There are no high-speed lines and some 500 km (310 mi) allow 160 km/h (99 mph), most notably the Central Trunk Line (CMK), which links Warsaw to Katowice and Kraków, with some sections on an alignment that would permit 200 km/h (120 mph) but not operated at that speed.

In 2008, the government announced the construction of a dedicated high speed line based on the French TGV model and possibly using TGV style trainsets, by 2020. The Y-shaped line would link Warsaw to Łódź, Poznań and Wrocław at speeds of up to 320 km/h (200 mph). This includes an upgrade of Central Trunk Line to 250 km/h (160 mph) (or more) as this line has an LGV-like profile. Since 2015 electric

ED250 Pendolino trains, purchased by PKP Intercity started to operate with speed 200 km/h on certain parts of Central Trunk Line.

Polskie Koleje Państwowe (PKP), a state-owned corporate group, is the main provider of railway services, holding an almost complete monopoly in rail services as it is both supported and partly funded by the government. There are three main PKP companies:

- PKP PLK owns and maintains infrastructure including lines and stations;
- PKP Intercity provides long-distance connections on the most popular routes. Trains are divided into the categories: EuroNight, EuroCity, Express InterCity (generally faster and more expensive) and TLK (interregional fast trains, slower than EN/ EC/EIC/Ex but cheaper) and international fast trains;
- PKP Cargo provides cargo rail transport. In 2013 PKP Cargo raised 1,42 bil PLN on a Warsaw Stock Exchange.

Poland has registered five rail improvement projects (8 bn PLN) to receive EU funding from the Connecting Europe Fund (CEF). Additionally late 2014 the European Commission was reported to reserve 200m EUR for the five rail projects. Polish rail operator PKP Intercity is also undertaking a broad investment plan. The programme has been financially supported by the European Investment Bank (EIB), under the 2007- 2013 MFF, with 578 mn EUR in loans provided, including 186 mn EUR approved in December 2013 for upgrading rolling stock.

Source: Poland Infrastructure Report - Infrastructure And Construction - Q4 2015

Air Transport

The national airline, LOT Polish Airlines, was partially privatized in 1999, when the SAirGroup (based around Swissair) bought an initial 37.6% stake. The collapse of SAirGroup in 2001 returned LOT to state ownership, and in 2002 LOT drew closer to Germany's Lufthansa by joining the Star Alliance network of airlines. LOT is facing growing competitive pressures, as EU membership has compelled Poland to liberalize access to its airspace. Recently European Commission approved on state aid for the company. The low fare airlines have been quick to move in, with easyJet (UK), Ryanair (Ireland), Wizzair (Poland/ Hungary) all offering flights from a variety of airports in Poland. OLT Express (Poland), regional carrier, declared bankruptcy in 2012 after its license was suspended by Polish Aviation Authority.

Poland is also battling with other countries in the region to become the regional transport hub for east-central Europe, but rapid growth in passenger numbers in recent years has exposed the lack of capacity at Polish airports. The busiest airport in Poland, Warsaw's Okęcie (10 574 539 passengers in 2014 and approx. 50 thousand tonnes of cargo per year), is the main international hub for LOT and currently serves as the destination for around 75% of all major international flights into Poland. Poland's second-busiest airport is in Krakow (3 806 801 passengers) and the third in Gdansk (3 238 064). The airport in Katowice is also developing rapidly (2 668 421).

In total there are 15 operating civil airports in such cities as Wrocław, Poznań, Rzeszów, Łódź, Bydgoszcz, Szczecin, Lublin or Gdynia. Because of Euro 2012 football championships a number of airports around the country had been renovated and redeveloped. This includes the building of new terminals with an increased number of jetways and stands at both Copernicus Airport in Wrocław and Lech Wałęsa Airport in Gdańsk. The latest modernized domestic airport in Poland is situated in Rzeszów.

Water Transport

On the Baltic Sea coast, a number of large deep water seaports exist to serve the international freight and passenger trade. They serve large ships, also the ro-ro passenger ferries of Unity Line, Polferries and Stena Line which connect Poland with Scandinavia. The ports of Szczecin-Swinoujście and Gdynia have seized new market opportunities, for example, catering the world biggest container docking in Polish DCT port in 2013. In 2012, Polish ports handled 7 mln tonnes of cargo, respectively. Riverine services operate on both domestic coastal routes and on almost 3,812 km of navigable Polish rivers and canals. Most notable canals in Poland are the Danube-Oder and Elbląg canal.

Telecommunications

Although Poland's telecommunications infrastructure has improved immensely since 1989, progress has been uneven, with use of cellular telephones rising rapidly (56 million active SIM cards at the end of Q2 2014 resulting in over 147% SIM cards penetration), but the number of fixed telephony main lines has been decreasing (11.8 million in 2005 to 6.8 million at the end of 2013). The former state monopolist, Telekomunikacja Polska (TPSA, rebranded to Orange Polska in 2012), has been privatized, with France Telecom buying the largest share. Various other companies have entered the fixed phone market with Netia being an alternative fixed-line operator actively consolidating the market. Although prices have reduced considerably and availability has increased, the fixed-line market is still dominated by TPSA (55% users and 50% revenues).

Mobile phones market in 2013 remained dominated by four players: T-Mobile Polska (27,5% SIM cards), Orange Polska (27,12%), Plus (25%) and Play (19%).

Fixed broadband penetration in Poland is lower than in many EU countries with some regions being visibly underdeveloped (however, their situation should improve in the next years thanks to planned investments). This led to a high percentage of population using mobile internet access. All mobile phone operators in Poland use GSM and UMTS. There are three major competitors managing comparable market shares, T-Mobile, Orange (within the same group as TPSA) and Plus GSM. The fourth mobile network operator, Play, entered the market in 2007 and acquired over 8 million customers by the end of 2012. All mobile operators provide 3G services with 4G (LTE) broadband being currently offered by Plus GSM and Cyfrowy Polsat (the largest satellite DTH platform in Poland). LTE spectrum was obtained also by T-Mobile and Play in 2013 and other LTE spectrum tenders are foreseen.

7. The Most Active Industries/Sectors Manufacturing

Years 2010-2015 are a period of gradual recovery of the Polish economy after the slowdown observed in 2009. The economic results show very well compared to other European Union countries, placing Poland among European leaders of growth.

In 2011, the industrial sector observed a slight improvement; the economic situation both inside and outside of the common EU market led to a gradual recovery in demand for industrial production in EU countries. In Poland, the growth of industrial output in 2011 reached a level which exceeded the EU average. Thanks to the growing economic activity among major trade partners (mainly Germany), Polish industrial sector grew during this period at a rate of 7.2% per annum. Companies engaged in the food processing and cars manufacturing keep playing a predominant role in the production industry. The most important sector in Poland is the food industry, representing more than 15% of the whole production, followed by the automotive and metallurgy (10% each). In 2012, Poland produced 4.5 million computer units, which was over 10 times more than in 2005.

Poland is one of the largest manufacturers of household appliances and electronic appliances in Europe.

Remaining state ownership in manufacturing is concentrated in sectors like defense equipment, shipbuilding and branches of the chemicals sector. The state also retains a considerable stake in oil refining.

Automotive Industry

Poland is well on the way to becoming a major car manufacturing centre, with several components manufacturers also setting up plants in the country. This might help Poland get back on the pre-crisis production level.

Fiat of Italy is the major Western investor in the industry (57% market share), and has had a presence in Poland for many years as a producer of small cars from its base in Bielsko-Biala in the south-west of Poland. Skoda (owned by German Volkswagen) and Renault of France, although they have no production in Poland, are also prominent on the domestic market.

Opel / General Motors of the US (21% market share), which built a greenfield assembly plant in the Gliwice special economic zone (SEZ) in Silesia, is another leading producer and its success has contributed to the unexpected resilience of the Katowice region.

The VW Group (22% market share) has a significant presence in western Poland and is also a notable car producer. In early 2014 VW announced decision to build another factory in Greater Poland with planned investments of 800 mln euro and employment as of 2300 people. Production will start in 2016 and ability of 100 thousand cars annually should be reached in 2019.

Automotive industry consists of nearly 900 companies, of which 460 hold the ISO/TS 16949 certificate. Quality and high technical potential of Polish staff is also confirmed by the number of R&D centres created by: TRW, Tenneco, Valeo, Delphi, Wabco, Faurecia, MBtech and Eaton.

The major suppliers are: Bridgestone, Goodyear, Hutchinson, Brembo, Kirchhoff, Nexteer Automotive, Isuzu Motors, Lear Corporation or Pilkington, Saint-Gobain. Moreover Poland is the 3rd largest bus manufacturer in Europe with plants of Solaris, Scania, Man or Autosan.

According to BMI forecasts, total 2015 vehicle sales in Poland will rise by 6.2%, to 416,221 units. This results from expected 5% increase in passenger car sales caused by private consumption increase and a 12.5% commercial vehicle registrations increase. BMI forecasts vehicle output to expand 15.3% in 2015 to 692,000 units and grow annually by some of 4.4% between 2016 and 2019, reaching 820,317 vehicles. Growing export, added investments and strengthening domestic market will ensure domestic production of both passenger and commercial vehicles growth till 2018.

There are limited number of car manufacturers in Poland and production focuses on passenger (78%) and commercial (19% of total 2014 vehicle production) segments. Leading passenger cars manufacturers are Fiat (600 th.units), General Motors (207 th units), while light commercial vehicle production is dominated by Volkswagen (170 th. units). Heavy vehicles (buses) are mostly produced by MAN, Volvo, Scania and Solaris and for heavy truck output MAN and Jelcz are the leading producers.

Automotive sector in Poland is heavily export-oriented and approx. 90% production units are sold in Europe, especially Germany, Italy, Spain, United Kingdom and France. BMI prognoses weaker sales in France, however Germany, Italy and UK car demand seems to be boosting Polish car production.

BMI predicts passenger car sales in the EU to expand 5.3% in 2015 to 13.2mn units followed by average annual growth of 2.8% until 2019. This will ensure demand for cars productions resulting in passenger output growth as of 14.7% in 2015 and annual growth of circa 3.6% until 2019. It is worth mentioning, however, that 542 th units forecasted for 2015 stays low below the pre-crisis high of 840 th units in 2008.

These trends are further confirmed by investments being announced by major car manufacturers in Poland. In October 2014 GM announced plans to add a third shift at Gliwice Opel Astra and Cascada plant. Also Fiat announced the stable level of 50-60% of capacity production at Tychy plant would not be decreased as existing Ford Ka production would be replaced with new models - Fiat 500 and Lancia Ypsilon - production. Fiat also expected to increase annual production by 61% until 2018 by investing nearly 800 million USD into modernization Tychy plant, however project was suspended. In 2015 Tata Motors announced its decision to build Jaguar factory either in Slovakia or Poland.

Source: PAIZ, PZPM, EMIS / BMI Poland Autos Report - Q3 2015

Agricultural Production

The size of the agricultural made it one of the most challenging issues in terms of employee numbers in Poland's EU accession negotiations. Although agriculture generates a small percentage of GDP (3,8%), it still accounts for around 16% of employment. The high level of agricultural employment (even if much of it is, in effect, hidden unemployment) relative to agriculture's share in GDP shows that substantial scope for restructuring exists.

It also demonstrates the immense problems facing the rural economy and rural society in general in Poland. There are around 2 million farms, all privately owned, and most of them small sized (the average farm size is only 8 ha). Farms exceeding 15 ha account for almost 10% of all farms and cover almost half of total agricultural area. Around half of all farms are run on a subsistence basis, yielding little or no produce for the market.

Poland is the leading producer of potatoes, apples and rye in Europe and is one of the world's largest producers of sugar beets and triticale, rapeseed, grains, hogs, and cattle. Poland is a net exporter of processed fruit and vegetables, meat, and dairy products.

Construction

In the second half of the 1990s, commercial construction activity was concentrated in a handful of major cities notably Warsaw, Poznan, Gdansk and Krakow as they and their surrounding regions attracted the majority of inward investment, as well as a substantial share of new hotels, offices and housing developments. Construction activity was weaker elsewhere, because other regions missed out on inward investment and also because of the lack of progress in motorway construction. Construction slowed sharply from 1999, as high interest rates discouraged corporate investment.

Despite the strong growth of the economy as a whole in 2004, the construction sector has been slow to recover, with signs of sustained growth only emerging in the first half of 2005. In years 2006-2007 construction sector was developing fast owing to both Euro 2012 and EU funded investments in infrastructure and growing housing market. This was to some extent limited by 2008 financial crisis, but since then the construction production was growing constantly until 2012 as the main infrastructure investments for Euro 2012 were under completion. Poland became a safe heaven for the large international construction companies in the recession times. In consequence, growing market competition had stimulated increase of raw material prices forcing many companies to perform its construction projects at very low or sometimes negative margins. This led to huge losses revealed by the sector in 2012 and relatively large number of bankruptcies of both sub and general contractors. Currently, the industry is awaiting for launch of new road and railway infrastructure as well as energy plants construction tenders expected to take place in nearest years.

Growth in the Polish construction market in 2014 was reported at 4.7%, while it is expected to reach 3.9% in 2015. A new wave of EU funding, the housing market revival with low interest rates and a forecast strong performance of rail and road sectors are strengthening this positive outlook. However one cannot forget the road building scandals, with many international contractors placing complaints against GDDKiA (the road building authority), as well as contributing to major bankruptcies domestically. Still, both road and residential building markets appear to grow, with the number of new constructions soaring. Residential construction sector will rise 5.8% rise per annum over 2015- 2019 due to economic recovery and demand growth. The government's 'Apartments for Youth' scheme, which incentivises and

subsidises young people, combined with the strengthening zloty, are expected to support industry growth. In addition, increasing population wealth will support demand for more housing. Over the medium term the growth expectations in the construction sector remain steady, averaging 3.9% per annum between 2015 and 2019. This comes due to new EU funding schemes for infrastructure, a recovery in the housing market specifically as well as general economic recovery. Bank Gospodarstwa Krajowego (BGK) declared to lend around 2.6 bn USD to support the government's infrastructure related plans. Equity fund Polskie Inwestycje Rozwojowe SA is also planning to support country's infrastructure needs.

Source: Publication: BMI Research - Industry Forecast Scenario

Financial Services

The financial services sector in general is well regulated. The banking sector is mostly in private hands and survived the economic downturn in 2008-2009, although currency depreciation and inter-bank money market standstill brought sector breakdown. In 2009 most toxic derivatives have been either settled or expired, and the system enjoyed higher liquidity. Overall, the financial services sector has so far escaped the crises that have hit severely some other post-communist economies.

2009 was difficult for the entire financial services industry in Poland. Banks operating in Poland recorded total revenues of 50 bn PLN and profits of almost 9 bn PLN (compared to 13 bn PLN in 2007). Network expansion stopped and performance audits led to staff restructuring and shut down of less profitable branches. Some banks (AIG, GMAC) made changes in ownership, while other (Noble, Getin, Fortis) implemented consolidation to cut the costs. In 2010 Irish AIB sold its Polish subsidiary, profitable BZ WBK to Santander Bank. In 2012 net profit of the sector amounted

to 16,2 billion PLN and in 2013 to 15,4 billion PLN.

Banking groups from Germany, France, Italy, the Netherlands and the US have a strong presence in Poland. For many Western institutions, the route into Polish banking was through buying stakes in the state-owned regional banking network. Subsequent consolidation in the west European banking market has led to a wave of mergers of their Polish subsidiaries. One of biggest M&A transactions was merger of Pekao and BPH in 2007, which produced a new market leader Bank Pekao (UniCredit) controlling at the start some 27% market share. In the recent years there were interesting capital moves on the Polish market to quote the merger of Raiffeisen and Polbank, dynamic entry of Santander Consumer Bank into the Polish market, transformation of Multibank into mBank, merger of DnB Nord and Getin Bank on purchase of Nordea by PKO BP. Also new banking projects such as Allianz Bank, Alior Bank and Meritum were developed. Currently there are almost 70 banks operating in Poland.

Traditional Industries

Steel Production

Output of crude steel in Poland fell sharply, from ca. 20 million tons in the early 1980s to just 8,4 million tons in 2012. One of the major reasons for such significant decrease was global crisis which resulted in demand's decline. A very important factor affecting the steel industry at the end of the year 2012 were growing financial problems, in particular in the construction sector. This negative effect is also visible in 2013. The crude steel production in Poland in the period of first six months of 2013 remained on the level similar to analogous period of 2012 and amounted to 4,5 million tons.

The Polish steel market had total revenues of \$5.5bn in 2013, representing a compound annual growth rate (CAGR) of 6.6% between 2009 and 2013. In comparison, the Russian and Czech markets grew with CAGRs of 7.6% and 6.9% respectively, over the same period, to reach respective values of \$48.1bn and \$3.6bn in 2013.

Market production volume increased with a CAGR of 2.8% between 2009 and 2013, to reach a total of 8 million metric tons in 2013. The market's volume is expected to rise to 8.8 million metric tons by the end of 2018, representing a CAGR of 2.0% for the 2013-2018 period.

The Polish steel market has undergone some restructuring in recent years resulting in small plant closures on environmental grounds and sale of steelworks to foreign investors. As a result of this process eleven Polish facilities are run by five multinational firms. These include ArcelorMittal and other Spanish, Ukrainian and US firms, with the Polish Government now only having a minimal ownership role.

Steel production is concentrated in the south of the country, with 70% of the Polish steel industry's production capacity concentrated in two plants: Huta Katowice and Huta Sedzimir, which are along with four other branches located in Świętochłowice, Sosnowiec, Chorzów and Zdzeszowice owned by ArcelorMittal Group. ArcelorMittal, with operations in Romania and the Czech Republic as well as in Poland, has become the major force in Central European steel production.

Polish steel market foregoes further consolidation process which covers not only steelworks but also vertical consolidation. Mergers are carried out for manufacturers and suppliers of ores or distributors. Such structures are very favorable for the market and allow the companies to be much more competitive.

The biggest steel player is ArcelorMittal Poland (AMP), which has so far invested over 5 billion PLN. Other players include: CMC Poland Sp. z o.o., CELSA Huta Ostrowiec Sp. z o.o., Stalprodukt S.A., ISD Huta Częstochowa Sp. z o.o., Alchemia S.A., Cognor S.A., Huta Pokój S.A. i Huta Łabędy S.A.

In May 2014 Polish steelworks produced 389 tonnes of pig iron, that is 34,5% more than in May 2013 and 726 tonnes of crude steel which is 15% increase towards corresponding period.

Source: EMIS Steel Market Overview

Mining and Semi-processing

Although Poland remains one of the world's significant coal producers, mining and quarrying output has been falling relatively to total industrial production. Poland's deep-coal mining industry has been under pressure throughout the transition period as demand has fallen. At the same time, the strength of the trade unions in the sector has kept labor costs high, despite the sector's parlous financial state. A restructuring plan backed by the World Bank has led to a sharp fall in employment in the industry. The industry gained some temporary respite in 2004 as world coal and coke prices rose sharply, but a return to more normal market conditions re-emphasized the need for further restructuring. Today Polish coal mines are important players in the world coal industry, but coal extraction decreases; in 2012 it fell to 139 mil t and in 2013 to 136 mil t. Expectations for 2018 are 148 mil t.

Low efficiency in Polish coal mines and lower level of coal price brought industry to a deep crisis. Expected annual increase of coal output would not exceed 1,0 %.

Poland will remain an important player in the European coal market. It is both a major producer and major consumer of coal. Poland is the ninth- largest hard coal producer in the world and the largest coal producer in the EU. It is the eighth- largest coking coal exporter in the world. Poland remains the 10th largest coal consumer in the world and is the second largest in the EU, mainly owing to its reliance on coal for electricity generation. Around 90% of electricity generation in Poland is derived from coal.

Despite Poland's huge dependency on coal for electricity generation, domestic coal production hardly stands harsh competition due to cheaper Russian, Colombian and US coal imports. Restructuring efforts aiming at limitation of state funding, also had influence on production slowdown in the last decade.

Kompania Węglowa S.A., with 15 production units, over 60,000 employees and a coal output of 40 million t, is Poland's largest coal production company. The company produced over half of Poland's production volume of 79 million t of coal in 2012. Poland is also Europe's leading metallurgical coal producer, due, in part, to Jastrzebska Spółka Węglowa S.A., with an output of 9.5 million t in 2012 and 13,6 million t in 2013. The large volume production of metallurgical coal allows Poland to be one of the leading coke producers in the EU (8.6 million t in 2012).

JSW intends to increase production capacity to 14 mn tonnes per annum (mntpa) by 2015 and LW Bogdanka plans to increase production capacity to 11.5 mntpa by the end of 2014. These efforts together with government restructuring and privatisation plans could constitute the base for change of negative trends.

In October 2014, JSW (the largest coking coal miner in the EU) announced it had decreased its 2014 production plans by 9% due to low coal prices. The Polish government announced in October that it would split profitable and unprofitable coal mines, so that investments into profitable ones could be carried on, while unprofitable ones would either be restructured or closed down. The whole industry employs over 100 thousands people, and due to crisis in the industry, these jobs are at danger.

Apart from coal, Poland also produces significant quantities of copper and silver, which are mined by a single enterprise, KGHM Polska Miedź. In 2012 the company maintained the first place in the ranking of the largest silver producers with 5.2% percent of global production. In 2010 KGHM launched its new strategy which considers involvement in new technologies and mining companies' acquisitions. KGHM now undertakes numerous acquisition projects in Europe and Canada regarding among others a producer of silver and two producers of copper. In 2011 KGHM successfully finalized acquisition of Quadra. Annual production of copper fluctuates around 500-550 thousand tons.

There are foreign investments into Polish coal mine sector. New World Resources (NWR) is now developing two coal projects in Poland, one with thermal coal (Morcinek) and another with coking coal (Debiensko). The latter one contains the EU largest coking coal deposit (190 mnt). These projects are said to determine long-term mining perspective in the country. Also Australian mining company Balamara Resources is said to announce increase engagement in the Mariola Thermal Coal project in Poland. The project currently has resources of 77.1 mn tonnes and is expected to start in 2016.

Source: EMIS: Poland Mining Report - Coal: Perfect Storm Facing Sector

Retail sector

The value of Polish retail market is estimated at nearly 100 billion Euro (BMI CSF) and is expected to increase up to 120 billion Euro in 2015. Retail sales reached 4000 Euro per capita. The sector accounts for almost 17% of Polish GDP. The industry has longterm positive dynamics resulting from the ongoing domestic demand and consumption, which provides a further development prospects. Despite the well-established and organized retail chains, the market still features high market fragmentation and a high number of small businesses.

There are total 345 thousand stores in Poland, about 90% of them with space smaller than 100 square metres, yet number of large stores is gradually increasing.

Retail sales are important part of the Polish economy. Retail accounts for nearly 20% of the country's value added. Also downturn experience proved significance of retail to the economy. The last few years have highlighted the importance of this sector. In the years 2008-2009 internal demand and individual consumption together with strong business confidence managed to ease the negative effect of global crisis. Consumer confidence was also strengthened by the first injection of EU funding which improved purchase power and individual wealth. Today, we are facing recovery in the economy, which also results from increased and strengthened private consumption/

The retail sector in Poland is expected to grow faster in the coming few years (4-6% vs. recent 2-3%, according to research firm PMR) due to improving economy and rising affluence. At the same time, the share of food production in retail sales is expected to decrease gradually. Poles have generally (aprox. 60%) moved to discount stores, bigger markets have adopted pricing policies characteristic for discount shops.

From the real estate point of view, the retail market in Poland is reaching saturation and its growth is slower than in previous years. Even mid-sized cities are reaching levels of significant saturation. However, property consultancy JLL expects the Polish shopping centres market would be growing by 12% in 2015 to reach 13.2 million sq m.

Source: EMIS Insight - Poland Retail Sector Report_ Overview

8. Technology and industrial parks¹

In the last fifteen years technology and industrial parks has been increasingly used in Poland as development-oriented solutions, addressed both to Polish and foreign businesses.

Industrial and technology parks have many similar features (mission, objectives, forms of action, organization, etc.). Each park has its own individual character, resulting from the regional, social, cultural and economic conditions and available growth factors.

The most frequently designated purposes of the functioning parks are:

- to ensure favorable conditions for technology development companies,
- facilitating better cooperation between science and business,
- to support the economic development of the region.

1 Based on: Setting up, managing and evaluating EU Science and Technology Parks, EC Directorate-General for Regional and Urban policy 2014; Innovation Centers in Poland – The study report 2014, Polish Agency for Enterprise Development 2014; other publicly available articles in the Internet and press.

According to the most recent information there are 42 actively functioning technology parks in Poland. In total there are 1109 entities functioning within parks of which 45% are technological companies. To the parks with the largest number of tenants it can be included: Wrocław Technology Park, (with 161 entities), Kraków Technology Park and Poznań Science and Technology Park.

The total area for rent in all Polish parks equals to 154 490 m². This space is designated mainly for office and laboratories purposes (52% of all parks in Poland offer laboratory space). Majority of parks are very well equipped in basic, IT and laboratory infrastructure.

In Polish technology parks and their tenants work approximately 12 000 people in total. Employers are mainly small and medium sized enterprises and foreign enterprises. However, already 10% of all parks' residents are spin-off and spin-out companies which are developing very fast.

Polish technology parks offer their tenants a broad range of services, which number is still growing. These services can be divided into three main groups:

- business advisory, education and training services,
- pro-innovation services (provided to innovation companies related to the support of R&D, knowledge and / or technology commercialization, patenting, etc.),
- services in terms of obtaining financial aid.

The main obstacle, which parks have to face is the lack of financial resources. Nevertheless, Polish technology parks adapt quickly to changing directions of co-financing activities, as well as possibilities of developing innovative projects through reaction in terms of offering pro-innovative services or flexible adjustment of their development strategies – in some cases even changing formula of their functioning into industrial parks.

Taking into account the assumptions of new financial perspective 2014-2020, the following directions of technology parks development in Poland are expected:

- strengthening the cooperation with external institutions, e.g. other technology parks and clusters,
- launch of the new business areas, e.g. business incubator, seed fund, grant fund and loan fund for entities which implement innovations,
- development of advisory services – foreign cooperation brokerage services, internationalization, industrial design services, implementation of new services / products, advisory assistance in the technology implementation, support in the development of product prototype / finished product for testing,
- infrastructure development – the launch of new buildings, preparation of the next land properties for sale to potential companies which meet innovation criterion, etc.

9. Investment Incentives

Enterprises investing or expanding their activity in Poland may apply for various types of incentives, such as investment incentives, research and development grants, revolving financial instruments (e.g. preferential loans) and tax credits (incl. real estate tax exemptions, CIT exemptions relating investments in Special Economic Zones, tax credits for purchase of new technologies in form of intangible assets).

Support can be obtained from both National and European Union Funds. Levels of aid are established separately for each aid scheme. Investment grants are in most cases recognized as regional aid¹⁹. Total aid granted for a specific project cannot exceed the maximum aid intensity for a given region in Poland (see Regional Aid Map of Poland for the period 2014-2020).

Grants are credited to the investors' account as either reimbursement of incurred costs (periodical payments) or as advance payments, which allow effective financial liquidity management of the project.

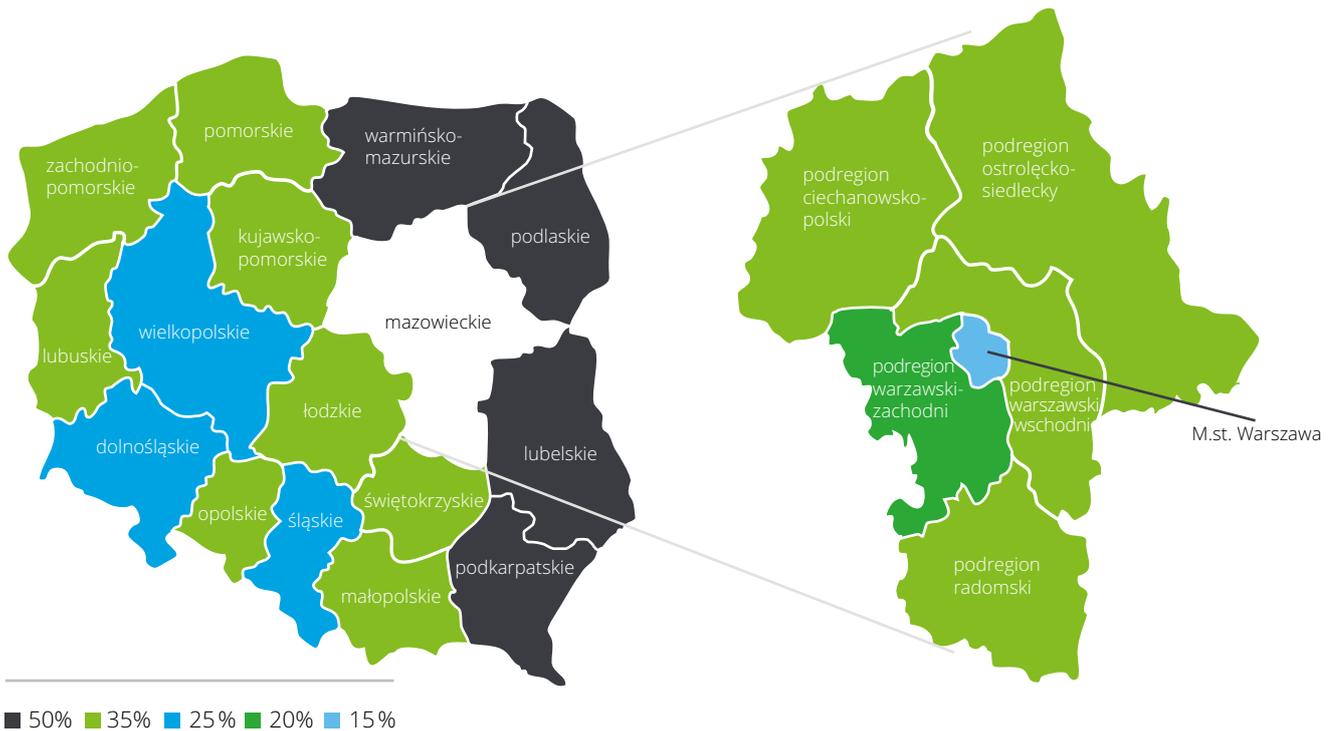
Regional Aid Map

The Regional Aid Map in Poland for 2014-2020 is based on and reflects the 16 administrative units of Poland known as "voivodships". Additionally, Mazowieckie voivodship was divided into 6 sub-units.

The total value of available co-financing depends on:

- the location of the investment (regional aid intensity level),
- the value of the investment (eligible costs),
- the size of the enterprise (large, medium, small, micro),
- a special algorithm is applied to estimate the aid level for large projects (with eligible costs exceeding EUR 50 M).

Regional Aid Map of Poland until the 31th of December, 2020



The ultimate purpose of regional state aid is to support economic development and employment. The regional aid guidelines set out the rules under which European Union Member States can grant state aid to companies to support investments in new production facilities in the less advantaged regions of Europe or to extend or modernize existing facilities. The guidelines also contain rules for Member States to draw up regional aid maps (the geographical areas where companies can receive regional state aid, and at which intensities

After January the 1st 2018 threshold for Warsaw will decrease from 15% to 10%.

Different types of regional aid, such as investment grants and CIT exemptions in SEZ, can be accumulated by investors up to the maximum intensity level, which are shown on the Regional Aid Map of Poland. The map indicates that the intensity can

reach up to 50% of the eligible investment costs (for large enterprises). If more than one investment incentive is applied, the cumulative intensity of the aid cannot exceed the maximum level for a given area.

The current thresholds are valid until the 31st of December, 2017. Since January the 1st, 2018, 10% threshold will become applicable for Warsaw. The other regions will maintain the same level until the 31st of December, 2020.

In case of micro-, small and medium sized enterprises, the aid intensity levels are increased respectively by 20, 20 and 10 percentage points.

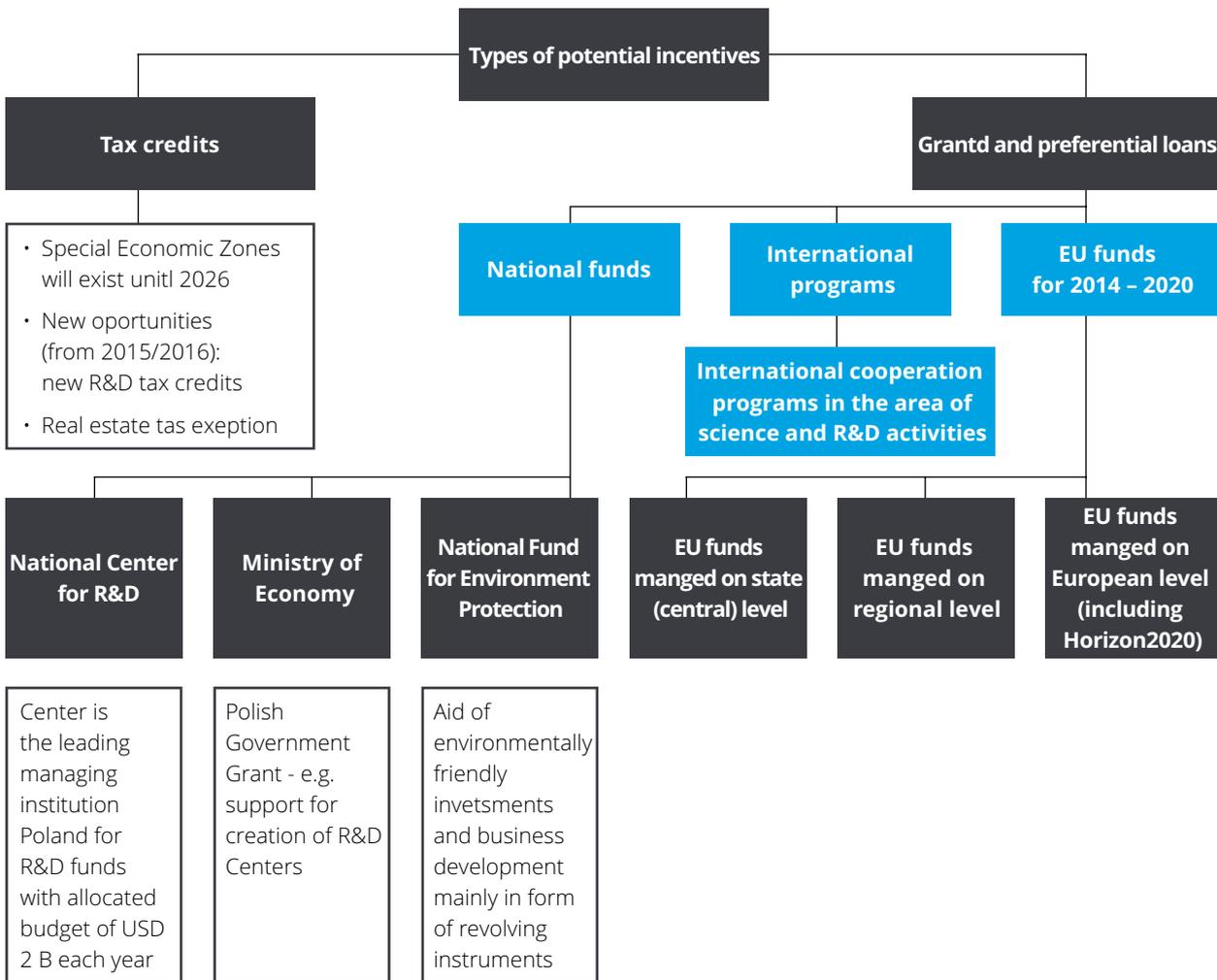
European union funds

The allocation under the European Union Funds for the Financial Framework 2014-2020 amounts to EUR 82.5 billion, which is the biggest national allocation among the EU 28 Member States. Funding will be allocated

in particular for innovative, research and development projects, infrastructure investments, projects in the field of eco-efficiency, processes optimization and investments in the field of social inclusion.

Most of legal documents concerning the New Financial Framework 2014-2020, including the Operational Programmes have been already accepted by the European Commission and currently some of ancillary documents specifying terms of financing, like Detailed Priorities Descriptions, are being prepared by Polish authorities. First of calls for proposals under New Financial Framework have already been started and next should be announced with target frequency by the end of 2015 / at the beginning of 2016.

New Financila Framework 2014 – 2020: Funding Instruments



Furthermore there are available national incentives, described below, in the "NATIONAL FUNDS" part.

Operational Programme Smart Growth (OP SG) 2014-2020

OP SG is mainly dedicated to supporting R&D works, development of new technologies and innovation, as well as increasing SME's competitiveness. Entrepreneurs can apply for cash grants and revolving instruments supporting various types of actions. Companies interested in R&D activities are able to apply for support covering all stages of innovation

development, R&D works, implementation of pilot and demonstration lines and implementation of new technology. Projects that focus on the practical application of research and development works' results in the market will be supported in the areas identified as National Smart Specialization. According to the OP SG, entities interested in developing a cooperation between business and research institutes in key R&D sectors and technologies may expect to be supported as well.

Companies investing in R&D infrastructure may also benefit from OP SG - Programme includes measures for supporting creation and development of R&D departments, laboratories, etc. Those interested in internationalization and promotion of their products and services will find adequate calls as well.

Operational Programme Infrastructure and Environment (OP IE) 2014-20

The main objective of the Programme is to support economy which is resource-efficient, environmentally friendly and conducive to social and territorial cohesion. Entrepreneurs can expect support for projects covering efficient management of resources which make companies more economically competitive. The scope of support under OP IE concerns investments in the area of transition to a low carbon economy in all sectors, implementation of environmentally friendly solutions (e.g. energy efficiency), as well as promotion of sustainable transport and removal of bottlenecks in key network infrastructures.

Operational Programme Digital Poland (OP DP)

OP DP is a programme dedicated to support the digitalization of Poland, which is convergent with the objectives of the European Digital Agenda and refers to new areas of economy comparing to the former Financial Framework. In order to achieve them, companies will be able to apply for cash grants. Entrepreneurs considering investment involving construction, extension or alteration of network and telecommunications infrastructure, providing broadband Internet access with parameters of 30Mb/s and more (100Mb/s preferred), may expect support for their projects. Also, companies interested in the creation of services and applications that use open content, open source software and open services may apply for support under the Programme.

Regional Operational Programme (ROP)

Every voivodship applies a new Regional Operational Programme that provides support to local undertakings.

A list of activities which may be supported within ROP includes i.a.:

- R&D and innovation,
- increase of SME's competitiveness,
- production and distribution of renewable energy,
- creation of new workplaces,
- development of products and services based on ICT technologies.

H2020

In Poland it is also possible to participate in the biggest EU research and innovation programme - Horizon 2020. The European Commission allocated nearly EUR 80 billion to provide enterprises and research units cooperating within international consortia with funds necessary for their development in line with Europe 2020 Strategy. Also SME are allowed to participate by themselves. The maximum level of financing under the programme may reach up to 100% of eligible costs.

National funds

Programme for supporting investments of major importance to the Polish economy for the years 2011–2020 (PGG)

The objective of the Programme is to provide additional funding for investments which are strategically important to the Polish economy and generate numerous new workplaces. The detailed scope of support is negotiated individually with the competent public authorities.

The Programme is intended for entrepreneurs planning investments in the following priority sectors: automotive, aviation, electronics, agri-food industry, biotechnology, R&D, and modern services sector (BPO, IT, SSC) or, in case of "major"²¹ scale production, investments in other sectors. Many large enterprises, such as Cadbury, Dell, Fiat, Ford, Gillette, LG, Samsung, Sharp, Shell, Toshiba, Toyota, Volkswagen have benefited from the Programme.

Preferential loans/grants – National and Voivodship funds for environmental protection and water management.

Support is granted for ecological projects of a national significance and scope as well as regional actions important due to environmental requirements. Types of projects eligible for a loan / grant include: renewable energy sources (wind, solar, biomass and biogas, geothermal energy), green investment schemes (biogas plants, CHP biomass plants and biomass heating plants) and waste management (recycling of waste, waste disposal, utilization of waste). Co-financing is available in the form of grants and preferential loans.

National Centre for Research and Development – NCRD

NCRD is one of the most significant sources of financial support for R&D activities which directly result in the development of innovativeness. Tasks of NCRD include the management and execution of R&D programmes meant both for entrepreneurs and research units. Also, the Centre carries out tasks related to the implementation of European Funds allocated for the development of science and higher education sectors in Poland, as well as various international programmes. Projects implemented by NCRD are funded mainly from the EU funds. There are also seven strategic, interdisciplinary areas of research and development supported from national funds:

- lifestyle diseases, new drugs and regenerative medicine,
- new material technologies,
- environment, agriculture and forestry,
- social and economic development,
- security and defense of the state.

Available on an ongoing basis

Investment of major scale is an investment planned in any sectors with at least PLN 750 million eligible costs and resulting in the creation of at least 200 new jobs or at least PLN 500 million eligible costs and resulting in the creation of at least 500 new jobs.

Tax incentives

Special Economic Zones (SEZ)

Tax incentives in the form of corporate income tax exemptions are available for investors in Special Economic Zones (SEZs). SEZs are designated areas in Poland, where investors can run businesses (manufacturing and services) on preferential terms (generally, tax exemptions amounting up to 70% of investment expenditures).

Special permit is required to benefit from the abovementioned tax incentives. Such permit is issued by the SEZ Management, on behalf of the Minister of Economy.

There are fourteen Special Economic Zones in Poland. Each of them consists of a number of sub zones. This means that SEZ areas in Poland are spread across the country. Infrastructure within those areas is well developed, which makes them very attractive for investors. In case of large projects, investors may apply for granting the SEZ status to the location they specifically choose.

SEZs have resulted in investments of the total value over EUR 24,8 billion and over 213,000 new jobs. The number of investors in SEZs is growing fast, especially since Poland's accession to the European Union. Additionally, SEZs are supposed to attract even more investments in close future, as their functioning has been prolonged from the end of 2020 until the end of 2026.

Eligible activities include both manufacturing and services (also modern services, such as: R&D, IT, BPO, call centers). Manufacturing investments in SEZs include numerous sectors, such as automotive, electronics, household appliances, plastic products, wooden products, metallic and non-metallic products. Tax incentives in SEZs (the amounts of CIT reliefs) are recognized as regional aid and they cannot exceed the maximum aid intensity for a given region of Poland (see Regional state aid map of Poland). Eligible expenditures comprise investment expenses for tangible and intangible assets. Alternatively, eligible expenditure can be calculated based on two-year labor costs of newly employed staff.

Apart from the above incentives, companies investing in the SEZ are often granted exemptions from real estate tax by local authorities. Conditions of individual exemptions are a subject of negotiations with granting institutions.

R&D tax Incentives

Tax relief for research and development

Please note that as of 2016 new rules regarding tax relief for research and development (R&D) were introduced to Polish tax law. Starting from 1 January 2016 r, entrepreneurs have gained the possibility of additional tax deduction of up to 30% of selected costs incurred for R&D.

A new tax relief, enabling taxpayers to deduct from the taxable base certain qualified expenditures incurred for R&D activities. The Act contains a closed list of such expenditures, like wage and employee contribution, acquisition of materials and raw materials, expertises, opinions, advisory and equivalent services, acquisitions of R&D results performed by scientific units, use of research equipment and depreciation of fixed assets and intangible assets, which should also qualify as tax-deductible costs under the general tax rules. Deduction may be made up to a certain limit depending on the type of cost and/or type of taxpayer, namely:

- For employment costs: up to 30%, regardless of the taxpayer status.
- For other qualified expenditures: up to 20% for small and medium enterprises, and up to 10% for large enterprise.

The Act predicts particular conditions for using the tax relief:

- expenses incurred for research and development,
- eligible costs are separated in the accounting records,
- eligible costs have not been returned to the taxpayer in any form, e.g. a grant,
- taxpayer is not operating on the basis of permit within a special economic zone,
- deduction of eligible costs incurred in the year of expenditure (entirely or in parts in following 3 years in case of loss or income is less than the amount entitled to deduction).

Taxpayer is entitled to qualify project that have not been successful or have been abandoned. Moreover, the tax relief allows for qualifying projects in progress, also project launched in previous years. Furthermore, the new regulation predicts a major simplification, as no books record broken down into the projects are required, but only types of costs.

The Act seeks to support the venture capital sector by introducing a definition of the venture capital company (Polish: *spółka podwyższonego ryzyka*) which, if it meets certain requirements, will be exempt from income tax on the disposal of shares held in R&D companies, on condition that the shares are acquired in 2016 or 2017.

Tax relief for companies with R&D center status

On a monthly basis, entities with the R&D center status can make appropriations to the innovation fund corresponding to 20% of their revenue, which reduces the tax base.

Selected European and multinational R&D initiatives

The 7th Framework Programme aimed at supporting scientific and research activities, as well as the CIP Programme, designed to improve the competitiveness and innovativeness have ended. They will be replaced by new programmes in the Financial Framework 2014-2020: Horizon 2020 and COSME. Horizon 2020 as a successor of the 7th Framework Programme has officially entered into force as of January 1, 2014, with a total budget of EUR 80 B.

Entrepreneurs may expect several improvements in the Programme aimed at, e.g. simplification of the procedure or unification of the criteria. Support under the Programme will be granted for projects including development work prototyping, testing or experimental production in different sectors (i.e. automotive, pharmaceutical, FMCG, transport, communication technologies, energy sector). Horizon 2020 helps to connect research activities and the market by e.g. supporting innovative enterprises in developing technological breakthroughs into viable products with real commercial potential.

9. Foreign Direct Investment (FDI)

The value of global foreign direct investment (FDI) improves, although a pre-crisis level has not yet been reached. According to the latest World Investment Report by UNCTAD (2015), Poland is Europe's 8th and the world's 20th most attractive economy.. Globally, the value of greenfield projects fell in 2014, yet in Poland it raised by 64%. In 2012, foreign direct investments in Poland have created 67% more jobs than in 2011. The sheer number of new jobs (13 111 posts) made Poland one of the leaders on the continent after the Great Britain and Russia and ahead of both Germany and France. FDI inflow in Poland in 2014 accounted to EUR 12 495 M.

In 2013 Polish Statistical Office (GUS) recorded in Poland 26 128 companies with foreign capital. Among 1 489 new entities with foreign capital the majority (1 214 companies) were greenfields. Among all the companies, the major group (84.9%) was constituted by small enterprises, i.e. those employing up to 49 people. The greatest importance, however, had 1 219 large enterprises (employing over 250 persons), which accounted for 54.2% of share capital and 72.2% of employment. The most of entities conducted business activity related to trade, repair of motor vehicles (28.4%), manufacturing (19.5%), science and technology (9.1%) and real estate activities (9.0%).

In 2013 the companies polled by GUS employed 1 628 500 people. The most numerous group among all (almost 46,3% of all employees) worked in manufacturing companies, while 23,9% were employed in trade and repairs of motor vehicles.

10. Expatriate life

Poland is one of the major destinations for travellers. Its beauty can be admired in both its old cities and in the wild scenery of its national parks and nature reserves. Polish cities are cultural treasures in their own rights, showcasing unique examples of gothic, baroque, renaissance, and neoclassical architecture. Warsaw is a cosmopolitan center with museums, shops, and fine restaurants. Krakow is a smaller city with well-preserved historical buildings, a charming central square, and a vibrant market that wins visitors over instantly. The Tatras mountain range are a summer and winter sports playground of dramatic beauty. The Mazurian Lakelands are also natural gems in Poland's topography. In addition to these wonderful natural and historic sites, Poland has retained its strong tradition and history while embracing modern and democratic institutions.

11. Weather and climate

Poland has a temperate climate characterized by relatively cold winters and warm summers. Winters become increasingly severe inland from the Baltic coast, with January temperatures averaging -1° C (30 F) in the north and going as low as 5° C (23 F) in the southeast. July temperatures range from 16.5° C (62 F) near the coast to 19° C (66 F) in the south. Rainfall varies with altitude, ranging from less than 51 cm (20 inches) a year to as much as 127 cm (50 inches) in the southern mountains.

In addition to a variety of wonderful natural and historic sites, Poland has retained its strong tradition and history while embracing modern and democratic institutions.





Romania

1. General overview of economy

With a population of almost 20 million estimated for 2015, Romania is one of the fastest-growing economies in the EU, which is opening up new opportunities for investors. There is great potential to be an export-orientated manufacturing and service center country with an educated, accessible labor force and unfettered access to the EU's single market.

Romania's macroeconomic situation is stable, with low inflation and external deficits. Romania had one of the highest growth rates in the European Union (EU) in 2015 at 3.7 percent, driven primarily by the domestic demand. Over the last 26 years, the country has made considerable progress in developing the institutions for a market economy. Joining the European Union (EU) in 2007 was a driving force for reform and modernization.

Domestic demand continues to be the key driver of growth in 2016 as fiscal relaxation and deflation help real disposable incomes to rise, leading to strong consumption growth. Private investment is rising on the backs of lower corporate borrowing rates and stronger business confidence. The GDP growth is forecasted at 4.2% in 2016, based on strong domestic demand and less of a drag from net exports.

The increase of the minimum wage from RON 700 (EUR 155) to RON 1,250 (EUR 277) in the past four years has meant relief for households and for the economy, and is one of the positive things that happened in past years. For almost three years, Romania has been one of the fastest three growing economies in the European Union, which is fighting to avoid a prolonged stagflation.

Political system

Romania's political system is a Parliamentary Democracy. The Romanian Parliament exercises the legislative powers while the main executive powers are attributed to the government. The president of the Republic is elected for a mandate of five years, while the Parliament is elected for a mandate of four. The president guards the observance of the Constitution and acts as a mediator between different powers in the state (legislative, executive and judiciary), as well as between the State and society.

The Parliament includes the Chamber of Deputies and the Senate, elected through direct suffrage. The election law establishes the number of deputies and senators. The Parliament passes constitutional laws (which concern the revision of the Constitution), organic laws (endorsed by the majority suffrage of each chamber) and ordinary laws. The Government (executive body) is invested by the Parliament on the basis of its governmental program.

The president of the country is Klaus Iohannis, elected in November 2014. He was the candidate of the Liberal Christian Alliance (LCA), comprising the National Liberal Party (NLP) and the Democratic Liberal Party (DLP). The prime minister is nominated by the president, and the cabinet is nominated and headed by the prime minister. President Klaus Iohannis appointed a former EU commissioner, Dacian Cioloș, to lead a technocrat government until the next parliamentary elections, which are scheduled for November 2016. The results of the June 2016 local elections point to the return in November 2016 of a government headed by the social-democrats in alliance with its allies in the National Union for the Progress of Romania (UNPR) and the Association of Liberals and Democrats (ALDE). 

2. Tax structure

Resident / Non-resident

Resident - any Romanian legal entity, any foreign legal entity having its place of effective management in Romania, any legal entity with its registered office in Romania set-up according to European legislation and any resident individual.

Non-resident - any foreign legal entity, any non-resident individual and any other foreign entities, including undertakings for collective investment, without legal personality, which are not registered in Romania, according to the law.

A resident individual – any Romanian resident individual if at least one of the following criteria is met:

1. The individual has the domicile established in Romania;
2. The centre of vital interests is located in Romania;
3. The individual is present in Romania for a period or periods which cumulated exceeds 183 days in any 12 consecutive months, ending in the relevant calendar year;
4. The individual is a Romanian citizen working abroad as an official or employee of Romania in a foreign country.

A non-resident individual is any individual who does not meet the specific rules mentioned above, as well as any individual foreign citizen with a diplomatic or consular status in Romania, foreign citizen who is an official or employee of an international and inter-governmental organization registered in Romania, foreign citizen who is an official or employee of a foreign state in Romania and their family members.

Tax year

The tax year is the calendar year or the period during which the entity existed if it was set up or ceased to exist during the calendar year.

Taxpayers can opt for a year different from the calendar year i.e., the tax year will correspond to the financial year if the latter is different from the calendar year.

Financial Statements

Any company that fulfils two out of the following three criteria (i) total value of assets of EUR 3,650,000 (ii) a net turnover of EUR 7,300,000 and (iii) average number of employees during the financial year of 50 should prepare annual financial statements, which comprise the following:

- Balance sheet;
- Profit and loss account;
- Statements of changes in equity;
- Cash flow statement;
- Explanatory notes to the annual financial statements.

The companies, which do not fulfil two out of the above-mentioned three criteria, shall prepare short annual financial statements that comprise:

- Balance sheet;
- Profit and loss account;
- Explanatory notes for the short annual financial statements;
- Optionally, the statement of changes in equity and/or the cash flow statement may be prepared.

The deadline for submitting the financial statements for the previous year is:

- Within 150 days after the end of the financial year for legal entities, state-owned companies, research and development national institutes, entities without legal personality pertaining to non-resident legal entities;
- Within 120 days after the end of the financial year for other legal entities (e.g. not for profit associations, public institutions, etc.).

The entities without any activity from their incorporation date until the end of the financial reporting year should not prepare annual financial statements. However, a statement for this purpose should be submitted within 60 days from the end of the financial year to the territorial units of the Ministry of Finance.

The entities undergoing liquidation should submit an annual accounting reporting within 90 days from the end of each calendar year to the territorial units of the Ministry of Finance.

The legal entities with a prior year turnover exceeding RON 220,000 should submit interim unaudited financial statements.

Corporate taxation

As a general rule, resident entities are subject to corporate income tax in Romania (except for the entities falling under the micro-enterprise tax regime). Residents are taxed in Romania for their worldwide income.

Non-resident companies are taxed only on their derived from Romania (e.g. through branches, permanent establishments, etc.).

Taxable base

The corporate income tax rate is at 16%. The corporate income tax is computed by applying the 16% tax rate to the taxable result (i.e. accounting result adjusted with non-taxable income, non-deductible expenses and other items similar to income and expenses).

Non-taxable income

Examples of non-taxable income:

- Dividends received from a Romanian legal entity;
- Dividends received from a foreign legal entity, from a state with which Romania has concluded a Double Tax Treaty, if the receiving Romanian entity holds at least 10% of the share capital of the foreign entity for an uninterrupted period of at least one year;
- Capital gains from the valuation/ revaluation/ sale/ assignment of shares held in a Romanian or foreign legal entity located in a state with which Romania has in place a Double Tax Treaty, if the ownership conditions are fulfilled (at least 10% of the share capital, for an uninterrupted period of minimum 1 year);
- The proceeds obtained from the liquidation of a Romanian or foreign legal entity, located in a state with which Romania has concluded a Double Taxation Treaty if the ownership conditions are fulfilled (at least 10% of the share capital, for an uninterrupted period of minimum 1 year);
- Income from reversal or cancellation of provisions / expenses that were previously non-deductible and from the recovery of previously non-deductible expenses;
- Favorable differences in the value of participation titles, following the capitalization of reserves, benefits or share premiums;

- Deferred tax income booked by taxpayers who apply the IFRS;
- Amounts received as a result of the refund of the contribution quota of shareholders/associates, as a result of capital reduction, as provided by law.

Deductibility of expenses

Under the general deductibility rule, expenses are deductible if they are incurred for business purposes.

The Romanian Tax Code provides three categories of expenses: deductible expenses, limited deductible expenses and non-deductible expenses.

Examples of fully deductible expenses:

- Salary expenses and expenses similar to salaries, irrespective of the tax treatment applied from a personal income tax perspective;
- Registration taxes, subscription and contributions to commercial chambers, employer organisations and syndicates;
- Advertising expenses for promoting the company, products or services;
- Transport and accommodation expenses for business trips in Romania or abroad;
- Research expenses and development expenses which are not booked as intangibles;
- Expenses with assigned receivables according to the law;
- Commercial penalties;
- Expenses with the impairment of shares and bonds under certain conditions.

Examples of limited deductibility expenses:

- Interest expenses and net foreign exchange losses under certain conditions;
- Entertainment expenses up to the limit of 2% of the accounting profit, adjusted by entertainment and corporate income tax expenses;
- Social expenses, up to the limit of 5% of the salary fund;
- Expenses with meal tickets and holiday vouchers within the limit provided by the law;
- Expenses with provisions under certain conditions;
- 50% of car-related expenses for cars (max. 3,500 kg, max. 9 seats) not used solely for business purposes, Expenses are fully deductible for vehicles used for: emergencies, security services, courier services, remunerated services (e.g. taxi) or vehicles used by sales or acquisition agents;

Depreciation expenses of the cars (max. 3,500 kg, max. 9 seats) are deductible within a limit of RON 1,500 per month.

- Technological losses, within the limits set by the internal consumption norm;
- Expenses for the operation and maintenance of cars used management or administrative personnel, limited to one vehicle per person;
- Taxes, contributions and subscriptions to non-governmental organisations or professional associations in connections to taxpayers' economic activity, up to the limit of EUR 4,000 per year.

Among non-deductible expenses:

- Corporate income tax expenses, income taxes paid in foreign countries, deferred tax;
- Expenses with withholding tax born by the Romanian taxpayer on behalf of non-residents, for income obtained from Romania;
- Fines, interest and penalties due to the Romanian or foreign authorities, except for those related to commercial agreements concluded with state authorities;
- Management, consultancy, assistance or other service expenses performed by a non-resident located in a state with which Romania does not have a legal instrument for exchange of information, if the transaction is artificial;
- Expenses related to non-taxable revenues;
- Expenses related to corruption deeds;
- Sponsorship expenses. However, a tax credit may be claimed in amount of the lower between 0.5% of the turnover and 20% of the corporate income tax liability. The tax credit can be carried forward for the next seven years.
- Expenses with written-off receivables, for the part not covered by tax provisions. Under certain conditions, such expenses are fully deductible.

Tax losses

Tax losses are available to be carried forward and offset against future taxable profits for the next seven consecutive years. Tax losses cannot be carried back.

Tax Consolidation

There is no consolidation or group taxation provided by the Romanian legislation under the corporate income tax related provisions.

Submission of returns and payment

Corporate income tax liabilities should be computed, declared and paid on a quarterly basis by the 25th of the month following the quarter it relate to. This requirement applies only for the first three quarters of the year (no compliance obligations for the fourth quarter). Taxpayers may also opt for the prepayments system (i.e. four equal instalments followed by the annual regularization).

Annual tax returns should be filed by the 25th of the third month following the reporting year. This is also the deadline for the final tax payment.

Micro-enterprise taxation

A legal entity is subject to micro-enterprise tax regime if the following conditions are cumulatively met as at 31st December of the previous tax year:

- Has an annual turnover of less than EUR 100,000;
- The share capital is owned by individuals/legal entities, other than the state and local authorities;
- Was not under liquidation;
- Obtains income from activities other than those specifically provided by the tax law as non-qualifying (e.g. banking, insurance/reinsurance, gambling, natural resources exploration / exploitation, etc.);
- The management and consulting income is of maximum 20% of total income.

If during a year, a micro-enterprise fails to meet one of the above criteria, it will become a corporate income tax payer beginning with the following year.

Newly set-up legal entities should register as micro-enterprise taxpayers, except for the ones with a share capital of at least EUR 25,000 which may opt to register as corporate income tax payers.

The tax is computed by applying 1%, 2% or 3% to any revenues obtained, except for certain types of income specifically excluded by the law from the taxable base. The tax rate is established based on the number of employees.

A micro-enterprise becomes a profit taxpayer if during a fiscal year a micro-enterprise books income higher than EUR 100,000 or the percentage of the income from management and consulting activities exceeds 20%. The change is applicable starting with the quarter in which one of these limits is exceeded.

Capital gains tax

Companies do not have to pay a separate capital gains tax in Romania.

The capital gains are included in the profit and loss account, on which 16% corporate income tax is applied.

Capital gains obtained by non-residents from the following transactions are subject to 16% corporate income tax:

- Sale / rental of real estate located in Romania;
- Sale of shares in Romanian legal entities;
- Income from the exploitation of natural resources;
- Income from the sale of rights in relation to natural resources.

Under certain conditions, the capital gains related to the sale of shares are tax exempt.

Revaluation of assets

Reserves from the revaluation of fixed assets, including land, performed after 1st of January 2004, which are deducted for corporate income tax purposes through tax depreciation or at the moment when the assets are written-off, are taxable at the moment in which the tax depreciation is deducted or upon disposal of the related assets.

Thin capitalization and interest capping rules

The deductibility of interest expenses and net foreign exchange losses related to loans is limited under the criteria detailed below. Such limitations do not apply to interest expenses and net foreign exchange losses related to loans granted by credit institutions, non-banking financial institutions or lease companies.

- The National Bank of Romania's reference interest rate – for RON denominated loans (i.e. currently 1.75%);
- 4% annual interest rate – for foreign currency denominated loans.

Any interest expenses exceeding the above limits are permanently non-deductible for corporate income tax purposes.

In addition to the above capping rule, the deductibility of interest expenses is subject to limitations based on the computation of the debt/equity ratio. Interest expenses and net foreign exchange losses are deductible, within the above mentioned limitations, if the debt/equity ratio is lower or equal to 3 and the company is in a positive equity position. Otherwise, the interest expense and related net foreign exchange losses are non-deductible. These amounts can be carried forward to future periods until the thin capitalization criteria is met.

Withholding tax

As a general rule, income obtained by non-residents from Romania is subject to 16% withholding tax, respectively 5% for dividend income (starting 2016).

Income obtained by non-residents from Romania is subject to 50% withholding tax if the revenue is paid to a state with which Romania does not have a legal instrument for exchange of information and if such income is paid in relation to artificial transactions.

The income obtained by non-residents from Romania, subject to withholding tax, may comprise inter alia:

- Interest paid by a Romanian resident;
- Royalties paid by a Romanian resident;
- Commissions paid by a Romanian resident;
- Income for services performed in Romania;
- Liquidation proceeds of a Romanian legal entity.

Romania has implemented in the domestic tax legislation the provisions of the EU Parent-Subsidiary Directive and Interest & Royalties Directive.

The Romanian tax legislation provides the application of the most favorable legislation between the domestic legislation and the relevant double tax treaties and thus, the standard withholding tax rate may be reduced if certain conditions are fulfilled.

There are certain specific derogations from the standard withholding tax rate, such as:

- Dividends paid by a Romanian legal entity or by an EU entity headquartered in Romania to an entity resident in an EU Member State are exempt from withholding tax in Romania, provided that the receiver of dividends holds for an uninterrupted period of at least 1 year minimum 10% of the share capital of the payer of dividends;
- Interest and royalties paid between related legal entities, subject to the conditions provided by the Interest and Royalty Directive, are exempt from withholding tax in Romania, provided that the beneficial owner of the interest and/ or royalties holds at least 25% of the capital of the subsidiary for a period of at least two years;
- Income from gambling is subject to 1% withholding tax;

Tax treaties

Romania has signed over 85 Double Tax Treaties. Different rates of withholding tax can apply to interest, dividends and royalties, depending on the terms of the treaty with the particular country. The tax treaty provisions are applicable if the beneficiary of the income makes available a certificate of tax residency to the payer by the income payment date.

Transfer pricing

Romanian tax law provides for transfer pricing rules and principles in line with the OECD guidelines. The law stipulates that transactions between related parties should be carried out at arm's length prices. In view of establishing the transfer prices, the taxpayer carrying out transactions with related parties is liable, upon tax authorities' request, to prepare and present, within certain timeframes, a transfer pricing file.

As of fiscal year 2016, large taxpayers carrying out intra-group transactions with annual values over certain thresholds, have the obligation to prepare the transfer pricing file annually. In this case, the legal deadline for the preparation is the legal deadline for the submission of the annual corporate income tax return, for each fiscal year, while the deadline for submitting the transfer pricing file is of maximum 10 days from the request date.

Other categories of taxpayers or large taxpayers that do not meet the thresholds imposed have the obligation to prepare and submit the transfer pricing file upon request. The deadline for submitting the transfer pricing file is 30 to 60 days from the request date.

In determining the price, the following methods are provided by the Romanian tax legislation:

- Comparable Uncontrolled Price Method (CUP);
- Cost Plus Method (CPM);
- Resale Price Method (RPM);
- Transactional Net Margin Method (TNMM);
- Profit Split Method (PSM);
- Any other method accepted under OECD guidelines, with the further amendments and add-ins.

Advance tax ruling availability

The National Agency for Fiscal Administration may issue advanced tax rulings (ATR) at the request of taxpayers. The ATR is an administrative fiscal document referring to a future fiscal situation of a taxpayer and is binding for the tax authorities, provided that the taxpayer has complied with its terms and conditions.

The advanced tax ruling is valid only as long as the relevant legal provisions are not amended.

Advance pricing arrangements (APA) are available for taxpayers looking to confirm the conditions and approaches to be used for establishing transfer prices for a fixed period of time. For transactions carried out between affiliated parties, an APA is compulsory and opposable to the tax authorities and guarantees that the tax authorities will accept the transfer pricing methodology applied by the taxpayer.

The deadline for issuing an APA is:

- 12 months in the case of a unilateral agreement;
- 18 months in the case of a bilateral/ multilateral agreement.

The agreement is issued for a period of up to 5 years (in exceptional cases it is possible to be issued for a longer period). The agreement only produces future effects (there are some exceptions).

Stamp duty

Stamp duty is payable on most judicial claims, issue of certificates and licenses as well as documentary transactions that require authentication. There are two types of stamp duty, which include the following:

- Judicial stamp duty;
- Extra-judicial stamp duty.

Judicial stamp duty is levied on claims and requests filed with courts and the Ministry of Justice, depending on the value of the claim. Quantifiable claims are taxed under the regressive tax mechanism. Non-quantifiable claims are taxed at fixed amount levels. A judicial stamp duty may also be levied at the transfer of real estate property under certain circumstances.

Extra-judicial stamp duty is charged for the issue of various certifications such as identity cards, car registrations, etc.

Value added tax ("VAT")

The Romanian VAT legislation is harmonized with the VAT Council Directive 2006/112/EC on the common system of value added tax ("VAT Directive").

VAT is generally charged on transactions with goods and services having the place of supply in Romania.

The current VAT standard rate is 20%. From 1 January 2017, the standard VAT rate will be reduced to 19%.

There are two reduced rates of VAT: 9% and 5%.

The reduced rate of 9% is applied to certain transactions such as:

- Supplies of all sort of prosthesis, except for dental plates;
- Supplies of orthopedic products;
- Drugs for human and animal use;
- Accommodation in hotels and similar structures, including the rental of land for camping;
- Supply of the following goods: foodstuffs, including non-alcoholic beverages, meant for human and animal consumption, alive animals and birds of domestic species, seeds, plants and ingredients usually used to prepare foodstuffs, products usually used to supplement or substitute foodstuffs;

- Restaurant and catering services, excluding alcoholic beverages;
- Supply of drinking water and irrigation water for agriculture;
- Supplies of fertilizers, pesticides, seeds and other agricultural products for seeding or planting, as well as supplies of agricultural services (e.g. ploughing, sowing, etc.)

Since the 1st of January 2016, the reduced VAT rate of 5% applies for the following supplies:

- Supply of school books, books, newspapers and magazines, except for those intended solely or mainly for advertising purposes;
- Tickets to museums, castles, historical monuments, fairs and expositions, movie-theatres (cinemas), sportive events, etc. Supply of buildings as part of the social policy, including the land on which they are built. The building supplied as part of the social policy include, among others, the supply of buildings intended to be used as retirement homes, foster home and centers for recovery and rehabilitation of disabled children, the supply of buildings to city halls with the purpose of subsidized renting-out to certain persons or families of special economic condition, as well as the supply of buildings with a maximum utilizable space of 120 m² and a value exceeding RON 450,000 (excluding VAT) where the buyer is a private person.

Exports of goods, intra-community supplies of goods and other specific operations are VAT exempted with deduction right, based on specified documentation, while financial services are generally VAT exempted without possibility to recover the input tax incurred.

In Romania, the transfer of all assets or part of the assets of a company or of liabilities as well, as a result of a sale or a contribution in kind to the share capital of a company is out of VAT scope provided that certain conditions are met. The transfer of assets or part thereof via a merger or spin-off always falls outside the VAT scope if the recipient is a taxable person established in Romania, without any other additional conditions having to be met.

The transfer of a business as a going concern may be taxed, provided the taxation is not made with fiscal purposes.

The fiscal period is usually the calendar month. For taxable persons registered for VAT purposes having annual turnovers below EUR 100,000 the fiscal period is the calendar quarter. Also, subject to the approval of the Romanian tax authorities, taxpayers may choose other fiscal periods (i.e. semester, year), depending on the nature and frequency of their activity in Romania.

Taxpayers applying the calendar quarter as reporting period have to switch to monthly reporting if carrying out intra-Community acquisitions of goods in Romania. Compliance rules provide that VAT registered entities file periodical VAT returns with the relevant tax authority by the 25th of the month following the reporting period.

Simplification measures are available (i.e. the beneficiary of the supply will account for the related VAT under the reverse-charge mechanism), for certain transactions, such as:

- Supplies of goods such as waste materials, residues and recyclable materials (iron scrap, non-ferrous scrap, recyclable paper, cardboard, rubber, plastic, and glass waste, etc.) and materials resulting from their manufacturing (cleaning, polishing, etc.);

- Supplies of wood and wood materials;
- Supplies of certain cereals and technical plants (applicable until 31st December 2018);
- The transfer of greenhouse gas emission certificates (applicable until 31st December 2018);
- The supply of electricity to a taxable person established in Romania whose principal activity in respect of the purchase of electricity is to resale it and whose own consumption of electricity is negligible (less than 1% of the electricity purchased) (applicable until 31st December 2018);
- The transfer of green certificates (applicable until 31st December 2018);
- Supplies of buildings, parts of buildings and any type of land;
- Supplies of investment gold performed by taxable persons that have opted for taxation of their supplies;
- Supplies of mobile phones, integrated circuits, laptops, games consoles or tablets will apply only if the value of the delivered goods on one invoice is at least RON 22,500 (without VAT), (applicable until 31st December 2018).

The condition for applying such simplification measures is that both the supplier and the beneficiary are registered for VAT purposes in Romania

Starting with 1 January 2015, Romania has implemented Mini One-Stop Shop ("MOSS") simplification measure which allows taxable persons to register in one Member State for all supplies of telecommunication, television and radio broadcasting services and electronically supplied services made to non-taxable persons. MOSS allows taxable persons to avoid registering in each Member State of consumption, following the change of the place of supply rules.

Non-resident companies may request for the refund of the input VAT incurred in Romania under the provisions of the 9th Directive (2008/9/EC) – in case of EU established companies and 13th Directive (86/560/EEC) – in case of non-EU established companies (subject to reciprocity arrangements between countries). Romanian registered companies will submit for a VAT refund request under the local procedure.

Income tax and social security contributions

Employees in Romania are liable to pay social security contributions as a percentage of the gross salary, as follows:

- Social security contribution: 10.5% of the gross monthly salary/earnings, the taxable base being capped at the level of five times the average gross salary (i.e. RON 2,681 as of 1 January 2016);
- Health fund contribution: 5.5% of total gross monthly salary/earnings. . Starting with January 2017 the health fund contribution will be capped at 5 times the average gross salary established by law.
- Unemployment fund contribution: 0.5% of total gross monthly salary/earnings.

Employers in Romania are liable to pay social security contributions as a percentage of the salary paid to employees as follows:

- Social security contribution: between 15.8% and 25.8% of the total salary fund (depending on the work conditions; 15.8% for normal working conditions) capped at the level of five times the medium gross salary (i.e. RON 2,681 starting with 1 January 2016) and multiplied with the number of employees.
- Health fund contribution: 5.2% applied to the total salary fund.
- Unemployment fund contribution: 0.5% applied to the total salary fund.

- Insurance fund for work related accidents and professional diseases: between 0.15% and 0.85% applied on the total salary fund, considering the core activity of the company.
- Medical leave fund contribution: 0.85% applied to the total salary fund. The computation base for the contribution is capped at the level of twelve times the national minimum salary per economy (i.e. RON 1,250 starting with May 2016).
- Guarantee fund for salary debts contribution: 0.25% applied to the total gross salary fund.
- Disabled person contribution: 4% multiplied with the average number of employees and 50% of the minimum salary per economy. The contribution is payable by companies with more than 50 employees that do not hire disabled persons. Alternatively, the contribution equivalent can be used by companies to purchase goods or services from institutions where disabled people work.

The standard income tax rate is 16% for most of the types of income derived by individuals (including salary income). However, for the income derived from dividends a tax rate of 5% applies starting with January 2016 and also, different tax rates may apply for income derived from real estate transactions, depending on the value and holding period

Employment related tax incentives as per Romanian tax law

Employees tax incentives are also worth mentioning, the most relevant being:

- Special IT exemption from the salary income tax (applicable for salary income derived from software development activities, if certain conditions are met both at the level of the employee and employer).

- Salary income tax exemption applied to individuals working in research and development fields (applicable starting with August 2016, if certain conditions are met by the employer and employee).

3. Legal entities

The general legal framework with respect to Romanian Companies is provided by Companies' Law no. 31/1990. Under the law there are five types of companies described below as follows:

- Partnerships;
- Limited partnerships;
- Partnership limited by shares;
- Joint Stock Companies;
- Limited Liability Companies.

Basically any person can participate to the creation of companies provided they have not been convicted for specific criminal offences.

Partnerships, limited partnerships and partnerships limited by shares form a separate corporate entity from their shareholders but all of the shareholders in case of a partnership or only some of them in case of limited partnerships and partnerships limited by shares, are unlimitedly liable for the company's debts.

In the case of joint stock companies and limited liability companies, the shareholders' liability is limited to the amount they had invested, i.e. the subscribed and unpaid share capital.

Due to the advantages they offer, joint stock and limited liability companies are the most common types of companies used in Romania.

Limited Liability Company

Shareholder structure

Companies' Law provides that this type of company may be established by at least two shareholders. The maximum number of shareholders allowed by law for a limited liability company is 50.

As an exception from the said rule, the law stipulates the possibility to establish a limited liability company having only one shareholder, named sole shareholder limited liability company. The formation of sole shareholder limited liability company is subject to some legal restrictions, such as:

- a natural person or a legal entity cannot be sole shareholder in more than one limited liability company.
- a sole shareholder limited liability company cannot be sole shareholder in another limited liability company.

The shareholders of a limited liability company are liable for the debts of the company but their liability is capped to the subscribed and unpaid share capital.

Share capital

The minimum share capital is RON 200 and may be divided into shares having a minimum value of RON 10.

The shares issued by a limited liability company are incorporable assets and cannot be represented by negotiable financial instruments.

The shareholders must entirely pay the subscribed capital upon the moment of the incorporation of a limited liability company. A limited liability company is a closed corporation, cannot be formed by public subscription or be registered on the stock exchange markets and cannot issue bonds.

Transfer of shares

The shares issued by a limited liability company may be transferred between the shareholders without restrictions.

The transfer of shares to third parties is subject to:

- i. the approval of the shareholders holding at least three quarters of the share capital; The shareholders may not derogate from the above mentioned restriction by inserting a contrary provision in the articles of association or by any other agreement.
- ii. any interested person may file an opposition before the expiry of a 30-day opposition term, which starts running from the publication in the Official Gazette of Romania of the shareholders decision mentioned at point (i) above.

The transfer of the shares becomes effective only after the expiry of the 30-day opposition term or, in case an opposition is filed, at the date the rejection of the opposition request is communicated.

The transfer of shares must be registered in the Trade Registry and in the shareholder register of the company.

Encumber of shares

The shares issued by a limited liability company may be validly mortgaged only with the approval of the shareholders holding at least three quarters of the share capital.

Joint Stock Companies

Shareholder structure

The minimum number of shareholders required by law to set up this kind of company is two. In case that the company has only one shareholder for a duration exceeding nine months, then any interested person may claim the dissolution of that respective company.

Similar to the provisions established for limited liability companies, the liability of the shareholders is capped at the subscribed and unpaid share capital.

The law does not impose a maximum limit regarding the number of shareholders for joint stock companies.

Share capital

For joint stock companies, the minimum share capital required by law is RON 90,000. This amount may be modified by the government so that the minimum share capital must always remain at least at the level of RON equivalent of EUR 25,000.

Joint stock companies may issue bearer shares or nominative shares (materialized or dematerialized). The shares issued may be preferential shares or regular ones and they can be converted one into another. However preferential shares cannot exceed one quarter of the share capital.

Generally the preferential shares do not allow the holder to vote in the general meeting. Joint stock companies may also issue bonds for raising capital.

Upon the moment of the incorporation of a joint stock company the shareholders must pay at least 30% of the subscribed capital. The difference may be paid in 12 months from the incorporation date in the case of cash contribution, or two years in the case of in kind contribution. The shares issued by a joint stock company may be also acquired by a public subscription. In this case the shareholders must pay in cash 50% of the subscribed capital and the other half in 12 months from the incorporation date of the company.

Transfer of shares

Generally the shares of a joint stock company are freely transferable between the shareholders or to a third party. However the shareholders may restrict the transfer of the shares by inserting some limitations into the articles of association.

A joint stock company cannot acquire its own shares or grant financial assistance (e.g. loans or security) for the acquisition of its shares, except for some limited cases, expressly provided by law.

The transfer of shares takes place by declaration performed by the transferor and the transferee or by their proxies in the shareholders' register, unless other methods are provided by the articles of association.

4. Labor and wages

The 2003 labor code has been amended in line with demands from employers for a more flexible labor market, but rigidities remain. Average net monthly wages remain low by east European standards, but they have been rising fast in recent years. Prior to the economic crisis and ensuing deep recession in Romania, there was a threat that this rapid wage growth could erode some of Romania's attractiveness. Wage growth was muted in 2010-13, given the slow recovery from the economic crisis and cuts in public-sector wages, although real wage growth has risen in 2014 as inflation has fallen. Significant payroll taxes continue to increase the overall cost of labor. Labor productivity has been picking up in recent years, and is expected to improve alongside substantial industrial restructuring.

Shortages of professional, skilled and semi-skilled workers will become a growing problem over the next few years and will pose a challenge to foreign investors as increasing numbers of young Romanians seek employment abroad. This is already a problem in some sectors, and may become worse after the removal of restrictions on the employment of Romanian nationals in some EU states in coming years.

One of Romania's main attractions for foreign investors is low wages. However, the employment taxation system can almost triple the cost of taking on an employee. Payroll taxes were increased in the late 1990s in the hope of raising revenue. In fact, these increases shrank the collection base as a result of the expansion of informal activities and the widespread practice of under-declaring wage payments.

The introduction of a flat 16% income tax was aimed at bringing part of the grey economy into the official economy. Social-security contributions are excessive, despite a series of reductions in recent years. First-time investors in Romania should ensure that they accurately calculate the all-in cost of labor when drawing up their business plans.

Legal framework

The Romanian employment legal framework is governed by Law no. 53/2003 – regarding the Labor Code (“the Labor Code”), Law no. 62/2011 regarding social dialogue on the collective bargaining agreement, Law no. 168/1999 on labor conflicts and Government Ordinance no. 25/2014 regarding the employment and transfer of foreigners in Romania. Also there are collective bargaining agreements concluded at the level of activity sectors, group of employers and employer which are applicable in employment relations.

Working hours

By law, the normal duration of full-time employees' work time is 8 hours per day or 40 hours per week (5 working days). The maximum legal duration of the work time cannot exceed 48 hours per week, including extra hours. As an exception, the duration of the work time, including the extra hours, may be extended to over 48 hours/week, provided that the average of the working hours, calculated for a reference period of three calendar months, does not exceed 48 hours/week. For youngsters up to the age of 18, the duration of the working time is 6 hours per day and 30 hours per week.

The work time is regularly, distributed, to 8 hours per day, 5 days per week, followed by two rest days. For certain sectors of activity, companies or professions, collective or individual negotiations, or specific laws may settle a daily duration of the work time, shorter or longer than 8 hours. A daily duration of a 12-hour working day shall be followed by a 24-hour rest period.

Specific provisions are provided with respect to individualized work schedules, to the extra time work, to the night work, as well as to the organization of the work conditions.

All employees are guaranteed their rights to a paid annual rest leave. The minimum duration of the annual paid rest leave is, according to the Labor Code, 20 working days.

Specific provisions are also enforced with regard to the vocational training leaves.

Wages and benefits

Salary: Discriminations are banned in the setting and granting of a salary, on such criteria as gender, sexual behavior, genetic features, age, nationality, race, skin color, ethnicity, religion, political option, social background, disability, family situation or responsibility, trade union membership or activity. The salary consists of the base salary, indemnities, increments and other bonuses. Salaries are confidential and employers are bound to take all steps to keep confidentiality.

Under Article 41 of the Romanian Constitution refers to the minimum wage for the purpose of social protection. From May 1, 2016 the national monthly minimum gross base salary guaranteed to be paid, for a full-time working schedule (an average of 169.333 hours per month), was set at RON 1,250 (around EUR 277).

Vacation: All employees are guaranteed their right to a paid annual rest leave. The minimum duration of the annual paid rest leave is, according to the Labor Code, 20 working days. In case of special family events (employee's marriage, child's marriage, child's birth etc.), employees are entitled to paid days off, not included in the duration of the rest leave. The law, the applicable collective labor agreement or internal regulations settle the special family events and the number of paid days off. Romania has 12 National holidays.

The seasonally adjusted unemployment rate in the first semester of 2016 in Romania was 6.5%, with 2.2 percentage points lower than the EU 28 average for the same period, reported by Eurostat. In the same time, the seasonally adjusted unemployment rate for EA (19 countries) was 10.2%, down from 10.9% in 2015, and from 11.6% in 2014. This is the lowest rate that has been recorded in the euro area since May 2012.

In the first semester of 2016, the average net nominal wage grew by 12.8% year on year 2015 and by 20% year on year 2014. It is largely as a result of the increases in the minimum gross salary in 2014 and 2015 (totaling 47% increase from January 2014 to January 2016 %). These first increase in 2014 directly affected approximately 33% of all wages and indirectly drive up other wages. Low inflation, driven by year-on-year declines in world oil and food prices, kept average inflation in 2015 down to -0.6%, resulting in an increase in average real wages of 12.2%. The rise in real wages had a smaller impact on retail trade and marketed services. Retail turnover grew by only 2% year on year, on both a gross and adjusted basis. Further growth in nominal wages is expected in the next year following some discussions on the increase in the minimum wage in the first part of 2017.

5. Education

In the Romanian education system, schooling is compulsory until the tenth grade (which corresponds to the age of sixteen or seventeen) and it starts at the age of six or seven. The Ministry of National Education implements the legislation and general administration and management of the education and training system at the national level. In exercising its specific attributions, the Ministry of National Education cooperates at the central level with other Ministries and institutional structures subordinated to the Government.

Aside from the official schooling system, there are private school for all educational levels (from kindergarten to universities). Universities and other higher education institutions are autonomous and are granted by the law the right to establish and implement their own development policies, within the general provisions of the in-force legislation.

The school educational cycle starts at the age of six or seven and ends with the twelfth grade, when pupils graduate the baccalaureate. The cycles are:

- Pre-school or Kindergarten – organized for children aged 3-6, is optional under the age of six. Children need to attend one year of kindergarten before entering public schooling. At the age of six, children must join the “preparatory school year”, which is mandatory in order to enter the first grade.
- Primary school– organized for pupils aged 6/7-10 includes grades I to IV.
- Lower secondary (gymnasium) grades V to VIII for pupils aged 10-14.
- Upper secondary (high-school) – grades IX to XII/XIII for pupils aged 15-18/19, has the following branches: theoretical, technological and vocational (art, sport, theology).
- Professional education lasts between six months and two years and is organized by technical and vocational high schools, which prepare pupils for the current local workforce. The pupils graduating professional schools get a “qualification certificate”. Graduates can then continue their studies in the upper-secondary cycle, a technological or vocational high school, in a low frequency program.

- Post high-school non-university education: lasts between one to three years and is organized by post-high schools preparing the pupils for the current job market. Higher education, including university and post-university education.
- Higher education in Romania is made accessible by public and private institutions. These include universities, academies and colleges organized in specialized departments. In accordance with its objectives, university education comprises: short university education offered by university colleges (three years), long university education (four to six years) and postgraduate university education (one to two years).

6. Infrastructure

Romania's infrastructure consists of 103,671 kilometers (64,276 miles) of road, 11,385 kilometers (7,058 miles) of rail, and 3.84 million main telephone lines. Transportation infrastructure in Romania is state property and is administered by the Ministry of Transport. The quality of telecommunications infrastructure is expected to continue to improve following the liberalization of the fixed-line network. The e-commerce sector is growing, albeit from a small base, but it is stimulated by the personal computer and mobile penetration.

Road

As of July 2015, Romania has 696 km of motorway in use, with another 230 km under construction. The EU accession of the country in 2007 and the improved utilization of the allocated EU funds in recent years enabled Romania to speed up the expansion of its highway network. In Romania, it is necessary to have a valid vignette not only on motorways but also when passing other roads belonging to the national road network.



On July 2015, the European Commission has approved Romania's master plan envisaging investments worth EUR 43.6 billion in road, rail, air, and water transport infrastructure through 2030. The total value of projects identified in the General Transport Master Plan amounts to EUR 45.451 billion, which includes investment projects in the transport infrastructure of Romania for the road, rail, air, sea and multimodal sector.

For the Romanian Government the priorities are to develop the motorway network such as: Sibiu-Pitesti, Sibiu- Brasov, Brasov - Bacau, Targu Neamt- Pascani - Iasi - Ungheni, Brasov - Comarnic (PPP), Pitesti - Craiova (PPP) or Suplacu de Barcau- Bors, the equivalent of 1094.80 km of highway, with an estimated cost of EUR 8.8 million / km, taking into account that the length of 118 km of motorways will be built in the mountains.

Rail

The rail network, which is the main mean of internal transport for passengers and freight, covers 20,077 km, the seventh-largest railway network in EU, but only 38% of the system is electrified. Following years of falling volumes, the number of passengers seems to have stabilized at around 500,000 per day.

Annual cargo traffic volumes are about 70m tonnes, mainly of coal, oil products, common metals, cement, quarry products, chemicals and agricultural items. Caile Ferate Romane (CFR) is the official state railway carrier of Romania. CFR is divided into separate companies, amongst which: CFR Calatori, responsible for passenger services; CFR Marfa, responsible for freight transport; CFR Infrastructura, manages the infrastructure on the Romanian railway network; and Societatea Feroviara de Turism, or SFT, which manages scenic and tourist railways.

Metro

Bucharest is the only city in Romania that has an underground railway system, comprising of both the Bucharest Metro and the light rail system of the Regia Autonoma de Transport Bucuresti (RATB). One new metro line is under construction, and another one is currently extended. The works for a metro line that will connect the airport with the city center is planned to start in 2017.

Shipping

Romania has six major ports, of which Constanta is the most important to the country's future. The Port of Constanta connects the Western European and Central European developed countries with the raw material suppliers from the Community of Independent States, Central Asia and Trans Caucasus. It is one of the largest European ports and the largest Black Sea port, attracting 70% of the inland waterway international and transit traffic, 40% of the railway international and transit traffic and 12% of the road international and transit traffic. Maritime transport through the port of Constanta absorbs half of total export and import volumes, while road haulage and rail freight have overall equal shares, road is more heavily used for inland border exports to EU countries.

In Romania, the Danube River is the country's most important trade route. It has a length of 1,075 km, approximately 44% of its whole navigable length. The Romanian Danube is divided into two structurally different sectors: the River Danube and the Maritime Danube. Several ports situated along the Maritime Danube, namely Galati, Braila, Tulcea and Sulina, allow the access of both river and maritime vessels, so they also serve international sea trade.

Ports are administered by national companies, under the authority of the Ministry of Transport and Infrastructure. There are a few exceptions, namely Sulina, Turnu Magurele and Zimnicea ports, which are administrated by local authorities.

Air transport

Romania has a well-developed airport infrastructure compared to other countries in Eastern Europe, with 16 commercial airports in service, most of them opened for international traffic. Four of the airports (OTP, BBU, TSR, CND) have runways of 3,100–3,500 metres in length and are capable of handling jumbo jets. Six of the airports (BCM, CRA, IAS, SBZ, SCV, SUJ) have runways of 2,400–2,700 meters in length, while the rest of them have runways of 2,000–2,200 meters (6,562–7,218 ft.) in length.

The main airport of the country is Bucharest Henri Coanda International Airport (OTP), located in Otopeni, 16.5 km north of Bucharest's city center. In 2015, 9.27 million passengers transited the Henri Coanda International Airport, an 11.6% record increase compared to last year.

The national carrier of Romania is TAROM, a full service airline that flies to domestic and international destinations in over 20 countries. In 2007, Romania has signed an "open sky" agreement, which allows any airline operator from the EU to set up business wherever it wants. As a result, TAROM is facing growing competition from low-cost airlines. At present, 31 airlines are operating on Otopeni, connecting the country to 70 destinations.

Telecommunications

Telecommunications sector in Romania has enjoyed sustained rates of growth and Romania has made significant progress in all of the information and communications technology (ICT) subsectors, including basic telephony, mobile telephony, Internet and IT.

Household spending in Romanian communications services are maintained at comparatively high rates, almost double the EU average. At the end of 2015 there were over 700 active providers of fixed Internet services, more than 250 suppliers of retransmission TV and nearly 40 providers of fixed telephony services. The mobile operators are Orange Romania, Vodafone Romania, Telekom Romania Mobile Communications and RCS&RCS.

In 2015, there were 23.1 million users of mobile telephony, according to ANCOM, the national regulator. The penetration rate of mobile telephony services per 100 inhabitants reached 116.4% at the end of 2015 but the number of fixed lines and of active SIM cards registered in the medium term are on a downward trend.

The Internet

In Romania, broadband internet has been available since 2000, through coaxial cable, and recent speeds range between 2 Mbit/s and 1000 Mbit/s. In May 2016, over 15 million connections to the Internet were registered. Romania's country domain is .ro and there are over 600 000 domains registered under .ro. The .eu domain is also used, and it is shared with other European Union member states.

Over 92% of internet fixed market is served by a number of six providers, and networks are concentrated with profitable areas overlap, characterized by the density of application. The number of internet lines increase is similar to those seen in other EU countries. There is a remarkable appetite for internet speeds, which are among the highest in the world. Based on Net Index report at the end of first half of 2013, Timisoara had the highest download speed in the world, the second Romanian city that appeared in the ranking was Constanta, and the capital Bucharest was on 19th place.

The use of mobile internet in Romania is very high - it doubled in the second semester of 2015, compared to the previous year. 4G internet is available in Romania and the 4G connections have increased from 800.000 connections in 2014 to 2.7 million in 2015.

The Romanian e-commerce market consists of approximately 4,500 online stores, 1,000 more than in 2012, according to the estimates given by the main players. Of the total number of e-shops, over 1,000 are enrolled in and certified by the RomCard 3D Secure standard, compared to 781 stores in 2012.

The media

In Romania, the daily media consumption routine shows TV and Internet as the most used media channels, with Internet outperforming the other traditional media, due to its easiness to access any kind of information and facilitate instant connection to friends or business community.

Despite the current high TV usage habits, digital media consumption level has increased significantly during the last years. Although the access from the PC or laptop remains the most preferred, mobile devices as smartphones and tablets are growing rapidly, with internet access on smartphone having the most dynamic evolution (50.2% in 2015 vs. 26.4% in 2011).

For television, 2015 was another year of growth. CME remains leader with 48.3% share of advertising revenues, followed by INTACT with 26.4%, Dogan Media 10% and Prima Broadcasting Group 3.4%. In terms of ratings performance, 2015 registered same top 3 as in 2014: Pro TV leader, followed by Antena 1 and Kanal D and talent shows continued to dominate TV programming, „Romanian got talent” and „Vocea of Romania”, broadcasted by Pro TV, being the most watched.

Digital is going mobile and this trend is more visible as we look towards younger generations, with 76% of urban 16-24 years old and 64% of urban 25-34 years old using internet on their mobile devices on a daily basis.

Mobile advertising now accounts for 33% of total digital advertising and will reach 55% by 2018, following the rapid shift in digital media usage and planning strategies, according to Media Factbook Romania. If in 2005 the investments in digital media represented 1% of the total net media market estimate, ten years later, in 2015, it reached 17%.

Radio market increased marginally in advertising revenues (5% vs. 2014). The Radio channels audience performance reconfirmed in 2015 Radio ZU as the leader in Bucharest with 15% average rating and Kiss FM as leader at urban level, with 13%. The radio scene is dominated by private FM stations - there are six private national networks: Europa FM, Digi FM, National FM, Radio 21, Pro FM, and Radio Trinitas. Print market continued to drop, being influenced by the continuing decline of the press distribution networks and financial difficulties of Zirkon Media, one of the biggest press distributors. In terms of gross (rate card) advertising revenues, Ringier was ranked first, followed by Adevarul Holding and Mediafax. 2015 reflected slightly different readership trends among the print types, with a 5-6% drop for dailies and less than 4% drop for weeklies. According to the National Institute of statistics, a number of 59 daily papers are published in Romania, compared to 81 in 2006, and 3267 other publications, compared to 2180 in 2006.

7. The Most Active Industries/Sectors Energy

Romania is a country that is “rich in poor resources” with a balanced mix of primary energy vectors and a relatively good standing in terms of external energy dependence – the third country in the EU in terms of proportion of imported energy sources in the total primary energy mix – some 23%.

The country is in the midst of defining its energy strategy that is expected to be finalized toward last quarter of 2016. In June 2014, the government announced that a new royalty law for oil and gas companies would be introduced in 2015 and would apply only to new oil and gas concessions, and would therefore not affect existing companies. Under Romanian law, royalties are collected as a percentage of the production value, with royalties varying from 3.5% to 13.5% for oil and natural gas depending on the size of the resources.

The market for electricity for non-residential customers has been fully deregulated and the road map for gas deregulation is on track. However, energy sector privatization has stalled since the authorities completed several initial public offerings (IPOs) in key state-owned energy companies, including Nuclearelectrica (which generates 20% of Romania's electricity), Romgaz (which produces 45% of Romania's natural gas) and power supply and distribution company, Electrica, in 2014. Plans for a stock-exchange listing of power producer, Hidroelectrica, in 2016 have fueled hopes that the government will resume energy privatization.

Nuclear energy is a central plank of the government's energy policy. In 2015, Nuclearelectrica has signed a memorandum of understanding (MOU) with China General Nuclear (CGN) for the development, construction, operation and decommissioning of units 3 and 4 of the Cernavoda nuclear power plant.

Oil & Gas

Romania is Central and Eastern Europe's most oil-rich country; it has estimated crude oil reserves of about 400m barrels. The estimated depletion period is 12 years. The country is also the Central and Eastern Europe's largest producer of natural gas. Natural gas reserves are around 630bn cube meters and the estimated depletion period for gas is about 55 years. This situation may change with new discoveries on the Black Sea shelf.

The oil and gas sector has three main segments: production and storage (Romgaz, OMV Petrom, Depomures, Amromco Energy, Amgaz); transportation (Transgaz); and distribution and supply (E.ON Gas Distributie and Distrigaz Sud Retele, E.ON Gaz Romania and GDF Suez Energy Romania). Romgaz and OMV Petrom are the main producers, accounting for about 97% of total domestic production.

Renewable Energy

Frequent changes in legislation have affected the renewable-energy sector and the investors. The EU's mandatory directive sets a target that renewable energy sources should account for 20% of final energy consumption in Romania by 2020. In addition to hydropower, Romania has underutilized renewable potential in wind, solar, biomass and geothermal energy.

Generating energy from wind has potential (estimated at about 8,000 gwh), given the size of the country, its low population density and its mountainous and coastal areas. Solar energy is expected to make a small contribution, albeit much less than from

water or wind. In 2012 an ordinance modified the green energy support scheme to reward solar power producers with six green certificates for every mw generated, the most generous of all the support schemes for green energy producers.

Consumer business

After subdued growth in 2009-13, the demand drove a revival in private consumption in Romania in 2015. Low global food and energy prices, along with government tax cuts, boosted private consumption and retail sales growth last year.

The structure of consumer spending is likely to change significantly over the next decade, with the ratio of food and beverages in total spending declining in line with a steady rise in middle-income earners and a significant increase of sales of consumer electronics and information technology (IT) products as broadband is expanded across the country.

The structure of the retail sector evolves towards Western patterns in larger towns. Modern retail now accounts for over half of sales, after substantial foreign investment. Online sales stood at EUR 1.5bn (US\$1.7bn) in 2015, up from EUR 1.1bn in 2014. The e-commerce market is posing a threat to organized retailers.

Modern retail, comprising cash and carry stores, hypermarkets, supermarkets, discount and retail stores, is the dominant form of retail, with a market share of around 57% in 2015, up from 41% in 2008, according to GfK, a market research company. The market is dominated by 12 international companies that together have more than 1,600 units and generated revenue of about EUR 8.5bn in 2015. The Kaufland discount hypermarket chain and Lidl discount stores are the biggest players. Other major players are Carrefour (France), Auchan (France), Mega Image (The Netherlands), Cora (France/Belgium) and Profi (Poland).

Agriculture

In Romania, agricultural sector represents a basic branch of the national economy, having significant economic and social importance and implications. Romania has a wide range of soil types with high theoretical potential, about 60% of arable land having a good and medium fertility. The Romanian total agricultural area stands for 61.7 % of the country's territory, and the arable land represents 63.9% of the total agricultural land. The surface of arable land per inhabitant is about 0.42 ha. Most of the agricultural land belongs to the private sector: 96 %.

The main challenge that Romania is facing nowadays is the existence of high number of subsistence and semi-subsistence peasant households featured by a small area size of 1.72 ha and respectively of 3.3 ha, with plots excessively scattered, with low financial resources and a low degree of agricultural machinery endowment.

The cereal sector has a high share, about 62%, because of the good soil quality for these plants and also of the national demand for these agricultural products. In Romania the areas and the production of technical plants, sugar beet and oil crops are in line with the national tradition of crop cultivation. Because the costs are moderate regarding crop technology, the maize represents an easy plant to cultivate and with a low degree of mechanization on small parcels.

Starting with 1 January 2014, Romania is obliged to deregulate its property market under terms of its EU accession treaty. This has removed restrictions on land acquisitions by foreigners. However, enterprising investors from abroad have already purchased 10% of the agricultural land in the country via locally registered companies. In terms of funding, in 2012 Romania managed to draw EUR 2.4 billion. For the period 2014-2020, Romania has at its disposal a EUR 7.2 billion budget from European funds for rural development.

Manufacturing

Romania has set up a number of government incentives and grants, as well as free zones and industrial parks, to attract outside interest. There are also tax breaks: one particular initiative that experts say should benefit manufacturing is a tax incentive for those investing in production equipment.

Automotive

Romania is the fifth-largest vehicle producer in East-Central Europe, after the Czech Republic, Slovakia, Poland and Hungary, and the 11th largest in the EU. Its output consists of cars, which are produced at the Dacia factory in Pitesti (owned by Renault, France) and at a plant in Craiova (owned by Ford, US), and auto parts, with several producers spread across the country. The industry directly employs over 130,000 people.

After a steep fall in 2008-13, Romania's vehicle market recovered strongly in 2014-2015. New passenger-car registrations rose by 15.7% in 2015, and new commercial vehicle registrations increased by 29.2%, according to the European Automobile Manufacturers' Association (ACEA). The Dacia brand dominates the market, with 34.5% of domestic sales in 2015, according to APIA, up from 32.5% in 2014. Dacia's sales are recorded separately from those of its parent company, Renault, which imports cars into Romania and had a market share of 6.1% in 2015, slightly down on the previous year.

The strongest increase was registered on the segment of car part producers, whose revenue soared from EUR 5.4 billion. The country is a viable location for auto parts producers, due to its geographical location and highly qualified employees (due to the proximity of technical universities). The Continental group dominates the auto parts makers segment.

Pharmaceutical and healthcare market

Romania offers benefits of a universal healthcare system. The state finances primary, secondary and tertiary healthcare. Public health campaigns are independently financed by the Government of Romania. The Ministry of Health of Romania is required to manage and supervise the public healthcare sector.

In the major urban areas, medical facilities are generally well equipped, with good private healthcare available as well. In rural areas and small towns, healthcare is sub-standard. The medical system has been affected by a lack of medical staff. This is due to the low wages and the attractive working conditions in Southern and Western Europe.

Although the private sector has expanded since 2004, the healthcare system remains almost entirely state-owned. Private medical insurance is affordable for the top half of income earners, but beyond the reach of the rural population, which has the most need for improved medical services. The National Social and Health Insurance fund (CNAS) provides 73% of state finance; the rest comes from the Ministry of Health and direct allocations from the state budget. Private expenditure comprising co-payments, private insurance and out-of-pocket expenditure account for the remaining 22%.

Per-head spending on healthcare was estimated at EUR 476 in 2013, approximately half the level in Poland. On a purchasing power parity basis, health spending per head is approximately half the level of the ten EU accession states (regional average) and 25% of the EU average.

Romania introduced an insurance-based health system involving the CNAS in 1998. The CNAS is funded by compulsory contributions from employees (5.5% of the gross wage) and employers (5.2% of the gross wage), which meet the charges of public and private healthcare providers. The claimants on the system are approximately twice the number of contributors. The state covers charges for people under 18, students, the unemployed, low-income families and pregnant women, but many citizens remain uninsured and can access only basic services.

Pharmaceutical sales were worth an estimated EUR 3.74bn in 2013, around the same as the Hungarian market, which has a population half the size. At an estimated 150, drug consumption per head is among the lowest in Europe (the west European average is around 420 and the central and east European average is about 200).

Prescription drugs account for about 85% of total pharmaceutical sales in value terms. The main sellers in value terms are antibiotics and digestive remedies. The highest-selling category of drugs relates to cardiovascular illness, followed by oncology-related drugs, then by treatments for the digestive tract and metabolic problems.

Real Estate and Constructions

Romania is the largest market in terms of scale, and is attracting an increasing number of investors. This is reflected in the massive growth in investment activity over the past year. After the crisis, the industry has recovered largely, due to the national program Prima casa (First home) loan, which is backed-up by the Romanian government. The program allows people to buy their first home with a bank credit with only 5% advance.

The Real Estate industry in Romania is on the rise and has a vast scope for foreign investment. The foreign investors in Romanian property are taking the advantage of the existing low real estate prices in Europe, which is inevitable to increase in the future.

Advantages of investing in Real Estate in Romania:

- The demand for real estate properties greatly outstrips the supply; thereby there is great scope for rise in the prices of the properties. It thus presents a great opportunity for foreign investors to earn profits.
- Romania has a strong currency; the beneficial exchange rate means even better buying power for investors.
- The central bank of Romania is implementing 100% mortgage scheme for property buyers, this will further push the property prices by about 15%.

Financial services

Romania has developed a well-regulated financial market. The country is subject to numerous EU financial sector reforms that apply to both euro zone and non-euro zone members and that are being introduced with the aim of reducing the risk of a repeat financial sector crisis.

The National Bank of Romania (NBR) is responsible for banking system regulation and payment system supervision. The NBR works on a permanent basis with the International Monetary Fund, the European Central Bank and specialized consultants from the World Bank, as well as with other organizations, in developing banking policies and procedures. From 1 January 2007, when Romania joined the European Union, the NBR became part of the European System of Central Banks (ESCB), and the NBR's Governor became a member of the General Council of the European Central Bank (ECB). Romanian economy has stabilized after 2009 – 2010 financial crises, largely due to NBR efforts to keep macroeconomic parameters under control.

Other government bodies have more targeted roles. The Bank Deposit Guarantee Fund is the national deposit insurer. The Insurance Supervisory Commission oversees insurers, while the Private Pension Scheme Supervisory Commission regulates pension providers. The National Securities Commission has authority over investment funds, brokerage firms, other market operators and the BSE.

In September 2015, the European Commission launched an action plan to create a Capital Markets Union across the EU, with the aim of improving access to Europe's financial markets. Proposals include making it easier for companies to issue shares, removing obstacles for fund managers seeking to operate across borders and reinvigorating securitisation markets.

Banks

The banking sector of Romania is made up of around 40 banks, out of which nine are branches of foreign banks. At the end of 2014, the structure of the Romanian banking sector included two banks with fully or majority state-owned capital, three institutions with majority private domestic capital, 25 banks with majority foreign capital, 9 branches of foreign banks and a credit cooperative organization. The weight of the assets of the credit institutions with foreign capital against the total assets of the Romanian banking system went up from 83% in December 2011 to 90% in December 2014.

The advance of domestic savings compensated for the reduction of financing from parent banking institutions. According to the NBR data, the exposure of parent banking institutions to their affiliates in Romania shrank by about 16% in 2014.

NPLs have been significantly reduced, but further restructuring needs to be carried out. In mid-2014, the National Bank of Romania (NBR) launched a program to stimulate NPL write-off, by increased provisioning and requiring the write-off of fully provisioned NPLs, while allowing banks to retain legal claims against borrowers even if the loans were written off.

Financial markets remained stable, but financial intermediation is still to be reinvigorated. Despite a fall in recent years, the share of foreign currency-denominated loans was still high at 56% in 2014, leaving the banking sector exposed to exchange rate risk. Credit growth remained subdued on the back of foreign banks' deleveraging, high corporate leverage, and a lack of lending opportunities amid still-low growth.

The regulatory constraints at European level regarding lending, the predilection for saving, the reluctance to apply for new loans contemplating the lack of trust in the development of the economy in times of crisis and the restructuring of banks' portfolios have made that the ratio loans/deposits in the banking sector be less than one. The ratio granted loans/raised deposits stood at 93.56% in June 2015.

The banking sector has proven its structural stability during the year 2014, and carried out a loan portfolio optimization via an ample process of balance sheet cleaning and, during 2015, has been granting loans at a pace almost similar to the one before the crisis.

Insurers

The Romanian insurance industry is regulated by the Financial Supervisory Authority (ASF). The Financial Supervisory Authority (ASF) is the national authority competent to enforce and monitor the observance of the directly applicable regulatory acts issued by the European Union, in the fields provided by this regulation, and for the transposition into the national legislation of the provisions issued by the EU Council, EU Parliament, European Commission and by other European authorities.

The Romanian insurance market has great growth potential. The main features of the insurance activity are dynamism, diversity of the insurance types, and also insurer inventiveness. Insurer tries to make the insurance products more and more attractive and efficient for the insured, especially in times of crisis. Rising life expectancy was a key growth driver in the Romanian life segment during 2010-2014 and is projected to increase further with improvements in health measures.

The insurance market is dominated by international groups such as Vienna Insurance Group (VIG, Austria), Uniqa (Austria), Allianz (Germany), NN Asigurari de Viata (Netherlands) and Alico. There were 35 insurance companies operating in 2015, down from 39 in 2012. The top ten companies account for around 82% of gross premiums in local-currency terms, and the top five hold more than 50%.

Foreign direct investment up to 100% is permitted in the Romanian insurance industry, but non-admitted insurance is not permitted in Romanian insurance industry. However, insurers from EU and EEA member states are permitted to operate in the country without a license.

Asset managers

Like other EU countries, Romania has a three-tier pension system. In this framework, the first pillar is a state-provided plan, the second is a mandatory funded scheme with private managers, and the third is voluntary, privately managed savings. The second pillar was created in 2007 and the third pillar began operating from the middle of that year. The pension system will lead to a greater role for private pension funds and health insurance companies, which should become significant institutions in the future.

Financial markets and instruments

The stock exchange in Romania Bucharest Stock Exchange (BSE). As of January 2015, there are 83 companies listed on BVB's regulated market with a total market capitalization of €30 billion (\$33.5 billion). In 2013, the main index BET went up by 26.1%, placing BVB as the 14th best performing stock exchange globally.

Starting with 25 February 2015, Bucharest Stock Exchange operates and administrates AeRO, an alternative trading system. This enables the development of companies that access finances via the capital market. AeRO brings to investors' attention companies such as SMEs and start-ups with development potential. AeRO is dedicated to funding the companies that do not fulfill the size or the length-of-operation criteria in order to be listed on the regulated market.

The Sibex-Sibiu Stock Exchange (Sibex S.A. in Romanian) was established as a private company in December 1994, with 33.24 million lei share capital, and was the first Romanian exchange authorized by Romanian National Securities Commission (RNSC). Currently there is an ongoing merger between Bucharest Stock Exchange and Sibiu Stock Exchange.

8. Industrial parks

Industrial parks in Romania have been promoted through government ordinance, as the authorities showed serious commitment to boosting business investments in the Romania. The title of industrial park is granted by an order of the Minister of Administration and Interior pursuant to assessing the documentation lodged only by a partnership.

Establishment of an industrial park is based on the association in participation between central and local public administration authorities, economic agents, research institutes and/ or other interested partners. The purpose of setting up industrial parks is to stimulate economic and social development, to perform the transfer of technology, to induce investment inflows.

Industrial park license can be granted to companies acting solely in the industrial parks field, called the managing companies ("Administrator –Company"). None of the business entity associates that use the utilities and/ or infrastructure of the industrial park may hold control, directly or indirectly, over the Administrator-Company. The exploitation of industrial parks is performed by Romanian legal entities and branches or representative offices of foreign legal entities, based on commercial agreements concluded with the Administrator-Company.

The following benefits are granted for establishing and developing an industrial park:

- Exemption from the payment of fees charged for changing the purpose or for withdrawing the land related to the industrial park from the agricultural circuit, for the partnership holding the title of industrial park.
- The local authorities may grant tax deductions, pursuant to decisions of the local or county councils, for the real estate properties and lands transferred to the industrial park for usage purposes, as well as other facilities, in accordance with the law.
- According to article 257 (1) in the Fiscal Code, no tax is levied on the land inside an industrial park, and pursuant to article 250 paragraph 9 in the Fiscal Code, there is no tax levied on the buildings or facilities inside industrial parks either.
- The initiative was in line with other incentives, mostly fiscal, which Romania has sought to provide in recent years to small and medium sized enterprises or to certain types of economic activity in areas identified as disadvantaged or in free trade zones.

Currently in Romania, there are over 70 industrial parks, according to the Ministry of Economy, most of them in central and western part of the country, which offers easy access to Europe. More and more companies have shown interest in such parks because of the variety of fiscal facilities. In order to fully develop an industrial park, an initial investment is needed which may vary from EUR 10 million up to 30 million; however the projects may easily and rapidly attract investments of up to EUR 250 million.

Although some of the industrial parks operate below capacity, there are successful examples such as Tetarom Cluj, ICCO, Metrom, Prejmer Brasov, Automecanica Medias and Ploiesti West Park. About the latter, the company that developed it, Alinso Group, says it is the largest logistics center in South-Eastern Europe, in which they invested a total of EUR 750 million.

9. Outsourcing market

The Romanian outsourcing industry is growing ahead of the rest of the economy. The availability of qualified resources, high language proficiency and a low cost labor market are placing Romania on the ninth place at global level and on second place among Central and Eastern European countries. The Romanian market includes over 250 companies with activities in the business service sector, with half of the market being held by Share Service Centres (SSC). More than 170.000 people are working in the outsourcing industry, either in outsourcing call centers, customer care or in BPO. The country attracts clients due to the high level of technical and language skills of workers – there are more than six university centers in the country, 106 universities and 631 faculties, providing qualified employees for the outsourcing industry. An increase in demand is expected in the future, as many of the companies already on the market have announced that they are either hiring people or expanding their service portfolios.

10. Investment Incentives

Romania's attractiveness for investment is boosted by: one of the largest markets in Central and Eastern Europe; its strategic geographic location at the crossroads of the traditional commercial and energy routes connecting the EU, Asia and the Balkans; extensive sea and river navigation facilities; a well-educated, yet cheap labor force, and an extensive network of double tax treaties.

Upon the country's accession to the EU on 1 January 2007, Romania took steps to strengthen tax administration, enhance transparency, and create legal means to resolve contract disputes expeditiously. Its membership has also helped solidify institutional reforms by subjecting government policies to EU scrutiny and thus offering reassurance to potential investors. However, judicial weakness, legislative unpredictability, corruption and bureaucratic inefficiencies, among others, continue to mark the investment environment. Better absorption of funding from the EU would contribute to investment in infrastructure, thereby boosting export potential over the longer term. Even if Romania's absorption of EU structural funding has improved over the past year and is likely to progress further in the coming years, administrative deficiencies (especially in local government) and the need for the government to co finance projects is limiting prospects for a significant increase in the absorption rate.

Capital inflows are free from constraint. Romania concluded capital account liberalization in September 2006 with the decision to permit non-residents and residents abroad to purchase derivatives, treasury bills and other monetary instruments. A broad range of (both tax and non-tax) investment incentives is available to local and foreign investors. Tax incentives include special incentives for expenses related to R&D, dividend tax exemption under certain conditions,

corporate tax exemption for reinvested profit in equipment and machinery, reduced VAT rate of 5% for the sale of buildings under a social policy project and local tax exemptions for businesses located in industrial parks or scientific and technological parks.

In addition, there are employment incentives for special categories, as well as state aid schemes for large investments. Under certain conditions, the state may cover the salary costs and related social contributions for a limited period of time. A private investor in Romania may benefit from business aid from EU funds (structural and cohesion); incentives often take the form of development grants.

Romania has six Free Trade Zones (FTZs), all located in ports with one exception, the newly established Arad-Curtici FTZ. Because of its location, the latter could become one of the most attractive for investors. General provisions include unrestricted entry and re-export of goods and an exemption from customs duties and VAT. The law also permits the leasing or transfer of buildings or lands for terms of up to 49 years to corporations or natural persons, regardless of nationality. Foreign-owned firms have the same investment opportunities as Romanian entities in FTZs. Since 1 January 2007, the European Community Customs Code applies to Romania's FTZs.

11. Foreign Direct Investment (FDI)

Since the arrival of President Klaus Iohannis at the end of 2014, investor confidence has risen and is reflected in a rise of foreign investment of 60% compared to the previous year, reaching EUR 3 billion in 2015. Until 2020, Romania will receive EUR 40 billion of grants by the European Commission. The technocratic Government's fight against corruption has accentuated the country's business friendly image, attracting investors.

The distribution of foreign direct investment by sector shows a lead of the industrial sector (more than one third of the total), other activity sectors, such as banking and insurance, wholesale and retail, energy, construction and telecommunications have attracted investors as well. The regions, which attract the most foreign capital, are (in order of importance): Bucharest (more than 60% of the total), the country's center and the south. Romania has numerous advantages: in addition to a large domestic market, the country has a strong industrial tradition, coupled with a cost of labor among the lowest in the EU. This has been the reason for the development of a significant industrial sector, particularly car making, but also services.

There were more than 200,000 active companies with foreign shareholders in Romania in 2015, and almost half of them are owned by investors from five countries: Italy, with the largest number of investors (more than 40,000), Germany with almost 21,000 companies, Turkey with 14,000 companies, Hungary with 12,800, and China with 11,600 firms. France, U.S., Austria, Israel and Greece are also in the top 10 in terms of number of Romanian firms controlled by investors from these countries. Netherlands, which is the biggest source of foreign investments in Romania by the value of the capital invested, is only 16th by the number of companies. The total amount invested by foreign shareholders in Romanian companies was EUR 41.3 billion, at the end of April 2015.

12. Expatriate life

For travelers, Romania offers something for everyone: beautiful landscapes, museums, spas, old cities, castles, restaurants, shopping, cinemas, malls and more. There are many great places to visit in Romania, such as: the Danube Delta, Sighisoara Citadel, Rasnov citadel, Bran Castle, the painted churches in Moldavia and the Olt Valley, Peles Castle in Sinaia, the Merry Cemetery (Cimitirul Vesel) in Sapanta, Sibiu, etc.

Largest urban centers in Romania are Bucharest (Capital City), Cluj-Napoca, Timisoara, Brasov, Constanta, Iasi, Craiova, Ploiesti. Accommodation in Romania differs significantly between the capital, Bucharest, and the rest of the country. Single-family houses are common in villages and small towns, whereas blocks of flats and housing estates are more frequent in big cities. All over the country, you can find houses and flats for rent. The cost of rental varies a lot depending on the location, ease of access, condition of the property, etc.

The central characteristic of the Romanian cuisine is its great variety. The cuisine was influenced by repeated waves of different cultures: the ancient Greeks, with whom Romanians traded; the Romans, who gave the country its name; the Saxons, who settled in southern Transylvania; the Turks, who for centuries dominated Romania; as well as Slavic and Magyar neighbors. The main ingredients used by Romanian chefs are meats such as pork, beef and lamb, fish, vegetables, dairy products and fruit.

There are lots of festivals and public holidays in Romania, especially during the summer or winter seasons. Some are linked to the widely practiced Orthodox religion, some mark life events, and others represent stages in the agricultural calendar.

The main public holidays are Easter, New Year's Day, Labor Day on May 1st, Rusaliiile (celebrated 50 days after Easter), The Assumption of the Blessed Virgin Mary into Heaven on August 15th, National Day on December 1st, and Christmas on the 25th and 26th of December, each with many public celebrations and unique festivals of their own.

13. Weather and climate

Romania has a temperate climate with four distinct seasons. Spring is pleasant with cool mornings and nights and warm days. Summer is quite warm, with extended sunny days. The hottest areas in summer are the lowlands in southern and eastern Romania where 37°C is often reached in July and August.

Temperatures are always cooler in the mountains where it tends to be more humidity and rainfall all year round, as fog and mist are more common at higher altitudes. On the coast, summers are pleasant and winters are mild. In autumn, days are generally warm with cool evenings. October brings a display of colorful autumn foliage, but it can also be quite cold and rainy. Most rain falls in the autumn and in the spring.

Winters are cold, with temperatures below 0°C, especially at night when temperatures can dive down to -15°C. Frosty winds are common and snow covers most of the country from December to mid-March. Very warm clothing is recommended in winter.





Slovakia

1. General Overview of the Economy

Since joining the EU in 2004, the Slovak economy has undergone dynamic development. Slovakia has received praise for the implementation of significant economic reforms. The Slovak economy has undergone rapid growth thanks to financial sector stability, integration into the OECD and NATO, the adoption of the euro and continuous improvement of the business environment. The steady inflow of FDI demonstrates that Slovakia has become a popular destination for foreign investors. This is especially true in the industrial and business services sectors, which have seen a big inflow of FDI in recent years.

Slovakia has an export-oriented economy, its main trade partners are Germany and the Czech Republic. The service sector is the main contributor to GDP, with a share of over 60%, followed by industry (over 35%) and agriculture. GDP growth is projected at 3.4% for 2016, down from the record high of 10.4% in 2007. Unemployment continues to be significant at 9.45%, particularly in the south and east of the country.

Political System

Slovakia is a parliamentary democracy with a unicameral Parliament - the National Council of the Slovak Republic ("Council").

The 150-seat Council is the highest legislative body of Slovakia. MPs are elected for a four-year period under a proportional representation system and the Council has budgetary and legislative powers.

The Slovak head of state is the president, who is elected by a direct popular vote for a five-year period. Although the position is mostly ceremonial, the president can use his veto to return legislation to the Council.

Most executive power lies with the head of government, the prime minister, who is usually the leader of the largest parliamentary party. The prime minister is appointed by the president. The rest of the cabinet is appointed by the president on the recommendation of the prime minister.

A 13-member Constitutional Court has the power to overturn legislation on grounds of unconstitutionality.

2. Tax structure

Tax Administration

Registration requirements

An entity or individual that obtains a license to perform, or starts performing business activities in Slovakia, is obliged to register with the relevant Tax Authorities by the end of the calendar month following the month in which the entity obtained permission or authorization to perform business activities.

Statutory time limit to assess additional tax

Slovak tax law allows the tax authorities to review tax periods for a five-year period from the end of the calendar year in which the tax return should have been filed. With respect to the Slovak Tax Administration Act, effective from 1 January 2010, a seven-year period replaces the five-year period for a tax audit if a tax loss was recorded by a taxable person.

The application of the respective provisions relates to financial year 2010 onwards. ➤

If, prior to the expiration of such a time limit, the tax authorities initiate an action to assess tax, another five-year period commences from the end of the year in which the taxpayer was notified of such an action. In this case, the tax may be additionally assessed no later than 10 years after the end of the year in which the duty to file a tax return arose. In cases where double tax conventions are applied, the statute of limitation expires after 10 years from the end of the year in which the tax return was due.

Tax returns

As a rule, the tax year coincides with the calendar year. Taxpayers can select the fiscal year as their tax year for corporate taxes. For certain types of tax (e.g. VAT and excise duties), the tax period is the calendar month or calendar quarter. Corporate income taxes are assessed on the basis of annual returns, which must be filed within three months of the end of the taxation period. Taxpayers must also calculate and pay the calculated tax by the filing date. Taxpayers must file an additional tax return if they become aware that their tax liability is higher than declared in the tax return

Corporate Income Tax

Corporate income tax rate

Since 1 January 2014, the corporate income tax rate is 22%. A reduction of the corporate income tax rate to 21% from FY 2017 is currently being considered.

Tax base calculation

Tax is paid on taxable profit as reported in the financial statements according to Slovak Accounting Standards and adjusted for deductible and non-deductible items. The tax base of taxpayers using the double-entry bookkeeping system is assessed on an accruals basis. Further adjustments are required for taxpayers applying IFRS rather than Slovak Accounting Standards.

Generally, expenses recorded by a taxpayer are tax deductible if it can be documented that they were spent on generating, ensuring and maintaining taxable income, unless they are:

- partially deductible up to a certain limit determined either by the Income Tax Act (ITA) or by a special law (e.g. the Act on Travel Allowances); or
- specifically stated as non-deductible in the Income Tax Act.

Some expenses are only deductible after being paid.

Advance payments

Advance payments of corporate income tax must be paid on a monthly or quarterly basis, depending on the company's tax liability in the previous tax period. They are paid on a monthly basis if the taxpayer's tax liability for the previous tax period exceeded EUR 16 600, or quarterly if it was between EUR 2 500 and EUR 16 600. The tax administrator can rule on a different payment of advance payments.

Tax credit

A tax credit is available as a reduction of corporate tax liability. Taxpayers can be provided with tax relief for 10 years up to an amount approved by the Slovak government for a specific investment project (see Section 9 for further details).

R&D tax super deduction

As of 1 January 2015, R&D expenditures can also be a tax-deductible item. A tax entity may reduce its tax base directly in the tax return for the relevant taxable period in a total amount of:

- 25% of R&D total expenses (staff, depreciation, operating costs, etc.)
- 25% of R&D staff costs of new graduates (younger than 26)
- 25% of the incremental annual increase of total R&D expenses

The following statutory conditions must also be met to claim a deduction:

- recording of eligible costs separately from other cost items in the tax entity's accounting books;
- preparation of an R&D project in writing,
- report basic data on the R&D project in the CIT return,
- submit a R&D project for which the costs were incurred to the tax administrator in the event of a tax audit;
- exclude claims for deductions for services and intangible outcomes of R&D for which support was provided from public funds, except for costs from the Slovak Academy of Sciences, or legal entities performing R&D established by central state administrative authorities.

Transfer Pricing

As of 1 January 2015, transfer pricing rules apply to both domestic and foreign related party transactions. Related parties are either economically, personally or otherwise related. An economic relationship is defined as direct or indirect ownership, or voting rights of more than 25% and a business relationship between related individuals. A personal relationship is defined as participation in the management or control of the other party, including via persons or shareholders of the company and their related individuals. "Other relationship" means a commercial relationship established to decrease the tax base or increase the tax loss.

If the difference between the prices agreed between a Slovak entity and a foreign or domestic related party and the arm's length price is not sufficiently justified (and supported by appropriate documents), such a difference will be subject to additional taxation and penalties if the transfer pricing adjustment increased the tax base in Slovakia.

The adjustment is determined with reference to the conditions that would arise between independent persons in a similar business or financial relationship (independent relationship principle). The following methods are used to determine the adjustment:

- price comparison (comparable uncontrolled prices method, resale price method, cost plus method);
- comparison of profits; or
- combination of the above-stated methods or any other reasonable method, in accordance with the principle of independent relationships.

Transfer pricing documentation is required for material related party transactions (hereinafter "Controlled Transactions")

Transfer documentation describes the pricing methodology for the taxpayer's related party transactions, including its relationship with related parties, the prices for services, loans and credit granted. The documentation should demonstrate that the pricing of the Controlled Transactions is in compliance with the arm's length principle.

The documentation content depends on the circumstances and conditions applicable to the taxpayer's individual Controlled Transactions and the transfer pricing method applied.

The documentation should be prepared separately for each Controlled Transaction, or jointly for a group of Controlled Transactions, i.e. a group of Controlled Transactions that are closely related, are of the same kind, made under identical conditions, or are comparable from the function and risk perspective.

There are three types of documentation:

- full documentation (Masterfile and localfile) must be prepared by IFRS reporters or entities meeting specific requirements (e.g. companies applying a significant tax loss carry forward exceeding EUR 300 000 a year or EUR 400 000 for 2 consecutive years)
- short documentation should be prepared by micro-entities or entities only undertaking domestic transactions
- basic documentation should be prepared by all other companies.

The taxpayer is obliged to submit transfer pricing documentation within 15 days of the date of receiving such a request from the tax authority. Transfer pricing documentation must be submitted in the Slovak language. However, upon the taxpayer's request, the tax authority may allow transfer pricing documentation to be submitted in a language other than Slovak.

If documentation is not submitted when required, a penalty of up to EUR 3 000 per request may be assessed. Penalties are tax non-deductible. If documentation is not provided, the tax authorities will also perform their own economic analysis and may adjust the price to the most unfavorable point of the arm's length range. Adjustments may result in additional tax with applicable penalties and late payment interest.

Taxpayers granted specific investment incentives under Act No. 561/2007

The Investment Incentives Act must comply with the arm's length principle. If they fail to do so, the companies will lose the right to utilize their granted tax credits. If these were already partially or wholly utilized, the taxpayer is obliged to refund them.

Thin capitalization

New thin capitalization rules were introduced on 1 January 2015, which apply to all related party (foreign and domestic) interest expenses incurred from 1 January 2015 based on all (new and old) loan contracts, as follows:

- The tax non-deductible part of interest expense must be derived from the indicator calculated as a sum of the accounting result of the debtor before tax and the amount of interest expense and fixed assets depreciation charges included in this accounting profit.
- Interest expense towards related parties exceeding 25% of the above-stated indicator is considered as a tax non-deductible expense.
- Back-to-back loans are also covered by this provision.

Tax treatment of losses

Tax losses are deductible from the tax base. The taxpayer may utilize tax losses incurred from FY2014 onwards for four consequent taxation periods after the taxation period in which the tax loss was declared. Losses may not be applied retrospectively.

Minimum monthly wages in selected EU member states as of 1 January 2012, 2013 and 2015

Category	Depreciation period (years)	Type of asset
1	4	Computers, cars and certain tools, etc.
2	6	Machinery and equipment, furniture, vehicles for special purposes, etc.
3	8	Manufacturing technology, e.g. electric motors, generators, turbines, ovens, etc.
4	12	Production equipment, e.g. steam boilers and auxiliary equipment etc.
5	20	Manufacturing buildings, civil engineering structures
6	40	Non-manufacturing (administrative) buildings and structures

Depreciation

Generally, fixed assets are depreciated for tax purposes by the owner, or lessee of the tangible or intangible fixed asset.

Intangible fixed assets

Intangible assets are capitalized and depreciated if the value of the intangible is more than EUR 2 400 and if their expected useful life exceeds one year and they were purchased or created by an activity of the taxpayer. The intangibles specified above may be depreciated in accordance with Slovak accounting rules.

Tangible fixed assets

Tangible assets are capitalized and depreciated if their value is more than EUR 1 700 and if their expected useful life exceeds one year.

A Company depreciates assets using the straight-line method. Assets listed in category 2 or 3 may be depreciated using the accelerated method. Once the method for each asset has been selected, it may not be changed for the entire depreciation period. The accelerated method allows for higher depreciation claims in the early years of an asset's life. The tax depreciation of tangible assets in some taxable periods may be interrupted and then continued as if the taxpayer had not interrupted depreciation to prolong the time period in

which the fixed assets are fully depreciated for tax purposes.

Withholding taxes

Withholding taxes are paid on interest, royalties and other payments, e.g. lease rentals. Double tax treaties concluded by Slovakia normally reduce withholding tax rates. Treaty rates can be applied directly if the contractual parties meet respective tax residency criteria. If interest and royalties are paid to residents of other EU Member States and certain conditions are met, such payments are not subject to withholding tax. The basic Slovak withholding tax rate is set at 19%. From 1 March 2014, a withholding tax rate of 35% must be applied to payments made to taxpayers of non-contractual states (in general, states that have not concluded a double tax treaty with Slovakia).

Dividends

Dividends paid as a distribution of profit after tax, generated after 1 January 2004 are not subject to Slovak taxation.

Collateral tax

If a Slovak tax resident (company or individual) makes a payment abroad (except for payments made to taxpayers in EU Member States) and these payments relate to specific Slovak-sourced income, Slovak tax residents are obliged to secure 19% or 35% of the payments, unless the payment is subject to withholding tax, or unless the non-resident taxpayer submits a confirmation issued by the Slovak tax administrator that it pays advance tax payments in Slovakia. The taxpayer is obliged to remit withholding taxes within 15 days of the following month for the previous calendar month to the relevant tax authority. If taxes are not paid on time, or in an incorrect amount, the tax authorities may claim the due tax (including penalties) from the Slovak taxpayer that did not comply with the law.

Considerations for groups
Slovak tax law does not provide for consolidated tax returns. Each company must file its own tax return and pay its own taxes. Losses can only be deducted from the tax base of the entity that incurred the loss.

Value Added Tax

Registration

All individuals or legal entities that perform economic activities in Slovakia are regarded as taxable persons. A taxable person with its seat, place of business or fixed establishment in Slovakia is obliged to register for VAT purposes if it exceeds a turnover of EUR 49 790 in the 12 preceding consecutive calendar months. In general, turnover consists of all performed taxable supplies in Slovakia. A taxable person may apply for voluntary VAT registration.

A foreign entity without a registered office, place of business or fixed establishment in Slovakia performing taxable transactions with a place of supply in Slovakia is obliged to register for Slovak VAT purposes prior to starting a business activity which is subject to VAT in Slovakia, however, there are some exceptions in the legislation (e.g. when the VAT obligation is shifted to the customer).

As of 1 October 2012, in certain circumstances at the time of VAT registration, taxable persons are required to transfer a guarantee payment (in cash or a bank guarantee) to the tax authority's bank account, which is held for 12 months. The tax authority determines the amount of the tax guarantee payment from EUR 1 000 to EUR 500 000.

The applicant must transfer the guarantee payment within 20 days of receipt of a decision of the tax authority. The tax guarantee payment is used for any outstanding debts relating to the first 12 months after the guarantee payment was paid. Generally, the remaining amount of the interest-free guarantee payment is paid to the registrant within 30 days of the end of the above 12-month period.

VAT rate

The standard VAT rate is 20% (19% prior to 1 January 2011). As of January 2007, the VAT Act introduced a reduced VAT rate of 10%. This reduced rate only applies to certain food products, books, antibiotics and certain pharmaceutical and sanitary products as stated in Annex 7 to the VAT Act.

VAT returns

The standard assessment period is the calendar month. If a turnover of less than EUR 100 000 in the previous 12 months is made by a registered VAT payer, the tax period can be chosen to be a calendar quarter.

VAT returns must be submitted by the 25th day of the month following the tax period concerned. If returns are submitted monthly or quarterly, payment in full must accompany the return, i.e. the VAT for a relevant tax period is payable by the 25th day of the following month. If the 25th day is a weekend/public holiday, it must be paid on the next working day. The VAT liability is regarded as paid by the statutory deadline if the bank transfers debits the money from the company's bank account by the deadline.

As of 1 January 2014, all VAT payers are obliged to file all submissions electronically (including VAT returns) with the Slovak Tax Authorities. A hard copy filing of a VAT return is no longer possible.

VAT transactions statements

A new obligation for Slovak VAT payers arose from January 2014 – filing of a VAT transactions statement. This statement includes information from individual invoices with respect to the following transactions:

- local supplies of goods and services;
- local supplies of specific products to which the local reverse-charge mechanism applies (e.g. agricultural products, mobile phones, microprocessors, iron and steel goods, etc.) if (i) the tax base stated on the invoice exceeds EUR 5 000 and (ii) both the supplier and customer are VAT registered in Slovakia;
- input transaction where the recipient of the goods or services is obliged to pay VAT;
- local purchases of goods and services (with the right to deduct the input VAT);
- correction invoices (both received and issued).

VAT transactions statements must be filed electronically with the Tax Authorities along with the VAT return. Under specific conditions if no transactions were performed, a VAT transactions statement for the respective month need not be filed. The deadline for the VAT transactions statement is the deadline for the VAT return, i.e. the 25th of the month following the month of the VAT liability.

Liability for VAT payment

Effective from 1 October 2012, the VAT payer to whom the goods/services are/will be supplied is liable for the VAT stated in the invoice if the supplier:

- did not pay this VAT; or
- became unable to pay this VAT;

and the VAT payer knew, should have known, or could have known about this fact by the tax point date. The customer is obliged to pay VAT (or part thereof) that was not paid by the supplier by the deadline. The tax authority of the supplier decides as regards assessing the VAT payment to the customer as the guarantor and a VAT payment is due within eight days of the delivery of a decision to a customer. If the VAT is then paid by the supplier, the VAT paid by the customer will be returned to the customer.

Claiming input VAT

In general, a taxpayer is entitled to deduct VAT on goods and services used during his business performed as a VAT-registered payer. However, input VAT cannot be deducted from supplies linked with certain supplies which are VAT-exempt without the right to deduction and from certain specific purchased supplies (e.g. refreshments and entertainment, etc.).

To qualify for an input VAT deduction, the following conditions must be met:

- a taxable liability arose for the taxpayer performing business activities;
- for domestic supply, the taxpayer has an invoice issued by a supplier;
- for services and goods where a reverse charge mechanism is applied, the entry of the VAT in the company's records for VAT purposes is sufficient for the deduction;

- for the acquisition of goods from other Member States, the taxpayer has an invoice issued by the supplier;
- for importation, the taxpayer possesses the underlying customs declaration and the import VAT has already been paid to the customs authorities.

Input VAT that relates to VAT-exempt taxable supplies cannot be deducted and becomes an expense of the taxpayer. Such supplies are for example:

- financial services (e.g. the provision of consumer loans);
- insurance services; or
- supply and lease of real estate under certain conditions.

VAT exempt supplies with the right to deduction include:

- delivery of goods to other Member States to a person registered for VAT purposes in another Member State;
- transfer of own goods by a taxable person to another Member State for one's own business purposes;
- international transport of passengers; or
- export of goods or services.

VAT refund

In Slovakia, under normal circumstances a VAT refund is processed automatically. If a taxpayer is in a VAT refund position for a certain month (month A), the tax authority will wait for the VAT position of the following month (month A+1) and offset the VAT due (month A+1) against the deductible VAT (month A). The outstanding balance will be reimbursed within 30 days of the filing of a VAT return for month A+1. If the VAT return is subject to a VAT audit by the tax authority, the extra VAT deduction will be reimbursed within 10 days of audit completion.

VAT refund for foreign entrepreneurs
Foreign entrepreneurs without a place of business, branch or permanent establishment registered in Slovakia, which are not VAT-registered in Slovakia and which incurred Slovak VAT may request a refund. If such persons have incurred VAT in Slovakia on the purchase of goods or services, or on the import of goods, they are entitled to a refund, provided they meet the conditions stipulated in the VAT Act, i.e.:

- They are registered for VAT in their country of establishment and their country of establishment provides VAT refunds to Slovak entities (reciprocity principle valid for entrepreneurs from third country); and
- The goods or services purchased, or goods imported must be used for the foreign entrepreneur's business activities abroad.

During the period for which a VAT refund is claimed, the foreign person must not have made any sales of goods or supplies of services in Slovakia (with certain exceptions, e.g. transport services and complementary services relating to exported goods and goods under a customs regime, a supply of goods with installation or assembly).

A refund can be claimed not later than six months (valid for entrepreneurs from third country), or not later than nine months (valid for entrepreneurs from another EU country) after the end of the calendar year in which the VAT was incurred. Generally, VAT is refunded within six months of the submission of an application.

Customs legislation

As the Slovak Republic is a Member State of the European Customs Union, the EU customs legislation is directly applicable in the Slovak Republic as in other EU Member States. The customs duty rates for goods are unified in all EU Member States.

The customs code allows the use of the following customs procedures when trading with third countries:

- release into free circulation;
- transit regime (external and internal transit);
- storage (customs warehousing and free zones);
- processing (inward processing and outward processing of goods);
- specific use (temporary admission and end-use);
- export of goods.

Taxation of Individuals

Slovak tax residents are liable for personal income tax on their worldwide income. Slovak tax non-residents are only liable for personal income tax on Slovak-sourced income. Any individual with a permanent home registered in Slovakia or who spends more than 183 days in a calendar year in Slovakia is considered to be a Slovak tax resident.

A person commuting to the Slovak Republic on a regular basis (also daily) only for the purpose of performing dependent activities is not considered a Slovak tax resident solely because he spends more than 183 days here, ie the 183-day rule does not apply to commuters.

The concept of economic employment was introduced from 1 January 1999 and also applies to employees seconded by a foreign company to a Slovak company. It is no longer important in relation to income tax prepayments whether it is a foreign or a domestic employer that pays a foreign employee for their work. If a Slovak company issues orders regarding how the work should be done, it is considered to be the employer of the expatriate even if the expatriate receives a salary from abroad.

An economic employer has a duty to make income tax prepayments to the tax authorities as regards a foreign individual's Slovak personal income tax.

The personal income tax rates from 2013 are:

- 19% on a monthly tax base up to EUR 2 918.526
- 25% on a monthly tax base exceeding EUR 2 918.526

The tax base is calculated as the gross salary decreased by the mandatory employee social security contributions and tax-deductible allowances.

Social security contributions

The social security system in Slovakia consists of social security contributions and health insurance contributions. If individuals are on the Slovak payroll, the monthly social security withholding is undertaken by the employer on a monthly basis.

Social security contributions in Slovakia are relatively inexpensive and are capped for 2016 at:

Insurance system in Slovakia	Assessment base Max (EUR)	Contributions (%)		
		Employer (%)	Employee (%)	Self-employed (%)
Old Age Pension*	4 290	14	4	18
Sickness Insurance	4 290	1.4	1.4	4.4
Disability Insurance*	4 290	3	3	6
Accident Insurance	gross income	0.8	0	0
Health Insurance	4 290	10	4	14
Unemployment Insurance	4 290	1	1	2 (voluntary)
Reserve Fund	4 290	4.75	0	4.75
Guarantee Fund	4,290	0.25	0	0
TOTALS		35.2	13.4	47.15

Local taxes include a number of payments (real estate tax, dog tax, accommodation tax, etc.) administered by municipalities.

The most important tax is the real estate tax, which is assessed on land, buildings and flats (hereafter "Real Estate"). In general, the owner of the Real Estate is the payer of the real estate tax.

An initial tax return must be filed by the 31 January following the year in which the Real Estate was acquired. No other tax return need be filed unless the conditions for the levy of the tax are changed (eg change of type of land, sale of property) or if the taxpayer applies for a tax exemption. The tax administrator (municipality) assesses the tax by the end of May each year. Usually, the tax is due within 15 days of receiving the assessment of tax levied by the municipality. However, it is possible to agree with the municipality on the payment of tax in several instalments.

The tax base is determined based on the area of land in square meters (for the land tax) and/or the area the buildings cover (for the tax on buildings) and the basic tax rate.

The tax base for land and buildings is determined based on the status of the property owned as of January 1 of the relevant tax period. The individual tax rates and coefficients are declared annually by individual municipalities and can vary greatly.

3. Legal entities

Some legal form of undertaking business in Slovakia must be established by a foreign investor when making an investment in Slovakia. The most common legal form for conducting business in the Slovak Republic is via a limited liability company (hereafter "LLC", "spoločnosť s ručením obmedzeným", "s.r.o.") or a joint stock company (hereafter "JSC", "akciová spoločnosť", "a.s."). Both these types of legal entity provide the investor with limited liability in the Slovak Republic, however, there are differences, which the investor should be familiar with. As of January 2017 a new type of a JSC will be introduced – a simple joint stock company (hereafter a "SJSC", "jednoduchá spoločnosť na akcie", "j.s.a.") combining certain features of the LLC and JSC. There is also the option to create a general partnership ("verejná obchodná spoločnosť", "v.o.s.") and a limited-partnership company ("komanditná spoločnosť", "k.s.).

Limited Liability Company

The minimum registered capital of an LLC is currently EUR 5 000. An LLC can be established by between one shareholder and 50 shareholders. A natural person may be a sole founder or a sole shareholder in a maximum of 3 LLCs. An LLC with one shareholder may not be the sole founder or the sole shareholder of another LLC. This limitation also applies to foreign LLCs. While this provision may complicate a Slovak holding structure, it is relatively easy to deal with.

An LLC is an administratively-easy entity to operate. One executive, who is initially appointed in the corporate documents (i.e. Founding Deed or Memorandum of Association), represents the LLC individually. Thus, a formal board of directors is not needed. In addition, there is more flexibility regarding the allocation of profits and distribution of cash among owners.

Joint Stock Company

The minimum registered capital of a JSC is EUR 25 000 divided between a number of shares with a certain value. Slovak law recognises private and public JSCs. A JSC can be created by one shareholder, provided that such a shareholder is a legal entity. The total number of shareholders is in general unlimited.

The administrative obligations of a JSC are more complex than those of an LLC. For example, a JSC must create a Supervisory Board, which has a certain level of control over the Board of Directors (BOD).

i. Joint Stock Company with variable registered capital

A joint stock company with variable registered capital is also known as a SICAV (Société d'investissement á Capital Variable) (hereafter "SICAV", "akciová spoločnosť s premenlivým základným imaním")

A SICAV may only be established for collective investment under the Collective Investment Act

ii. Simple Joint Stock Company

The provisions on SJSC will become effective as of 1st January 2017.

The minimum required registered capital is EUR 1 and the intention is to create a suitable legal form primarily for start-ups.

The Articles of Association for a SJSC may allow the issue of various classes of shares with different specific rights attributable to the respective shares. Various classes of shares reflect the position of shareholders and their rights within the company (i.e. founders, investors, employees, etc.).

A SJSC cannot be established by a public subscription of shares or undertake public trading without prior transformation to a regular joint-stock company.

General Partnership

Under the Commercial Code, a general partnership is a partnership in which two or more parties conduct business under a common business name and bear joint and several liability for the obligations of the partnership with all their properties. A General Partnership as a partnership is established for a mutual business purpose and it must be established by at least two parties – natural persons and/ or legal entities – foreign or local. There is no registered capital requirement (although it is possible to make a contribution) and all partners may represent the company.

Limited-Partnership Company

This is an entity where one or more members are liable up to the amount of their unpaid contribution to the registered capital registered in the Commercial Register (limited partner) and one or more members are liable with all their property (general partner). It represents a hybrid of a limited liability company and a general partnership. The limited partner is obliged to make a capital contribution in an amount set by the memorandum of association, with a minimum of EUR 250.

4. Labor and wages

Slovakia is no longer considered a low-wage country, local wage costs are still far lower than in countries further west, but compared to CE countries, Slovakia's ranking as regards wage costs continues to rise. In certain sectors, e.g. ICT, pharma and banking jobs Slovakia had the highest average salaries in 2015 in the CE region. In contrast, wages in the retail sales, wholesale, and hotel and restaurant sectors were one of the lowest.

There are big differences as regards wage levels between individual regions in Slovakia. Bratislava region has the highest wage levels, due to its proximity to Vienna, its status as a capital city and the high inflow of foreign investment in the Bratislava region. The eastern regions of Slovakia have the lowest salary levels. The disadvantages of this region are weak infrastructure and the low volume of foreign investment.

Labor Legislation

Most investors will hire Slovak employees as part of their investment in Slovakia. The Labor Code has undergone a series of amendments to make it more "employer friendly", although many changes have also been made to increase employee protection. Therefore, before hiring employees in Slovakia, an investor must be familiar with the labor legislation and prepare employment contracts and HR policies accordingly. There follows a general discussion of the most relevant aspects of the Labor Code. We recommend that an investor obtain legal counsel to review this area in more detail.

The Labor Code governs employment relations in Slovakia. Under this code, an employment relationship is founded by a written labor contract between the employer and the employee, which represents a mutual agreement of the contractual parties.

The labor relationship is created from the day agreed upon in a labor contract as the first day of work. An employment relationship may be concluded for a definite or an indefinite period. A trial period may be agreed in a labor contract, the duration of which is a maximum of three months (or six months for managers or leading employees) and may not be extended; a trial period must be agreed in writing to be valid. During this trial period, either party can terminate the labor relationship immediately without ramifications.

Generally, working time in Slovakia is limited to 40 hours a week. It is possible to require, or to agree on overtime with an employee. An employer may (subject to some exceptions) require from an employee an additional 8 hours of overtime a week during a period of a maximum of four consecutive months (a maximum of 12 months can be agreed). The total overtime requested by an employer may not exceed 150 hours per calendar year. An employer may agree additional overtime work with an employee, however, total overtime may not exceed 400 hours per calendar year.

The Labor Code also specifies the minimum wages for Slovak workers. The minimum wage is EUR 2.328 / hour (EUR 405 / month) and additional increases are set for the following conditions:

	salary + minimum increase of
overtime work	25%*
work during state holiday	50%*
night work	20%**
hazardous work	35%*

*of employee's average salary

**minimum hourly increase for night work is calculated from minimum hourly wage

Source: Deloitte Slovakia, 2016

The law strictly limits reasons for the termination of a labor contract by an employer by written notice. The minimum notice period is one month and is the same for employer and employee. The notice period for an employee who has worked for at least five years for the same employer is a minimum of three months.

The minimum annual holiday for employees is four weeks. Employees older than 33 are entitled to five weeks' annual holiday. The Labor Code also specifies the length of maternity leave, which is 34 weeks (37 weeks if the mother is a single parent and 43 weeks if the mother gives birth to more than one child). Both men and women are entitled to a retirement pension at the age of 62.

Cross-Border Cooperation When Assigning Employees for Work Performance

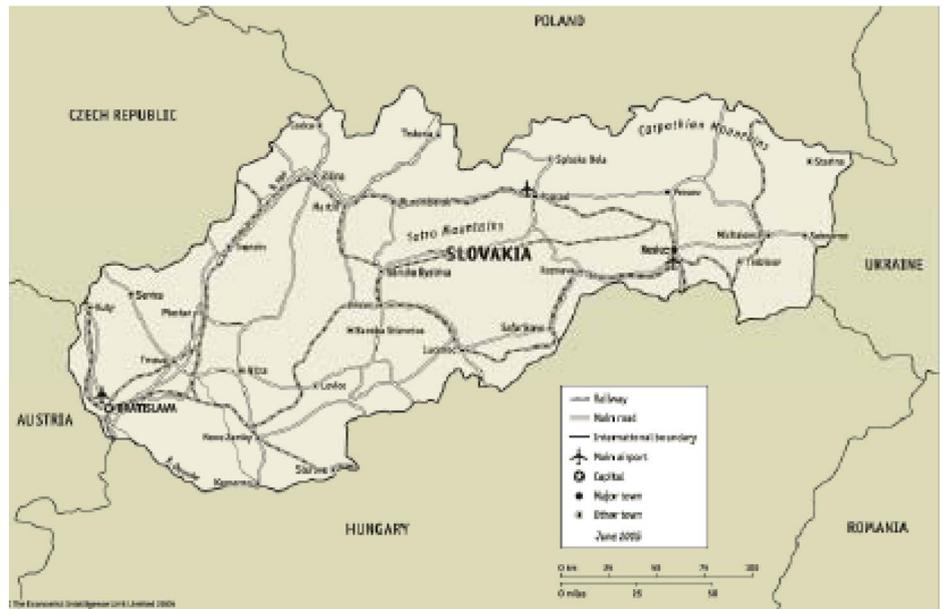
As of June 2016, a new regulation (Act No. 351/2015) became effective in Slovakia, governing cross-border cooperation as regards assigning employees to perform work as a provision of services. It was adopted to harmonize Slovak law with EU legislation (Directive 2014/67 of the European Parliament and of the Council on transposing Directive 96/71/EC concerning the posting of workers in connection with the provision of services).

Based on this law, the employer and the hosted employer have several obligations which must be followed, mainly:

- notification obligations towards the National Labor Inspectorate;
- keeping of records of posted employee/s in the structure stipulated by law;

There are specific requirements with respect to an agreement on the assigning of an employee, ie workplace specification, type of work to be performed, start and termination of the assignment, and pay conditions. It is, however, also recommended to include other information which may be necessary with regard to the work to be performed, and other requirements applicable in the country from which the employee is being assigned.

As the posting of employees is a complex topic addressed by several regulatory requirements in relation to the limitation of a period of assignment, interaction with the National Labor Inspectorate, and written documentation governing the posting of employee/s, we recommend discussing individual cases with legal counsel. It should also be noted that in the event of non-compliance with the law, penalties of EUR 2 000 to EUR 20 000 may be imposed on both the employer and the hosted employer.



5. Education

Prior to 1989, when Slovakia became part of the free market economy, the education system was characterized by a strong focus on technical fields such as mathematics, physics, electrical engineering and chemistry. The Slovak education system provided technical knowledge and many students graduated in subjects like mechanical and electrical engineering, civil engineering, chemical production, and military and energy production.

As of 2015, there were 2 113 primary schools and 720 secondary, middle and associated middle schools in Slovakia. As of 2015, 91% of the Slovak population aged 25-64 had completed secondary or higher education.

There are 35 universities and colleges in Slovakia. Approx. 119 000 students were enrolled at these universities in 2015, a significant number of students are studying at economic and technical faculties. Almost 50% of the current, younger generation are expected to complete university education.

6. Infrastructure

Highway and Road Network

Slovakia's first- and second-category roads are in reasonable condition. 464 km of motorway and 245 km of expressways are currently operational, but the motorway network is currently under construction and is expected to be about 715 km in length by 2022. Gaps in the motorway network between Bratislava and Kosice is one of the reasons that there is a current difference in the economic development of eastern Slovakia when compared with the Bratislava region.

In addition to the motorway network, express roads and first-class roads connect all parts of Slovakia and neighboring countries.

Railway Network

The railway network in Slovakia is a result of 150 years of development and numerous political agendas. Slovakia is a transit country as regards railway transport. The main international railway routes are directly linked to rail lines in Slovakia. Many local companies and foreign investors use the railway extensively as the main transport means. One of the main advantages of the Slovak railway network in the eastern part of Slovakia is the existence of a broad-gauge rail line, with the same gauge as the Russian network.

Air Transport

There are 8 international airports in Slovakia, Bratislava and Kosice are the busiest. Current trends show significant interest in the development of Bratislava international airport. It is ideally located 65 km from Vienna and 193 km from Budapest, but for many years has been underutilized. Its recent, rapid growth has been driven by low-cost airlines. Bratislava airport was reconstructed in 2010.

Water Transport

Approximately 200 km of the River Danube forms the western border of Slovakia, and the capital city of Bratislava is located on the Danube.

The Danube is a 3 500 km trans-European artery between the northern European states and the Black Sea on the Romanian coast. There are two ports on the Slovak section – Bratislava and Komárno.

7. Main Industries/Sectors

Automotive Industry

1,038,503 cars were produced in Slovakia in 2015 – and the automotive sector remains a key industry. Slovakia's location in Central Europe, its EU membership, skilled labor, competitive production costs, taxes and other factors have influenced remarkable growth in the automotive sector. According to the Automotive Industry Association of the Slovak Industry (AAI), there are more than 300 automotive suppliers in Slovakia. Currently, about 80 000 people are directly employed in this industry.

Key market players

Volkswagen was the first automotive manufacturer to locate in Slovakia in 1991 by the acquisition of the Slovak car component manufacturer, BAZ. The company has grown into one of the most sophisticated production plants in the VW Group. In January 2003, Slovakia was the winner in a Central European site selection competition for another major producer. A joint venture between PSA Peugeot and Citroen selected Trnava (approx. 50 km from Bratislava) as the site of a new production plant. The Korean company, KIA Motors, chose Žilina for its first production facility in Europe. A sizeable network of suppliers complements the three car producers. The leading position of Slovakia as a global car producer will be further strengthened as another car manufacturer, Jaguar Land Rover, plans to build a plant in Nitra. The start of production is planned in 2018.

Investment opportunities

Having such a critical mass of car producers makes Slovakia a very attractive place for supply chain companies, many of which are already in Slovakia. Together with other neighboring countries, the production capacity of the Central European region was almost 3.5 million cars in 2015.

Engineering

In the past, Slovakia was a major manufacturing centre for the member states of the Warsaw Pact. Slovakia produced extensive amounts of armory, heavy weapons and machinery. Mechanical and electrical engineering have a long tradition in Slovakia and this provides foreign investors with many opportunities such as a pool of qualified and available workers, existing infrastructure and potential acquisition targets.

Key market players

Slovakia's history of manufacturing bearings attracted the second-largest European bearing manufacturer, INA. The German company, Danfoss, which has been producing compressors in Slovakia since 2001, extended its production in Povazska Bystrica by relocating its Danfoss Bauer and Danfoss Gearmotor divisions from Germany. Whirlpool has a large washing machine manufacturing facility in the north-eastern city of Poprad. Poprad is also home to the rail wagon production facilities of the Slovak company, Tatravagónka. Other notable Slovak engineering companies include Kinex in Bytča and Tatramat in Poprad. Over the past few years, companies such as Mobis in Gbelany, Emerson Electric in Nové Mesto nad Váhom, the Brazilian company Embraco in Spišská Nová Ves and Johnson Controls International have recorded growth. Other major foreign companies include ZF Sachs in Trnava, Volkswagen Electrical systems in Nitra and BSH Drives and Pumps in Michalovce.

Electronics Industry

The electronics industry is a traditional industry in Slovakia. Along with the automotive sector, it is one of the strongest sectors of the Slovak economy. The sector employs a significant part of the Slovak workforce.

Key market players

Samsung Electronics and Foxconn are the two largest electronics producers in Slovakia.

Other significant producers are Whirlpool, Hansol, Emerson, Bosch Siemens, Panasonic, and Yazaki.

Information and Communication Technology (ICT)

Slovak IT firms compete successfully on international markets eg solutions for the business, banking, and financial sectors, and for government, telecom, manufacturing, and SMEs. Major growth areas in the Slovak market include hardware, software, IT and telecommunications services.

Key telecommunications players

Three international mobile operators operate on the market – Telefonica O2, Orange and T-Com. The latter two, along with smaller local and international players, also provide fixed broadband internet access.

Key IT players

The sector comprises big international players, eg HP, IBM, Acer, and regional and local companies - Eset, Sygic, Asseco and Soitron.

Investment opportunities

Despite a relatively-short history of outsourcing IT processes, more than ten years after the West began this process, insiders predict IT success in Slovakia. IT services have been outsourced in Slovakia for about five years, and actual results have started to be achieved around three years ago.

International Business Services

In addition to moving manufacturing facilities to Slovakia, global companies are also relocating administrative support services to Slovakia. This recent trend is driven by an available and inexpensive workforce that is highly trained in IT, finance and has good language skills. In addition, the low individual tax rates and social insurance levies and easy access to Vienna and Bratislava airports make Bratislava an attractive place for such administrative centres. Multinational companies can provide a consistent level of support at these consolidated administrative centres in Slovakia for their entire European operations. This sector includes a broad range of services, including:

- professional consulting services;
- back-office support services;
- data processing;
- financial services;
- online services;
- software development;
- technical support services;
- customer service call-in centres.

Major shared services and call centres in Slovakia

The most popular location for shared services in Slovakia is Bratislava as the capital city already hosts several shared and call centres, ie Dell, IBM, Amazon, AT&T, Hewlett Packard, Johnson Controls, Kone, Henkel, Kraft Foods, T-systems, Accenture, Siemens, Lenovo and others.

Investment opportunities

International business services are a very active sector in the Slovak economy. Global competition from low-cost countries has forced many international companies to reduce their overheads by transferring part of their business activities to low cost territories. Slovakia, with its language and IT skills and low-wage labor force, is a popular location for such services.

Chemical Industry

This sector comprises the production of chemicals, agrochemicals and pesticides, chemical fibres, coating composition, pharmaceuticals and other chemical products. The chemical industry is particularly dependent on the import of raw materials. Foreign capital began entering the Slovak market in the early 1990s via the establishment of new companies and joint venture operations.

Key market players

The main heavy chemical plants are Chemko in Strazske, Duslo in Sala; Nexis Fibers in Humenne (chemical fibres); Slovnaft in Bratislava and Petrochema in Dubová (petrochemical production); and Chemosvit in Svit and Slovensky Hodvab in Senica (synthetic fibres).

Metallurgical Industry

Slovakia has a long metallurgical tradition. Extensive military output substantially contributed to the development of Slovak metallurgy during the socialist era. After 1989, a rapid decline of military production caused the decline of metallurgy production. Slovakia's steel production is not expected to change significantly due to mandatory EU production quotas.

The key market players

The largest company in the steel sector is U.S. Steel Košice. Other companies are Železiarne Podbrezová, Svalco in Žiar nad Hronom, and Bekaert Hlohovec and Kovohuty in Krompachy.

Rubber Industry

The rubber industry is closely tied to automotive producers in Slovakia and abroad.

Key market players

The Matador Group in Púchov brings together several companies. Its core business is in the manufacturing of tyres and industrial rubber products. The German company, Continental Matador, which acquired a branch of Matador, is also a tyre producer.

Investment opportunities in traditional industries

The above-stated industries represent a significant opportunity for foreign investment.

8. Industrial parks

Slovakia has experienced a significant inflow of FDI since 2001. As the privatisation process is essentially complete, the majority of new foreign investments are green- and brown-field projects. This process has created a high demand for suitable land with good logistics and the required infrastructure.

One of the priorities of the Slovak government, and of local municipalities, is to support the development of new industrial parks that can accommodate this demand. The land in industrial parks is zoned for construction with all the required permits and utility connections required by a foreign investor. Foreign investors can either buy or lease the land. Despite this uniform vision, the structure of industrial parks varies in Slovakia, with some owned directly by municipalities and others by private owners. As a result, the pricing structure and degree of development can vary drastically among the parks.

The most highly-developed industrial parks are typically used by the major automotive companies and their suppliers. These investments provide significant reasons for the development and reconstruction of industrial parks.

9. Grants and Incentives Investment Incentives

The availability of investment incentives represents makes investing in Slovakia particularly attractive. Investment incentives are provided to support investments in economically less-developed regions in Slovakia. The incentives are provided in accordance with the Act on Investment Incentives and are subject to approval procedures. The current rules are based on the applicable legal regulations of Slovakia and EU legislation.

In general, the forms and intensity of investment incentives depend on the type of investor project, the volume of investment, and the geographical location of the investment.

According to the valid legislation as of July 2016, Slovakia can provide the following investment incentives:

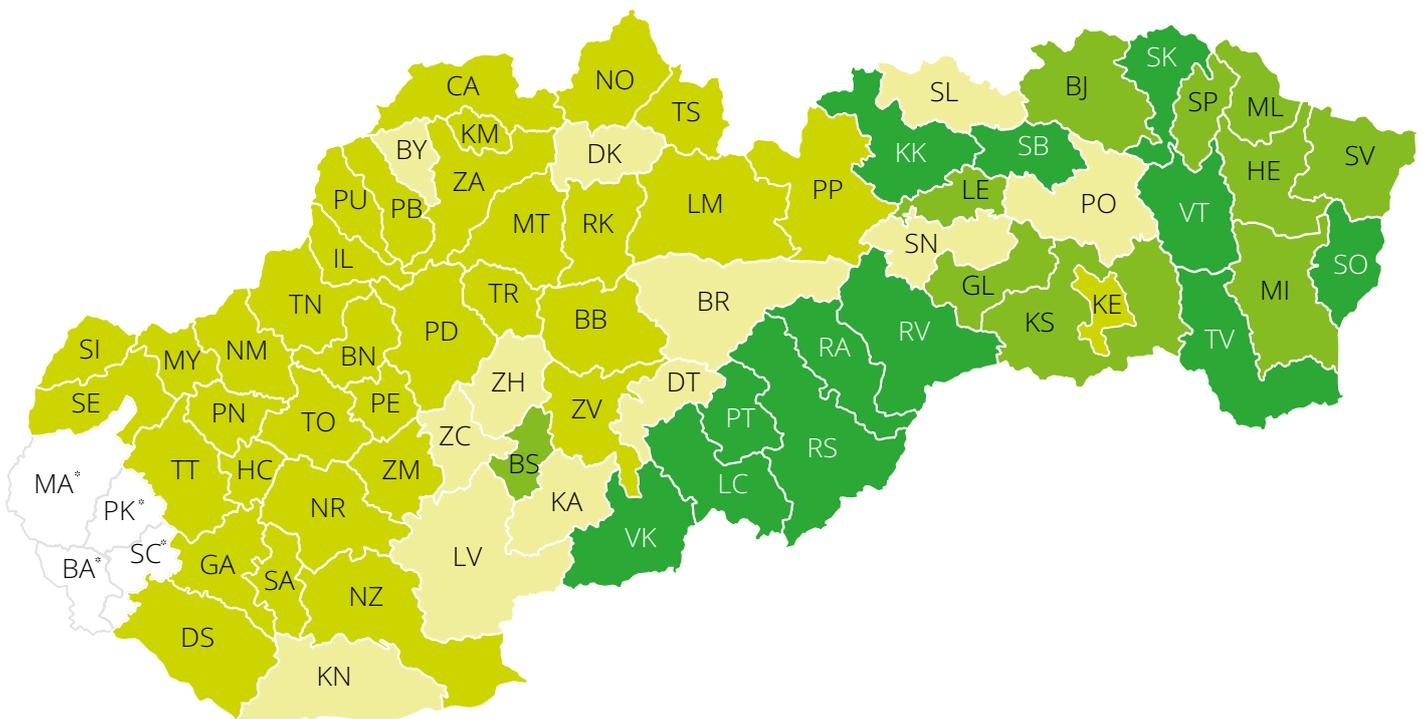
- tax credit (for up to 10 years);
- cash grant for the purchase of assets;
- cash contribution for the creation of new jobs; and
- transfer of land (owned by the municipality/state) at lower than market value;

The incentives can be applied either to a new project (a greenfield investment) or an expansion of an existing facility. The rules regulating minimum investment amounts, timing and intensity of incentives are basically the same for a new investment in a new establishment or the expansion of an existing one. The beneficiary of the investment incentives can only be a Slovak legal entity with its registered seat in the Slovak Republic, however, an application can be filed by the parent company.

Industrial projects:

Location (district)	Minimum investment amount		Required amount of new machinery and equipment	Own equity		Minimum headcount increase
	Large enterprises	SMEs		Large enterprises	SMEs	
Lower than average SK unemployment rate	EUR 10 mil.	EUR 5 mil.	60%	EUR 5 mil.	EUR 2.5 mil.	40
Higher than average	EUR 5 mil.	EUR 2.5 mil.	50%	EUR 2.5 mil.	EUR 1.25 mil.	40
35+ % higher than average	EUR 3 mil.	EUR 1.5 mil.	40%	EUR 1.5 mil.	EUR 0.75 mil.	40
Least developed districts*	EUR 0.2 mil.	EUR 0.1 mil.	30%	EUR 0.1 mil.	EUR 0.05 mil.	10

Note: The unemployment rate in the district where the investment is located is compared to the average in Slovakia for the year preceding the year in which the application is filed.

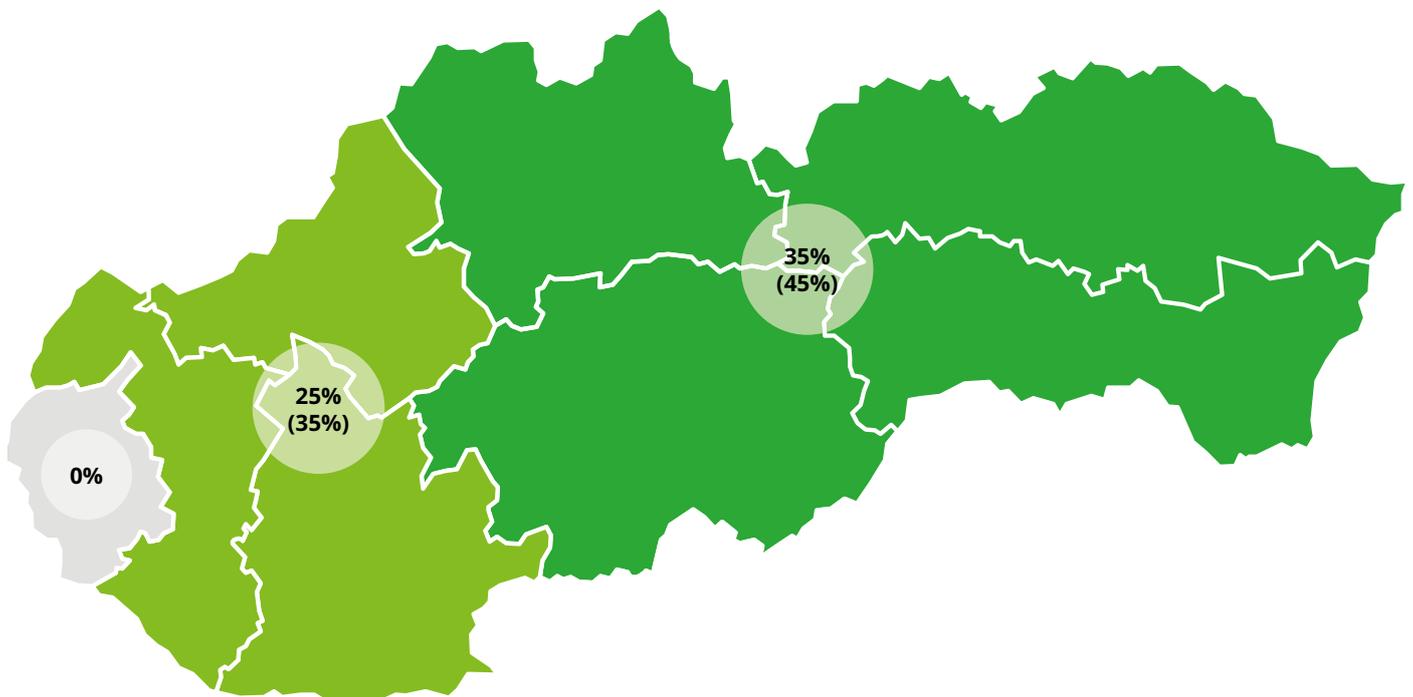


*Districts in Bratislava region are excluded from the investment aid scheme

Technological and strategic centres

	Technological centre - research & development activities	Strategic services shared services centre
Minimum investment (mil. EUR)	0.5	0.4
Minimum university-educated staff	70%	60%
Minimum amount of costs covered by equity (mil. EUR)	50%	50%
Minimum number of newly created jobs	30	40

Maximum intensity of incentives



For the investment plans of SMEs, the maximum aid intensity can be increased by 10% for medium-sized and 20% for small enterprises

The SME category comprises enterprises with fewer than 250 staff with an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. Please note that this definition is applied relatively strictly, especially as regards owner structures.

Applications are filed with the Ministry of Economy of Slovakia (MoE). They consist of several steps - filing the initial investment plan, which is reviewed by the MoE and other relevant institutions. After the review, the Ministry prepares an offer of investment incentives to the investor. If the investor agrees, the application for investment incentives can be filed. Consequently, a decision on granting the incentives is issued by the MoE. The process can take 5-9 months in total.

R&D stimuli

The conditions for granting and using the R&D incentives are stipulated in the Act on Stimuli for Research and Development. These can be applied for the establishment of a new workplace undertaking R&D activities or for the extension of an existing workplace.

Slovakia provides the following investment incentives for research and development activities:

- subsidy from state budget funds to:
 - support basic research, applied research and experimental development;
 - develop of project feasibility studies;
- income tax relief granted for a proportional part of the tax base.

10. Expatriate life

The inflow of FDI into Slovakia has brought many expatriates and their families to live and work in Slovakia. Expatriates mostly live in the cities and larger towns. The major expatriate communities are in Bratislava, Žilina and Košice. The living conditions are similar to the standards in larger cities in Western European countries and the cost of living is far lower outside of Bratislava. A wide selection of high-standard and luxury apartments and houses for rent are available in Slovakia.

11. Weather and climate

Slovakia has a mild continental climate, with cold, dry winters and warm (sometimes hot), humid summers. Temperatures vary according to elevation in the mountainous areas. The warmest and driest regions are the southern plains and the eastern lowlands. Heavy snow with significant accumulation is common at higher elevations in the Tatra Mountains during the winter months.

Bratislava, the capital, has average temperatures ranging from -2° C in January to 25° C in July.

“In the context of Foreign Direct Investment, the Social Progress Index results might serve prospective investors as a “lighthouse” in understanding on-ground social progress conditions as a ground for their investments. Additionally, the SPI results enable us to track social progress and look at it from a risk or opportunity perspective regarding their business outlook. The FDI recipient country, however, should create conditions in which joint actions between central/regional governments, business and other societal actors could create shared value in the economy and society. This might eventually turn into an additional competitive advantage factor.”

The Social Progress Index and Foreign Direct Investment in the CE Region

Authors: Julia Patorska, Rafał Rudzki, Damian Olko, Marianna Palczewska

Executive Summary

Central Europe continues to be one of the best locations for foreign direct investments (FDI). It combines a relatively liberal and vibrant business environment, affordable costs of labor, low corporate taxes and an improving infrastructure. Most developed regions – usually those with capital cities – also provide a well-educated workforce and innovative spirit. However, in order to avoid the “middle income trap”, more needs to be done in terms of social progress, which is the base for inclusive and sustainable economic growth.

The Social Progress Index 2016 results show that CE governments could reflect, in more detail, how to better use public policy and co-operation with other actors incl. business in addressing issues related to e.g. health and wellness, personal freedom and choice, tolerance and inclusion, access to advanced education components and an opportunity

dimension at large¹. Significance of those variables for further CE development will be growing, which is a direct consequence of moving towards more innovation-based and sustainable economies.

In the context of FDI, the SPI results might serve to prospective investors as a “lighthouse” in understanding on-ground social progress conditions as a ground for their investments. Additionally, the SPI results enable to track social progress and look at it from the risk or opportunity perspective for their business outlook. On the other hand, the FDI recipient country should create conditions in which joint actions between central/regional governments, business and other societal actors should create shared value in the economy and society that might eventually turn into an additional competitive advantage factor. 

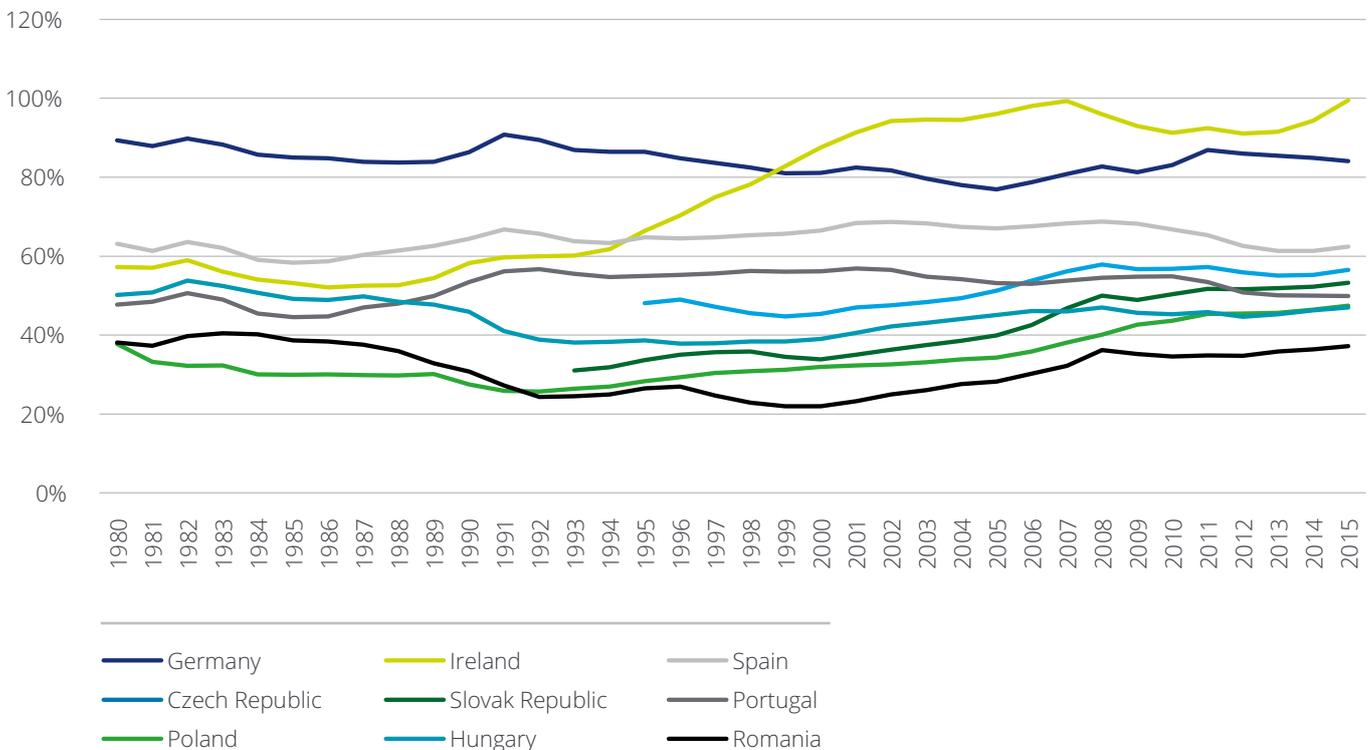
¹ See Social Progress Index results and framework: <https://www2.deloitte.com/global/en/pages/about-deloitte/articles/spi-results-central-europe.html>

FDI inflows and transition in CE region

Back in 1989, economies in Central Europe (CE) were stuck in a deep, structural crisis. Along with the former Soviet Union, after 1980 the region experienced a “lost decade”, which translated into the significant fall of living standards. On the onset of economic and political transition, GDP per capita (PPP) ranged from around 30% (Bulgaria, Poland, Romania) to 50% (Hungary, Czech Republic) of that recorded in the United States. In terms of labor productivity, the gap was even bigger. In 1993, GDP per hour worked in Poland equaled 27% to that of the US, while in the Czech Republic and Hungary – slightly above 40%.²

From the social perspective, the situation was even worse than expected from GDP figures. Shortages and food rationing (for instance – meat in Poland) together with low incomes resulted in massive immigration and falling life expectancies. Moreover, socialist regimes largely prevented any independent bottom-up of social cooperation, in the form of free entrepreneurship, independent labor and employer unions, not to mention other NGOs.

Figure 1. Convergence of GDP per capita (PPP) towards the USA (100%)



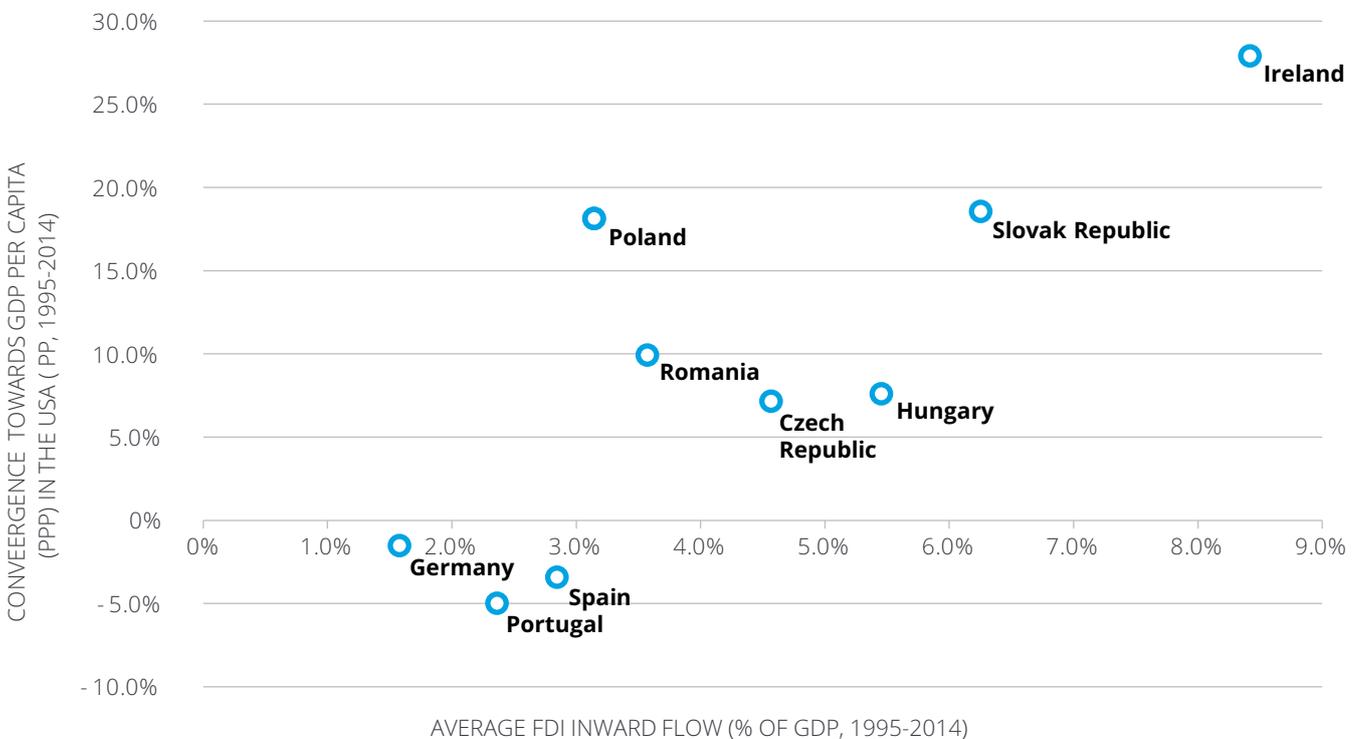
Source: Deloitte analysis, based on IMF World Economic Outlook

² According to the OECD data (GDP per hour worked)

Building market economies in CE required three major sets of policies: macroeconomic stabilization, microeconomic liberalization and institutional reforms. Scope and pace of abovementioned reforms varied significantly. According to the IMF's report, "...countries that undertook more front-loaded and bold reforms were rewarded with faster recovery and income convergence."³ Poland illustrated well this case, while Romania suffered from excess economic and social costs due to stalled macroeconomic adjustment and public sector reforms. Accession to the European Union was another groundbreaking

event for the whole region that spurred GDP growth and convergence toward advanced economies. Despite a common view, empirical evidence suggests that EU's Cohesion Policy (aid for regions and agriculture) was not a main driver.⁴ Instead, a major engine of growth was the Single Market with a regulatory framework, which is a guarantee of "4 freedoms" – movement of people, capital, goods and services. Apart from econometric studies, this conclusion is supported by record of "old cohesion countries" – Greece, Ireland, Italy, Portugal and Spain.⁵ Among them, only Ireland managed to join the most developed economies, despite large contraction caused by an unsustainable credit boom.

Figure 2. GDP per capita (PPP) convergence towards USA and average FDI inward flow, 1995-2014



Legend: Vertical axis shows GDP convergence towards GDP per capita (PPP) in the US (1995-2014, percentage points) Source: Deloitte analysis, based on IMF World Economic Outlook and UNCTAD

3 IMF, 25 years of transition: post-communist Europe and the IMF, 2014
 4 Marzinotto B., The growth effects of EU cohesion policy: a meta-analysis, 2012
 5 Shankar R., Shah A., Lessons from European Union Policies for Regional Development, 2009

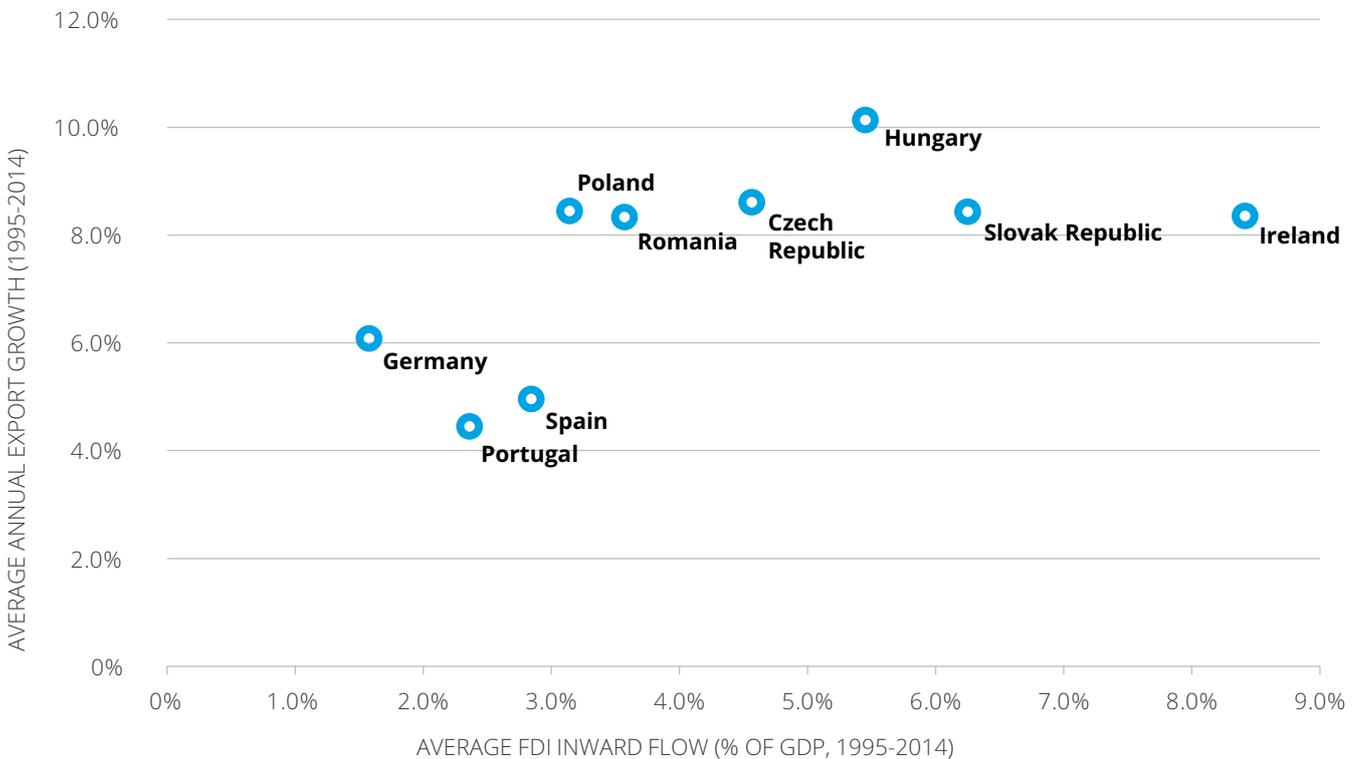
Ireland's superior performance results from the credible macroeconomic stabilization prior to the credit bubble, structural reforms and coherent policy of attracting FDI.⁶ Empirical literature regarding FDI in Central Europe came to the conclusion that inward flows supported GDP growth and convergence as well as exports.⁷ The main channel of impact is productivity improvement, as workers move from local firms to more efficient foreign units. Besides direct impact, FDI might generate

technology and knowledge spillovers, though empirical studies are inconclusive, regarding presence of such an effect or its magnitude.

Although a larger part of economic literature agrees on the positive effect of the FDI inward flows, there is a growing body of evidence that the sectoral composition of FDI matters. The Czech Republic, Poland and Slovakia attracted a relatively big part

of FDI into tradable sectors – manufacturing and business servicing, taking advantage of geographical proximity to Western Europe.⁸ As the IMF reports, other crucial factors that stimulated FDI inflow were: the depth of structural reforms that improved business environment, an incumbent industrial base and privatization.⁹

Figure 3. Average annual export growth and average FDI inward flow, 1995-2014



Source: Deloitte analysis, based on IMF World Economic Outlook and UNCTAD

6 Gerald J.F., 4. Lessons from 20 Years of Cohesion, 2006

7 Polasek W., Sellner R., Does Globalization affect Regional Growth? Evidence for NUTS-2 Regions in EU-27, 2011; EC, Study on FDI and regional development, Final report, 2006; Damijan J. et. al., FDI, Structural Change and Productivity Growth: Global Supply Chains at Work in Central and Eastern European Countries, 2013

8 According to P. Bogumil (2014) study, the most positive impact came from FDI in the manufacturing and tradable services, as they enhanced export and productive base of the recipient countries.

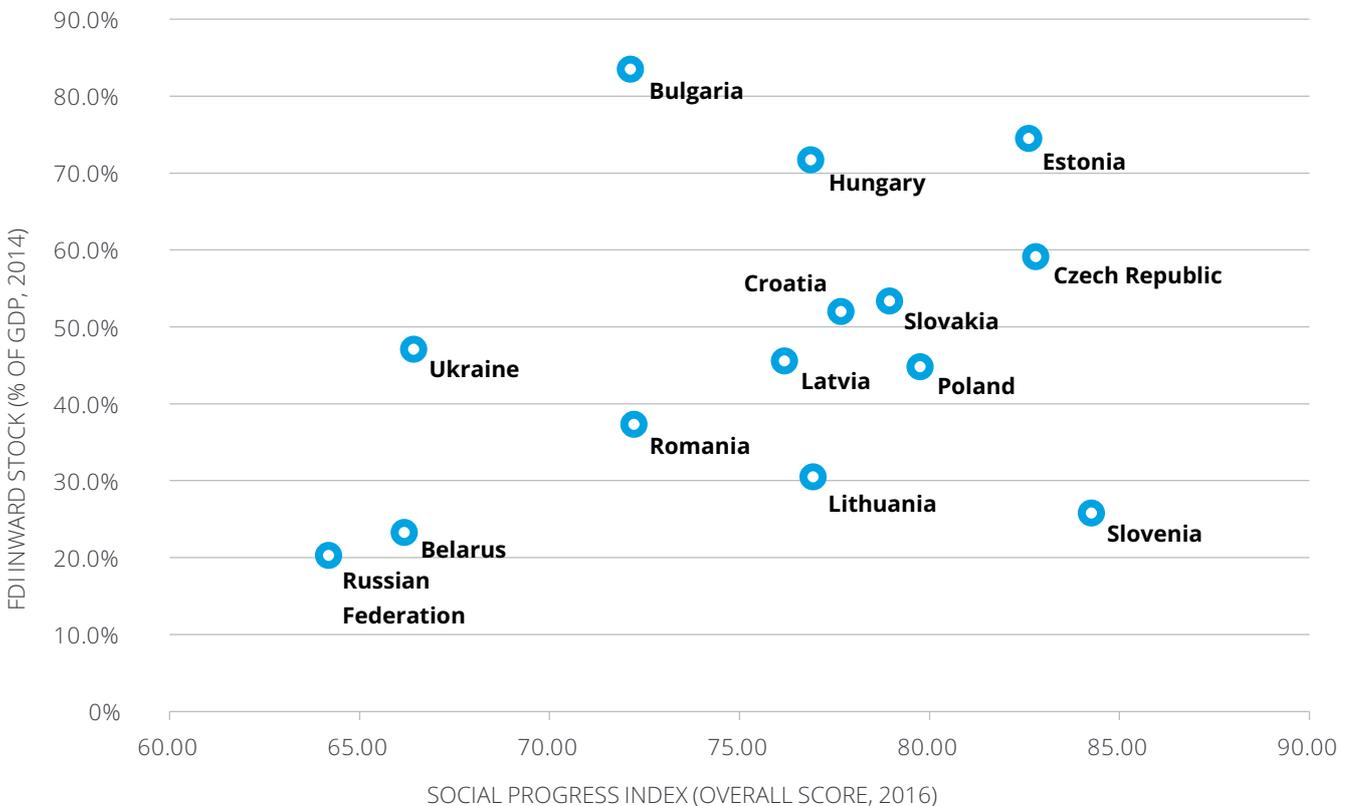
9 IMF, 25 years of transition: post-communist Europe and the IMF, 2014

Apart from total inward flows and sectoral composition, final impact on recipient economy is a function of its absorptive capacity. Ability to catch and adopt positive externalities from FDI (technology, knowledge, organizational know-how etc.) by domestic business depends on quality of assets (in a broad sense) – particularly human capital, social capital and institutions. This fact allows for explanation, why Ireland achieved economic and social convergence, and at the same time Greece, southern regions of Italy, Portugal and Spain fell behind.

As far as CE is concerned, some experts and economists argue that a large part of inward FDI has not spurred innovation due to poor local policies and lack of sufficient capacities.¹⁰ The latter applies not only to an evident political myopia, but also more complex and long-term issues like low levels of social capital, institutional inertia and positions in global value chains. With closing gap in terms of GDP per capita, social and institutional deficiencies will increasingly hinder further development of CE countries.

The same process is expected with reference to the attracting FDI, especially those that create jobs with high value-added. Although after 1989 foreign companies invested in the region mostly because of rapidly growing markets and/or a low-cost labor force, they were quite vulnerable to the excess political and social risks. Most evident examples are Belarus and the Russian Federation, where social and institutional development is particularly low, which significantly limits their attractiveness for foreign capital.

Figure 4. FDI inward stock and Social Progress Index (overall score)



Source: Deloitte analysis based on Social Progress Index and UNCTAD

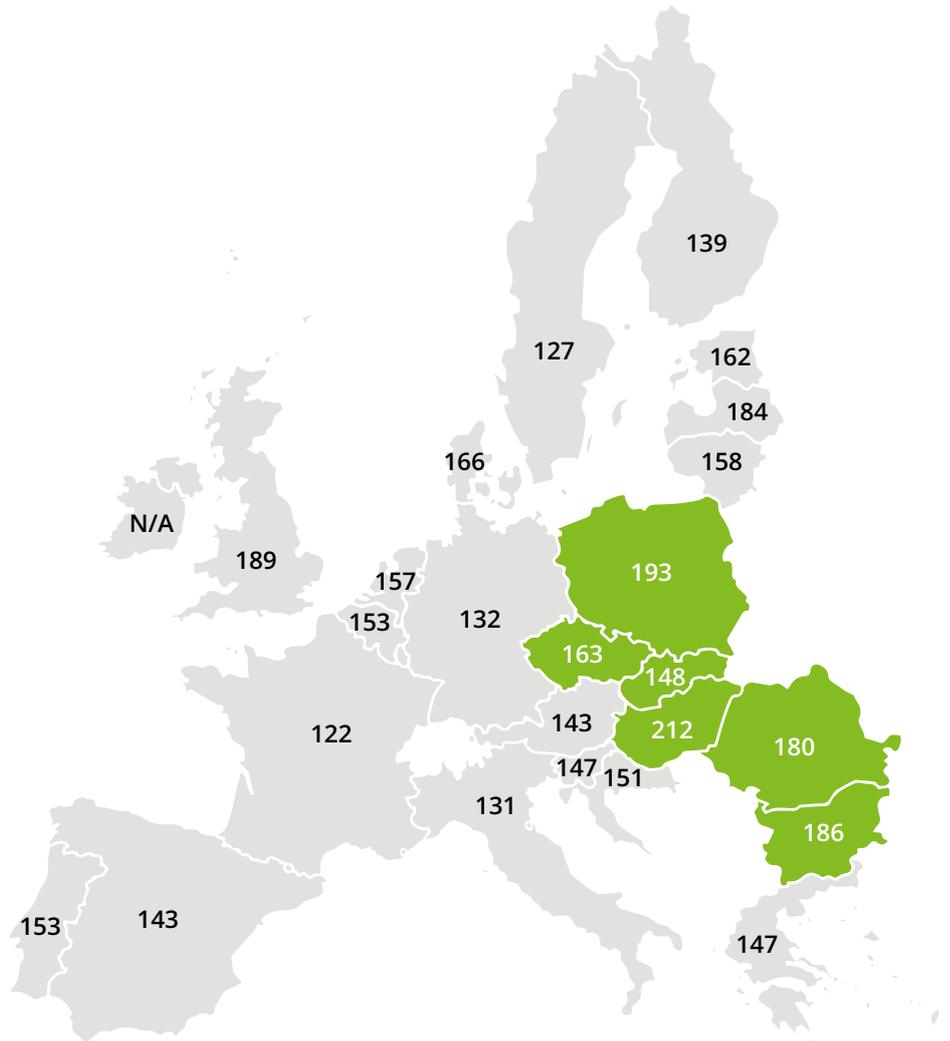
¹⁰ Gorzelak G., Growth – Innovation – Competitiveness: to Foster Cohesion in Central and Eastern Europe (GRINCOH), 2015

Social and Economic Map of CE region

Despite significant progress since 1989, CE countries are still catching-up with Western Europe (in this context, the EU members before the 2004 enlargement). Outbreak of the global financial crisis in 2008 and subsequent Eurozone debt crisis hastened convergence process, especially towards most affected countries like Greece, Italy, Portugal and Spain.

Relatively low wages and moderate growth of labor costs after 2008 helped the CE region in maintaining comparative advantage in many branches of manufacturing. Wage-adjusted labor productivity in Bulgaria, Hungary, Poland and Romania stays much higher than in Germany, France or Mediterranean countries (Figure 5.). Although CE governments were also forced to run conservative fiscal policies, they managed to escape from prolonged recession. This was due to, among others, an export-oriented FDI, that were established earlier or settled recently.

Figure 5. Wage-adjusted labor productivity in manufacturing (as %, 2014)As



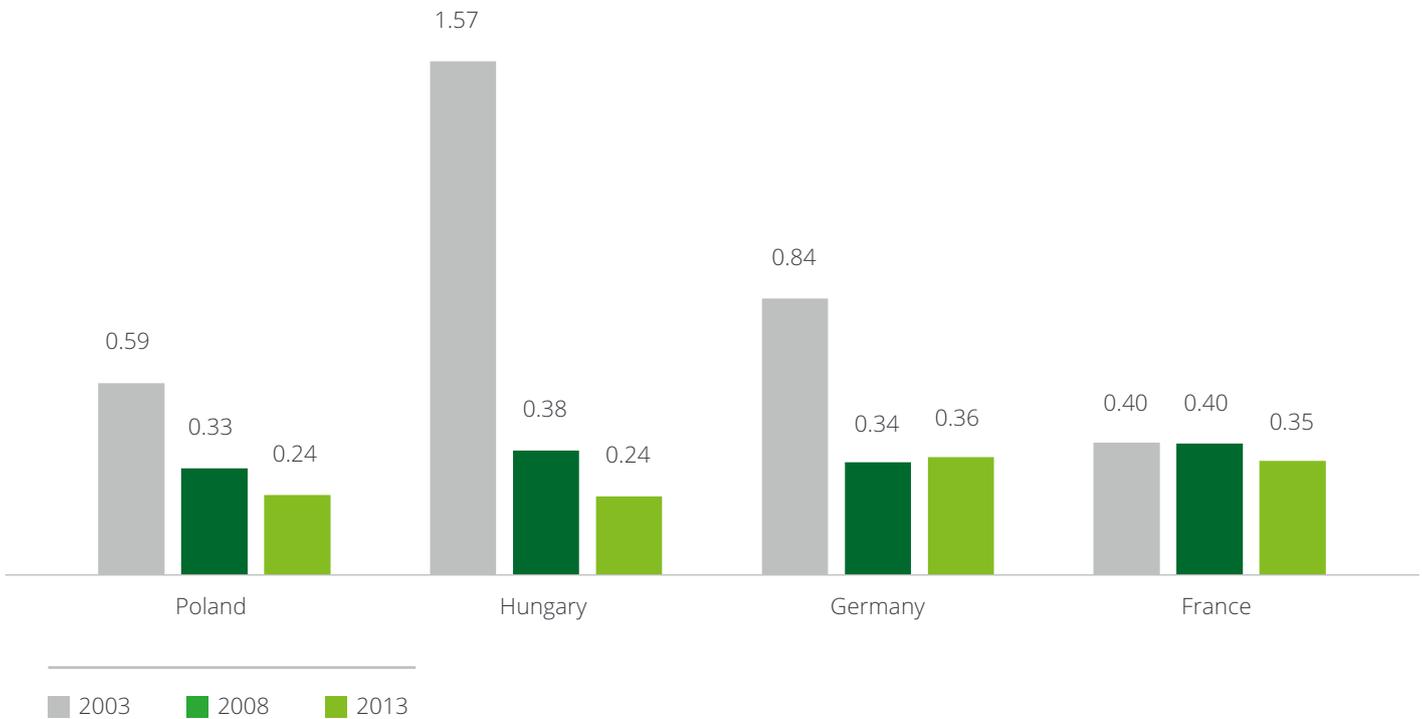
Legend: Wage-adjusted labor productivity is apparent labor productivity divided by average personnel costs (expressed as a ratio in percentage terms). In other words, it is gross value added in manufacturing divided by labor costs.

Source: Deloitte analysis based on the Eurostat

Substantial improvement in terms of infrastructure and accessibility from Western Europe also spurred FDI inflow, making productivity disparities more important. In other words, new roads, railroads and airports created potential for further integration through global value chains. Within the Single Market, new and modernized infrastructure enhanced intensity of competition.

Export-oriented, manufacturing FDI came into the western areas of Hungary, Poland, Romania and Slovakia or capital cities¹¹. Except for coastal cities like Varna (Bulgaria) and Constanta (Romania), but also inland Podkarpackie voivodeship (Poland), eastern peripheries of CE are lagging behind. Recorded (as well as expected) economic and social progress is much slower, hence those regions continue to receive large cohesion aid from the EU budget.

Figure 6. Barriers to trade and investment, OECD Indicators of Product Market Regulations



Source: Deloitte analysis based on the OECD

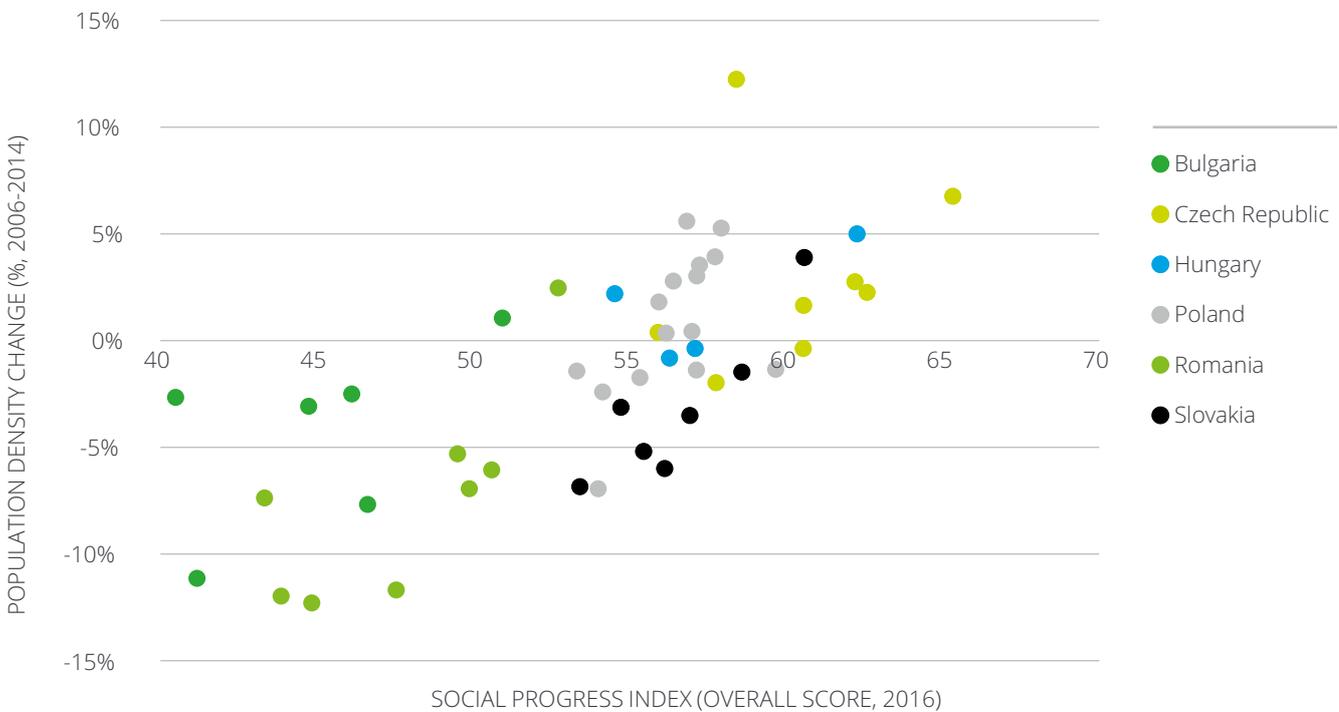
¹¹ Dogaru T. et. al., The Geography of Multinational Corporations in CEE Countries: Perspectives for Second-Tier City Regions and European Cohesion Policy, 2014

Together with infrastructural investments, CE made an effort to remove institutional barriers for market exchange. After accession to the EU, governments in Budapest, Warsaw and other liberalized many regulations regarding foreign investments and trade. According to the OECD indicators, in 2013 Poland and Hungary had more favorable business environment for foreign companies than Germany and France (Figure 6). What is interesting, even after the global financial crisis, the biggest economy in the EU became slightly less liberal in terms of foreign investment and trade.

Coherent conclusions might be drawn from looking at other indices that aim to measure competitiveness, business environment or economic freedom – investment and trade regulations in the CE are business-friendly. This is supplemented with government support, mostly in the form of the Special Economic Zones (SEZ) that reflect intensive competition for FDI between regions and countries.

Besides flow of capital and companies between regions and countries, another important source of socio-economic convergence (or divergence) is migration. Apart from economic factors, there is visible correlation between the Social Progress Index level and population density change (in fact, close to net migration) among regions. Correlation is present both within countries (NUTS 2 regions) and for whole population of CE regions (Figure 7).¹²

Figure 7. Population density change in NUTS 2 regions and Social Progress Index



Source: Deloitte analysis based on the Eurostat and Social Progress Index

¹² The assumption here is following: birth and death rates are uniformly distributed among NUTS 2 regions and there were no territorial changes. Another important assumption is inertia of social progress, in other words – distribution of SPI in 2006 is similar to that in 2014.

Similarly to the high labor mobility and wage equalization, migrations allow for a quicker process of social convergence – people simply move to the areas which are safer, less polluted or more tolerant instead of “waiting for reforms” or endogenous change in their previous place of living.

The message for investors is straightforward – if FDI requires a well-educated workforce or is intended to serve markets in proximity – social factors are crucial determinants for population change and human capital development. FDI driven by locally specific assets and capacities will become more and more important in the CE, which is consequence of falling competitiveness in terms of low value-added production. This qualitative forecast is based on assumption that region will manage to escape from “middle income trap” and further approach most advanced economies.

The Czech Republic is the richest and most socially developed country among 6 analyzed. It outpaced regional peers in almost all the SPI components, except for “Access to Information and Communication” and “Personal Right”. Bulgaria and Romania are usually on the opposite side, ranked as 5th or 6th. Costin Borc, Deputy Prime Minister of Romania acknowledges that country must adopt structural reforms that will enhance its human capital growth:
*“We must rethink our active labor market policies and training programs, in order to help Romanian workers be even more competitive. Last but not least, Romanian manufacturing has tremendous potential. That potential can only be fully realized if local companies can manage to integrate into the global supply chain of the foreign companies that are operating in the country.”*¹³

Table 1. Relative performance on each of the SPI components

Social Progress Index	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Overall SPI Score	72,1	82,8	76,9	79,8	72,2	79,0
Basic Human Needs¹						
Foundations of Wellbeing						
Opportunity						
Nutrition and Basic Medical Care²						
Water and Sanitation						
Shelter						
Personal Safety						
Access to Basic Knowledge						
Access to Information and Com.						
Health and Wellness						
Environmental Quality						
Personal Rights						
Personal Freedom and Choice						
Tolerance and Inclusion						
Access to Advanced Education						

Legend: blue color represents lowest values, dark green – highest.

Source: Deloitte analysis based on Social Progress Index 2016.

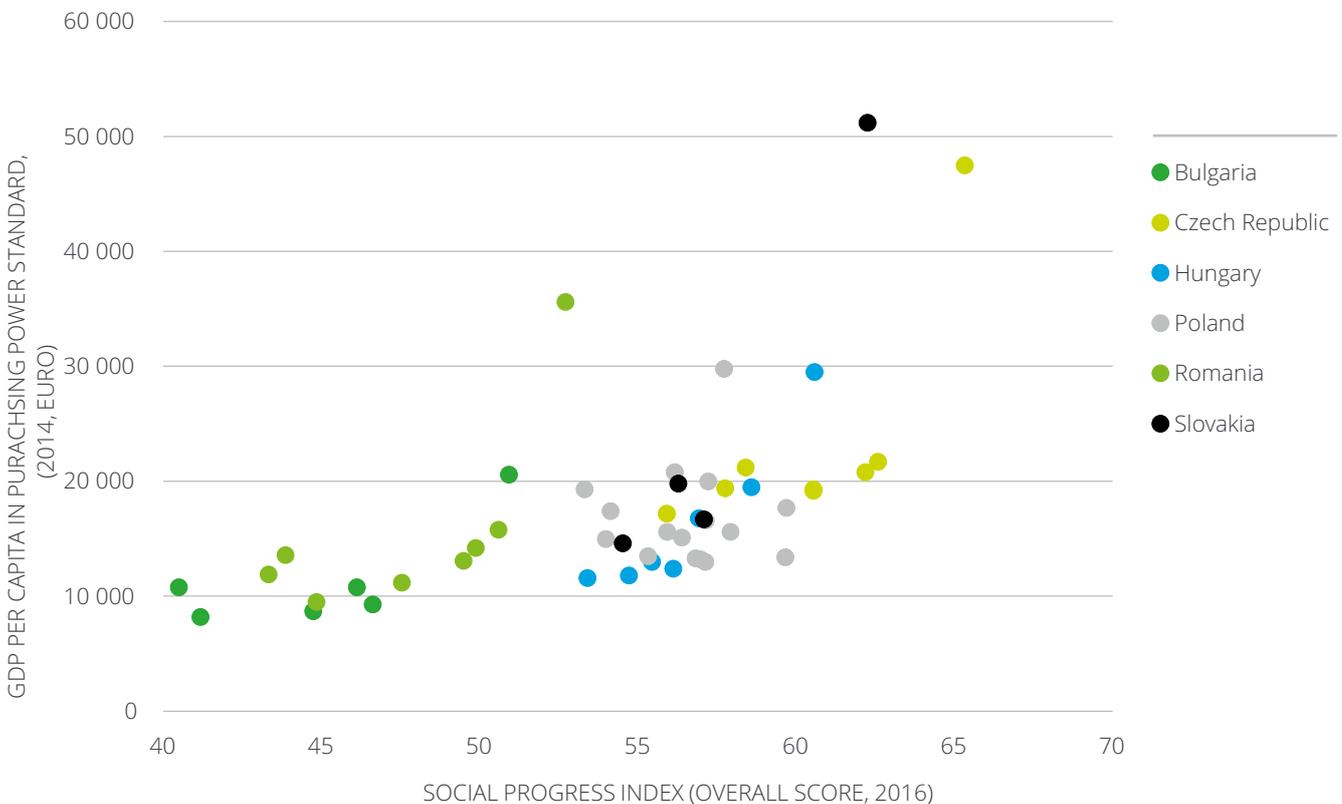
¹³ <http://emerging-europe.com/intelligence/eu-membership-and-transition-into-market-economies-have-helped-cee-achieve-social-progress/>

With reference to the SPI outcomes presented in Table 1, CE governments could develop strategies that will address issues especially related to:

- Opportunity (SPI dimension);
- Health and Wellness (SPI component);
- Personal Freedom and Choice (SPI component);
- Tolerance and Inclusion (SPI component);
- Access to Advanced Education (SPI component).

What is important, is that improvement in the abovementioned areas is unlikely to happen just as a side-effect of GDP growth. Economic factors are necessary prerequisites, though they should be supported with structural reforms and active policies. Evidence for such a hypothesis might be found in the most advanced economies, which significantly differ in many areas like healthcare provision, access to advanced education etc. Similarly, the richest regions in CE (with capital cities) are “outliers” on the scatterplot with GDP per capita and SPI value (Figure 8). This might suggest that their economic development does not translate into social as it could.

Figure 8. GDP per capita in NUTS 2 regions and Social Progress Index



Source: Deloitte analysis based on the Eurostat and Social Progress Index

Social reforms as a way of optimizing an impact of FDI inflows in CE region

After the subprime crisis and Eurozone debt crisis, global perception of risk changed substantially comparing to the period between 1989 and 2007. Leveraged risk aversion is one of the causes of persistent low level of investments (both domestic and capital flows).¹⁴ It is a serious challenge for the CE region, as Poland, Romania and other countries still have relatively small productive stock of capital and accumulated private savings. Institutions like the EBRD and the IMF have noticed regional problems of low investment and productivity slowdown and they recommend tackling them by reforming labor markets, social policies, judiciary systems and public sector.¹⁵

As CE economies no longer have easily-accessible reserves for growth, some of them started to adjust their policies towards FDI or more broadly – industrial policies.¹⁶ For instance, in Poland, there is a growing debate concerning real social and economic returns from the Special Economic Zones, though large change in related public policies is rather unlikely.¹⁷ According to officials, reforms in this area might address quality of attracted FDI – new incentives should promote R&D, high value-added jobs and cooperation with local companies.

Possible adjustment of policy towards FDI in Poland is one of the minor elements which constitutes the Plan for Accountable Development. Mateusz Morawiecki, Deputy Prime Minister and main author of the new strategy, often emphasizes that it will deliver more socially-balanced economy:

*“The social component is of crucial importance if the Plan is to be implemented successfully. The nation’s well-being is not confined to statistical and economic indicators alone and, as the government; we have to make sure that these numbers translate into tangible improvement in the quality of life for Polish people. Therefore, to provide the foundations for sustainable and long-term development, its benefits must be spread across the population more inclusively. This means, for example, better education, higher wages and job quality, improved social cohesion and a better access to infrastructure. Only by broadening the middle-class, in this way, will we be able to build not only a modern country, but a modern nation as well”.*¹⁸

14 Lewis, C. et al., Investment Gaps after the Crisis, OECD Economics Department Working Papers, No. 1168, OECD 2014

15 IMF, Central, Eastern, and Southeastern Europe: How to Get Back on the Fast Track, 2016; IMF, Central, Eastern, and Southeastern Europe: Reconciling Fiscal Consolidation and Growth, 2015

16 According to E. Berglof (2015), “state intervention has increased significantly, also in Central Europe, following the global financial crisis, with many governments trying to create their own development institutions and becoming more targeted in their support to industry. The jury is still out whether these initiatives will yield the desired results”.

17 Polish government declared more selective approach regarding FDI as well as attempt to build strong links with domestic companies and innovation system.

18 <http://emerging-europe.com/intelligence/eu-membership-and-transition-into-market-economies-have-helped-cee-achieve-social-progress/>

Similar processes are present across the whole EU, as European Commission supports policies aimed at transforming economies into more sustainable and socially inclusive. In this context, SPI might serve prospective investors as a “lighthouse”, making easier to negotiate with central and local authorities. To put in a financial terms, communities and politicians hosting FDI are more and more interested in maximizing Economic Rate of Return (ERR) instead of Financial Rate of Return (FRR) that is major guide for capital providers. Hence, SPI might inform managers and investors about:

- What are the major social factors, that might affect FRR from risk and opportunities perspective;
 - What are the potential areas of impact, that local communities, businesses or politicians might particularly value, which will be promoted or defended (ERR).
- Examples of social impact and joint social and FDI impact on society and economy are presented below in Table 2.

SPI informative value is based on the fact that investors constantly seek for any piece of information data that might enhance their model forecasts for return and risk. Sovereign or corporate credit rating – one of the fundamental tools for risk management – in case of the FDI is only a starting point of analysis. Although rating agencies might take into account some political and social factors that have an impact on country and business solvency, their opinions might be too general for particular investors.

Table 2. SPI as a matching device between investors and other stakeholders

Social Progress Index (chosen variables)	Potential impact of social reforms on inward FDI risk and return	Potential joint impact of FDI and social reforms on recipient economy and society	The CE best performer	The CE worst performer
Personal Safety	Lower risk of social unrest and violence that might affect business; lower risk regarding local staff health; higher labor productivity	Greater possibility to attract cooperating businesses and investments (agglomeration and network effects)	Czech Republic	Bulgaria
Access to Information and Communications	Higher labor productivity on-the-job and lower costs of recruiting	Higher TFP spillover as an effect of greater market efficiency	Slovakia	Bulgaria
Personal Freedom and Choice	Higher labor productivity as an effect of lower corruption and more flexible workers and entrepreneurs	Higher labor productivity spillover, potentially higher labor supply that leads to talent pooling	Czech Republic	Bulgaria
Tolerance and Inclusion	Higher labor productivity as an effect of better matching in labor market, diversity and trust	Higher labor productivity spillover, potentially higher labor supply that leads to talent pooling	Czech Republic	Romania
Access to Advanced Education	Higher labor productivity as an effect of greater human capital	Higher labor productivity and knowledge spillover,	Czech Republic	Bulgaria

Source: Deloitte based on Social Progress Index data

Similarly, benchmark risk-free rate is hard to assess in the current economic conditions, as bond markets are highly distorted due to massive interventions from central banks. Even if we might reject this hypothesis, there is still an issue of assessing proper risk premia for underlying investment projects that includes sets of sector-specific, regional, political and social risks. Therefore, the Social Progress Index is especially valuable, as it allows for specifying and assessing social risks which often are not easy or cheap to hedge.

Possibility of market failures such as incomplete asset markets lead to an inability of diversifying all of the possible risks (states of the nature). This pertains, particularly, to risks that are created by government policies or regulations. High social progress can limit those risks, for instance, by limiting the propensity for corruption in public administrations or judiciary systems. As a consequence, companies function in a more transparent and stable business environment, where property laws are protected and contracts enforced.¹⁹

In general, social risks might transform into investment risks (and, therefore, have an impact on FDI inflows and outflows) in the short-term, medium-term or long-term. Some of them may endanger the expected rate of return (FRR) directly or through the democratic system, rent-seeking activity or distortionary public policies.

Figure 9. Social risk and FDI inward stock – short-, medium- and long-term possible causal relation

Short-term



Example: social unrest, riots, labor strikes

Medium-term



Example: e.g. “targeted” or sectoral protectionism, discrimination of foreign capital (de iure or de facto), excess regulatory burden, fiscal measures etc.

Long-term



Example: populist social policies that pose a threat to public finances (and thus increase a risk of tax hikes or sovereign default). In the worst case scenario, the underlying social issues might be tackled in a highly ineffective way, in terms of GDP cost, number of jobs etc. Another example might be policies that intend to limit or disable free movement of capital, people, goods and services – horizontal protectionism.

Source: Deloitte

¹⁹ Of course capital market often takes into account those risks, pricing some assets with premium or discount. Though, capital market efficiency is subject to large debate, because it is largely depended on many specific factors, including liquidity, free-floating etc. Problem of incomplete asset markets might be pronounced when investor attempts to finance long-term project that is vulnerable for interest rate shocks and other risks, related to politics and regulations.

To sum it up, SPI might be regarded by investors as a proxy of social risk – the bigger the progress, the lower the risk. From the investor's point of view, there is a certain maximum accepted level of social risk, above which the FDI will not come. Social risk below this threshold determines (together with other variables, like market efficiency) the level of transaction costs, as well as insurance (hedge) costs.

The SPI is also very useful tool for local, regional and national authorities. Possible applications are not limited to identifying and monitoring social risks, but also interplay between them and institutions, which might exacerbate or alleviate problems. There is no doubt that sooner or later social progress and preferences have an impact on business sector, public policies and regulations.

Conclusions

Central Europe continues to be one of the best locations for FDI. It combines a relatively liberal and vibrant business environment with affordable costs of labor, low corporate taxes and an improving infrastructure. Most developed regions – usually those with capital cities – also provide a well-educated workforce and an innovative spirit. However, in order to avoid the “middle income trap”, more needs to be done in terms of social progress.

Together with a growing debate on GDP limitations as an indicator of development and social well-being, there is a need to provide a coherent and comprehensive set of indicators. The Social Progress Index will not substitute GDP and other “pure” economic measures, though it supplements them. Its significance and accuracy regarding CE development paths will be growing, which is a direct consequence of moving towards more innovation-based and sustainable economies.

As far as FDI is concerned, the SPI might serve prospective investors as a “lighthouse”, making easier to negotiate with central and local authorities. More specifically, it can provide an answer to following questions:

- What are the major social factors that might affect financial rate of return and risk?
- What are the potential areas of impact that local communities, businesses or politicians might particularly value, support or stimulate?

The SPI might be regarded by investors as a proxy of social risk and potential for growth. This relies on the fact that sooner or later social characteristics have an impact on the business sector, public policies and regulations.

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Deloitte Central Europe

Over the past two decades, Central Europe has experienced one of the most remarkable economic transformations ever, and Deloitte has played a major part in this changing landscape since its first office was established in the region in 1990. The dynamic changes have created a wealth of opportunities for doing business. We have assisted our clients, including governments, large national enterprises, multinational companies, and small and medium-sized high growth companies in this new competitive environment.

At present, Deloitte Central Europe spans 18 countries with more than 5 000 professionals in 41 offices – but we still operate as one cohesive organisation. This Central European structure was formed in 1997. At this time we integrated our national practices to form Deloitte Central Europe because we realized that to best serve our clients we needed to be able to share our knowledge, expertise and manpower throughout the whole region.



Our integration has allowed us to manage regionally and deliver locally, adding value to our services and allowing them to be performed in the most efficient manner. At Deloitte Central Europe we are dedicated to finding solutions for our clients: solutions which create value for them. Our mission has been, and continues to be, very simple: to help our clients and our people excel. Our vision is to be the standard of excellence.

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To sum it up, SPI might be regarded by investors as a proxy of social risk – the bigger the progress, the lower the risk. From the investor's point of view, there is a certain maximum accepted level of social risk, above which the FDI will not come. Social risk below this threshold determines (together with other variables, like market efficiency) the level of transaction costs, as well as insurance (hedge) costs.

Our Expertise

At Deloitte Central Europe we believe in having strong industry practices to support our service line expertise. Many of our industry experts have worked in key industry sectors. They developed the know-how and experience to understand industry-specific issues and are ready to share their resources and knowledge of best practices. By utilising our industry practices, we are able to provide value-added, industry-specific services to our clients.

FDI Site Selection Services

To assist foreign investors in their initial, and most critical, stages of their investment process, we have developed a specialized service line focused on the specific needs of FDI. We are offering a uniform, coordinated approach and a full range of FDI specific services across the whole CE region.

Our FDI specific services include but are not limited to:

- Country analysis and sector overview;
- Site selection (in co-operation with our site selection team in Brussels, Belgium);
- Investment incentives advisory and management;
- Negotiation support with local/national government, municipalities; etc.
- Business assistance to other service lines (Tax & Legal, Financial Advisory Services, Audit & Advisory incl. Enterprise Risk Services and Consulting Services).

Tax & Legal Services

Keeping up with changing tax requirements, opportunities, and risks can pose a challenge to any organisation, from a local business to a multinational company. Your tax planning must keep pace with – and even help shape – your company's operations. This means that your tax experts must manage all of the intricate details in local jurisdictions while understanding and strategically planning the global flow of transactions.

We offer our clients a broad range of fully integrated tax services. Our approach combines insight and innovation from multiple disciplines with business and industry knowledge to help your company excel globally.

- International Corporate Tax Services;
- Local Corporate Tax Services;
- Indirect Tax Services – VAT and Customs Duty;
- Transfer Pricing Services;
- Merger and Acquisition Services;
- Personal Tax Services;
- Global Employer Services;
- Employee Benefit Services;
- Bookkeeping;
- Business Process Outsourcing;
- R+D and Government Incentives;
- Payroll Services;
- Customs and Global Trade;
- Legal Services.

With over 1,700 legal professionals in 74 countries around the globe, Deloitte Legal offers competent yet pragmatic advice in both national and international business law. Deloitte Legal is able to provide holistic guidance around strategic business decisions as well as offer support services that can increase efficiency and reduce the cost of some routine legal activities.

Deloitte Legal offers services in the following areas:

- Commercial law solutions
- Corporate and mergers and acquisitions services
- Employment and pension solutions
- Tax controversy solutions

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For the past years, governments throughout Central Europe have dramatically reformed their economies by moving commercial enterprises from state control to private ownership. A myriad of opportunities and pitfalls have arisen for local entrepreneurs and foreign multinationals, and traversing this new landscape can be difficult. The potential for growth in Central Europe is enormous, but this region also presents unique challenges not found in more developed markets.

Whether you are interested in privatisation strategies, cross-border acquisitions, corporate finance transactions, development and venture capital, business and asset valuations, value enhancement strategies or corporate recovery or fraud investigations, our Financial Advisory Services professionals can help you. Areas of specialisation focus on:

- Mergers & Acquisitions – Transaction services;
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- Project Finance and Debt Raising;
- Commercial/Financial Due Diligence;
- Business, Real Estate and Equipment Valuations;
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In a world where business is confronted with new challenges at an unprecedented speed, the need for solid financial reporting and forecasting has never been more critical. Annual audits are start, but they are not enough. When it comes to coping with market analysts and wary shareholders with 24-hour trading at their fingertips, you need to know where you stand today.

Our network of Audit and Enterprise Risk Services professionals provide a range of audit and advisory services to assist clients in achieving their business objectives, managing their risk and improving their business performance – anywhere in the world. We offer credibility, assurance and independence. Our Audit & Advisory services include:

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With our unique, collaborative approach, we offer not only industry and functional business performance knowledge, but also the insight of others through our consulting alliances. We work closely with clients to improve business performance, drive shareholder value and create a competitive, sustainable advantage, regardless of where in the world your business takes you. We provide the following services:

- Strategic Planning and Management Including Balanced Scorecard;
- Performance Improvement and Cost Reduction;
- Process Optimisation;
- Customer Relationship Management;
- Supply Chain Management;
- Production Management;
- Cost and Corporate Performance Management;
- Treasury Management;
- Selection and Implementation of Information Systems;
- Human Capital Advisory Services;
- Advisory Services Related to the Acquisition of EU Funding.

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The Chinese Services Group (CSG) serves as the unifying force to market, facilitate and deliver Deloitte professional services to both Chinese companies expanding overseas and multi-national corporations investing into China. Operating as a platform to leverage Chinese expertise, bridge the culture gap, and to ensure client service excellence, the Global CSG, in coordination with the Chinese firm, complements a multi-member firm, multi-industry, multi-functional and multi-disciplinary approach.

How we can add value

- By facilitating access to industry experts and key decision makers throughout China;
- By serving as a channel to communicate time-sensitive regulations and updates on China for your business;
- By leveraging China as a “door-opener” and assuming a high profile on the subject, we provide local expertise cutting across geographies and sectors.

CE German Desk

We facilitate investments expansion of companies from German speaking countries in the CE region. For several years, we have delivered professional services like audit, consulting, as well as risk, legal, financial and tax advisory services to companies with German origins by establishing and developing their businesses in all seventeen CE countries. Our expertise and strong relations with our peers from Deloitte in Germany, Austria and Switzerland allows for the creation of a cross-border and multi-functioning joint strategy for our clients.

The German desk was established to help foreign investors in unveiling the great potential of the CE region and provide them with world-class professional services facilitating cross-border operations.



“Over last few years, the value of German, Austrian and Swiss investments was particularly high in Poland, Czech republic, Hungary and Slovakia. But there is still great potential in the region that can be discovered by foreign investors. We ensure client service excellence and facilitate foreign organizations to carry out their businesses in the Central Europe, providing them with professional services that are aligned with both local regulations and legal framework or requirements toward financial reporting including German, Austrian and Swiss GAAP as well as International Financial Reporting Standards.”

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