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Albanian Income Tax Law Changes

In the last 3 months of 2010, a number of changes were introduced to the Albanian Income Tax Law, most of them already effective as of the beginning of 2011.

With the changes, resident taxpayers (individuals and self-employed persons subject to local small business tax) are now required to submit an Individual Annual Return by April 30th of the following year. The change will be applicable from 2012; i.e. starting with income realized during 2011. An exception from this submission requirement is granted to individuals with income below ALL 200,000; self-employed persons with annual turnover below ALL 2,000,000 and individuals receiving only salaries or pensions and no other income, revenues which are already declared and taxed at source.

From January 1st, 2011, all income realized from gambling and lotteries is now taxed with a 10% tax imposed on the net income.

Until recently, local dividends and distributions to resident companies were the only distributions exempt in Albania. As of January 24th, distributions of profit/dividends by resident companies and non-resident companies are to be excluded from the taxable income of a resident individual, regardless of the % of capital owned in the paying company.

Employers paying voluntary pension contributions for their employers can now consider this expense as a tax deductible one up to a fixed amount of ALL 250,000 annually per employee. This change became effective January 1st, 2011. As of January 24th, employer's expenses for voluntary life and health insurance of employees are also considered tax deductible and are exempt from tax.

One final amendment, effective from January 24th and impacting companies, is

the fact that should the calculated due annual profit tax exceed the prepaid profit tax paid throughout the previous year by over 10%, the tax paying company is expected to pay late payment interest on the calculated difference.

Eurofast Global Limited

tirana@eurofast.eu
Tirana Office
Albania

Business Intelligence (BI) shifts into the small and medium business (SMB) marketplace

BI isn't just for Fortune 1000 companies anymore. Thanks to pressure from regulation, internationalisation and tough business climates, SMBs are looking to BI to help them get a handle on their data.

In a recent survey of 1,300 chief information officers (CIOs) conducted by Gartner Inc., Business Intelligence (BI) is rated the No. 2 technology initiative. (Security Enhancement is No.1.) CIOs are focusing on business growth and results, not just internal efficiency and cost control. Naturally, BI is big in Fortune 1000 companies. But now it's gaining adoption in small and midsize businesses. SMBs need it, desire it and have the ability to implement quickly.

The need for BI

The increased emphasis on growing businesses and examining performance means that business people have to be able to access and analyze data. Government regulations and tough business climates pressure companies now to get a better handle on exactly what data is being used to make business decisions. Plus, they have to document and manage it better.

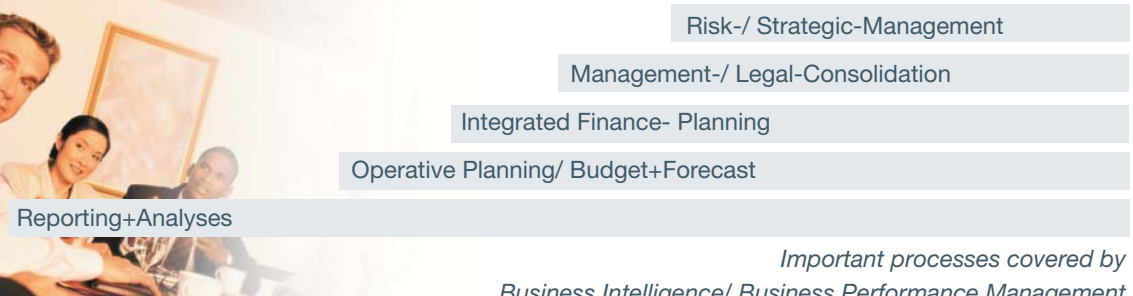
The desire for BI

SMB executives know the end results they need: full knowledge and reporting of their business activities and performance so they can comply with government regulations and make the business grow. They know that they need to access and analyze data. But they might not know that BI is what they need to make these things happen. It's up to the CIO or chief financial officer to educate other executives that BI is the technology they want.

The ability to make BI happen

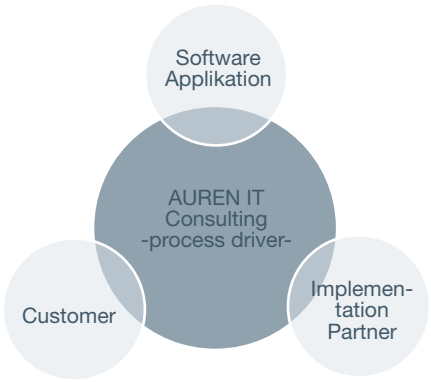
Implementing BI is not just for billion dollar companies. Large enterprises are usually the early adopters, who understand the benefits of adopting BI technology to gain competitive advantage. Based on leveraging knowledge and best practices, BI projects should be quicker to implement, and resources should be more plentiful for SMBs. They should engage an experienced BI architect to help shape their BI efforts and keep them from "reinventing the wheel" by making the same mistakes others have made. SMBs often view BI technology as a high cost especially as a proportion of their IT budgets. This can often be a stumbling block to even considering BI. However, due to the quick tangible returns from implementing BI technology, many SMBs have already realised their return on investment several times over.

A good BI technology will mean a better view of the business. Unprofitable product lines can be eliminated, resources can be moved to more profitable areas of the business and reporting is speeded up.



Important processes covered by Business Intelligence/ Business Performance Management

The last point, speed of reporting is particularly important when you think about how agile an SMB needs to be in a highly competitive environment. Businesses, especially SMBs in the region, must protect their IT systems. According to Gartner research, 50 per cent of all SMBs (Small and Medium Businesses) will go out of business within three years if they can't retrieve their data in 24 hours. Most SMBs try to revamp their existing ERP systems. IT spend has increased again and business intelligence is the one of the areas companies are focusing on. While ERP solutions deliver some reports, to build and generate more reports, companies are increasing using business intelligence applications. Major BI vendors recognizing the size of the market are positioning their tools to serve the SMB market. The already hotly contested battle is heating up.



AUREN IT Consulting-an dispositive process driver in IT-projects

Excellent BI, integration and data warehousing tools are increasingly available from smaller software vendors. Many of these firm´s primary customers are SMBs, so they understand their customer needs.

In addition, several are partnering with software vendors that provide enterprise applications for the SMB market. These partnerships often involve embedding their BI (or integration) tools into their partner´s applications, thus making BI deployment very cost effective. Since these applications are often industry-specific or oriented to specific business functions, embedding the BI and integration tools with the applications enables the reporting and data analysis that customers need. This approach is very resource-effective and more easily incorporates the BI environment into individual business processes. Thanks to better and less expensive BI tools, more experienced people, and lower deployment costs, SMBs can start taking advantage of BI to help grow their businesses and better measure performance.

Jörg Mayr
joerg.mayr@str-auren.de
AUREN Germany

Tax incentives in Serbia

Serbia has one of the lowest corporate income tax rates in Europe with a 10% rate. Due to the financial crisis, some of the tax incentives were abolished with the latest changes of the Corporate Tax Law.

For example, instead of 10 years, as prescribed by the previous Corporate Income Tax Law, the loss carry forward period is now five years. However, the tax legislation still prescribes a number of tax incentives such as:

- Tax credit for large investments
- Tax credit for investment in fixed assets
- Tax credit for investment in fixed assets for taxpayers in certain areas of industry
- Carry forward of losses.

Relief for large investments

The law prescribes a special tax relief for investments in excess of approximately RSD 800 million ($10.8 million), subject to the fulfillment of the following conditions:

- Investment of over RSD 800 million in fixed assets, and
- Employment of 100 new employees for an indefinite period of time

The tax relief is granted in proportion to the value of investment. The income tax is reduced based on the ratio between the value of new assets and total assets, including the newly acquired assets. The tax relief is applicable from the year in which the first taxable income is generated, after the above conditions are fulfilled.

New employees, for the purposes of this incentive, are not considered to be the individuals formerly employed in a company directly or indirectly related to the taxpayer. This tax incentive is most interesting for Greenfield investments, where 100% tax exemption can be achieved during a period of ten years.

Investment in fixed assets

A taxpayer who invests in fixed assets used for his registered business activity is entitled to a tax credit equivalent to 20% of the value of investment in the year of the investment. The tax credit is limited to 50% of the assessed tax in the respective year. The unutilized portion of tax credit may be carried over to the future accounting period, but for not longer than 10 years. Any unutilized tax credit from the previous year(s) may be applied in the current year once the current year's tax credit has been used, in the order of investment.

Investment in fixed assets for taxpayers in certain areas of industry

Taxpayers registered for business activity in certain areas of industry are entitled to a tax credit equivalent to 80% of the value of investment. The credit is not limited, i.e. it can be used in full, up to the amount of the assessed tax. The unutilised portion of the tax credit may be carried over to the future accounting period up to 10 years.

The areas of industry to which this tax incentive applies include agriculture, textile industry, basic metal industry, standard metal products industry, machine industry, electrical/household appliances industry, car industry, recycling etc.

Carry forward of losses

Operating losses could be carried forward and offset with the profit in the next 5 years.

€urofast Global Limited

Slobodan Mihajlovic
Slobodan.mihajlovic@eurofast.eu
Serbia

2011 Outlook for Colombia and Latin America

During the first two months of 2011, Colombia received nearly USD 2.2 billion as foreign direct investment. This represented a 56% increase over the same period in 2010, which came in at USD 1.4 billion.

Although the accounts being compared are those of the foreign exchange balance (a special balance used by Colombia's Central Bank to show short-term foreign transactions) which sometimes differ from the balance of payments by considering different concepts, the increase is mainly due to the oil and mining industries. These activities produced USD 1.97 billion in the first two months of the year (89.8%of total FDI) and was USD 735 million higher than the first two months of 2010.

Available data show that foreign investment in other sectors also rose from USD 171 million to USD 222 million. The amount of foreign investment executed in the first two months of this year, shown in the country's foreign exchange balance, reflects many of the investment commitments by oil and coal exploration and production companies in the country.

Latin America seems to present itself as the land of opportunities. The World Bank projects growth in the region of around 4% this year, following on from the 5.7% reported in 2010 and the 2.2% of 2009. Paraguay is the leading country in terms of growth projection for 2011 at 8.4%, followed by Argentina (7.8%), Peru (7.7%) and Brazil (7.6%). Forecast inflation in the region is projected at 6.7% for 2011.

This reality represents a high risk: "In those countries where growth is strong, capital inflow is putting upward pressure on currency valuations, thereby harming competitiveness for 'exports'", while "rapid growth in emerging markets leads to inflationary pressure, which has led some central banks to tighten monetary policy". In short, deepening inflation and loss of competitiveness are two of the greatest risks Latin America is facing.

But that's not all: the World Bank warned that the region's central banks are set to have even less room for maneuver. It considers that central banks in Latin America are 'overburdened' with capital flows, which reached USD 203 billion last year and restricted the ability to use interest rates to control inflationary pressure.

With regard to 2011, the World Bank predicts that Brazil and other Latin American countries may be forced to limit spending, which could then rein in the pressure to lift interest rates. But this solution has its downsides: higher rates may exacerbate foreign capital flows and so hurt exporters by boosting local currency appreciation. It is therefore important for investors to know why and where to put their money.

The Framework of Colombia

Colombia is a country with several opportunities and benefits for foreign investment. It has a growing workforce, focused on customer satisfaction with a high availability of a skilled and entrepreneurial labor force. According to the World Competitiveness Yearbook 2009 from the International Institute for Management Development, Colombia has the second-largest workforce with the greatest availability of skilled labor, as well as one of the most enterprising management classes in the region. Additionally it enjoys an excellent geo-strategic position, with a very convenient distance to markets on the continent. In addition to trust and global growth, there are interesting incentives for foreign investors, such as duty free zones, the option of signing legally binding stability contracts with the Colombian government, and income tax exemption for up to 20 years in several strategic sectors. For these reasons, Colombia nowadays tops the chart as a country of international interest with market potential for both the production and consumption of goods and services.

Regarding economic data, historically Colombia has been characterized by a good degree of stability. Its GDP has been growing around two points higher than the Latin American average since the 1970s and the country has been recognized as the least volatile in the region. Over the past five years the Colombian economy has grown at rates above 4% and it has experienced no negative growth. Colombia's Central Bank recently said that "the economy is returning to levels close to capacity". The Bank expects GDP growth of 4.5% in 2011, higher than last year's figure of close to 4%.

Investors should take advantage of the potential of emerging countries: they do not have the saturation seen in developed economies and offer the chance of getting onto a developing path. This creates stability, security and confidence to expand activities and to find new revenue, strengthening activities and global positioning.

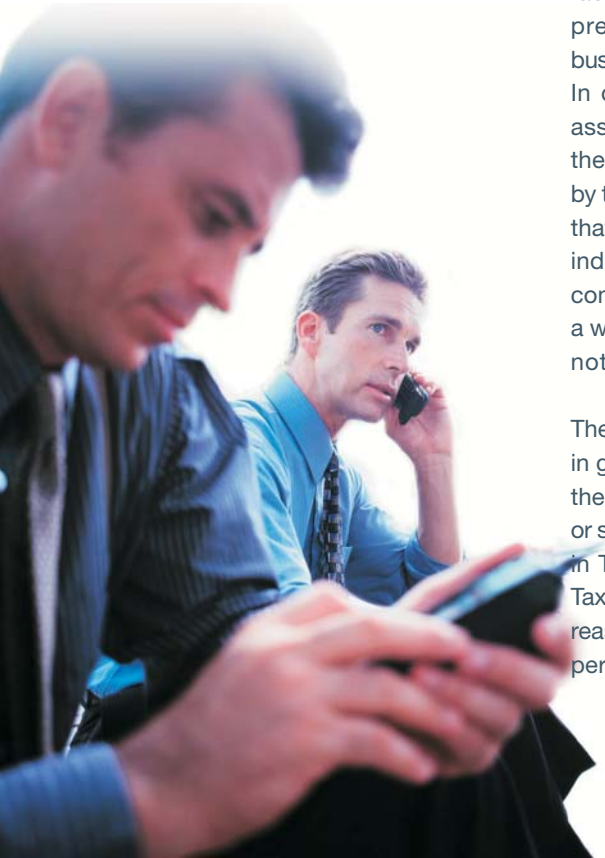
Clara Triana
ctriana@thr.com.co
Colombia

Holding companies in Spain
An efficient instrument for reorganising corporate assets

Family businesses make up the core of our country's business fabric and operate in most production sectors. Consequently, it is important to take special care with issues such as their management and organisation, the family group's interests, an appropriate succession system to ensure their continuity from one generation to the next and, in short, their adaptation to the business environment to achieve a high level of competitiveness.

It is common to find family groups with a number of companies and different activities and with a certain level of real-estate assets, all without sufficient organisation for making new business investments or continuing the activity from one generation to the next without high fiscal costs.

The right business organisation and assets structure can minimise and even avoid the aforementioned fiscal costs. For said purpose, the so-called "holding companies" are an ideal instrument for organised business growth and they also facilitate the often difficult takeover process of family businesses by the next generation.



In Spanish law, there is no specific concept of holding company, which is why we have to refer to its usual meaning, which defines it as an entity that holds the majority of the share capital of other entities. The term corresponds to the concept of parent company provided in article 42 of the Commercial Code, where said company holds the majority voting rights in other companies.

From a tax point of view, the situation of one or more companies with one or more direct shareholders involves many problems, such as the high fiscal cost of dividends for individual shareholders, limitations to the application of the reinvestment of extraordinary profits, difficulties for obtaining the 95% reduction on Inheritance and Gift Tax for the companies in the group, the risk of adjustments made by the tax inspection department as a result of associate transactions and the redistribution of financial resources among the companies in the group, among others.

It is also common to find real estate properties used for trade activities, such as factories, warehouses, offices and other premises applied to the group's own business activities or leased to third parties. In order to reorganise these real estate assets, one option would be to consider their provision to a company part-owned by the holding company, where the property that is for private use becomes part of the individual's assets. It is essential for the company to have exclusive premises and a worker employed full-time and preferably not associated with the shareholders.

The creation of a holding company (which, in general, has to be incorporated through the swap or non-cash provision of shares or stakes under the special system provided in Title VII, Chapter VIII of the Corporate Tax Act) in business may be due to financial reasons, such as separating business and personal assets, the creation of an entity with a group image regarding third parties or the coordination of finance for the various part-owned companies. However, one of the main advantages is that it avoids the aforementioned negative tax effects of a dispersed business structure.

Consequently, from a tax point of view, holding companies provide the following main advantages, among others:

- The dividends the part-owned companies share out to the holding company will not be subject to retention and will benefit from a 100% deduction owing to internal dual taxation in the Corporate Tax assessment, which means that the share-out of dividends benefits from tax neutrality.

- With the share-out of dividends mentioned in the previous paragraph, if a company in the group has surpluses in its cash account and intends to make a new investment in one of the companies in the group or in the creation of a new company, said cash accounts can be distributed to the holding company at zero fiscal cost. The holding company can then make the new investment itself or increase the capital of one of its part-owned companies so that the investment can be made by said company. As a result, the holding company becomes the finance centre and the centre for channelling the group's investments.

- If the holding company sells any of its stakes, the Corporate Tax deduction for dual taxation of capital gains from internal sources can be applied.

- The existence of a holding company makes it possible to meet the requirements for obtaining a 95% reduction on Inheritance and Gift Tax in cases of the mortis causa transfers (inheritance) or inter vivos transfers (gift) of the shares or stakes held by one of the family members.

- The holding company can choose to pay taxes under the special system for the consolidation of business groups, which, for example, involves the possibility of compensating the losses of one company in the group with the profits of another, without prejudice to allocating the corresponding provision for portfolio depreciation. Similarly, it avoids the application of the new system for associate transactions. It also offers a group image to third parties.

- Transfer of assets with the deferral of taxation on the capital gains obtained.

- The holding company can also act as a place for centralising various activities for the companies in the group, such as policies on finance, purchasing, marketing and management control, etc.

- In some cases, there is also a possibility of "blocking" or guaranteeing assets to a certain extent.

However, for the holding company to operate under the aforementioned terms, it must meet the following requirements:

- It must own at least 5% of the voting rights of the part-owned companies.

- It must own said rights to direct and manage the stake and, if possible, the activities of the companies with the corresponding organisation of the material and human resources.

  Here, it is important to mention that although current legislation only requires the management and direction of the "stake", where the existence of a board of directors or joint and/or several directors or a sole director is sufficient, it is also recommendable for the holding company to have employees, which could be executives of the companies in the group, as well as a family member, where applicable. The holding company must also have premises from which it carries out its activities.

  This consolidates the idea of the holding company carrying out its own business activities, directing and managing not only the "stakes", but also the "activities" of its part-owned companies, which would cover any future change to legislation.

- Where applicable, the family group must jointly own at least 20% of the share capital. The concept of family group refers to any of the shareholders and their spouses, ascendants, descendants or second-degree relatives, regardless of whether they are blood relatives or relatives through marriage or adoption.

- Finally, at least one of the members of the aforementioned family group must perform actual executive functions in the company and receive in exchange more than 50% of all his/her business, professional and personal remunerations.

Accordingly, with regard to current legislation, the creation of a holding group that brings together the activities of its part-owned companies under the concept of direction and management involves significant fiscal and organisational benefits that should not be missed.

Notwithstanding the foregoing, there are no standard solutions in these matters, but rather each case must be assessed on an individual basis and the best solution found.

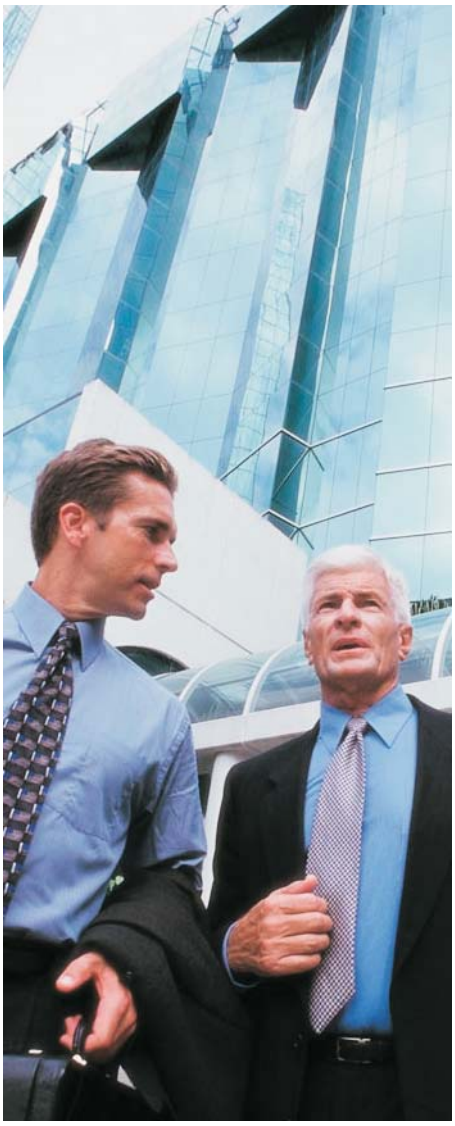
Luis Basart i Serrallonga
Lluis.basart@bcn.auren.es
AUREN Barcelona

Amendments to Corporate Income Tax Act

At the end of year 2010, the Bulgarian parliament adopted a number of changes in the Corporate Income Tax Act (CITA), some of which will have a significant beneficial effect on cross-boarder transactions.

1. Transposition of EU Interest and Royalties Directive

From the beginning of this year, Bulgaria has reduced the general 10% rate of the withholding tax to 5% for interest and royalties paid by resident companies to associated companies established within the EU. This important change in the regime of taxation of interest and royalties came as a result of the transposition of the EU Interest and Royalties Directive (2003/49/EC) into national legislation.



To enjoy taxation at the reduced rate, the non-resident beneficiary of the payment of interest/royalties should satisfy certain conditions (such as to have one of the legal forms listed in CITA, to be tax resident in the EU etc.). In addition to that, the payment of interest and/or royalties should be made between "associated" companies. As such are considered those in which one holds directly minimum 25% in the capital of the other or a third company has a direct minimum holding of 25% in the capital of both the resident payer and the beneficiary. Holdings must involve only companies resident in the EU. The minimum holding period that is required is two years. In cases of hidden distribution of profits, preferential treatment will not be applied.

2. Extension of tax avoidance rules to persons in offshore zones

Certain offshore transactions performed by resident legal entities, sole traders or permanent establishments to non-resident legal entities (payments for fictitious services and/or rights, non-insurance indemnities etc.) are taxed with 10% withholding tax. As "offshore" are qualified entities from uncooperative tax jurisdictions (explicitly listed) or any other jurisdiction that lacks Double Taxation Treaty with Bulgaria and there the rate of the corporate tax rate is more than 60% lower than the equivalent Bulgarian tax.

3. Payment of withholding tax for rental income

When resident legal entities pay to non-residents rentals or other remuneration for the use of real estate, the tax due is withheld and paid to the budget by the resident payer of the income. Before 2011, this obligation was imposed on the foreign recipient of rentals.

4. Assets distributed as a dividends or liquidation quotas

According to the new regime, assets distributed as dividend or liquidation quotas will be considered as sold at market prices and will form part of the taxable income.

Amendments introduced certainly make Bulgaria much more attractive and beneficial in terms of investments. As such, after transitional period, EU Interest and Royalties Directive has now been implemented and fully comply with the EU legislation. With the changes to payment of withholding taxes for rental income, tax compliance obligations vested on from non resident investors to the Bulgarian residents. Furthermore extension of tax avoidance rules prove that Bulgaria is taken tax evasion seriously and doing all necessary to tackle it and becoming more and more trusted jurisdiction to do business.

€urofast Global Limited

Simeon Grigorov
simeon.grigorov@eurofast.eu
Bulgaria

A new double tax treaty on income and capital between Cyprus and Germany

On February 18, 2011, after lengthy negotiations, Cyprus and Germany signed the new Agreement on which will replace the existing agreement of 1974.

The Agreement's appliance on taxes has been expanded to include further forms of tax such as the Cyprus corporate income tax and the capital gains tax.

A new definition is also provided on the Protocol to the Agreement according to which the 'place of effective management' will be considered as the place where the key management decisions are taken, that is where the senior partner/s make such decisions.

Some of the main changes are outlined hereunder;

Article 10 (Dividends): An amendment has been established according to which, where the dividends are taxed in the State in which the company paying the dividends is a resident and the beneficial owner of those dividends is a company and a resident of the other State, then the charge should not exceed 5% of the gross amount of the dividends (before 10%) if the Beneficial owner holds directly at least 10% (before 25%) of the capital of the company paying the dividends.

Moreover, a State will not impose tax on dividends paid where a resident-company of a Contracting State derives income or profit from the first State, unless dividends paid to a resident of the other Contracting State or the holding in respect of which the dividends are paid is effectively connected with a PE in that other Contracting State.

Article 11 (Interest): Interest derived from a Contracting State shall only (previously may) be taxed in the other Contracting State where its beneficial owner is a resident. The exemption from tax on interest paid to governmental institutions is abolished. The penalty charges for late payment are excluded for interest purposes.

Article 12 (Royalties): The term royalties has been slightly extended to include new provisions, while the special case of royalties taxed from the right to use cinematograph films is abolished. Furthermore, a specification is introduced on which royalties shall be taxed in the Contracting State of which a PE related to the royalties paid is established, irrespectively of whether the person paying the royalties is a resident of a Contracting State or not.

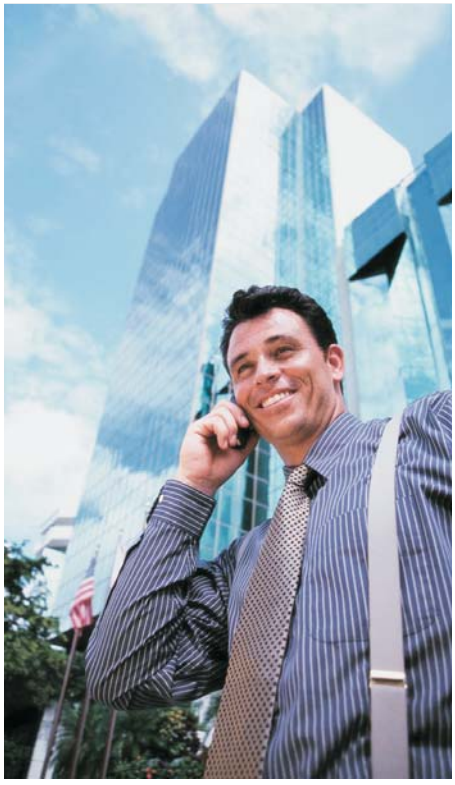
Article 25 (Exchange of information): The new Agreement gives a wider power on the two countries to exchange information on a tax payer when it is foreseeably relevant (previously necessary) for the purposes of the Agreement or for the purposes of domestic laws (previously only for the purposes of the Agreement).

Both Contracting States cannot decline to provide the requested information on the reason that they are held by financial institutions, by agencies, as a fiduciary capacity or for ownership interests.

Finally, the Protocol to the new Agreement states that in the case where a State receives irrelevant data of a tax payer, it shall erase or correct them and inform the supplying State. If a person suffers unlawful damage as a result of the exchange of information, then the receiving State will be held liable under its domestic laws.

Conclusion

The concept of beneficial owner is introduced in the present Agreement. Already, there have been numerous reactions as to the interpretation of the term based on the source country and its legal system. Currently, there is a misunderstanding between civil law and common law jurisdictions on the approach



that shall be given to the term. Does it have a legal or an economic connotation? If at some time there is a common understanding and an international fiscal meaning of the term, we will be in a better position to understand, which country taxes the dividends, royalties and interest paid, as in practice, under the new approach, a recipient does not necessarily mean that will also be the beneficial owner of the income.

Eurofast Global Limited

Myranda Chatzimatthaiou
myranda.chatzimatthaiou@eurofast.eu
Natasha Mavrommati
natasha.mavrommati@eurofast.eu
Cyprus

Montenegro and Ireland Tax Treaty Still Waiting for Implementation

In the aim of strengthening bilateral relationships, a Tax Treaty between Montenegro and Ireland was concluded on 7 October 2010 in respect of elimination of double taxation and prevention of fiscal evasion on income. The treaty has been ratified by Ireland in February 2011 by way of Order S.I. No. 18 of 2011 and upon ratification by Montenegro it shall come into force.

The Treaty shall cover the corporate profit tax and personal income tax in Montenegro and the income tax, the income levy, the corporate tax and capital gains tax in Ireland.

The residency status of an individual shall be determined by the available permanent home, economic and personnel connections, "habitual abode", or by the nationality. If these criterions are not met, the competent authorities of the countries will handle these issues through their mutual agreement.

The Treaty adopted general definition of a permanent establishment. However, if business activities are done through a general commission agent, independent agent, and broker performing their business in the ordinary course, the company will not be deemed to have permanent establishment in the other contracting state.

The treatment of the income deriving from immovable property is determined by where the immovable property is located . Thus , this income including the one originated from agriculture or forestry may be taxed in the place of its location. This apply for the income from direct usage or letting of immovable property as well as for the income incurred from immovable property used for independent personal services operation.

Business profits realised by the companies in Montenegro and Ireland shall be taxed in those countries except if the companies are performing their business activities thought the permanent establishment within the other contracting country but only on those incomes that are attributable to that permanent establishment. Likewise, the company's profit generating from the aircrafts and ships in international carriage will be assessable only in the country where their effective management is located. This comprises the profits from the participation in the pools, joint ventures or international operating agency.

The Treaty sets withholding tax rate at 5% for dividends if the beneficial owner is an Ireland holding company which holds directly or indirectly 10% of the Montenegrin company's capital, as the dividends - paying company. In case this condition is not met, a 10 % tax rate is applied. However, mentioned provisions would not be applicable if beneficial owner of the dividends in Ireland performs a business activity through the permanent establishment in Montenegro as the paying country.

The Treaty stipulates that interest shall be tax in Montenegro as the place of their emerging, if beneficial owner of the interest is a resident of Ireland, so the chargeable tax rate shall not exceed 10 % of the interest's gross amount.

Withholding tax rates at 5% on copyrights of literature, scientific, or artistic work including films, recordings and broadcasting and 10% for other IP rights such as any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience are imposed at source if the beneficial owner of these royalties is a resident of the other Contracting State

The articles on capital gains stipulate that gains originated from immovable property in one contracting country are determined by the immovable property location. Equally, capital gains realized through permanent establishment or fix base situated in Montenegro by the Ireland company from the alienation of movable property used for business activities may be taxable in Montenegro. Moreover, the capital gains from alienation of company's shares, interest in partnership or trust realised by the Ireland resident are taxed in Montenegro, where the shares or interest arises more than 50 % of the their value directly or indirectly from the immovable property in Montenegro.

The income realised by a Montenegrin resident, which may be taxed in Ireland, should be considered as a deduction from the tax on the resident's income, an amount equal to the tax paid on income in Ireland. However, such deduction is not to exceed the part of income tax (computed before the deduction) that is attributable to the income taxed in Ireland. In addition the credit shall be allowed in Ireland for the income, profits, or gains of the resident that can be taxed in Montenegro. With regard to dividends paid by Montenegrin company to Irish company that owns directly or indirectly 10% of the capital of the dividend paying company, the credit shall include a Montenegrin tax paid on income for which these dividends are paid.

€urofast Global Limited

Sead Dado Salkovic
Sead.salkovic@eurofast.eu
Montenegro

Luxembourg-Hong Kong Double Tax Treaty: an update

While the bilateral Tax Information Exchange Agreement between the British Virgin Islands (BVI) and People's Republic of China (PRC) is about to take effect as from the BVI tax year 2011/2012 (actually when both the BVI and PRC have completed their respective internal procedures), it is worth recalling the major advantages that can be offered by the bilateral treaty for the avoidance of double taxation between the Hong Kong SAR and the Grand-Duchy of Luxembourg (the Treaty) and the use of a Luxembourg structure as an efficient alternative for Chinese inbound and outbound investments through Hong Kong SAR.

On 20 January 2009, the Treaty entered into force in both jurisdictions. The Treaty is applicable as from 1 January 2008 with respect to Luxembourg and as from 1 April 2008 with respect to Hong Kong.

On November 11, 2010 The Secretary for Financial Services and the Treasury, Professor K. C. Chan, on behalf of the Hong Kong SAR Government, signed a protocol to the Treaty (the Protocol). The Protocol upgrades the exchange of information article in the Treaty in order to be in line with the current OECD model convention. The Protocol will come into force after the completion of ratification procedures and notification by both sides.

To date, only a limited number of jurisdictions have signed a comprehensive double taxation agreement with Hong Kong including Belgium, Thailand, the PRC, Vietnam and recently Luxembourg. The Luxembourg-PRC treaty of 1994 does not apply to Hong Kong.

The Treaty strongly contributes to link two major financial hubs and business-friendly jurisdictions at the crossroads of the Western and Eastern worlds, it does also give Hong Kong investors unique access to Luxembourg's extensive tax treaty network (62 jurisdictions have entered into comprehensive double tax treaties with Luxembourg). This network is complemented by the Grand Duchy's flexible corporate and tax environment.

The Treaty is attractive for several reasons: (i) because of its tailored provisions; (ii) because it allows freer cash flows between the two jurisdictions; and (iii) because it creates outstanding opportunities for investors willing to invest in and out of Asia through two complementary hubs.

Providing advantageous taxation

Most importantly, the Treaty provides advantageous taxation of transactions between two countries, in order to encourage the development of cross-border business between them. The main tax advantages created by the Treaty are: (i) to reduce the rate of withholding tax on dividends paid between both jurisdictions; and (ii) to reduce the rate of withholding tax on royalties paid by a Hong Kong entity to a Luxembourg entity from 4.95% to 3% (royalties are not subject to withholding tax under Luxembourg's domestic tax laws).

Taxation of capital gains generated on shares in a Luxembourg company is also relaxed by the Treaty, thus facilitating exit strategies for Hong Kong equity investments in the Grand Duchy. Moreover, taxation of capital gains arising from the sale of shares in companies predominantly invested in real estate has a narrower scope than the OECD model convention.

Taxation of dividend income received by a Luxembourg company: participation exemption regime

The Luxembourg participation exemption regime is a cornerstone for corporate and tax structuring on the basis of the Treaty. Luxembourg domestic tax laws provide that dividends paid by a foreign company are fully exempted from income tax in Luxembourg if: (i) the foreign subsidiary is subject to a comparable tax in its jurisdiction of incorporation; and (ii) the Luxembourg parent company has held shares representing at least 10% of the capital of the subsidiary (or shares acquired for an aggregate purchase price of 1,200,000 or its equivalent) for a period of at least 12 months, such holding period requirement being waived under the Treaty. Dividends which do not qualify for the regime can be exempted up to 50%.

For companies having their residence outside the EU, the Luxembourg tax authorities consider that a foreign corporate income tax is comparable to the Luxembourg income tax to the extent that: (i) the tax is not optional; (ii) the nominal tax rate is not less than half of the Luxembourg corporate income tax rate (as the Luxembourg corporate income tax rate is 21%, the foreign tax rate must not be less than 10.5%); and (iii) the rules and criteria to determine the taxable basis are

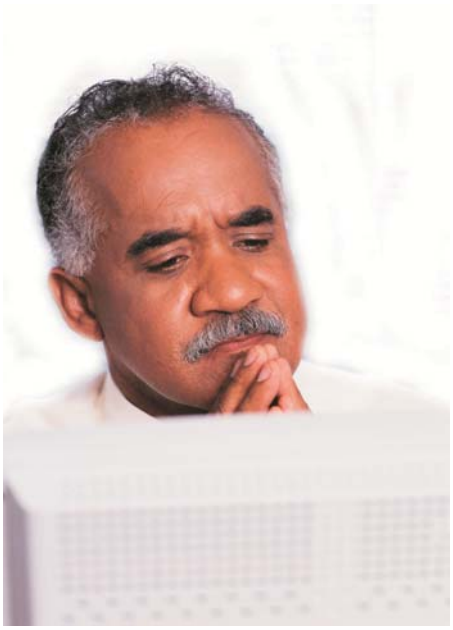
similar to those applicable under Luxembourg tax law.

For a Hong Kong subsidiary held by a Luxembourg resident company, special attention will need to be paid as to whether Hong Kong's 16.5% profits tax will be regarded as comparable to Luxembourg corporate tax.

However, any such doubts will be dispelled following an advance tax agreement to be issued by the Luxembourg tax authorities confirming the application of the regime to profits distribution and capital gains derived by a Luxembourg parent company from its shareholding in a Hong Kong subsidiary.

It is worth mentioning that the issuing of advanced tax agreements by the Luxembourg tax authorities should provide a high level of legal comfort to investors since the Luxembourg tax administration is bound by such agreements.

The Luxembourg government indicated in its comments on the Treaty that the Hong Kong territorial taxation system should not hinder the application of the participation exemption regime. However, a 'place of effective management' test will be of material importance in order to determine whether the subsidiary will be considered as a Hong Kong resident.



It should also be pointed out that it is not necessary that the Hong Kong subsidiary effectively pays a 10.5% tax in Hong Kong. It is sufficient for it to be subject in principle to such tax. As a result, a Hong Kong subsidiary which has a permanent establishment or subsidiary in China, the profits of which are taxed in China and not in Hong Kong, should in principle be considered as subject to a comparable tax and therefore eligible to benefit from the participation exemption regime. If the previous flexibility and cooperative attitude of the Luxembourg tax authorities is anything to go by, it should be possible to obtain such confirmation within a couple of weeks.

Tax-exempted dividends paid by a Luxembourg company

Luxembourg's extensive tax treaty network, reinforced by a recently adopted law on the taxation of dividends paid to countries with which Luxembourg has concluded a tax treaty (the Law), commonly allows outbound withholding tax on dividends to be reduced to 0% when repatriating profits to a treaty jurisdiction such as Hong Kong.

Two conditions must be fulfilled under the Law. First, the parent company must hold at least 10% of the Luxembourg subsidiary's share capital (or shares acquired for an aggregate purchase price of €1,200,000 or its equivalent). Second, the parent company must be subject to income tax which is comparable to Luxembourg income tax, as discussed above.

When the above treaty rate is not available (i.e. when Luxembourg has no treaty with a particular jurisdiction, or the above conditions are not met), there are some common methods used to optimise repatriation of cash held by a Luxembourg subsidiary, including to offshore jurisdictions. One popular technique is the use of hybrid instruments known as PECs (preferred equity certificates) and CPECs (convertible preferred equity certificates), which are not regulated by law or by administrative guidelines.

These hybrid instruments feature a combination of equity and debt. The common equity features are: (i) a long maturity of 30 years and more; (ii) the stapling of PECs and CPECs to equity shares (so that the hybrid instruments must be transferred along with the relevant shares); (iii) the qualification of PECs and CPECs as transferable securities; and (iv) their subordination vis-a-vis other debts of the issuing company (while ranking in priority to share capital).

In terms of tax and accounting, holders of PECs and CPECs are usually considered as creditors: no voting rights are granted to them, and they do not share the losses of the issuing company. In the jurisdiction of the holder of the PECs and CPECs (for example in the USA) they are usually treated as equity.

CPECs are convertible into shares, while both PECs and CPECs can be redeemed at market value. Both types of instruments may also be interest bearing.

Profit Participating Loans (PPL) or the classes of shares mechanisms are also frequently used in Luxembourg to turn any withholding tax issue around.

Enhanced opportunities in the field of asset management

Almost 60% of funds marketed in Hong Kong are Luxembourg funds. The tax and regulatory advantages for investment funds and other investments structured through Luxembourg are becoming increasingly apparent for investments from and into Hong Kong and China. The stable Luxembourg government with one of the lowest debt to GDP ratios in the world together with the business friendly tax and legal environment is also an important factor that appeals to international investors.

Today, a large majority of the foreign investment funds distributed in Hong Kong are Luxembourg UCITS funds, i.e. regulated funds benefiting from an 'investment passport' so that they can be distributed in all EU countries on the basis of the

approval by a sole EU national regulator such as the CSSF.

The combination of the Treaty with the PRC-Hong Kong double tax treaty certainly favours the investment in China by Luxembourg based funds and private equity ventures looking for opportunities in the Chinese market. Funds management companies based in Luxembourg can use a Hong Kong subsidiary to monitor their business in China: under the PRC-Hong Kong treaty, the definition of permanent establishment for a Hong Kong company having business in China is especially advantageous, no western country and no other financial centre benefits from the same advantage.

Conclusion

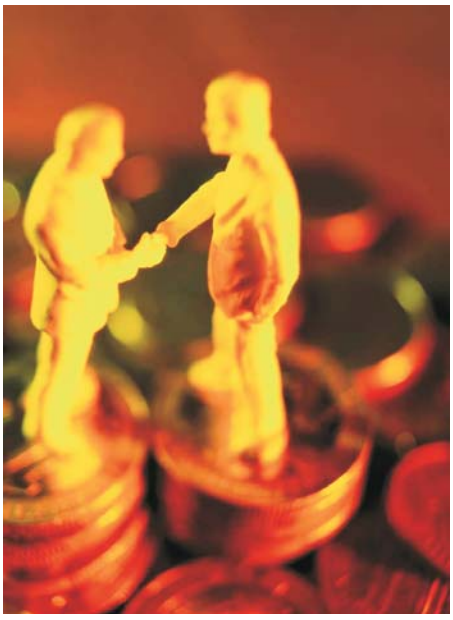
The growth in China and the treaty with Hong Kong means that Hong Kong is now clearly from a Luxembourg perspective a preferred jurisdiction for investments into and out of China and many other jurisdictions. The synergies which both jurisdictions have to offer are so appealing that investment funds, multinational companies and other investors are increasingly considering and implementing Hong Kong-Luxembourg investment and group corporate structures in order to achieve an optimal investment structure.

Jimmy Tong Sam
J.TongSam@mayfair.lu
Luxembourg

Obligation to communicate transactions relevant for VAT purposes of values higher than Euro 3,000 - Implementation Decree published

Order of the Director of the Revenue Agency of 22 December 2010

The Order of the Director of the Revenue Agency implemented the rules governing the obligation to electronically notify the authorities of any transactions relevant for VAT purposes for values of Euro 3,000 or more, introduced by article 21 of Decree Law 78/2010.



The communication obligation applies to all VAT taxpayers performing sales of goods or services (this includes non-resident subjects registered in Italy for VAT purposes through a direct identification or a VAT representative).

The communication concerns sales of goods and services provided or received, for which fees of Euro 3,000 or more, net of VAT, are due. For tax year 2010 the above limit of Euro 3,000 has been raised to Euro 25,000.

For the whole of 2010 and until 30 April 2011, the communication must include only transactions that are relevant for VAT purposes and subject to invoicing obligations. With effect from 1 May 2011, transactions relevant for VAT purposes but not subject to invoicing obligations (for example, retail sales under art. 22 Presidential Decree 633/72) must also be included.

In such cases the threshold is raised to Euro 3,600, inclusive of VAT.

Certain transactions, such as exports, imports and transactions already indicated in the 'Black List communication' are excluded from the communication obligation.

In each communication, one for each tax period, the following must be indicated for each sale or service with a value of Euro 3,000 or more (or Euro 3,600):

1. year of reference;
2. VAT number or, where missing, the tax codes of the parties (transferor, service provider, transferee, client);
3. for subjects not resident in Italy or without a tax code:

- ✔ name and surname, place and date of birth, sex and tax domicile, for natural persons;
- ✔ name and tax domicile for subjects other than natural persons;

4. fees inclusive of the tax, for transactions relevant for VAT purposes for which there is no invoicing obligation;

5. the fees due and the VAT amount for transactions subject to invoicing.

The communication should be filed annually by 30 April of the year after the year of reference. For tax year 2010 only, the communication may be filed up to 31 October 2011.

The Agency has also clarified that, to correct any errors and/or omissions, a supplementary communication to replace the one previously sent may be filed within 30 days of the original filing deadline.

For the supplementary communication to be valid:

- it must refer to the same period as the original;
- the original communication must be cancelled in advance.

To date (14th of March) the Communication has not been published.

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Aldo Ponzi
aldo.ponzi@iteraudit.com
Italy

Tangled in the worldwide web: the transition to electronic VAT compliance

Over the past few years, the UK tax authority HM Revenue & Customs ("HMRC") have been gradually reinventing themselves to reflect modern day business, in particular developing their internet presence with a view to reducing the cost of managing the UK tax collection system.

HMRC has made much fanfare about this online revolution being primarily about reducing the cost to business of tax administration and compliance, although the transition process has not been without its problems, not helped by HMRC's attempt to create a 'one size fits all' solution to a myriad of varied businesses with differing accounting requirements and capabilities.

With specific focus on VAT, below is a summary of the key changes that HMRC have introduced and consideration of some of the issues which have arisen in the process.

Registering for VAT online

At present, UK businesses still have the option of registering for VAT either online or by submission of paper application forms. The benefit of submitting an application online is that information is received by HMRC immediately and securely. There is also no requirement to obtain a signature from a director, company secretary, or other senior figure in the business from HMRC's list of 'authorised persons'. HMRC also suggest that electronic applications will be 'fast tracked' by a specialised team so that a VAT registration number is issued more quickly (although still expect a processing time of three to four weeks as a minimum).

However, the position remains that although an application may be submitted electronically, any supporting documentation which HMRC may require (collectively referred to as 'evidence of the intention to trade') must still be submitted to HMRC in hard copy by post (HMRC will not always accept such evidence in fax format and discourage taxpayers from using email as an 'insecure' method of information transfer). This separation of the registration application into effectively a two-stage process introduces the very real possibility of delays in paperwork being properly 'linked' with the electronic submission, or worse, going missing altogether. At best, this creates delay in the application process which defeats the very efficiency it is attempting to achieve. At worst, there is the potential for important - and potentially commercially sensitive - information falling astray (thankfully HMRC only require provision of copy documentation, not originals).

HMRC expect to eventually introduce a 'one stop shop' system whereby all information required for processing a VAT registration may be submitted electronically. Until these circumstances arise, some applicants will remain confident in the tried and tested method of hand-written forms and supporting under single cover (although registered special delivery consignment is recommended in this case).

Submitting VAT returns online

From 1 April 2010, it became mandatory for all businesses with an existing VAT registration and a taxable turnover (i.e. VAT-exclusive income normally subject to either the standard, lower or zero-rate of VAT) of £100,000 or more, plus any business applying for VAT registration on or after that date (irrespective of turnover) to submit VAT returns electronically via HMRC's Online Services web portal. HMRC currently estimate that out of a total of around 2 million VAT registered businesses, approximately 1.6 million are now users of the online service. It is further planned that web filing will become compulsory for all taxpayers from 1 April 2012.

As with VAT registration, the advantage of online submission is immediate and secure submission without the inherent time delay or risk of non-receipt. However, for

businesses required to submit their VAT returns electronically, HMRC ceased to issue paper VAT returns (thereby removing the option for paper submission as an alternative) or indeed any other documentary prompt that a VAT return was due. This means that there is now an even greater onus for businesses to set their own reminders so that deadlines are not overlooked. Also, with a signature-based verification system being replaced by entry of an electronic user name and password, systems and procedures also need to be robust enough to ensure that these security details are protected, yet readily available to several key personnel. HMRC have heavily promoted the advantage to business of online filing, in particular the supposed cost savings, but appear to have overlooked the short term expense for many businesses in overhauling their accounting systems to meet the change. HMRC have also made it compulsory for online filing to be augmented by electronic payments. With the minority of taxpayers still permitted to pay by cheque faced with an earlier posting deadline (payments must now be cleared into HMRC's bank account by month end) it is difficult to not to view HMRC as the main beneficiary of online filing due to the substantial expected savings in stationery, postal charges and cheque processing.

Submission of EC Sales Lists & INTRASTAT Declarations

Electronic submission of both EC Sales Lists and INTRASTAT declarations has been available to UK businesses for some time, in parallel with their paper alternatives. HMRC have also included an EC Sales List option within the list of available services via their web portal. They do not presently have any plans to make electronic declarations mandatory, although this surely can only be a matter of time. Although the majority of businesses required to make them will be sufficiently computerised to deal with online declarations (and indeed, are probably already doing so), HMRC still do not offer a facility for these to be transmitted via the web portal by agents. Whether this is down to a matter of HMRC policy (curious, given that upload of statistical information does not provide any revenue risk to either HMRC or the taxpayer) or a shortcoming in HMRC's software, is unclear, but whilst it remains the popularity of paper declarations will be significant for some time to come.

EU VAT refunds

Historically, taxpayers seeking refund of VAT incurred in other EU member states were required to complete and submit a paper application form (normally in the native language of the refunding country) accompanied by the original invoices evidencing the VAT claimed, plus a certificate of taxable status ("COTS") – in effect a validated confirmation of VAT registration by the tax authority of the taxpayer's home country. Some countries also insisted on notary validation of the included invoices. The deadline for submitting a claim for each calendar year was 30 June the following year, and refunding countries were permitted up to six months to process payment, subject to any enquiries against any aspect of the claim (although in some instances extensive backlogs and delays occurred, without any legitimate recourse).

From 1 January 2010 – and therefore affecting any refund applications for EU VAT incurred in 2009 onwards – the laborious procedure outlined above was replaced with a new online refund scheme channelling applications via the taxpayer's native tax authority. The new scheme brought with it an increase in taxpayer submission time limit to nine months (30 September). Conversely, tax authority processing time was reduced to four months, accompanied by the introduction of financial surcharges for processing delay.

In the UK, HMRC have included an EU VAT refund option within the list of available services via their web portal. In principle, this has made the refund procedure much more straightforward and appealing. As a result of HMRC's involvement, all claims may be prepared in English language, irrespective of the destination. Since HMRC carry out preliminary checks to each claim and transmit it electronically to the tax authority of the receiving refund country, there is no longer any requirement for a COTS, or provision of original invoices (although electronically scanned files are expected instead). HMRC also permit claims to be handled by agents.

Commendably, HMRC were prepared for the introduction of online refunds. Unfortunately, other member states were not – most notably the Benelux countries.

Accordingly, it was unilaterally decided that taxpayer deadlines for submitting claims for VAT incurred in 2009 would be specially extended to 31 March 2011. This has been a welcome measure in allowing taxpayers time to adjust to the new system, although it has arguably been put in place to give tax authorities the opportunity to refine their web portals and processing systems so as to minimise the possibility of surcharges payable to applicants.

HW Chartered Accountants
Local Matters, National Strength.

Jeff Gambold
jgambold@hwca.com
United Kingdom

Authorized Economic Operator (AEO)

The Authorized Economic Operator (AEO) status emerged from the need to establish a balance at the customs control for goods, entering and leaving the European Community, and the growing terrorist threat, that exposes peace and security of the international community.

The aim of AEO is to have customs authorities and certified businesses jointly responsible for secure and safe cross-border transactions. This status allows benefits for the Economic Operator with regard to customs controls related to security and safety and / or to customs simplifications.

For the purpose, the Member States and Commission agreed on a common strategic position, through European Customs law, with the objective to achieve a fair term between customs controls and facilitation of legitime trade.

AUREN has been providing consulting services at the implementation status by Customs Brokers, Shipping Agents, Forwarding Agents and Transporters.

The recognition of our knowledge provided that, the following article, will be published in the Portuguese Forwarding Agents Association (APAT) magazine.

Satisfaction level

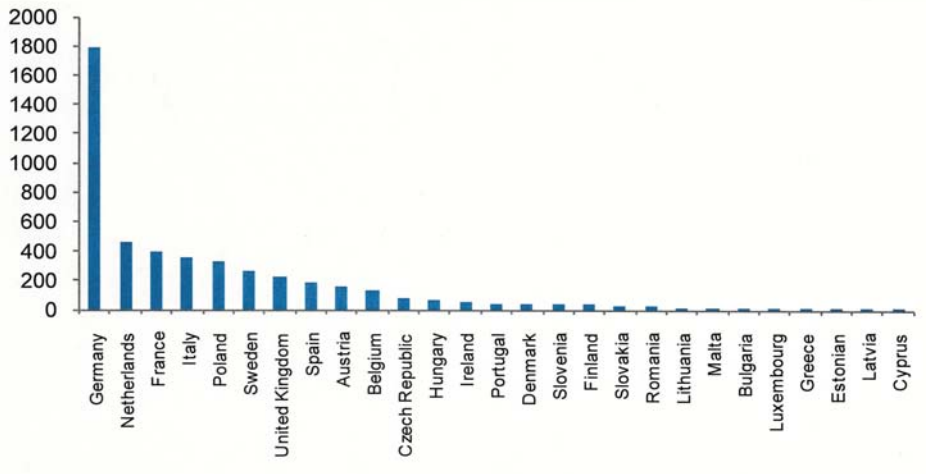
Since the publication of Regulation (EC) N.º 648/2005, 13 April and Regulation (EC) N.º 1875/2006, 18 December, we can say that the Forwarding Agents and other Economic Operators in the sector, more aware, have heard about the Authorized Economic Operator status, commonly known as the AEO.

In Portugal, companies can apply to be certified as AEO, which is granted by the DGAIEC – *Direcção Geral das Alfândegas e dos Impostos Especiais sobre o Consumo*, by ensuring that meet the following requirements:

- Compliance of customs obligations in the last 3 years;
- Accounting and logistic system;
- Internal control system;
- Financial solvency (solid financial position in the last 3 years);
- Security and safety standards (only for certificates AEOF or AEOS).

An AEO-certified company will be considered as being compliant and trustworthy in customs transactions.

Total Nº. of AEO Certificates



At EU level, there is now a total of 4802 certificates AEO. Germany, Netherlands, France, Italy and Poland are the countries that contribute the most for this number.

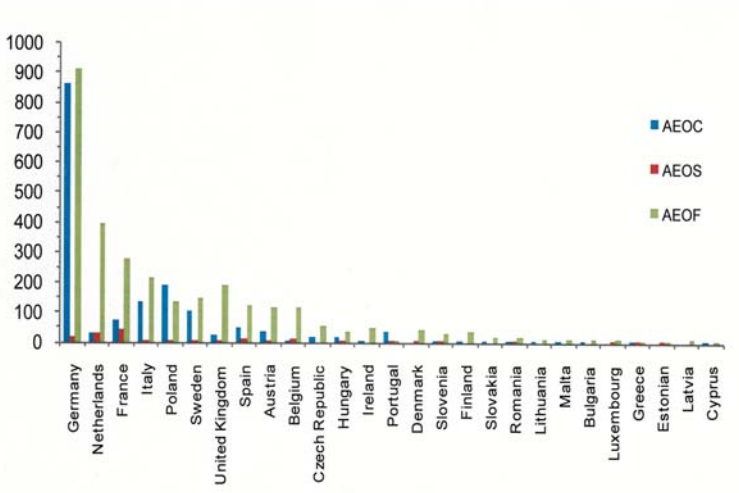
Source:

http://ec.europa.eu/taxation_customs/dds/cgi-bin/aeoquery?Lang=PT, 15/03/2011

Concerning to the type of certificates, we see that the number of certificate AEOF (Customs Simplifications / Security and Safety) is the most expressive.

In Portugal and Poland, the most frequent certificate is the AEOC (Customs Simplifications). What could be the cause for this discrepancy, when compared with the other EU countries? Could be related with the type of applicants (e.g. Manufacturers, Transporters, Importers, Exporters, Forwarding Agents, Customs Broker), who has requested the status?

Source: *http://ec.europa.eu/taxation_customs/dds/cgi-bin/aeoquery?Lang=PT*, 15/03/2011



The advantages associated with the AEO status are also regulated and are the following:

CERTIFICATES ADVANTAGES	AEOC Customs Simplifications	AEOS Security and Safety	AEOF Customs Simplifications / Security and Safety	ENTRY INTO FORCE
Less number of physical and document checks	✓	✓	✓	01-01-2008
Priority to the controls	✓	✓	✓	01-01-2008
Ability to indicate location to check	✓	✓	✓	01-01-2008
Facilitation on the provision of simplified customs procedures	✓		✓	01-01-2008
Summary declaration of entry or exit with minimmum list of data		✓	✓	01-07-2009
Previous notification of control		✓	✓	01-07-2009

Source: http://www.dgaiec.min-financas.pt/pt/informacao_aduaneira/oeautorizados/, 15/03/2011

The main indirect advantages can also be listed, which include:

- Improved relations with Customs;
- Recognition as a safe and secure trading partner;
- Mutual recognition with third countries;
- Improvement in safety and communication between supply chain partners;
- Reduced crime and vandalism;
- Greater commitment of the workers.

In relation to the satisfaction level with the AEO status, experience let us to identify that, in general, there is an incomplete satisfaction by the applicants to this certification. We classified as incomplete because, it allows improving, modernizing and systematizing the organization and the procedures; but, on the other hand, operators have been unable to recognize enough return on human and capital investments undertaken.

The concept of AEO implies new working methods for the customs authorities. However, it is necessary the effective application of the advantages, toward priority and fast controls, or even, a decrease of them. The reduced risk at these operators should communicate a better service to the potential customers. It is generally accepted that this is the way of differentiation between companies that operate in customs and forwarding agents area. The trust will be greater, the more AEO participants are in the supply chain, because the level of risk involved will be decreased.

Sofia Pinto
sofia.pinto@auren.pt
AUREN Porto

Free zones in Turkey - Tax and other operating benefits

In recent years, due to the increase in the competition among developing countries for attracting foreign investment, Turkey has implemented several regulations and modifications to the tax systems and amended its Tax System and Code, in order to have a more transparent and simple tax regime; to increase export-orientated investment and production in Turkey; accelerate the entry of foreign capital; and, increase the utilization of trade opportunities. As a result of these changes, many tax incentives have been granted to foreign investors and reductions have been made in the tax rates. Moreover in order to accomplish such objectives, a Free Zones Law was enacted in Turkey in 1985. Since then, Free Zones have been established over time in the Mediterranean, Aegean and the Black Sea Regions, close to the main national railways, highways, ports or international airports.

Free Zones can be considered as special areas in which state interventions are minimized. Although they are in the borders of the country's national sovereignty, certain state regulations, such as those related to foreign trade, customs, and taxes, are not applicable to the Free Zones. To date, 24 Free Zones have been established and of which 20 are open to operation for certain activities approved by the Supreme Planning Council, including all kinds of industrial, commercial and service activities. Companies or branches incorporated in Turkey or abroad can commence operations in Free Zones by obtaining an Operation License from the General Directorate of Free Zones and may benefit from the following advantages.

Corporate and Income Tax

Profits derived in Free Zones by those individuals or entities having an Operation License and a fixed location in a Free Zone are not subject to either individual or corporate income taxes (20% in Turkey), nor is there any further taxation when the profits are repatriated. In addition, companies are not liable to withhold taxes from payments made to outside the Free Zones (15% in Turkey). Furthermore, employees' income for their services in Free Zones is not taxable.

Value Added Tax (VAT)

In general, the import and delivery of goods and services are subject to VAT at rates that vary from 1% to 18%. However, no VAT is imposed on the transactions carried out in Free Zones. Also, goods entering the Free Zones from Turkey, other Turkish Free Zones and from abroad are not subject to VAT.

Customs Taxes

In general, goods imported to Turkey from third party countries (excluding goods imported within the context of the Customs Union Agreement with the European Union countries and Free Trade Agreements with some third countries) are subject to customs taxes. However, no Customs duty is levied on goods (i.e. machinery, equipment, assets) entering Free Zones regardless of the country of origin of the goods. Goods exported from Free Trade Zones to Turkey or to the European Union are subject to Customs duty if they are not in free circulation and thus not have an ATR Movement Certificate.

Stamp Tax

Stamp Duty applies to a wide range of documents, including but not limited to contracts, agreements, notes payable, capital contributions, letters of credit, letters of guarantee, financial statement and payroll. Stamp Duty is levied as a percentage of the value of the document at rates varying between 0.15% and 1.5% and at nominal values. Transactions in the Free Zones are exempt from Stamp Duty. However, should contracts be submitted to official bodies in Turkey, stamp taxes are levied.

Foreign Capital Legislation

Legislation governing foreign capital requires that investors should contribute capital and should obtain permission from the Foreign Investment Directorate (FID) for his/her investment in Turkey. Furthermore, agreements with a content of franchise, royalty, know-how, technical assistance, etc., also require the approval of the FID. In Free Zones, however, there is no minimum foreign capital requirement for branches of companies resident abroad or for branches of companies established in Turkey with foreign capital, nor is there any requirement for permission to realize investment or approval for license agreements. In addition, work permits can easily be obtained from the General Directorate of the zones.

Free Zones grant crucial exemptions and advantages to investors, especially for the manufacturing of goods that will have another destination than Turkey. However, due to the variety of the locations, rental and real estate rates, issuing of an Operating License, and type of business to be undertaken, one is advised to prepare a feasibility study upon decision of entity establishment in Free Zones.

Lewiesa Geurink
lgeurink@albarsconsulting.com
Turkey

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