NEWSLETTER 3/2017

11 countries. 11 tax systems.

The year 2017 brings extensive changes in the areas of taxes, duties and social contributions in all CEE and SEE countries. This special newsletter covers essential changes effective as of 2017.

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

1. Albania

1.1. Income Tax Law

Amendments to law no. 8438 dated 28/12/1998 "On income tax", as amended

- Thin capitalization rules
  As from 01/01/2018, in the case of loans from related parties, the excess of net interest over 30 % of earnings before interest, taxes, depreciation and amortization (EBITDA) will be considered as a non-deductible expense.
  Such excess net interest will be carried forward and deducted in subsequent years until a transfer of more than 50 % of the company's shares or voting rights occurs. This thin capitalization rule will not apply to banks, insurance companies, non-bank credit financial institutions and financial leasing companies.
- Deductible expenses of banks
  Expenses incurred by banks for annual and extraordinary contributions in accordance with law 133/2016 dated 22/12/2016 "On bank recovery and extraordinary intervention in the Republic of Albania" will be considered as deductible in determining the taxable result. This provision will enter into force 15 days from publication in Official Gazette no. 259 dated 06/01/2017.

1.2. VAT Law

Amendments to law no. 92/2014 dated 24/07/2014 "On Value Added Tax", as amended

- The right to choose the application of VAT for the supply of a building or parts of a building

As of 11/01/2017 and pursuant to paragraph 2 of Article 55 of the Law, taxable persons may exercise the right to apply and pay VAT of 20% for the supply of a building or parts of a building instead of the exemption rule.

This right is limited and cannot be exercised by taxable persons who supply apartments, buildings or facilities for residence when the buyer is an individual. In order to benefit from this rule, the taxable person must apply to the tax authorities and follow certain modalities.

In addition to the amendments to the Income Tax Law and VAT Law, there are also amendments regarding local taxes, excise tax and the customs tariff law.

2. Austria

At the beginning of 2017, far fewer changes came into force in Austria than in the previous year. However, there are some significant developments that have to be considered:

2.1. Cash registers

The cash register obligation for businesses (in the case of exceeding certain amounts) was already introduced in Austria in 2016.

However, from 01/04/2017 at the latest, cash registers have to be equipped with a properly installed safety device. This consists of a unit which creates a signature and a seal, and a signature and seal certificate, which is connected to the cash register. In addition, the cash registers must be logged with the tax authorities via Finance Online.

2.2. Anti-wage and social dumping

A foreign employee (seconded to Austria) already had to be granted remuneration which was appropriate under Austrian legislation. With effect from 1 January 2017, this law was amended, e.g.

- Additional exceptions to the application of this law were created (e.g. also in the case of certain secondments in the group or within the framework of international training and further education or research programmes);
- The Central Coordinating Body (ZKO) no longer has to be notified one week at the latest before employment is commenced, but only "prior to commencing the actual job".
- In principle the wage documents are always to be kept at the place of employment.

Under certain circumstances major enterprises (from 250 employees) may also apply for the investment growth premium. For major enterprises the investment growth premium may be up to 10 %.

TPA tip:
Because of predetermined budget those who apply first will be supported with the investment growth premium.

2.3. Promotion of electromobility and investment growth premium

The acquisition of electric vehicles, a recharging infrastructure etc. is to be supported by direct subsidies from 2017.

Micro- and small enterprises and medium-sized companies up to 250 employees are to be supported with an investment growth premium of up to 15 % of the investment increase. It is important that the application for a subsidy is submitted before starting execution of the project.

Face to Face Business

NEWSLETTER 3/2017

2.4. Transfer pricing documentation law

In view of the new transfer pricing documentation law, it has to be taken into account in Austria that, in addition to country-by-country reporting, provision is made for a possible obligation to create Master Files and Local Files. The appropriate documentation regulations depend on the turnover of the group and/or the relevant business division.

3. Bulgaria

3.1. Tax changes related to the OECD Base Erosion and Profit Shifting (BEPS) Action Plan

On 30 March 2016, the Bulgarian Government decided to join the OECD Base Erosion and Profit Shifting (BEPS) Action Plan measures. In addition to this decision, in September 2016, the Ministry of Finance made public draft changes to the Bulgarian Tax Insurance Procedure Code implementing Action 13 of this Plan; these changes relate to the automatic exchange of information between the tax authorities as well as to the obligations of filing a county-by-country report.

The new reporting obligations relate to the transactions of multinational enterprises, and apply as of 01/01/2017.

CbC reporting will apply to the Ultimate Group parent company if:

- the Ultimate Group parent company is a taxable person in Bulgaria – for group turnover of over EUR 50 million;
- the Ultimate Group parent is not a taxable person in Bulgaria – for group turnover of over EUR 750 million.

Under certain conditions the reporting obligations can be shifted to the local subsidiary of a group with an Ultimate Group parent established for tax purposes in a jurisdiction outside Bulgaria.

3.2. Tax changes to the Corporate Income Tax Act related to the personal use of company assets

In addition to the already implemented changes of the Bulgarian VAT Act applying restrictions for VAT refund on goods and services acquired by the companies although assigned partially or fully for personal use of employees or managers, the Bulgarian Parliament passed a bill for similar changes in the Corporate Income Tax Act. These amendments provide for differentiation and treatment of the expenses related to personal use of a company's assets, e.g. cars, offices or other. The aim is that these expenses be considered taxable at 10 % tax. The company would have the following options to choose the way of taxation of these expenses:

- to be treated taxable at 10 % tax on the accrued expenses for the account of the company;
- to be treated as taxable income of the persons (employees) who are beneficiaries of these expenses, respectively to be included in their payroll calculations.

The tax base of these expenses shall be calculated based on the ratio of the kilometers, hours of use or square meters (for real estate) for personal use and the total of these parameters. An option for defining a fixed ratio of 50/50 personal vs. company use would be applicable for the use of vehicles, which aims at simplifying the calculation of the tax base in such cases.

NEWSLETTER 3/2017

4. Croatia

4.1. The most important amendments to the Corporate Income Tax Act

- Tax rate reduced from 20 % to 18 %
- For taxpayers with revenue of less than HRK 3 million, tax rate has been reduced to 12 %
- Possibility to determine tax base on a cash flow principle for taxpayers with revenue less than HRK 3 million in the previous tax period
- Abolition of relief for reinvested profits and free zones, except municipalities classified in the first group of level of development and the city of Vukovar
- The tax base is increased for 50 % of entertainment costs and 50 % of car costs (applicable as from 01/01/2018).

4.2. New Personal Income Tax Act

- New tax rates, tax brackets and personal allowances have been introduced
  - tax rate of 24 % will be applicable to taxable incomes up to HRK 17,500
  - tax rate of 36 % will be applicable to taxable incomes exceeding HRK 17,500
  - the amount of the basic personal allowance has been increased to HRK 3,800
- Allowance for dependent family members has also been increased
- Annual personal income tax will be subject to new annual tax rates:
  - tax rate of 24 % will be applicable to taxable income up to HRK 210,000
  - tax rate of 36 % will be applicable to taxable income exceeding HRK 210,000
- Final income (income from property and property rights, capital, insurance) will not be subject to annual taxation; tax liability on such income will be determined and paid during the year (based on cash principle) and will be considered as final

4.3. The most important amendments to the Value Added Tax Act

- VAT rate of 13 % has been increased to 25 % for supply of food, non-alcoholic beverages, wine and beer in restaurants and similar establishments, and supply of white sugar
- VAT rate of 25 % has been reduced to 13 % for: children car seats, electricity, collection of waste conducted as public service, urns and coffins, seeds and fertilizers
- As of 01/01/2018, threshold for VAT registration will be increased from HRK 230,000 to HRK 300,000 (total net sales in previous year not exceeding that amount)

4.4. The most important amendments to the Social Contributions Law

- Exemption from the obligation to pay social security contributions for author's fees and retirees has been abolished
- Pension contributions on "other income" will be reduced to 10 %, and for mandatory health insurance to 7.5 %

4.5. New Real Estate Transfer Tax Act

- Tax rate reduced from 5 % to 4 %
- Tax exemption prescribed in case of transfer of real estate into company's equity (it is no longer required to register the transfer as an increase of registered share capital as a prerequisite for exemption)
- Abolition of tax exemption on the purchase of first real estate for resolving residential status
- Simplification of the procedure of reporting the transfer of real estate

4.6. The most important amendments to the General Tax Act

- Uniform statute of limitations period of 6 years, abolition of relative statute of limitations period of 3 years
- Second level body observes statute of limitations upon official duty

4.7. Other important amendments

- Tax on trade name has been abolished for all entrepreneurs
- Tax rate on inheritance and gifts has been reduced from 5 % to 4 %; public notaries are obliged to report inheritance and gifts

5. Czech Republic

5.1. Electronic evidence of sales

Act no. 112/2016 Coll. on the electronic evidence of sales was published in the Compilation of Laws on 13 April 2016 and introduced a new obligation to keep electronic evidence of sales in cash (also including also payments by credit cards, meal tickets and other cash equivalents).

This obligation was implemented in several phases based on area of business. Phase 1 began on 1 December 2016 and will end on 28 February 2017 for accommodation and catering services. Phase 2 will begin on 1 March 2017 and will end on 28 February 2018 for wholesale and retail. Phase 3 will begin on 1 March 2018 and will end on 31 May 2018 for other businesses (transport services, legal services, doctors etc.). Phase 4 will begin on 1 June 2018 for selected crafts and manufacturing activities.

In general, electronic evidence consists of reporting the information about every sale in cash to the Czech Finance Administration through the device at the time of the transaction. Once the sale is reported, the device sends the information to the Finance Administration and displays a unique code generated by the Finance Administration. The unique codes are indicated on the receipts issued for customers.

5.2. VAT rate for catering services

As from 1 December 2016, the VAT rate on catering services has been changed. The VAT rate has been reduced from 21 % to 15 % and it is applicable to all catering services (meals and drinks), except for serving alcoholic drinks.

6. Hungary

6.1. Social contribution tax

The rate of social contribution tax will be reduced from currently 27 % to 22 % with effect from 1 January 2017. The rate will be further reduced to 20 % with effect from 1 January 2018.

6.2. Corporate income tax

Before 2017, the rate of coporate income tax was 10 % up to a HUF 500 million tax base. The tax base above HUF 500 million was taxed at 19 %. From 1 January 2017, a flat rate of 9 % will be introduced.

6.3. Rules of taxation

Before 2017, taxpayers had to indicate the Hungarian resident customers' tax number in the issued invoice provided that the VAT amount of the invoice reached HUF 1,000,000. From 1 January 2017, this limit will be reduced to HUF 100,000.

According to the transitional provisions of law, invoices can be accepted for VAT deduction purposes which were issued in 2016 with a due date in 2017 even if they do not include the customer's tax number in case of VAT less than HUF 1 million.

From 1 July 2017, the invoicing software of every company which has a Hungarian VAT tax number is required to be suitable for direct online data connection to the Hungarian tax authorities. The aim of this new rule is that the tax authoritiy can have immediate access to information about the issued invoices.

If the taxpayer fulfills the online data service requirements improperly, with delay or fails to do so, from 1 July 2017 for the invoices containing VAT over HUF 100,000, the amount of the default penalty will be calculated by the number of invoices multiplied by HUF 500,000.

7. Poland

Latest tax amendments in Poland – 2017. Please find below a brief summary of the most important 2017 tax amendments in Poland.

7.1. Corporate Income Tax

A new, lower CIT rate set at 15 % is added to the existing rate of 19 %. The lower rate is to be used by small taxpayers and taxpayers setting up a business. The latter may use the preferential rate in the tax year during which they have set up their business. The law also features a list of restructuring operations that do not justify the use of the lower CIT rate.

1 January 2017 will see the entry into force of major transfer pricing documentation (TDP) changes. The new law provides for a three-tiered TPD structure where the scope of information to be disclosed in each tier and of the additional reporting requirements depends on the taxpayer's revenues or expenses. The most basic type of the TPD is the local file, followed by a master file and a country-by-country report. Moreover, taxpayers with revenues/expenses above EUR 10 million will have to provide a comparability analysis (benchmarking study) and a special statement (form CIT-TP).

Under the new law, a new threshold for the related party status is introduced – an equity interest of at least 25 %, instead of 5 % as before, is required.

The list of non-deductible expenses is added with all payments exceeding PLN 15k (approx. EUR 3.4k) made in cash. This means that all larger payments have to be made via a bank account.

As of 1 January 2017, the income tax base by contributions in kind will be determined on the basis of the value (market value) of the subject of contribution (till the end of 2016 the tax base was determined as the nominal value of shares received by the contributor).

7.2. Personal Income Tax

The above amendments as regards cash payments and the TPD refer to the Personal Income Tax, too. Moreover, PIT has seen a major redesign of the tax-free amount, which is now degressive and dependent on the tax base. For the tax base exceeding PLN 127k (approx. EUR 28.7k), there is no tax-free amount.

7.3. Value Added Tax

VAT may now be settled quarterly only by small taxpayers; all other taxpayers have to file monthly VAT returns. In addition to this, taxpayers have to sign the VAT returns with an e-signature (in practice, it needs to be issued by a Polish authority) and file them electronically.

Stricter formal requirements for a VAT refund in 25 days as well as a wider catalogue of goods subject to reverse charge and joint liability have been introduced.

Another major change is that proxies who have signed VAT registration forms are liable for VAT arrears up to PLN 500k for as long as 6 months after registration. The procedure of VAT registration and deletion of taxpayers from the register of active VAT taxpayers have also been amended.

Finally, an additional VAT penalty reaching 30 % (in certain cases even 100 %) of input VAT may now be levied by the tax authorities in case of certain breaches of law.

8. Romania

Amendments to the Fiscal Code. Certain amendments to the Fiscal Code will enter into force in 2017:

8.1. Corporate income tax

- The application of tax exemption on reinvested profits has been extended for an indefinite period of time (according to previous provisions, this incentive would have ceased with effect from 31 December 2016). In addition, taxpayers will now also be able to benefit from said tax incentive during the acquisition of software rights.
- Starting January 2017, corporate income tax exemption has been introduced for taxpayers that exclusively perform innovation, research and development activities. This exemption will apply during the first 10 years of activity of newly established companies, respectively for the following 10 years for already incorporated taxpayers.

8.2. VAT

- The standard rate of VAT is reduced from 20 % to 19 %.
- Starting January 2017, the obligation of taxpayers who perform intra-community transactions to register in the Register of Intracommunity Operators has been repealed.

8.3. Tax on income derived by microenterprises

- The income threshold beneath which a legal person is required to apply the microenterprises tax regime has been increased from EUR 100,000 to EUR 500,000 (the equivalent in RON). The other conditions for application of the microenterprises tax regime remain unchanged.

- Any Romanian legal entity (either newly incorporated or existing microenterprise) which has a share capital of at least RON 45,000 may opt to become a corporate income tax payer (previously, only newly established companies with a share capital of at least EUR 25,000 were allowed to exercise this option).

8.4. Social contributions

- Starting 1 January 2017, a 5.5 % health insurance contribution will be due on investment income (capital gains, interest, dividends); however, the taxable basis is capped at five average gross salaries. This contribution will be due in addition to the already applicable 5 % personal income tax, unless the income recipient earns income in the form of salaries, pensions, freelancing activities etc.

- For salary income earned as from February 2017, the cap of gross average salaries, which served as calculation basis for the monthly pension contribution (due by both employer and employees) and for the monthly health insurance contribution (due by employees), has been removed.

8.5. Elimination of the tax on special constructions

- The tax on special constructions (1 % for constructions other than buildings) is eliminated as of 1 January 2017.

9. Serbia

Most significant tax changes in 2016:

9.1. Value Added Tax (VAT) Law amendments applicable as of 1 January 2017

- The obligation for a non-resident entity to register for VAT in Serbia is defined more precisely – foreign entity is not obliged to appoint a VAT proxy or to register for VAT in Serbia if taxable supply of goods and services is made solely to VAT payers in Serbia.

9.2. Value Added Tax Law (VAT) amendments applicable as of 1 April 2017

- A newly introduced general rule envisages that the place of supply of services is the place where the service recipient has its head office or a permanent establishment, provided that the service recipient is registered for VAT in accordance with the rules concerning the place of supply of services (B2B).
  If, however, a service is provided to a non VAT payer, the place of supply of such service is the place where the service provider is domiciled.
  There are special place of supply rules for certain services as follows: services related to real estate, transport services, participation in cultural, sporting, scientific and similar events, etc.

9.3. Amendments to the Law on Tax Procedure and Tax Administration applicable as of 1 January 2017

- According to the amendments to the Law, the second-instance tax procedure is transferred to the jurisdiction of the Ministry of Finance. Consequently, from now on the Ministry of Finance will decide on appeals against first-instance judgements made by the tax authority. The previous legal regime envisaged that the tax authority was competent to decide on these appeals.

9.4. New Double Taxation Treaties entering into effect on 1 January 2017

- On 1 January 2017, four new Double Taxation Treaties entered into effect: Armenia, Republic of Korea, Luxembourg and Kazakhstan.

10. Slovakia

10.1. The Government re-enacts tax on dividends

The amendment to the Income Tax Act re-enacts tax on profit sharing (dividends) for individuals, at a 7 % tax rate. Pursuant to this amendment, dividends will no longer be exempt from tax, including those received by employees who do not own shares in the company's registered capital.

The tax on dividends also applies to local legal entities, however only if dividends are received from a taxpayer of a non-treaty country, i.e. a country not having a tax treaty signed with the Slovak Republic. Subject to taxation will be both dividends and other income paid out by a local legal entity to a taxpayer from a non-treaty country. In that case, a tax rate of 35 % will apply.

Subject to taxation will be dividends on profits generated for periods starting after 1 January 2017. In connection with tax on dividends, the Government cancelled the obligation to pay health insurance on such dividends.

10.2. Reduction of corporate income tax

Corporate income tax for legal entities will be reduced from currently 22 % to 21 %. The regulation aims at improving the business environment and at increasing the motivation to pay taxes.

10.3. Interest on retained excess VAT deduction

Taxpayers will be entitled to receive interest on retained excess VAT deduction during an unreasonably long tax inspection. Interest on excess VAT deduction will be paid to the taxpayer, provided the tax inspection lasts more than six months from the date on which the excess VAT deduction should be refunded. The interest rate shall be calculated as a percentage (1.5 % p.a.) of the amount of the excess VAT deduction until the date of the refund thereof.

10.4. Lump sum expenses of sole traders will be raised

The cap of lump sum expenses will increase up to 60 % of income from business and other self-employed activity. The maximum annual expense threshold will change as well, up to EUR 20,000 (compared to currently EUR 5,040). The changes will also apply at the same level to income from use of a work and artistic performance.

10.5. Electronic mailboxes

The legal entities with their seat in the Slovak Republic will be obliged to communicate with the public authorities via electronic mailboxes with effect from 1 July 2017. The electronic mailbox will be established automatically and free of charge for each legal entity registered in the Commercial Register of the Slovak Republic, including registered branches of foreign entities.

11. Slovenia

The following is a summary of amendments applicable as of 01/01/2017.

11.1. Change of rates

While the rate of corporate income tax is increased to 19 %, a de facto tax reduction occurs in the sphere of personal income tax, due to a flattening of the tax scale. As of 01/01/2017, the personal income tax scale is as follows:

Annual tax base in EUR		Personal income tax/scale in EUR	
more than	up to		
	8,021.34		16 %
8,021.34	20,400.00	1,283.41	+ 27 % more than 8,021.34
20,400.00	48,000.00	4,625.65	+ 34 % more than 20,400.00
48,000.00	70,907.20	14,009.65	+ 39 % more than 48,000.00
70,907.20		22,943.46	+ 50 % more than 70,907.20

11.2. Payment of withholding taxes

In the sphere of personal and corporate income tax, a 5-day period was basically introduced for the payment of tax at source and/or withholding tax. Now, only the respective tax return must be filed on the day the condition for withholding tax is met.

11.3. Default interest under fiscal law

Since 01/01/2017, fixed annual interest rates have applied to various consequences of default and respite. Interest rates depend on the „cooperation" of the taxpayer with respect to timely settlement of obligations under fiscal law, and range between 2 % and 7 %.

- **2 % interest rate:** e.g. in case of certain stays of levy, respites or deferred payments; in case of legal entities other interest rates are possible
- **3 % interest rate:** e.g. in case of filing a tax return within the scope of voluntary disclosure
- **5 % interest rate:** in case of consent to findings of a company audit in the minutes incl. timely filing of a corrected tax return and timely payment of interest
- **7 % interest rate:** in case a tax liability is found within the scope of a company audit

11.4. Treatment of incentive payments

In case of income from employment that is not subject to taxation, new rules were introduced for incentive payments (designated as 13th monthly salary, Christmas remuneration, annual bonus etc.)

The incentive payment disbursed once a year is exempt from tax up to an amount of 70 % of the average salary in Slovenia (average salary currently EUR 1,540.25), but is subject to social insurance contributions. Any incentive payments beyond that amount are taxable.

The incentive payment must be regulated in an internal document or in the collective bargaining agreement, and may also be paid by foreign employers.

NEWSLETTER 3/2017

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