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The Global Executive

PREFACE

The Global Executive summarizes the personal tax systems and immigration rules for expatriates in more than 130 countries. The content is based on information current to 1 January 2006.

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Tax and Immigration Information

This publication should not be regarded as offering a complete explanation of the tax or immigration matters referred to and is subject to changes in the law. Local publications of a more detailed nature are frequently available, and readers are advised to consult their local Ernst & Young professionals for further information.

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The international telephone country code is listed in each country heading and, if presented as part of a telephone or fax number, is surrounded by brackets. Telephone and fax numbers are presented with the city or area code in parentheses, and without the domestic prefix (1, 9 or 0) sometimes used within a country.

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A. Income Tax

Who Is Liable. Individuals receiving work-related income and/or business and professional income in Angola are subject to tax if the respective cost of such income is allocated to an entity with a head-office, residence or permanent establishment in Angola. Angolan law does not provide criteria for tax residence purposes to determine who is liable for tax in Angola.

Income Subject to Tax

Employment Income. All employment income is subject to tax, including wages, salaries, directors' fees, leave payments, fees, gratuities, bonuses, and premiums or allowances (for productivity or reaching certain goals), paid in cash or in kind. Allowances for travel and certain other expenses (for example, costs incurred for meals while representing the employer) are taxable to the extent that the amount paid to the employee exceeds the limits applicable to civil servants.

Self-Employment Income. Self-employed individuals are taxed on actual profit, which is gross revenue less deductible expenses (see *Business Deductions*).

If taxable income from self-employment, as determined using the above method, is less than a certain threshold amount, a deemed minimum taxable income applies.

Investment Income. Income derived from the use of capital is generally subject to withholding tax. Interest on loans, including shareholders' loans, and late payment charges are taxed at a rate of 15%. Dividends and interest on bonds are taxed at a rate of 10%. Income from the rental of real property is not taxed in Angola.

Deductions

Deductible Expenses. No deductions from employment income are allowed.

Business Deductions. The following expenses are deductible if properly documented:
- Rent paid for business premises;
- Wages (subject to a maximum of wages paid to three employees), commissions and fees paid for services;
- Water, gas, telephone and electricity expenses;
- Insurance premiums;
- Other necessary expenses required to carry out the taxpayer's business; and
- Depreciation of the business premises.

The total deduction for the above expenses is limited to 30% of the taxpayer's total income if the taxpayer does not have an organized accounting regime.

Rates. Income tax rates applicable to taxable employment income derived by residents and nonresidents are set forth in the following table.

Taxable Income		Tax on Lower	Rate on
Exceeding Kz.	Not Exceeding Kz.	Amount Kz.	Excess %
0	8,500	0	0
8,500	11,000	0	2
11,000	16,000	50	4
16,000	21,000	250	6
21,000	26,000	550	8
26,000	36,000	950	10
36,000	56,000	1,950	12.5
56,000	76,000	4,450	14
76,000	—	7,250	15

Company owners receiving salary income are taxed at a flat rate of 20%. If company owners end their employment activity during the tax year, they are taxed on only the proportionate amount of salary at a rate of 15%.

Income from self-employment is taxed at a rate of 15%.

Capital Gains and Losses. A separate capital gains tax is not levied in Angola; however, capital gains derived from the disposal of business assets of a self-employed individual are included in operational profits and taxed at the regular income tax rate of 35%.

Capital losses may not be carried forward or back.

B. Other Taxes

Inheritance and Gift Tax. Inheritance and gift tax is payable by heirs and donees. This tax is levied on gratuitous transfers of movable and immovable assets and rights located or transferred in Angola. Tax rates range from 10% to 30%, depending on the value of the estate or the gift and on the relationship of the heir or donee to the deceased person or donor.

Property Tax. Property tax is levied at a rate of 30% on the official assessment value of real property.

C. Social Security

Salaries and additional remuneration specified under law are subject to social security contributions. No ceiling applies to the amount of remuneration subject to social security contributions. The rates of the contributions are 8% for employers and 3% for employees. Self-employed persons may make voluntary contributions.

Foreign employees are not required to make social security contributions if they can prove that they are covered by the social security system in another country.

D. Tax Filing and Payment Procedures

The fiscal year in Angola is the calendar year.

Self-employed individuals must file returns (Form M/1) in January following the tax year-end and are notified of their final tax liability. Penalties are imposed for failure to file tax returns and other required documents. Self-employed persons who fail to file their tax returns during January are subject to a fine of UCF 40 (the UCF is a unit fixed periodically by the Ministry of Finance, which is used to determine the amount of tax penalties). Employers who fail to file withholding forms are subject to a fine equal to the amount of the tax underpaid for each employee. Other fines may also apply, depending on the type of noncompliance.

Income taxes on employees are withheld by the employer, and employees are not required to file returns.

Tax on income from capital is generally withheld by the payer. For loan interest paid to a resident, however, the recipient is responsible for paying tax at a rate of 15% on the gross amount received.

To ensure proper withholding on foreign-source self-employment income remitted to Angolan residents, the Angola Central Bank imposes withholding on funds paid into Angola for self-employment services, regardless of where services are rendered. For other income paid into Angola, recipients are responsible for paying the tax due if foreign entities are not legally required to withhold Angolan taxes.

For nonresidents, the employer or other payer withholds the amount of tax due and is liable for the tax. The taxes withheld are final taxes.

E. Tax Treaties

Angola has not concluded any double tax treaties, but treaties are being negotiated.

F. Temporary Visas

All foreign nationals wishing to enter Angola must possess a valid passport. Angola has no quota system regulating immigration into the country. Entry visas are required for non-Angolan nationals from countries with which Angola has no reciprocal agreement regulating the rights of entry. Transit visas, ordinary visas and short-term visas allow temporary stays in Angola.

Transit visas are short-term travel visas valid for a single entry. Granted by the Angolan consular authorities in the home country of the foreign national, a transit visa is valid for a period of five days and may be extended further for five days. Proof of a further destination after Angola must be presented to obtain a transit visa.

Ordinary visas are granted to foreign nationals for a period of 30 days and are valid for either one or two entries. An ordinary visa is issued by the Angolan consular authorities in the home country of the foreign national for family, cultural, business, scientific or tourist reasons. It must be used within 60 days following the date of issuance.

For foreign nationals unable to obtain entry visas from Angolan consular authorities in their home countries, the Angolan National Department of Immigration and Borders issues short-term visas through its border police stations. A short-term visa is valid for a period of 15 days and permits a single entry into the country.

G. Work Visas and Self-Employment

Foreign nationals wishing to pursue professional activities temporarily in Angola must obtain work visas from the Angolan consular authorities in their home country. A work visa is valid for multiple entries and permits the holder to remain in Angola for a period of one year. One-year renewals are available, until the conclusion of the individual's work contract.

Work visas are employer-specific; that is, the holder of a work visa may engage only in those work activities for which the visa was specifically granted.

The issuance of a work visa permitting a foreign national to engage in professional activities for the state requires the approval of the Angolan National Department of Immigration and Borders, which follows the recommendation of the Minister of Labor. The issuance of a work visa permitting a foreign national to engage in professional activities for other individuals or companies in Angola requires the approval of the Angolan National Department of Immigration and Borders, which follows the recommendation of the minister supervising the concerned activity. For example, work in the oil industry requires the approval of the Minister of Oil.

Applications for work visas must be accompanied by the following documents, all of which must be translated into Portuguese:
- One copy of the applicant's passport;
- Three photographs;

- A medical certificate;
- Details of any criminal record;
- Proof of financial means; and
- A signed labor contract.

In granting work visas, the Angolan authorities consider the type of work proposed, the availability of local workers capable of performing the work, the level of the salary to be paid and the availability of accommodation.

The issuance of a work visa is dependent on the payment of a repatriation pledge in the amount of the cost of a plane ticket from Angola to the country from which the foreign national entered Angola. The visa applicant must make this payment at the National Bank, payable to the account of the Angolan National Department of Immigration and Borders. The repatriation pledge is refunded by the authorities when the visa holder leaves the country.

A foreign national may not engage in employment until a work visa is issued.

Angola currently has few restrictions limiting the establishment of businesses by foreign nationals. Exceptions apply to sensitive industries and activities, including defense, banking activity related to the issuance of money, the administration of ports and airports, certain areas of telecommunications and air transportation. Under Angolan commercial law, a foreign resident may hold the position of director of an Angolan company.

H. Residence Visas and Permits

Non-Angolan nationals wishing to take up residence in Angola must apply initially to the Angolan consulate in their home countries for residence visas. A residence visa allows the holder to remain in Angola for a maximum period of 120 days. It may be renewed for further 120-day periods. During this time, the visa holder must apply for a permanent residence permit.

The following three types of residence permit are available:
- Temporary residence permits: These are valid for one year with further one-year renewals available.
- Type A permanent permits: These are valid for two years with further two-year renewals available. Type A permanent permits are granted to foreign nationals who have resided in Angola for five consecutive years.
- Type B permanent permits: These are residence permits of indefinite duration. Type B permanent permits are granted to foreign nationals who have been living in Angola for 15 consecutive years.

Holders of work visas need not apply for separate residence permits because the work visa automatically includes permission to reside in Angola.

I. Family and Personal Considerations

Work Visas for Family Members. The working spouse of an expatriate work-visa holder does not automatically receive the same type of visa as the expatriate. The spouse must file an independent work visa application.

Marital Property Regime. Angolan law provides for a basic, elective community property regime. When initiating the legal marriage process, couples must file a declaration electing into one of the following: the community property regime, the community acquired property regime or the separate property regime. The marital property regimes apply only to married couples whose marriages are performed in accordance with the Angolan Family Code.

Drivers' Permits. Foreign nationals may drive legally in Angola for up to 45 days using their home country drivers' licenses.

Angola does not have driver's license reciprocity with any country. To obtain an Angolan driver's license, a foreign national must submit a copy of the home country driver's license, two photographs and an identification card. The applicant must also have a medical examination.

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A. Income Tax

Who Is Liable. Residents are subject to tax on worldwide income. Nonresidents are taxed on Argentine-source income only.

The following individuals are deemed to be resident in Argentina:

- Native and naturalized Argentine citizens;
- Foreign individuals who are granted permanent residence in Argentina; and
- Foreign individuals who remain in the country under temporary authorization for a period of 12 months or longer.

Individuals in the third category who have not been granted permanent residence are deemed to be nonresident if they can prove that they do not intend to stay permanently in Argentina.

Foreign individuals who can prove that they are in Argentina because of their employment, and who remain in the country for a period not exceeding five years, are not considered to be resident in Argentina. This rule also applies to members of the individual's family who accompany the individual to Argentina.

Income Subject to Tax. The taxability of various types of income is discussed below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income from employment includes all salaries, regardless of the taxpayer's nationality or the place where the compensation is paid or the contract is concluded. In general, taxable compensation also includes most employer-paid items, except moving expenses.

Educational allowances provided by employers to their local or expatriate employees' children who are 18 years old or under are taxable for income tax and social security purposes.

Self-Employment Income. Self-employment and business income is taxable, regardless of the recipient's nationality, the place of payment or where the contract was concluded.

Investment Income. In general, dividends from Argentine corporations paid to residents or nonresidents are not taxable. However, if a company pays a dividend in excess of its accumulated taxable income, the excess is subject to a final withholding tax at a rate of 35%. Dividends from foreign corporations paid to residents are taxable. Royalties and income derived from renting real property are taxed as ordinary income. Interest is taxed as ordinary income, except interest from certain bank deposits in Argentina and Argentine government bonds, which is tax-exempt. Interest from bank deposits paid to nonresidents is exempt from Argentine tax only if the income is also exempt from foreign tax.

Directors' Fees. Directors' fees are taxed as self-employment income to the extent that they are deducted by the payer company (allowable up to the greater of 25% of book profit or AR$12,500 per director per year). The portion of fees not deductible at the corporate level is not taxable to the director if the amount of the company's income tax increases by an amount equal to the tax attributable to the directors' fees. Directors' fees paid by Argentine companies are considered Argentine-source income, regardless of where the services are performed.

Taxation of Employer-Provided Stock Options. Stock options granted to employees are deemed to be payments in kind and are therefore subject to income tax and social security withholding. Taxable income is recognized at the time the option is exercised in an amount equal to the difference between the strike price and the fair market value of the stock on the date of exercise.

Capital Gains. In general, capital gains are exempt from income tax, with certain specific exceptions.

Deductions

Deductible Expenses. For purposes of computing tax to be withheld from an employee's salary, employers may deduct certain allowable expenses, including the following:
- Social security contributions;
- Medical insurance payments for employees and their families, with certain limitations;
- 40% of invoiced medical expenses up to a maximum of 5% of the taxpayer's annual net income;

- Expenses incurred by traveling salespeople based on estimates established by the tax authorities;
- Donations to the government and certain charitable or nonprofit institutions, up to 5% of net taxable income;
- Burial expenses, up to AR$996.23 annually;
- Life insurance premiums, up to AR$996.23 annually; and
- Retirement insurance premiums, with certain requirements and limitations.

Self-employed individuals may deduct expenses incurred in producing income, in addition to the expenses listed above.

Personal Deductions and Allowances. Employed and self-employed individuals are entitled to standard deductions in amounts established by law. The amounts for 2006 are AR$2,400 for a spouse and AR$1,200 for each child and other dependent. To qualify, dependents must reside in Argentina for more than six months in the tax year and may not have income in excess of AR$4,020.

A deduction of AR$4,020 is granted to taxpayers who are resident in Argentina for longer than six months during the calendar year.

A special deduction is available against compensation derived from personal services. The annual amount is AR$18,000 for employees and AR$6,000 for self-employed persons.

The personal deductions described above are reduced in accordance with the following table.

Net Taxable Income Before Personal Deductions		Reduction in Personal Deductions
Exceeding AR$	Not Exceeding AR$	%
0	39,000	0
39,000	65,000	10
65,000	91,000	30
91,000	130,000	50
130,000	195,000	70
195,000	221,000	90
221,000	—	100

Nonresidents residing in Argentina longer than six months in a calendar year may claim the deductible expenses actually incurred and exemptions available to residents.

Rates. The progressive tax rates applicable to Argentine residents for 2006 range from 9% to 35%.

The table below presents the 2006 individual income tax rates in Argentine pesos (AR$).

Taxable Income		Tax on Lower Amount	Rate on Excess
Exceeding AR$	Not Exceeding AR$	AR$	%
0	10,000	0	9
10,000	20,000	900	14
20,000	30,000	2,300	19
30,000	60,000	4,200	23
60,000	90,000	11,100	27
90,000	120,000	19,200	31
120,000	—	28,500	35

Nonresidents residing temporarily in Argentina, that is, for six months or less, are subject to final withholding tax. A standard deduction of 30% of compensation is allowed for expenses incurred in earning income. The remaining 70% of compensation is taxed at a flat rate of 35%, with no other allowable deductions or exemptions, resulting in an effective withholding tax rate of 24.5%.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Business losses of self-employed persons may be carried forward for five years. Foreign-source business losses may offset foreign-source income only.

B. Other Taxes

Transfer Tax. Sales of real estate are subject to transfer tax at a rate of 1.5% on the sale price.

Personal Assets Tax. Individuals domiciled in Argentina are subject to personal assets tax on the value of their worldwide assets exceeding AR$102,300. The applicable rate is 0.5% if the total value of the taxable assets (after deducting AR$102,300) is AR$200,000 or less and 0.75% if the total value exceeds AR$200,000. If domiciled in a foreign country, individuals are taxed on Argentine assets only. Liabilities, other than those incurred for the purchase, construction or improvement of a taxpayer's home, are not deductible for purposes of the personal assets tax. A tax credit is allowed for similar taxes paid abroad.

Expatriates residing in Argentina on work assignments for a period not exceeding five years are considered domiciled abroad and are taxed only on personal assets located in Argentina.

C. Social Security

Contributions. Social security contributions are paid by employers, employees and self-employed persons. Employees' social security contributions are withheld from their monthly salary. The rate is 13% from January 2006 to June 2006, 15% from July 2006 to September 2006, and 17%, effective from October 2006.

Employers pay social security contributions at a rate of 21% or 17%, depending on the company's activity and turnover (amount of sales). A 6% contribution for medical care is required in addition to the social security contributions.

A maximum monthly taxable base of AR$4,800 applies to employee contributions. Monthly salary that exceeds the base amount is not subject to contributions. For these purposes, a year comprises 13 months. The base amount is revised annually.

Employer social security contributions are not capped.

The monthly cap for employer contributions to the health care system remains at AR$4,800.

No employee or employer social security taxes are payable with respect to director's fees. However, a director must pay fixed amounts to the pension fund system.

The social security tax law establishes an exemption for all professionals, researchers, scientists, and technicians who are contracted outside of Argentina to render services within Argentina for a period of not more than two years. The individuals must have a temporary residence, be covered by the social security system of their countries, and provide evidence of their technical qualifications. This exemption is available one time only and once granted is in force from the date of the application for as long as the conditions for the exemption are met.

Totalization Agreements. Social security taxes for nonresidents are collected as outlined above. However, both the employer and the nonresident employee may be exempt from contributions to the Argentine pension fund if certain conditions are met.

To provide relief from double social security taxes and to assure benefit coverage, Argentina has entered into totalization agreements with the following countries: Brazil; Chile (partially in force); Greece; Italy; Paraguay; Peru (not in force); Portugal; Spain; and Uruguay.

D. Tax Filing and Payment Procedures

The tax year for individual taxpayers is the calendar year. Tax returns must be filed in April (between 17 April and 21 April, depending on the taxpayer's registration number) of the following year unless the taxpayer's only income is from employee compensation. No extensions to file tax returns are allowed.

In general, employees are not required to register with the tax authorities or to file tax returns, except for purposes of the personal assets tax (see Section B). Required information must be submitted by employers, who must also withhold taxes when paying salaries.

However, if employee net compensation exceeds AR$40,000 per year, national and foreign employees must file tax returns reporting their assets as of 31 December of the current year with the tax authorities. The employee must then submit a receipt of submission (which is obtained at the time of filing this return) to his or her employer. The employer must provide to the tax authorities a list of employees who do not comply with this requirement.

Self-employed taxpayers must register with the tax authorities. Tax returns are filed annually in April, declaring earnings for the previous calendar year.

Individuals with nonwage income, including self-employment income, must make advance tax payments bimonthly from June to February, based on the previous year's tax. Under a withholding system for payments to resident individuals, withholding is imposed at various rates on income exceeding a minimum threshold. Amounts withheld are treated as advance payments.

Advance payments are required for purposes of the personal assets tax (see Section B).

Married couples are taxed jointly (the husband reports the assets); however, a wife is taxed separately on income derived from personal activities (including employment, self-employment and business), on assets acquired before marriage and on assets acquired during marriage with income earned from personal activities.

Nonresidents subject to the 35% withholding tax are not required to file tax returns.

E. Double Tax Relief and Tax Treaties

Resident taxpayers are entitled to a tax credit for income taxes paid abroad, up to the increase in Argentine tax resulting from the inclusion of the foreign-source income.

Argentina has entered into double tax treaties with the following countries.

Australia	Chile	Netherlands
Austria	Denmark	Norway
Belgium	Finland	Spain
Bolivia	France	Sweden
Brazil	Germany	Switzerland
Canada	Italy	United Kingdom

F. Entry Visas

General immigration law allows foreign nationals to enter and stay in Argentina with transitory permits, business visas or with temporary and permanent residence permits.

The transitory permit and visa is seldom useful for international executives because holders of this type of permit may carry out remunerated activities only in exceptional situations.

National Law No. 25,871 (P.O.B. 20/01/2004) has introduced important changes to the immigration law. However, these changes will not be in effect until the Executive Power or the National Immigration Board (NIB) issues regulations with respect to the new law.

G. Business Visas

Business visas are issued to foreign nationals for the habitual performance of business, investment or market research in Argentina. Business visas do not authorize their holders to work in Argentina.

A business visa allows for multiple entries during a one-year term. In general, the maximum length of each stay is three months, which may be extended for another three months. However, nationals from Grenada and Hong Kong holding British passports are admitted for a maximum 30-day period, which may be extended for another 30 days. Chinese citizens holding passports from Hong Kong's Special Administrative Region (SAR) may be allowed to remain up to 90 days for business reasons in Argentina and are not required to apply for a business visa.

Nationals from Australia, Belgium, Brazil, the Czech Republic, Denmark, Estonia, Finland, France, Hong Kong, Hungary, Iceland, Ireland, Japan, Latvia, Lithuania, the Netherlands, New Zealand, Norway, Poland, Romania, Santa Lucia, Singapore, South Africa, Sweden, Trinidad and Tobago, the United Kingdom and the United States do not need a business visa to enter Argentina if they expressly inform the immigration authorities that they are businesspersons.

Agreements signed with India and Korea establish a special immigration regime for business visas. Individuals from Korea may enter the country for a 3-year period as business visitors and may stay in the country for 30 days during each trip. Individuals from India may stay in the country about 15 days during each trip for the duration of the 3-year period. In both cases, multiple entrances are allowed during the 3-year period if the 30- or 15-day limits are observed.

Citizens from Brazil, France, Iceland, Ireland, Japan and the United Kingdom are not required to obtain a visa to enter Argentina for less than 90 days for the purpose of developing technical activities in the country.

Under an agreement between Argentina and Brazil, special immigration treatment is granted to businesspersons, professionals and specialized technicians (skilled workers who have completed high school or a third-level education).

Brazilians citizens qualifying under the agreement between Argentina and Brazil may enter Argentina without obtaining a visa if they remain in Argentina for less than 90 days, regardless of whether they receive remuneration in Argentina for the performance of the duties mentioned above. The term can be renewed once for an additional 90 days. Technicians may request extensions if they remain employed by the Brazilian entity.

Foreign citizens qualifying under agreement between Argentina and Brazil, who render services as employees or self-employed workers for an individual or legal entity located in Argentina, must pay all social security contributions in accordance with the social security law in Argentina, unless the social security treaty between Argentina and Brazil provides otherwise.

Nationals from other countries must request an authorization from the NIB. The NIB takes approximately 20 to 30 days to issue an entry permit for businesspersons after receipt of a letter from a verified company or institution inviting the applicant to Argentina.

H. Residence Permits

Persons in the following categories may be granted temporary or permanent residence permits:

- Parents, spouses, sons or daughters of Argentine citizens, who were born in Argentina or who have exercised the option to become Argentine citizens;
- Parents, spouses or single sons or daughters (younger than 21 years of age or handicapped) of permanent or temporary residents (or of applicants for permanent or temporary residence status);
- Clergy of officially recognized religions;
- Students entering the country with the intention of carrying out studies at private or state-run, officially recognized establishments (except primary schools);
- Individuals requested by local companies under employment agreements;
- Artists or athletes required by financially sound persons to carry out specialized activities;
- Entrepreneurs or businesspersons;
- Foreign companies’ representatives (according to the NIB, a foreign company’s representative is a person who enters into Argentina holding a certificate issued by the foreign company

stating his or her appointment as attorney-in-fact by the foreign company);
- Investors;
- Proprietors or pensioners;
- Natives of countries with which Argentina has established special immigration relationships;
- Persons of special importance in the cultural, social, economic, scientific or political fields, or whose presence is considered by the Ministry of the Interior to be in the interests of Argentina; and
- Foreign nationals from countries that, for geographical, historical or economic reasons, are deemed to deserve special treatment.

Temporary Residence Permit and Visa. The temporary residence permit and visa is normally granted for a one-year period and may be renewed for additional one-year periods without limitation. Temporary residents may work in the country while the temporary residence permits are in force.

Permanent Residence Permits. Foreign nationals intending to settle permanently in Argentina may apply for permanent residence permits if they meet all legal requirements. The NIB and Argentine consulates currently grant permanent residence permits only to foreign nationals who are in one of the following categories:
- Parents, spouses or children of Argentine citizens who were born in Argentina, or who have exercised the option to become Argentine citizens;
- Parents, spouses or children (younger than 21 years of age or handicapped) of permanent or temporary residents (or of applicants for permanent or temporary residence status); or
- Immigrants who have invested or will invest at least the equivalent of AR$100,000 in a business activity in Argentina.

In addition, the NIB grants permanent residence permits to foreign nationals who have been granted temporary residence permits and have legally resided in the country for an uninterrupted period of three years.

Entrepreneurs. Entrepreneurs are persons who meet the following requirements:
- They customarily carry out business, economic or commercial activities at their own risk and with their own capital; or
- They participate in a significant way in companies or legal entities carrying out the above activities and have the intention or capacity to make an investment in Argentina.

The status of entrepreneur is proved by submitting a certificate stating that the foreign national owns or is a member of a company or legal entity. This certificate is issued by competent authorities of the immigrant's country of origin or of the country where the company or companies are established. Commercial references or recommendations must also be filed.

Certain delays and inconveniences in obtaining permits are likely under this unusual procedure, which is not standardized.

Investors. The NIB considers an investor to be a person who makes a minimum investment of AR$100,000 in Argentina and who provides a productive, commercial or service-supplying activity, or who convincingly proves that he or she has such a sum destined for investment in the aforementioned activities. Prior experience in such activities is desirable.

Proof of investment may be made by submitting deeds, securities, shares of companies or any other proof to the satisfaction of the NIB. If the investment is not made before the application for a residence permit, the availability of the AR$100,000 sum may be proved by a certificate of deposit in a bank or a money order.

A foreign company's representative must submit a certificate issued by the foreign company stating his or her appointment as attorney-in-fact by the foreign company.

If the company is not widely known in Argentina, a certificate issued by the competent authority in the country where the foreign company is established stating their legal existence must also be filed with the NIB.

Application Procedures. Application for admittance into Argentina may be made before the Argentine consular authorities abroad, either by the applicant or by his or her attorney, or before the NIB. Foreign nationals wishing to apply for residence permits before the NIB may do so in one of two ways. If the foreign national is already in Argentina, he or she may apply directly to the NIB personally or through an attorney-in-fact specifically appointed by the applicant for that purpose. If the foreign national is still abroad, he or she may apply to the NIB through the prospective employer. Alternatively, he or she can apply through another person. In both cases, applicants must submit certain notarized declarations and documents.

For applicants for work visas (temporary residence permits), the most common procedure for obtaining residence permits in Argentina is through a request made by a local company that has executed an employment agreement with a foreign nonresident. The local company requests the permit from the NIB or from the corresponding Argentine consulate by stating that it requires the services of the foreign national.

Although a request for admission may be filed with Argentine consulates abroad, the consulates do not have the authority to grant such requests. The consulates must forward the requests to the NIB, who will then authorize the consulates whether to grant the visa. This procedure may take from two to three months. In certain cases, a request may be denied, most often for formal reasons.

If a foreign representative or a company files a request directly with the NIB, the NIB will reach its decision within three weeks. If the NIB deems the request unacceptable, additional information or documents may be filed to satisfy requirements for acceptance. An admission request must be submitted by a foreign representative or by the employer company, depending on the admission criteria. Once the admission is authorized, the foreign individual must appear before the Argentine consulate near the individual's domicile of residence.

National Decree No. 836/2004 provides that only attorneys specifically appointed by the company with the NIB can make filings because they have been authorized by the immigration authorities to act on the company's behalf.

All individuals and companies that, for their own interests, request the admittance of a national of a country other than a country in the Southern Common Market (Mercado Común del Sur, or MERCOSUR) must register with the National Registry of Foreign Personnel Requestors that was recently created by the NIB. Certain documentation must be filed with respect to such registration. Local companies must file the following documentation:

- A Formal Letter of Request, which attests to the legal and actual domicile of the company in Argentina. The company must include in the letter a special address in Buenos Aires, Argentina (if it is submitting the application to the Migratory Headquarters) or a migratory office's address.
- The company's articles of incorporation registered before the relevant authorities.
- Legal proof of payment of all social security contributions on behalf of its employees for the preceding six months.
- Proof of regular registration before the tax authorities and fulfillment of the last three matured obligations regarding value-added tax (VAT), income tax and turnover tax.
- The company's certificate of tax identification code.
- The company's financial statements.
- The Board of Directors' Act through which the local company's authorities are appointed.

An individual requesting his or her own visa or a visa for a foreign employee must file with the NIB a Certificate of No Penal Record from Argentina, through which his actual criminal records are reported.

The above documentation must be filed only once and only if the local company intends to hire new foreign employees for whom Entry Permits need to be requested. The documentation must be filed regardless of whether the employees enter Argentina with temporary work visas, business visas or transitory business visas.

Whether the application is made to an Argentine consulate or before the NIB, the following information and documents are generally requested:

- The applicant's personal family data;
- Original birth certificate of the applicant and members of his or her family, and marriage certificate, if applicable;
- A public clearance certificate issued by the authorities of the country or countries where the applicant has resided for the past five years, stating he or she has no criminal record;
- A letter issued by the company stating the reasons for hiring the foreign national for a specific job;
- A copy of the labor agreement under which the foreign national is hired (its validity is subject to the granting of the resident permit), if applicable;
- Four by four centimeter photographs, three-quarter right profile, in black and white or in color with a light blue background;
- Valid passport;
- Application form (required by some Argentine consulates); and
- University diploma (required by some Argentine consulates for temporary work visa purposes).

The required documentation usually varies among consulates. Consequently, an inquiry to the consulate in the applicant's current domicile is strongly recommended.

If the application is filed with the NIB, the legal entity hiring the foreign national must submit, among other documents, the following:

- Its articles of incorporation registered before the relevant authorities;
- Legal proof of having paid all social security contributions on behalf of its employees for the preceding six months;
- Proof of regular registration before the tax authorities and fulfillment of the last three matured obligations regarding VAT, income tax and turnover tax;
- Real property deed or rental agreement for the place where the individual will render services as well as copies of receipts that evidence the last three rental payments;
- A roll of the company's employees for the month preceding the month of filing with the NIB;
- The legal entity's certificate of tax identification code;
- The Letter of Request for the entry permit;
- The labor contract to be subscribed by the employee at the consular interview; and
- Documentation that evidences the labor experience of the employee and the activity performed by the individual in his or her country of residence at the time of filing.

If the company makes the filing, it should also submit an original power of attorney of the company's representative that requests the individual's entry permit or a copy of the power of attorney certified by public notary.

If the application is made before the Argentine consular authorities abroad, the consul conducts an interview with the applicant and his or her family after all other requirements are met before granting the residence permit and corresponding visa.

If the application is made before the NIB while the foreign national is still abroad, a permit is issued after all the requirements are met, subject to the person's actual legal entrance into the country. The permit is given to the representative of the legal entity hiring the foreign national and transmitted to the corresponding Argentine consulate abroad. The Argentine consulate in the foreign national's current place of residence then issues the necessary visa following an interview with the applicant and his or her family. The whole process takes approximately 60 to 90 days.

The NIB fees are AR$200 per entry permit. The renewal fee is AR$200.

On entering Argentina, foreign residents who have been granted temporary residence permits must submit to the immigration authorities their entrance permits and passports containing visas issued by the Argentine consulate. Foreign individuals who have entered Argentina as tourists may not modify their immigration status without first leaving the country.

Consular envelopes, including birth and marriage certificates and fingerprints taken at the consulate, are sometimes held either by the consulate or by the immigration authorities, on the entrance of the foreign resident into the country. These documents are subsequently sent to the NIB, which, in turn, sends them to the

National Registry of Persons before issuing the identity documents to the applicant and his or her family. For additional details on consular envelopes, see *National Identity Cards*.

The consular fees for work visas vary on a case-by-case basis, but they are usually US$100.

It is advisable to retain a complete set of copies (duly certified by a notary public or an equivalent authority) or extra originals of the birth and marriage certificates after they are approved by the Argentine consulate. After they are notarized, they must be legalized by the Argentine consulate, or under the Convention of La Haye Apostille rules if the country of origin of the foreigner has adhered to the Hague Convention.

Law No. 25,902 provides special rules with respect to the obtaining of temporary and permanent residence in Argentina for nationals from countries that conform to MERCOSUR, but this regulation has not yet entered into force.

National Identity Cards. Foreign nationals living in Argentina with residence permits for a period of at least one year may apply for National Identity Cards for Foreigners (Documento Nacional de Identidad, or DNI). The DNI is subject to the term for which the visa is granted. Consequently, on renewal of the visa, the DNI should also be renewed.

To obtain DNIs, foreign nationals generally must go personally to the relevant office of the National Registry of Persons, depending on the applicants' domicile in Argentina. It is, however, sometimes possible and less complicated to apply for a DNI in Buenos Aires, regardless of the future location of services. Applicants must sign certain documents, and their fingerprints are taken. Children between 8 and 16 years of age must be accompanied by their parents to be fingerprinted. Children younger than eight years of age may have their parents sign the application for them. In all cases when children are not required to be present, parents must bring all of the children's documents.

All applicants must submit the following documents to the National Registry of Persons:

- Valid passport.
- Copies of the passport.
- Consular envelope. When the visa is granted by the consulate, the applicant is given an envelope containing certain forms and the birth certificates to be delivered to the National Registry of Persons. This envelope must not be opened by the applicant. If the birth certificate is written in a language other than Spanish, it must be submitted to the National Registry of Persons together with a Spanish translation made by a public translator.
- Birth certificate, translated and legalized in Argentina.

Birth certificates remain filed with the registry for as long as the applicant stays in the country. The registry usually issues certified copies of the certificate if needed.

On starting the proceedings to obtain a DNI, an applicant must pay AR$15 in fees. The National Registry of Persons grants applicants certificates proving that the proceedings for the DNI have begun. A certificate is sufficient proof of identity until the definitive DNI is granted. These certificates are required for the follow-up proceedings and are withdrawn when the final DNIs are granted.

The duration of the proceedings varies from jurisdiction to jurisdiction, ranging from approximately 80 days (in the city of Buenos Aires) up to 10 months (in certain provinces).

At the end of the proceedings, the applicant goes to the National Registry of Persons with the certificate mentioned above to receive the final DNI or, in certain cases, to comply with further demands.

To receive the final DNI, the applicant must submit the following items:

- The certificate granted by the National Registry of Persons showing that the proceedings for the DNI have begun;
- Any document showing the identity of the applicant (for example, a passport); and
- Two four by four centimeter photographs, three-quarter right profile, in black and white or in color with a light blue background.

I. Family and Personal Considerations

Visas for Family Members. Family members of foreign nationals may be granted residence permits. The procedure to obtain these permits and the corresponding visas is usually initiated simultaneously for the whole family.

Each member of the family must apply for the same kind of visa as the international executive (usually, a temporary residence permit and visa for a one-year period). The granting of visas implies that the members of the family have the right to carry out remunerated activities.

Marital Property Regime. A mandatory community property regime applies to all spouses whose marriages are solemnized in Argentina. Under the regime, property held before the marriage remains separate. Property acquired during the marriage (other than by inheritance, legacy or gift) is owned equally by the spouses. Although copyrights, patents and industrial designs are the separate property of the author or inventor, the proceeds derived during the marriage from these types of property are considered community property. Premarital agreements are optional, and may address only property brought to the marriage and gifts from the husband to his wife.

The law of a couple's first marital domicile governs their marital agreement and their relationship with respect to their property. A change in domicile does not alter the applicable law.

The community property regime does not apply to couples who cohabitate permanently without a formal marriage ceremony. Individuals of the same gender are not allowed to marry in Argentina.

Forced Heirship. Under the succession regime in effect in Argentina, a specified portion of each estate left by a person domiciled in Argentina at the time of death passes to the deceased's forced (legal) heirs, regardless of the provisions of the deceased's will, if any, and regardless of the domicile of the heirs. If descendents survive, they receive four-fifths of the estate. If the deceased leaves no descendents, the ascendants receive two-thirds of the estate. If no descendents or ascendants are living, the surviving spouse receives half of the estate, even though the estate property is community property.

Drivers' Permits. Foreign nationals with home country drivers' licenses may go before the General Traffic Board (Dirección General de Transito) to obtain national licenses. The following requirements must be met to obtain a driver's license in the city of Buenos Aires:

- Show a DNI (see Section H) with a domicile in the city of Buenos Aires;
- File photocopy of first and second pages of the DNI;
- Show passport and visa evidencing that the individual is a legal resident of Argentina;
- Show a valid license in the individual's foreign country of origin; and
- Pay a fee AR$30 (equivalent to approximately US$10).

Obtaining a driver's license requires both physical and driving examinations (theoretical oral and written exams, as well as practice test).

Children's Departure from Argentina. NIB Disposition No. 31,100/2005 establishes a new authorization procedure for the departure of children under age 18 from the country. Under the new procedure, written authorizations for such departures are granted by specifically authorized persons.

Written authorizations may be issued by public notaries and judges, or by public instrument. In such circumstances, the authorization letter must expressly state that the respective parents have allowed the departure, as evidenced by documentation that has been reviewed. If the child will travel without a companion, the travel company must fulfill certain requirements. If the child is younger than 14, the destination and the identity of the persons that will be picking up the child must be clearly stated in the authorization letter. If the child is younger than 18 and travels with a companion unrelated to the parents, the companion's personal data, domicile, and identification documents, as well as the destination must be clearly stated in the authorization letter. If the child is younger than 6 and travels accompanied by persons unrelated to the parents, a special record must be maintained in the NIB's register.

Written authorizations fulfilling the above requirements may also be issued by Argentine Consul abroad if the above requirements are satisfied. A competent judge may also issue a written authorization.

However, if migratory officials have suspicions regarding the validity of the authorization, they may request the intervention of the Auxiliary Migratory Police, the judicial competent authorities and the Children's Public Ministry to protect the interests of the child.

Under NIB Disposition No. 33,341, authorizations granted before the issuance of NIB Disposition No. 31,100/2005 are considered valid until 31 March 2006.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	(a)
Bonus	X	—	(a)
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(a)
Housing allowance	X	—	(a)(b)
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	—
Educational allowance	X	—	(a)
Hardship allowance	X	—	(a)
Other allowance	X	—	(a)
Premium allowance	X	—	(a)
Home-leave allowance	—	X	(c)
Other compensation income	X	—	(a)
Moving expense reimbursement	—	X	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(a)
Value of meals provided	X	—	(a)
Value of lodging provided	X	—	(a)(e)
Other Items			
Foreign-source personal ordinary income (interest, dividends)	X	—	(f)
Capital gain from sale of personal residence in home country	—	X	(g)
Capital gain from the sale of quoted shares in home country	—	X	—

* Bracketed amounts reduce taxable income.

(a) Amounts received for services performed in Argentina are deemed to be Argentine-source income and are subject to tax, regardless of the place of payment of the amounts.

(b) The housing allowance is a taxable item because it is considered an extension of salary.

(c) A home-leave allowance paid to an expatriate is not deemed to be additional salary if it cannot be replaced by its equivalent in cash.

(d) Moving expenses are considered not taxable if they consist of recovery of expenses supported by vouchers.

(e) Lodging for a short period of time is a general business expense for the company but it is not a taxable item for the employee.

(f) Foreign individuals who can prove that they are in Argentina because of their employment and who remain in the country for a period not exceeding five years, are only taxed on Argentine-source income.

(g) The sale of a personal residence located in Argentina is subject to a 1.5% tax on the real estate sales price.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample 2006 tax calculation for an individual, married with two children, who is resident in Argentina and has annual compensation of AR$100,000 (paid over 13 months).

	AR$	AR$
Calculation of Taxable Income		
Base salary		100,000
Less: social security		(9,072)
Net income		90,928
Deductions:		
Spouse	(1,680)	
Two children	(1,680)	
Nontaxable income	(2,814)	
Special deduction	(12,600)	
Total deductions		(18,774)
Taxable income		72,154
Calculation of Tax		
Income tax		14,382
Social security tax		9,072
Total tax		23,454

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A. Income Tax

Who Is Liable. A resident individual receiving income, wherever earned, from employment is subject to income tax in Aruba. Aruban residents are subject to income tax on worldwide self-employment and business income, which includes professional income. Foreign-source business income may also be subject to tax abroad.

Income Subject to Tax

Employment Income. Taxable employment income consists of employment income, including directors' fees, less deductible expenses, pension premiums and social security contributions paid or withheld.

A nonresident individual is subject to income tax on income derived from employment actually carried on in Aruba. In addition, a nonresident who is not Dutch and who is employed by an Aruban public entity is subject to tax on income, even if the employment is not carried on in Aruba.

Self-Employment and Business Income. Annual profit derived from a business must be calculated in accordance with sound business practice applied consistently. Taxable income is determined by subtracting from the annual profit the deductions, extraordinary expenses, gifts and personal allowances described in *Deductions*, below.

A nonresident individual earning income from an enterprise carried on in Aruba as a permanent representative is subject to Aruban income tax. Profits of a permanent representative are calculated in the same manner as profits of domestic corporate taxpayers.

Directors' Fees. Income received by a nonresident managing director or nonresident member of a supervisory board of a company resident in Aruba is subject to Aruban income tax.

If paid by an Aruban company, directors' fees are subject to withholding of wage taxes and social security contributions.

Investment Income. Dividends, interest, royalties and rental income, less deductions, are generally taxed as ordinary income. A 10% dividend withholding tax is imposed on dividends distributed by companies resident for tax purposes in Aruba. Reduced dividend withholding tax rates of 0% or 5% apply in certain circumstances.

Capital Gains. No separate capital gains tax is levied. Capital gains are generally tax-free, but the following capital gains derived by residents or nonresidents may be subject to income tax at normal or special rates.

Type of Gain	Rate (%)
Capital gains realized on the disposal of business assets and on the disposal of other assets if the gains qualify as income from independently performed activities	Maximum of 60
Capital gains realized on the liquidation of a company or the repurchase of shares by the company in excess of the paid-up capital	30
Capital gains derived from the sale of shares in a domestic corporation qualifying as a substantial interest (equity interest of 25% or more)	25

Deductions

Deductible Expenses. A deduction of 3% of employment income is allowed for commuting expenses, up to a maximum of Afl 500 per year. Actual employment-related business expenses incurred may be fully deducted if they can be substantiated.

A resident taxpayer is entitled to more deductions than a nonresident taxpayer. Resident individuals may deduct interest paid on all types of loans (interest on personal loans up to a maximum of Afl 5,000 per year for 2006), life insurance premiums that entitle them to annuity payments (up to a maximum of Afl 1,000 per year), alimony payments, extraordinary expenses (for example, medical expenses and expenses for the support of relatives) and qualifying gifts in excess of a certain threshold amount.

A nonresident taxpayer may deduct from taxable income employment and commuting expenses, and pension premiums.

Personal Deductions and Allowances. Tax-free allowances may be claimed, based on personal circumstances. In general, the following child allowances are available.

Allowance	Amount Afl
Each child under 18 years of age	750
Each child from 18 to 27 years of age	1,200
Each child 16 to 27 years of age studying abroad	5,000

Business Deductions. Business expenses are fully deductible. In addition, the following deductions are available for self-employed persons:

- Accelerated depreciation of fixed assets at a maximum rate of 33 1/3% in any year; and
- An investment credit of 8% (12% for buildings) for acquisitions or improvements of fixed assets (the credit is deductible from taxable income, not from tax payable).

Rates. Residents and nonresidents are subject to income tax at the same progressive rates. The tax rate applicable to the total amount of taxable income is applied to the taxpayer's taxable income.

The maximum marginal tax rate for married persons of 57.2% is levied on amounts in excess of Afl 287,100. For single persons, the maximum rate is 60.06% applicable to income in excess of the same threshold.

The effective tax rates for 2006 for various income amounts of married persons are presented in the following table.

Taxable Income Afl	Effective Rate %
15,000	0
25,000	5.7
45,000	10.3
65,000	15
100,000	22.4
150,000	30
200,000	35.2

Relief for Losses. Individual taxpayers may carry losses forward for five years.

B. Inheritance and Gift Taxes

Death and gift taxes are levied on all property bequeathed or donated by an individual who is a resident (or a deemed resident) of Aruba at the time of death or at the time the gift is made. Tax is levied on the heir or the recipient of the gift, regardless of his or her place of residence.

Death and gift taxes are levied on the value of a taxable estate or donation after deductions at rates ranging from 2% to 24%. The rates vary depending on the applicable exemptions and on the relationship of the recipient to the deceased or the donor. In general, the following rates apply.

Relationship of Recipient	Rate (%)
Spouse or child	2 to 6
Brother or sister	4 to 12
Parent	3 to 9
Cousin or grandchild	6 to 18
Other	8 to 24

C. Social Security

Contributions. All resident individuals are subject to social security contributions. The contributions cover the General Old Age Pension Act and the General Widows and Orphans Act. Both the employer and the employee pay contributions on the employee's salary, up to a maximum annual salary of Afl 51,168. The employer makes contributions at a rate of 9.5%, and the employee makes contributions at a rate of 4%. Nonresident individuals are also subject to social security contributions.

Coverage. Employee insurance contributions cover the Disablement Insurance Act (OV) and the Sickness Insurance Act (ZV) for employees earning up to Afl 4,264 a month. The OV premiums are paid on employees' salaries by the employer at rates ranging from 0.25% to 2.5%. The ZV premiums are paid by the employer at a rate of 4%. Compulsory medical insurance (AZV) provides coverage for hospitals, doctor visits and treatments. Premiums are paid on employees' salaries at a rate of 7.9% by the employer and a rate of 1.6% by the employee.

Totalization Agreements. Nonresidents earning income from employment in Aruba are, in principle, subject to social security contributions. As a result, they may be subject to social security taxes both in their home country and in Aruba. Individuals temporarily employed in Aruba may obtain relief from double taxation under social security agreements.

D. Tax Filing and Payment Procedures

Employers must file income tax returns monthly. The necessary withholdings are made each salary payment period, which is usually monthly.

Married couples are taxed separately on their employment income unless they request to be taxed jointly. For most employees, wage tax withheld is the final levy of income tax.

The income tax return for the previous calendar year must be filed within 60 days after distribution of the income tax return form, unless an extension is obtained. Any income tax owed in addition to withholdings is normally due within two months after receipt of an assessment, not when filing the tax return.

Social security contributions are withheld by the employer. Self-employed persons must pay social security contributions within two months after receipt of an assessment.

A death tax return normally must be filed within three months after the date of death. A gift tax return must be filed within three months after a gift is made. Tax must be paid within one month after receipt of an assessment.

E. Double Tax Relief and Tax Treaties

The Tax Regulation for the Kingdom of the Netherlands, which regulates interregional relations within the Kingdom of the Netherlands, contains provisions to avoid double taxation among the Netherlands, Aruba and the Netherlands Antilles. It applies to, among other items, taxes on income, capital, inheritances and gifts.

If the regulation does not apply, foreign taxes paid may be deducted as expenses for purposes of calculating taxable income in Aruba.

The Kingdom of the Netherlands with respect to Aruba has entered into an agreement with the United States for the exchange of information on taxes. This agreement applies to, among other items, Aruban income tax, wage tax, profit tax, dividend withholding tax and inheritance tax.

Aruba has not entered into any double tax treaties.

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A. Income Tax

Who Is Liable. Australian residents are subject to tax on worldwide income. Nonresident individuals are subject to tax on Australian-source income only. Effective from 1 July 2006, the category of temporary resident (TR) is introduced. TRs are taxable on worldwide employment income and are exempt from tax on foreign investment income and capital gains on non-Australian assets.

A resident is defined as a person who "resides" in Australia and includes a person who meets either of the following conditions:

- Is domiciled in Australia, unless the tax authorities are satisfied that the person's permanent place of abode is outside Australia; or
- Is actually present in Australia continuously or intermittently for more than half of the tax year, unless the tax authorities are

satisfied that the person's usual place of abode is outside Australia and that the person does not intend to reside in Australia.

The residence test is met relatively easily. For example, a person who is in Australia for employment purposes for as little as six months may be considered resident in Australia for tax purposes. In general, a holder of a Subclass 457 temporary resident visa (see Section E) would be considered resident in Australia for tax purposes.

To qualify as a TR, the following conditions must be satisfied:
- The individual must be working in Australia under a temporary resident visa (for example, Subclass 456 or 457, or an Electronic Travel Authority; see Section E);
- The person must not be a resident of Australia for social security purposes (covers Australian citizens, permanent residents, special visa categories such as refugees and certain New Zealand citizens); and
- The person's spouse must not be a resident of Australia for social security purposes.

The second and third conditions described above must be satisfied at all times after 1 July 2006. No time limit applies to temporary resident status. If an individual applies for Australian permanent residency, temporary resident status ends at the date on which permanent residency is granted. Effective from such date, the permanent resident is treated in the same manner as a regular tax resident who is assumed to have arrived in Australia on that date.

Income Subject to Tax. The taxability of various types of income is discussed below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Salary and allowances are included in the taxable income of an individual. Most noncash employment benefits received by an employee are subject to fringe benefits tax, payable by the employer.

Self-Employment and Business Income. Income from self-employment or from a business is subject to taxation. Each partner in a partnership is taxed on his or her share of partnership income.

Taxable income is calculated by subtracting deductible losses and expenses from the assessable income (including taxable capital gains) of the business.

Directors' Fees. Directors' fees are included in taxable income as personal earnings and are taxed in the year of receipt.

Dividends. Resident individual shareholders must include all dividends received in assessable income. Franked dividends (dividends paid from taxed corporate profits) paid by Australian corporations are grossed up for the underlying corporate taxes. The shareholders may claim the underlying corporate tax as a credit. Whether additional tax must be paid on the franked dividends by a particular individual depends on the individual's maximum marginal rate of tax. Under certain circumstances, excess franking credit may be refunded.

Dividends from Australian sources that are paid to nonresidents are subject to final withholding tax at a rate of 30% (15% under applicable treaties) only on the unfranked portion—the portion on which underlying corporate income tax has not been paid.

The treatment of foreign-source dividends is more complex. Under the foreign tax credit rules, foreign-source dividends are included in taxable income of Australian residents. If withholding tax was paid in the foreign country, the net dividend is grossed up to include the foreign tax, and a tax credit of the lower of the foreign tax or the amount of the Australian tax is allowed. If these dividends are paid out of previously attributed income under the accrual tax system (see *Accrued Foreign Company Income*), Australian residents may receive a foreign tax credit for the taxes withheld on remittance of the dividends, even though the dividends are exempt from Australian tax. Australian residents who qualify as TRs (see *Who Is Liable*) are not assessable on foreign-source income.

Interest, Royalties and Rental Income. Interest, royalties and rental income derived by residents are taxable after deductions for applicable expenses. Eligibility for building depreciation deductions on rental property depends on the building's nature and its construction date.

The foreign tax credit on foreign net rental income may not exceed Australian tax on the same income as determined in accordance with Australian tax provisions (see Section D).

Interest expense on a mortgage loan for foreign property is excluded from the foreign loss quarantine rule. However, Australian residents who qualify as TRs are not assessable on foreign rental income, and they will not be able to offset mortgage interest (for example) against other Australian income.

Interest paid to nonresidents is subject to final withholding tax at a rate of 10%, except when paid by TRs. Interest paid by a temporary resident to a nonresident lender (for example, an overseas mortgagee) is exempt from all interest withholding tax and withholding obligations. Final withholding tax at a rate of 30% (10% to 15% under applicable treaties) is imposed on gross royalties paid to nonresidents.

Accrued Foreign Company Income. Under the accrual tax system, passive income derived by companies and trusts controlled by Australian residents that are located in countries with tax systems not deemed comparable to that of Australia may be attributed to those residents and taxed on an accrual basis rather than when remitted to Australia, unless relief provisions apply. Interests in foreign investment funds held by Australian residents are subject to tax. Taxation of these interests complements the accrual tax system. It prevents Australian resident investors from deferring tax by accumulating income offshore through noncontrolling interests in foreign entities (offshore companies and trusts, for example), which are not subject to the accrual tax system. The legislation focuses on the passive activities of the foreign entity. However, Australian residents who qualify as TRs are exempt from the above tax rules and the related complex reporting obligations.

Converting Transactions Denominated in Foreign Currency into Australian Dollar Amounts. In general, individual taxpayers are required to convert income amounts denominated in foreign currency into Australian dollar (A$) amounts at the time of derivation of the income. Likewise, they must convert expense amounts into Australian dollar amounts at the time of payment. This also results in the deeming of assessable income or allowable deductions for individuals who have acquired or disposed of foreign currency rights and liabilities. Typically, for resident individuals and expatriates, these rules apply with respect to foreign-currency debt (for example, mortgages) and foreign-currency accounts (for example, bank accounts). Special rules apply to the acquisition or disposal of capital assets or depreciable assets.

Individuals can elect partial exemptions for certain "Limited Balance" accounts, and for "Retranslation" to apply to certain accounts. These elections can change the amounts of assessable income or allowable deductions arising under the new rules and may reduce the compliance burden. However, because of the significant tax implications of the elections, readers should seek specific advice suited to their circumstances.

The above rules apply from 1 July 2003, with exceptions for certain existing assets and obligations.

Australian residents who qualify as TRs are exempt from the above tax rules.

Taxation of Employer-Provided Stock Options. Discounts provided to employees on shares or options acquired after 28 March 1995 under an employee share scheme are generally included as ordinary income in the employee's assessable income in the year they are acquired. For qualifying shares or options (see below), taxation may be deferred until the "cessation time," which is the earliest of the following dates: if the option is exercised, the date unrestricted stock is acquired or the date forfeiture conditions lapse; the date the share may be sold; the date of termination of employment; or the end of 10 years. Alternatively, an employee may elect to be taxed in the year of the grant.

The discount amount for shares is the difference between the market value of the share and the amount paid for the share by the employee. For options, the discount is determined according to a formula similar to the Black and Scholes model for valuing exchange-traded options. For options granted overseas after 26 June 2005 and for options granted overseas to an employee who becomes subject to Pay-As-You-Go Withholding for the first time after 26 June 2005 when the option is unvested, a portion of the discount may be assessable in Australia based on the proportion of days worked in Australia during the vesting period.

A qualifying share or option is one acquired under an employee share scheme that satisfies certain prescribed conditions. A tax exemption of up to A$1,000 is available on qualifying shares or options offered on a nondiscriminatory basis for employees who elect to tax the discount in the year the share or option is acquired.

Capital Gains and Losses. Residents are taxable on worldwide capital gains. Capital assets include real property and personal property, regardless of whether they are used in a trade or business, and shares acquired for personal investment. Trading stock acquired for the purpose of resale, however, is not subject to capital gains treatment.

For an asset held at least 12 months (not including the dates of purchase and sale) and disposed of after 21 September 1999, only 50% of the capital gain resulting from the disposal is subject to tax.

Assets acquired prior to 19 September 1985 are generally exempt from capital gains tax. In general, gain derived from the sale of an individual's main residence is excluded from capital gains tax. Special rules apply if the main residence was previously rented out.

Capital losses in excess of current-year capital gains (before discount) are not deductible against other income, but may be carried forward to be offset against future capital gains.

Capital gains realized by a nonresident on capital gains tax (CGT) assets are subject to Australian tax only if the assets have the necessary connection to Australia. CGT assets that have the necessary connection to Australia include the following:
- Shares in Australian nonlisted companies;
- Australian real estate;
- Assets of a business conducted in Australia; and
- Shares in an Australian listed company owned by an individual who has owned at least 10% of the capital of the company in the five years prior to the sale.

Special provisions apply to assets that do not have the necessary connection to Australia for taxpayers who cease to be Australian residents. Unless a specific election is made, the taxpayer is deemed to have disposed of all such assets at their market value on the date the taxpayer becomes a nonresident.

Effective from August 2006, nonresidents will be taxable on gains derived from "taxable Australian property." This is a narrower category than the assets covered by the "necessary connection" test and will generally be beneficial to taxpayers. The following assets will be considered taxable Australian property:
- Taxable Australian real property;
- A CGT asset that is indirect Australian real property interest and is not covered by the last item below;
- A CGT asset that has been used by the individual at any time in carrying on a business through a permanent establishment;
- An option or right to acquire a CGT asset covered by the first three items above; and
- A CGT asset covered by Subsection 104-165(3) (choosing to disregard a gain or loss on ceasing to be an Australian resident).

The key effect of the new rules will be that, in general, nonresidents will not be taxable on the following gains:
- Gains derived from disposals of private Australian company shares; and
- Gains derived from disposals of interests in Australian listed companies even if the interest exceeds 10%.

Antiavoidance measures will ensure that nonresidents will continue to be taxable on disposals of interests in companies that own real property, including mining interests.

Australian residents who qualify as TRs will generally be exempt from tax on gains derived from assets that are not classified as assets with the necessary connection with Australia (until August 2006) or that are taxable Australian property (beginning in August 2006). However, TRs (see *Who Is Liable*) who acquire shares and options under employee share schemes may be subject to CGT on a portion of gains derived from disposals of those assets.

Deductions

Deductible Expenses. Expenses of a capital, private or domestic nature and expenses incurred in producing exempt income, are not deductible.

Specific documentation requirements must be fulfilled if employment-related expenses exceed A$300 a year. Client entertainment expenses are not deductible.

Personal Tax Offsets. Tax offsets are available to resident taxpayers and TRs (see *Who Is Liable*). Tax offsets are subtracted from tax calculated on taxable income. The amount of offset that may be claimed varies depending on the taxpayer's and the spouse's income and whether the taxpayer or spouse is eligible for Family Tax Benefits.

Tax offsets may not be claimed by nonresidents.

Business Deductions. Losses and expenses are generally fully deductible to the extent they are incurred in producing assessable income or are necessarily incurred in carrying on a business for that purpose.

Specific records are required for business travel and motor vehicle expenses. Entertainment expenses are not deductible unless incurred in the provision of fringe benefits to employees.

Deductions are allowed for salaries and wages paid to employees, interest, rent, repairs, commissions and similar expenses. Expenditure for the acquisition or improvement of assets is not deductible, but capital allowance may be claimed as a deduction. Expenditure for acquisitions or improvements may be added to the cost base of an asset for capital gains tax purposes and may reduce any taxable gain arising from a later disposition.

Rates. Income tax for the 2006-07 tax year (1 July 2006 to 30 June 2007) is levied on residents and TRs at the following rates.

Taxable Income		Tax on Lower	Rate on
Exceeding A$	Not Exceeding A$	Amount A$	Excess %
0	6,000	0	0
6,000	25,000	0	15
25,000	75,000	2,850	30
75,000	150,000	17,850	40
150,000	—	47,850	45

The A$6,000 tax-free threshold is reduced if the taxpayer spends fewer than 12 months in Australia in the year of arrival or departure.

Income tax for the 2006-07 tax year (1 July 2006 to 30 June 2007) is levied on nonresidents and TRs at the following rates.

Taxable Income		Tax on Lower	Rate on
Exceeding A$	Not Exceeding A$	Amount A$	Excess %
0	25,000	0	29
25,000	75,000	7,250	30
75,000	150,000	22,250	40
150,000	—	52,250	45

For a sample tax calculation, see Appendix 2.

B. Social Security

A Medicare levy of 1.5% of taxable income is payable by resident individuals for health services. This is the only social security levy imposed in Australia.

No ceiling applies to the amount of income subject to the levy. Relief is provided for certain low-income earners. High-income resident taxpayers who do not have adequate private health insurance may be subject to an additional 1% Medicare levy surcharge. High-income taxpayers whose hospital insurance carries an excess payment (amount for which the insured is responsible before the insurance begins to pay) of more than A$500 for single individuals or A$1,000 for couples or families are also subject to the Medicare levy surcharge.

However, Australia has a compulsory private superannuation contribution system. Under this system, employers must contribute an amount at least equal to 9% of "ordinary time earnings" (OTE) to a complying superannuation fund for the retirement benefit of its employees. Transitional measures can apply for certain pre-existing superannuation arrangements. The maximum OTE base for each employee for the year ending 30 June 2007 is A$35,240 per quarter.

C. Tax Filing and Payment Procedures

Returns for the tax year ended 30 June generally are due by 31 October. Extensions are available if the return is filed by a registered tax agent. Nonresidents are subject to the same filing requirements as residents. No specific additional filing requirements are imposed on persons arriving in, or on persons preparing to depart from Australia.

A noncitizen of Australia entering the country for employment or to take up residence who has not previously applied for an Australian tax file number must apply with the Australian Taxation Office.

Married persons are taxed separately, not jointly, on all types of income. Joint filing of returns by spouses is not permitted.

A tax assessment is issued by the Australian Taxation Office after a tax return is filed. For a timely filed tax return, taxpayers have at least 21 days after the date of assessment to pay tax due and may be allowed a longer period.

Salary and allowances paid in Australia are subject to monthly deductions under the Pay-As-You-Go (PAYG) withholding system.

Income other than salary and wages is subject to quarterly or annual PAYG installments.

D. Double Tax Relief and Tax Treaties

Foreign Tax Credit System. A credit is available for payments of foreign tax that are similar to the Australian income tax payable on the same income. Passive income (including dividend, interest and royalty income), offshore banking income and other foreign income are assessed and taxed separately, and any foreign tax credits applicable to a particular category are quarantined and may be used as a credit only against Australian tax payable on that category of income.

Excess foreign tax credits may be carried forward for up to five years and deducted from tax on income in the same category.

Double Tax Treaties. Australia has entered into double tax treaties with the following countries.

Argentina	Ireland	Romania
Austria	Italy	Russian Federation
Belgium	Japan	Singapore
Canada	Kiribati	Slovak Republic
China	Korea	South Africa
Czech Republic	Malaysia	Spain
Denmark	Malta	Sri Lanka
Fiji	Mexico	Sweden
Finland	Netherlands	Switzerland
France	New Zealand	Taiwan
Germany	Norway	Thailand
Greece	Papua New Guinea	United Kingdom
Hungary	Philippines	United States
India	Poland	Vietnam
Indonesia		

E. Temporary Visas

Nonresidents seeking entrance to Australia, including for tourist purposes, must obtain visas prior to entry. Citizens of New Zealand are exempt from this requirement.

Visa applicants from most countries must submit the relevant application forms (available at www.immi.gov.au) to the closest Australian embassy or consulate. The visa is stamped in the nonresident's passport, which must be presented to the immigration officer at the port of entry.

Alternatively, Australia's Electronic Travel Authority (ETA) system is available to citizens of more than 30 eligible countries. An ETA is an electronically stored authority to travel to Australia for short-term business or tourist entry. An ETA permits a stay in Australia for up to three months and is available for a single entry or multiple entries. ETA eligible countries include most European countries, Canada, Hong Kong, Japan, Malaysia, Singapore, South Korea, Taiwan and the United States. An ETA may be obtained on the Internet at www.eta.immi.gov.au, by phone, facsimile or in person from participating travel agents and airlines or from an Australian embassy or consulate. An ETA is electronically confirmed on entry to Australia. No application form or visa label in the individual's passport is required.

Temporary residence visas are granted to people whose activities are considered to benefit Australia, including people entering for business, skilled employment, cultural or social activities.

The types of temporary residence visas, and the conditions that must be fulfilled prior to their being issued, are described below. Holders of temporary residence visas generally are not eligible for public health benefits in Australia.

Business Visas. An individual wishing to enter Australia for business or employment reasons may apply for a short-stay or a long-stay business visa.

Short-Stay Business Visas. Individuals from ETA-eligible countries intending to enter and remain in Australia for business activities for no longer than three months on any single visit may obtain a Business ETA. Individuals from non-ETA eligible countries may apply for a short-stay business visa, called a Subclass 456 visa, which is generally valid for multiple entries over five years and must be obtained before arrival in Australia.

To obtain a Subclass 456 visa, an individual must satisfy the Australian embassy or consulate that he or she possesses adequate funds for personal support during the stay in Australia and intends to engage in business activities, such as business meetings and seminars that are consistent with his or her business or employment background.

In very limited circumstances, a Business ETA or Subclass 456 visa holder may work in Australia if the work is short term and highly specialized and therefore cannot be carried out by an Australian citizen or permanent resident. Any work completed under a Business ETA or Subclass 456 visa must not adversely affect employment or training opportunities for Australians.

Long-Stay Business Visas. Individuals intending to remain in Australia for employment for up to four years may apply for a Subclass 457 visa. Individuals in Australia on Subclass 457 visas may renew these visas indefinitely.

Subclass 457 visa applications can take six to eight weeks to process. Applicants sponsored by an Australian company who enter Australia on a Business ETA may apply for a Subclass 457 visa after arrival. However, such individuals must remain in compliance with the work limitations on the Business ETA until their Subclass 457 visa is granted. All Subclass 457 visa applications (with the exception of those sponsored by overseas businesses) must be filed in Australia, regardless of whether the applicants are in Australia or overseas. Applicants from ETA-eligible countries may travel to Australia without obtaining the actual visa stamp in their passport, provided their visa application has been approved. After arrival, the passport must be taken to an office of the Department of Immigration in Australia to obtain the visa stamp. Applicants from non-ETA eligible countries must have the visa label inserted into their passports before traveling to Australia.

Spouses of Subclass 457 visas are permitted to work for any employer in Australia. For additional details regarding visas for family members, see Section G.

The Subclass 457 visa application process involves the following three steps:

- The employer must be approved as a sponsor;
- The employer nominates the visa holder to fill a specific position; and
- The individual completes the visa application.

To be approved as a sponsor, an employer must be actively engaged in a business in Australia or intend to establish a branch in Australia, be of good financial standing and commit to either the employment or training of Australians or the introduction of new technology into Australia. In addition, an application for approval as a business sponsor may be denied if the enterprise or an office holder of the enterprise has an adverse background.

At the nomination stage, employers must show that the position requires management, professional or trade-level skills and provide a position description, which sets out the duties and responsibilities of the position. The nominated employee must be paid a minimum salary excluding other benefits and allowances such as superannuation. As of 3 May 2006, the minimum base salary for most occupations is A$41,850, with the exception of occupations in information technology, for which the minimum salary is A$57,300.

The individual must submit a visa application providing certain personal information, including accompanying family members, professional qualifications and work experience. All visa applicants must also meet relevant health and character criteria.

Working Holiday. Under reciprocal arrangements with certain countries, young people may work in Australia to support their holiday on Working Holiday visas. Working Holiday visas are granted to individuals 18 to 30 years of age who are nationals of Belgium, Canada, China, Cyprus, Denmark, Estonia, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Korea, Malta, the Netherlands, Norway, Sweden, Taiwan and the United Kingdom.

Individuals holding Working Holiday visas may work within Australia only if the work is incidental to their vacations. The Working Holiday visa is valid for 12 months. However, the holder may not work for more than six months with any one employer. Working Holiday visa holders who have completed three months' seasonal work in regional Australia may be eligible to apply for a second Working Holiday visa.

Exchange. Skilled individuals may enter Australia for temporary employment under exchange arrangements between an Australian and an overseas company, giving an Australian a similar opportunity to work abroad.

Entertainment. Australia's entertainment visa, Subclass 420, allows performing artists to stay temporarily in Australia. People who perform on stage, on screen, before a microphone or in concert are considered entertainers. Associated personnel, including support staff and people connected with the entertainment display, may also gain access under this category.

News Media and Film Staff. Journalists assigned to Australia by overseas news organizations may obtain Subclass 423 visas, to maintain representative offices, cover specific news events or report on news and current affairs. Photographers and television teams whose purpose is to make documentaries and commercials for overseas consumption are included in this category.

Occupational Trainee. Employers may nominate individuals to engage in workplace-based training in Australia. The training must be consistent with the individuals' employment history and give them skills they will use on return to their home country.

Investor Retirement. The Investment Retirement visa is intended for persons who meet the following criteria:

- They are of retirement age;
- They have no dependants (other than a spouse);
- They can be of benefit to Australia through significant investments in state or territory government bonds;
- They are sponsored by an appropriate regional authority of a territory or state government; and
- Their presence in Australia will be without cost to Australia's social and welfare services.

The New South Wales government does not support Investment Retirement visas. As a result these visas are not available to individuals who maintain their principal residence in New South Wales.

Domestic Worker. Domestic workers who are employed in a private capacity by diplomatic or consular representatives or senior executives in charge of an Australian organization and who hold a Subclass 457 visa may reside in Australia for the same period as their employer (sponsor).

Other Classes. Certain other categories of temporary residence visas are described below.

Students. Overseas students enrolled in registered courses may reside in Australia for the duration of their courses. Overseas students may work in Australia 20 hours per week while they are studying and full-time during college or university breaks.

Overseas students in Australia can apply for a 457 visa for full-time employment without having first completed their studies in Australia.

Sports. Athletes, officials and their support staffs may participate in specific sporting events, or join Australian sports clubs or organizations with sports visas.

Educational and Visiting Academic. Educational and research institutions may sponsor individuals for Educational or Visiting Academic visas to fill academic, teaching, librarian and research positions that they have been unable to fill from the Australian labor market.

F. Permanent Residence

Permanent residence visas are granted in the family, humanitarian and skilled categories. The visas most relevant to individual skilled applicants and business immigrants are described below.

Employer Nomination Scheme. Under the Employment Nomination Scheme, Australian employers may nominate highly skilled individuals from overseas who are in Australia on certain temporary visas for permanent residence if these employers are unable to fill specific positions with individuals from the Australian labor market or through their own training efforts. Applicants for a permanent residence visa under the Employer Nomination Scheme must satisfy one of the following criteria:

- They have worked in a nominated occupation in Australia while on a requisite temporary residence visa (usually a Subclass 457 visa) for at least two years and have worked in the nominated position for the nominating employer for at least one year immediately before applying;
- They have three years post-training experience in the nominated occupation, and have their skills formally assessed by the relevant skills-assessing body in Australia; or
- They are nominated for a senior management position that attracts a base salary of at least A$165,000.

General Skilled-Points Test. Individuals of working age may apply for permanent residence on the basis of their own skills. Applicants are assessed based on a points test, which awards points for employability factors, including qualifications, age, employment experience and language capabilities. Additional points can also be obtained through sponsorship from certain relatives who are Australian citizens or Australian permanent residents. Visas in this category are subject to annual quotas, and processing times are approximately 12 to 18 months. Visa applicants must also be outside Australia when their visas are granted, with the exception of some onshore student visa holders.

Business Skills Migration Program. The categories in the Business Skills Migration Program are designed for successful businesspersons who wish to manage their own business or make substantial investments in Australia. Most Business Skills entrants enter Australia initially on a provisional (temporary visa) for four years. If they provide satisfactory evidence of a specified level of business activity for two years or investment for four years, they may apply for permanent residence.

G. Family and Personal Considerations

Family Members. Spouses (including de facto spouses) and dependants of temporary and permanent visa applicants are generally included in the same visa application as the primary applicant and granted a visa of the same subclass. If sponsorship or nomination is a requirement for the primary applicant, spouses and dependants must be included in the sponsorship or nomination. Effective from 1 July 2006, same-sex partners can also be included in a Subclass 457 visa application.

Family members who are not included in a temporary resident's initial visa application may generally apply for a visa at a later date.

Marital Property Regime. The Commonwealth government has enacted a marital property regime administered under the Family Law Act, which applies only to married couples. The property rights of de facto couples and homosexual couples are regulated under the various property laws of the Australian States.

Effective from December 2000, binding financial agreements are allowed under the Family Law Act as an option for married and engaged couples. Agreements may be entered into before a marriage, during a marriage or after dissolution of marriage addressing the parties' property and financial resources and any spousal maintenance during the marriage or after its dissolution. These agreements are binding only if they meet strict tests set forth in the law and may be set aside by the courts in certain circumstances.

In the absence of a binding financial agreement, the marital property regime under the Family Law Act is mandatory.

The application of the Family Law Act regime is not limited to couples who solemnize their marriage in Australia. In addition, the Family Law Act applies if one of the parties to a marriage is an Australian citizen, is ordinarily resident in Australia, or is merely present in Australia at the time an application for alteration of property is made.

The Family Court may make orders personally binding on a married person regarding property outside Australia. However, the court will not exercise such jurisdiction if Australia is found to be a "clearly inappropriate forum." The court's determination that Australia is a clearly inappropriate forum depends on the general circumstances of the case, including the location of a majority of the property, and the true nature and extent of the issue involved.

Forced Heirship. Australia does not impose forced heirship rules that require parents or other relatives to leave certain property to direct lineal descendents. Family members have no absolute entitlement to the proceeds of a deceased's estate. Individuals may draft the terms of their own wills, subject to the need to provide for their dependents. Each state has within its succession laws a system of testator's family maintenance rules that enable dependents to bring an action against the estate of a deceased person if they are inadequately provided for under the terms of a will or the intestacy rules (financial hardship must be demonstrated for a claim to arise). Family maintenance rules are unlikely to have any ramifications for expatriates coming to Australia. However, if a person has a domicile in Australia at the time of death, these rules may apply.

Drivers' Permits. Foreign nationals who are in Australia temporarily may drive legally in Australia using their home country drivers' licenses. In most states, an individual who becomes a resident must obtain an Australian driver's license. To obtain an Australian driver's license, the applicant must take a computerized knowledge test, followed by a physical driving test.

Australia does not have driver's license reciprocity with other countries.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Subject to Income Tax*	Subject to Fringe Benefits Tax	Comments
Compensation			
Base salary	X	—	(a)
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	(a)

	Subject to Income Tax*	Subject to Fringe Benefits Tax	Comments
Retained hypothetical tax	(X)	—	(a)
Cost-of-living allowance	—	X	(a)
Housing allowance	—	X	(b)
Employer-provided housing	—	X	(b)
Housing contribution	(X)	—	(a)
Education reimbursement	—	X	(b)
Hardship allowance	X	—	(a)
Other allowance	X	—	(a)
Foreign service premium	X	—	(a)
Home leave	—	X	(c)
Other compensation income	X	—	(a)
Moving expense reimbursement	—	X	(b)
Tax reimbursement (current and/or prior, including interest, if any)	—	X	(d)
Value of meals provided	—	X	(c)
Other Items			
Foreign-source personal ordinary income (interest, dividends)	X	—	(a)
Capital gains from sale of personal residence in the home country	—	—	(e)
Capital gains from sale of stock in the home country	X	—	(f)

* Bracketed amounts reduce taxable income.

(a) Amount is subject to income tax in income year in which the amount is paid or received by employee.

(b) Amount is regarded as a fringe benefit, but it is eligible for exemption from the fringe benefits tax if it is provided to an expatriate who is living away from his or her usual residence. It is also exempt from income tax. In addition, the housing contribution has no effect on the amount subject to income tax or fringe benefits tax.

(c) Amount is regarded as a fringe benefit, but concessionary rules apply in determining the taxable value when provided to an expatriate. Fringe benefits are exempt from income tax.

(d) Amount is regarded as a fringe benefit and subject in full to the fringe benefits tax.

(e) The capital gains are exempt from income tax if the property is the employee's sole or principal residence. If the employee qualifies as a temporary resident at the time of disposals of investment properties in the home country, the gains are not taxable.

(f) The capital gains are subject to income tax if received by residents, but a credit is allowable for foreign taxes paid. If the shares have been held (or deemed to be held) for at least 12 months before disposal, only 50% of the capital gain is taxable. The gains are not taxable if all of the following conditions are not satisfied: the employee qualifies as a temporary resident at the time of disposal; the shares are in a company that is not deemed to have the necessary connection with Australia (pre August 2006), or the shares are not deemed to be taxable Australian property (in or after August 2006); and the shares were not acquired under an employee share scheme.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2006-07 tax year is set forth below. The tax calculation is based on the following assumptions:

- The taxpayer is married with two children under age 12;

- The taxpayer is a full-year resident of Australia, but he or she is not a temporary resident;
- All workdays are spent in Australia;
- The taxpayer received A$1,500 interest from taxable U.S. sources;
- All other income and deductions are listed below;
- All amounts are in Australian dollars; and
- Assignment is for two-year period.

	A$	A$
Calculation of Total Income		
Base salary		50,000
Bonus (current year)		10,000
Tax reimbursement		30,000
Housing (paid by company)	12,000 (a)	
Less employee contribution	(7,500)	4,500
Reimbursement of moving expenses		12,000 (b)
Relocation allowance		6,000
Total compensation		112,500
Interest (U.S. source)		1,500
Interest (Australian source)		1,000
Dividends (U.S. source – joint names)		6,000
Total income		121,000
Computation of Income Tax		
Base salary		50,000
Bonus (current year)		10,000
Housing – employee contribution		(7,500)
Relocation allowance		6,000
Taxable compensation		58,500 (c)
Interest		2,500
Dividends (taxpayer's share)		3,000
Total assessable income		64,000
Less allowable deductions		(0)
Taxable income		64,000
Tax on taxable income		14,550
Medicare levy		960 (d)
Less spouse rebate		976 (e)
Net tax		14,534
Less foreign tax credit		
15% on dividends		(450)
10% on interest		(150)
Income tax payable		13,934
Computation of Fringe Benefits Tax		
Type I Benefits		
Company car (f)		
Cost: A$20,000		
Taxable value: 26% of A$20,000		5,200
Type II Benefits		
Tax reimbursement		30,000
Taxable value		30,000

	A$
FBT Notional Values	
Type I Benefits x 2.0647	10,736
Type II Benefits x 1.8692	56,076
	66,812
Fringe benefits tax:	
A$66,812 x 46.5%	
(payable by employer)	31,067

(a) Housing paid by an employer is assumed to be exempt from fringe benefits tax (FBT).
(b) Moving expenses are assumed to be exempt from FBT.
(c) The employee is also provided with a fully maintained company car that costs A$20,000.
(d) It is assumed the taxpayer is either able to use the Medicare system in Australia or was resident in another country with a reciprocal health agreement with Australia immediately before arrival in Australia. Otherwise, the taxpayer can apply for an exemption for Medicare levy from the Health Insurance Commission (HIC). The Medicare levy surcharge may apply if no appropriate private health coverage exists.
(e) For the 2006–07 tax year, the maximum spouse rebate is A$1,655, less A$1 for each A$4 of spouse income (the dividend income, which is A$3,000) that exceeds A$282.
(f) It is assumed that mileage traveled during the FBT year is less than 15,000 kilometers and that the car is used for the full year.

AUSTRIA

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A. Income Tax

Who Is Liable. In principle, all individuals are subject to tax on their worldwide income if they are considered ordinarily resident in Austria. Nonresidents with an income source in Austria are subject to tax to a limited extent, but their taxes may be reduced under a double tax treaty (see Section E).

Individuals are considered ordinarily resident if they have a residence available for use in Austria or if they live in Austria for more than six months during the year.

Each partner in a partnership must pay tax on his or her share of profits. The partnership is not subject to income tax as a separate entity.

Income Subject to Tax. Austrian income tax law categorizes income into the following income sources:

- Income from agriculture and forestry;
- Income from dependent employment (earnings as an employee);
- Income from self-employment, including directors' fees;
- Business income;
- Dividend and interest income;
- Rental income; and
- Income from other sources.

Specific regulations govern the calculation of taxable income from each source. After income from each source is calculated, the amounts are aggregated.

Employment Income. Employed persons are subject to income tax on remuneration and all benefits received from employment. Employment income includes the following:

- Salaries, wages, bonuses, profit participations, and other remuneration and benefits granted for services rendered in a public office or in private employment; and
- Pensions and other benefits received by a former employee or his or her surviving spouse or descendants, in consideration of services performed in the past.

Allowances paid to foreign employees working in Austria, including foreign-service allowances, income tax equalization allowances and housing allowances, are considered employment income and do not receive preferential tax treatment.

Under certain conditions, employment income does not include employer-paid moving expenses, education expenses for employees or contributions to Austrian pension funds.

Investment Income. A final withholding tax at a rate of 25% is imposed on dividends and interest income derived from Austrian sources by residents. Expenses related to this income are not deductible. The final withholding tax applies only to interest income derived from securities offered to the general public (not to privately placed securities). Tax exemptions for interest income are available, especially for nonresidents, under domestic law.

Dividend income and interest income of residents derived from non-Austrian sources are also taxed at a special tax rate of 25%. The Austrian tax authorities can decide to impose tax at the ordinary tax rates if the foreign company making the payments is taxed at a rate below 15%. In this case, a tax credit is granted for the taxes paid abroad.

Royalties and rental income derived by residents are taxed as ordinary income.

Dividends paid to nonresidents are subject to withholding tax at a rate of 25%, but this rate is reduced by most of Austria's double tax treaties (see Section E). For royalties and directors' fees, the rate of withholding tax is 20%.

The withholding taxes imposed are usually final taxes.

Self-Employment and Business Income. Individuals acting independently in their own name and at their own risk are subject to income tax on income derived from self-employment or business activities.

Business income includes income from activities performed through a commercial entity or partnership, while self-employment income primarily includes income from professional services rendered (for example, as doctors, dentists, attorneys, architects, journalists and tax consultants).

In general, all income attributable to self-employment or business, including gains from the sale of property used in a business or profession, is subject to income tax.

General or limited partnerships are not taxed as entities. The profit share of each partner is subject to tax separately. In addition, a partner's income from self-employment or business activities also includes compensation received by a partner for services rendered or for loans made to the partnership.

For nonresidents carrying on business through a permanent establishment in Austria, taxable income is computed in the same manner as for resident individuals and is taxed at the same rates.

Directors' Fees. Remuneration received as a supervisory board member of a corporation is treated as income from self-employment. Companies must withhold tax at a rate of 20% on such remuneration paid to nonresidents.

Taxation of Employer-Provided Stock Options. If an employer sells shares to an employee at a favorable price, the employee is subject to tax on the difference between the fair market value of the shares and the actual price paid. Under stock option plans, if the option is tradable (for example, on a stock exchange), the employee is taxable at the day of the grant. If the stock option is restricted to the employee only, the employee is taxed on the difference between the fair market value of the underlying stock at the date of exercise and the option price. In general, special rates apply to share schemes or stock option schemes.

Special provisions apply if all of the following conditions are met:
- The stock options are not tradable;
- The stock options are granted to all employees or to a group of employees; and
- The stock option plan provides for a specific exercise period.

The stock option income is tax-privileged as long as the fair value of the shares does not exceed €36,400 at the date of grant. The maximum tax-privileged benefit is the difference between the fair value of the shares at exercise and the fair value of the shares at grant.

The tax-privileged benefit is tax-free to the extent of 10% for each year after the grant date, up to a maximum of 50%. Under certain circumstances, the income tax on the privileged portion of the benefit that is not tax-free may be deferred for up to seven years after the grant date.

In addition, €1,460 per year of the benefit derived from the grant of free shares or the purchase of shares on favorable terms may be tax-exempt, if all of the following conditions are met:

- The shares must be kept on deposit with a European Community bank or other specified institution, determined by the employer and representatives of the employees;
- The shares must be retained for at least five calendar years after the year of acquisition (that is, they be neither given away nor sold); and
- The employee must prove by 31 March of the following year that he or she still owns the shares by means of a deposit confirmation, which must be filed with the payroll administration of the employer.

If the above conditions are not met, the employer is required as from the year of violation to withhold tax from the benefit, unless the employee has left the company.

Capital Gains. Capital gains derived from sales of businesses, parts of businesses and partnership interests are taxed as ordinary income. On request, these capital gains may be distributed over three years, if at least seven years have passed since the opening or purchase of business, part of the business or partnership interest. Otherwise, the capital gains in excess of €7,300 are fully taxed in the current year. If the business is sold or closed because of the retirement of the owner, and at least seven years have passed since the opening or purchase of business, part of the business or partnership interest, the capital gains are taxed at half the normal rate.

Gains derived from the sale of shares in a corporation are taxed at half the normal rate if the shareholder has owned 1% or more of the company at any time during the five years prior to the sale. Losses may be set off only against gains from the sale of shares.

Gains derived from the sale of shares in a corporation are taxed at ordinary tax rates if the shareholder owned less than 1% of the corporation and if the period between acquisition and sale is less than one year. If the period exceeds one year, no tax is imposed.

Gains from the sale of real estate held for no longer than 10 years (15 years for certain property) are taxed at the rates applicable to ordinary income. Gains derived from the sale of a primary Austrian residence are tax-free if the holding period is two years or longer.

Gains on other privately held assets, including securities, are not taxable if the assets or securities are held longer than one year. Otherwise, the gains are taxed as ordinary income. If the assets or securities are held less than one year, the difference between the price at acquisition and the sale price is taxable at the regular rates (see *Rates*). Losses may be set off only against other speculative gains.

Deductions. Expenditure incurred by an employee to create, protect or preserve income from employment is generally deductible. Such expenses include the following:

- Expenses connected with the maintenance of two households, which are deductible for a limited period of time, depending on individual circumstances;
- Professional books and periodicals; and
- Membership dues paid to professional organizations, labor unions and similar bodies.

A standard deduction of €132 for business-related expenses is granted, unless an employee proves that expenses actually paid are higher.

Amounts paid for life, health, old-age, unemployment and accident insurance are deductible if they are required by law.

Other items that may be claimed as deductions include church tax, tax consulting fees and donations for specified organizations.

Nonresidents are not entitled to the same general allowances granted to residents. However, see *Special Rules for Expatriates*, below.

Rates. For 2006, income tax is calculated in accordance with the rules set forth below.

Income below €10,000 is tax-free for ordinarily resident individuals, while the income of nonresidents are tax-free up to €2,000.

If income exceeds the €10,000 limit, but does not exceed €25,000, the tax on the entire income equals the following:

$$\frac{\text{Amount of income} - €10{,}000 \text{ x } 5{,}750}{15{,}000}$$

If income exceeds €25,000, but does not exceed €51,000, tax on the entire income equals the following:

$$\frac{\text{Amount of income} - €25{,}000 \text{ x } 11{,}335}{26{,}000} + €5{,}750$$

If income exceeds €51,000, tax on the entire income equals the following:

$$\text{Amount of income} - €51{,}000 \text{ x } 0.5 + €17{,}085.$$

For a sample income tax calculation, see Appendix 1.

Nonresidents are generally taxed at the same rates as resident individuals, but certain differences exist.

Special Tax Rates for Vacation and Christmas Bonus. Annual salary is paid in 14 equal installments to achieve a more favorable income tax rate. Payments of the 13th and 14th installments below €2,000 are tax-free. If payments exceed the €2,000 limit, the whole amount after deduction of social security contributions and €620, is subject to tax at a flat rate of 6%. The 13th and 14th payments are also subject to favorable rates of social security contributions (see Section C). The special payments must be clearly defined and may not be paid out regularly.

Relief for Losses. Income from one source generally may be offset by a loss from another source, with certain exceptions.

Taxpayers who maintain commercial books of account and derive income from agriculture, forestry, commercial business or other self-employment activities may indefinitely carry forward losses incurred in 1991 and subsequent years. The amount of losses that may be set off is limited to 75% of taxable income per year. Excess losses may be carried forward.

Tax losses from 1991 and subsequent years may be carried forward for an unlimited time.

Special Rules for Expatriates. Expatriates are taxed in the same way as other resident and nonresident individuals. Nationality does not have an impact on income taxation. However, under an order of the Ministry of Finance, the tax authorities have promulgated certain simplifications of the tax system applicable to expatriates. The simplifications are allowed only if the following conditions apply:

- The expatriate must be an individual who has not had a residence in Austria during the past 10 years and who is transferred from his or her foreign employer to an Austrian employer (subsidiary or permanent establishment of the foreign employer in Austria);
- The expatriate must have an employment contract with the employer's Austrian subsidiary or permanent establishment; and
- The expatriate must maintain his or her primary residence abroad, and the assignment may not exceed five years.

If the above conditions are met and if the employee meets certain reporting requirements, the Austrian employer, in the calculation of the expatriate's monthly withholding tax, may deduct the following amounts:

- The expenses for maintaining a household in Austria, not to exceed €2,200;
- Extraordinary educational expenses, up to €110 per month per child; and
- Home leave allowances of €222 per month.

The simplification does not apply if the household expenses, education fees and home-leave allowances are more than 35% of the expatriate's taxable salary income.

If an expatriate has additional expenses or extraordinary expenses, he or she may file an income tax return. In this case, all expenses already deducted by the employer for the income tax withholding calculation must be proved again.

B. Other Taxes

Net Worth Tax. Net worth tax is not levied in Austria.

Inheritance and Gift Taxes. All gifts and donations of assets situated in Austria are subject to inheritance and gift taxes. Austrian citizens are subject to inheritance and gift taxes on receipt of worldwide assets if they reside in Austria for two years prior to the gift or donation. The tax rate depends on the value of the inheritance or gift and on the recipient's relationship to the deceased or donor. The following are the five classes of beneficiaries:

- Class I for husband, wife and children;
- Class II for grandchildren and great-grandchildren;
- Class III for parents, grandparents, brothers and sisters;
- Class IV for sons-in-law, daughters-in-law, parents-in-law, nephews and nieces; and
- Class V for all other persons.

The tax rates that apply to the five classes of beneficiaries are set forth in the following table.

Amount of Inheritance or Gift		Beneficiary Class				
Exceeding €	Not Exceeding €	I %	II %	III %	IV %	V %
0	7,300	2	4	6	8	14
7,300	14,600	2.5	5	7.5	10	16
14,600	29,200	3	6	9	12	18
29,200	43,800	3.5	7	10.5	14	20
43,800	58,400	4	8	12	16	22
58,400	73,000	5	10	15	20	26
73,000	109,500	6	12	18	24	30
109,500	146,000	7	14	21	28	34
146,000	219,000	8	16	24	32	38
219,000	365,000	9	18	27	36	42
365,000	730,000	10	20	30	40	46
730,000	1,095,000	11	21	32	42	48
1,095,000	1,460,000	12	22	34	44	51
1,460,000	2,920,000	13	23	36	46	54
2,920,000	4,380,000	14	24	38	48	57
4,380,000	—	15	25	40	50	60

To prevent double taxation, Austria has concluded inheritance tax treaties with the Czech Republic, France, Germany, Greece, Hungary, Liechtenstein, Sweden, Switzerland and the United States.

C. Social Security and Other Contributions

Elements of Social Security. Social security taxes consist of the following elements:

- Old-age pension;
- Unemployment insurance;
- Health insurance;
- Insolvency guarantee; and
- Accident insurance.

Social security contributions are required for all employees, unless they are exempt under European Union (EU) regulations or a social security treaty.

Contributions. Social security payments on wages or salaries must be made by employers and employees at the following rates for 2006.

	Employee's Share %	Employer's Share %	Total %
Pension insurance	10.25	12.55	22.80
Accident insurance	0	1.40	1.40
Health insurance			
Wage-earners	3.95	3.55	7.50
Salary-earners	3.75	3.75	7.50
Unemployment insurance	3.00	3.00	6.00
Accommodation promotion contribution	0.50	0.50	1.00
Chamber contribution	0.50	0	0.50
Insolvency guarantee funds contributions	0	0.70	0.70

The maximum wage base for monthly contributions for each employee is €3,750. In addition, social security is levied on special payments (13th and 14th salaries, or bonus), up to a ceiling of €7,500. The maximum social security contributions for 2006 are set forth in the following table.

	Regular Salary %	13th and 14th Months' Salary %	Maximum Annual Contribution €
For wage-earners			
Employer's share*	21.70	21.20	11,355.00
Employee's share*	18.20	17.20	9,480.00
For salary-earners			
Employer's share	21.90	21.40	11,460.00
Employee's share	18.00	17.00	9,375.00

* This amount does not take into consideration the special contribution for workers in the construction industry and agriculture, to which employer and employee each must pay a bad weather contribution of 0.7%.

Employers must also pay the contributions described in the following four paragraphs.

A contribution to the severance pay fund is required for employees covered by the Austrian labor law. The rate is 1.53% without ceiling.

A contribution to the family burden fund is payable for employees covered by the Austrian social security system and for employees from non-EU countries. The rate is 4.5% without ceiling.

A 3% community tax is payable without ceiling.

A company that is a member of the chamber of commerce must pay a contribution at a rate ranging from 0.36% to 0.44% (without ceiling).

Totalization Agreements. To provide relief from double social security contributions and to ensure benefit coverage, Austria has entered into totalization agreements with certain countries. The agreements usually apply to foreigners living in Austria and to Austrians living abroad for a maximum of two years. Austria has entered into totalization agreements with the following countries.

Australia (a)
Belgium
Bosnia-Herzegovina
Bulgaria
Canada (a)
Chile (a)
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Israel
Italy
Latvia
Liechtenstein
Lithuania
Luxembourg
Macedonia
Malta
Netherlands
Norway
Philippines (b)
Poland
Portugal
Serbia and Montenegro
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Tunisia
Turkey
United Kingdom
United States (a)

(a) This agreement covers pension insurance only.
(b) This agreement covers pension and accident insurance only.

D. Tax Filing and Payment Procedures

The tax year in Austria is the calendar year. Tax returns generally must be filed by the end of April. However, a return filed electronically must be filed by the end of June. An extension is available if the return is prepared by a tax adviser.

Salaries and wages of employees are subject to withholding tax. Taxpayers other than employees must make advance payments of income tax in quarterly installments on 15 February, 15 May, 15 August and 15 November.

Interest is levied on final payments as assessed by the tax authorities if the assessed liability is paid after 30 September. A taxpayer may avoid interest by paying the expected income tax liability as advance payments.

Married persons are taxed separately, not jointly, on all types of income.

E. Double Tax Relief and Tax Treaties

Resident individuals are generally taxed in Austria on their worldwide income. However, if tax is imposed in the other country at a tax rate of more than 15%, certain elements of taxable income are excluded from the Austrian tax computation for resident individuals. Otherwise Austria grants a foreign tax credit against Austrian taxes.

Austria has entered into double tax treaties with the following countries.

Argentina	Indonesia	Poland
Armenia	Iran	Portugal
Australia	Ireland	Romania
Azerbaijan	Israel	Russian Federation
Belarus (c)	Italy	San Marino
Belgium	Japan	Singapore
Belize	Korea	Slovak Republic (a)
Brazil	Kuwait	Slovenia
Bulgaria	Kyrgyzstan (c)	South Africa
Canada	Liechtenstein	Spain
China	Lithuania	Sweden
Croatia	Luxembourg	Switzerland
Cyprus	Malaysia	Thailand
Czech Republic (a)	Malta	Tunisia
Denmark	Mexico	Turkey
Egypt	Moldova	Ukraine
Estonia	Mongolia	USSR (b)
Finland	Morocco (c)	United Arab Emirates
France	Nepal	United Kingdom
Germany	Netherlands	United States
Greece	Norway	Uzbekistan
Hungary	Pakistan	
India	Philippines	

(a) The treaty with the former Czechoslovakia currently applies.
(b) Austria honors the USSR treaty with respect to Belarus, Georgia, Tajikistan and Turkmenistan.
(c) These treaties have been signed but are not yet in force.

F. Temporary Visas

Austria joined the European Economic Area (EEA) on 1 January 1994, and has been a member of the EU since 1 January 1995;

therefore, the treatment of citizens of EEA- and EU-member countries with respect to immigration matters differs from the treatment of citizens of nonmember countries.

EU and EEA Nationals. EU and EEA nationals do not need any form of permit or visa to stay in Austria. However, they must register with the local police department within three days after arrival in Austria.

Non-EU and Non-EEA Nationals. Non-EU and non-EEA nationals who wish to visit Austria for periods of up to three months and who do not intend to engage in remunerated activities are permitted to enter the country with a valid passport and, in certain cases depending on the citizenship of the foreigner, a visa. Visas are obtainable at all Austrian embassies and must be applied for abroad. In all cases, registration with the local police department is required within three days after arrival in Austria.

As tourists, non-EU and non-EEA nationals may stay in Austria for up to six months per year; however, a single stay may not exceed three months. If these nationals wish to stay longer, they must apply for residence permits.

G. Work Permits and Self-Employment

Austria is relatively restrictive in granting working rights to non-European Union (EU) nationals. Citizens of EEA and EU-member countries generally do not need permits to stay and work in Austria. Citizens of non-member countries are subject to the Foreigners Act (Fremdenpolizeigesetz) and the Employment of Foreigners Act (Ausländerbeschäftigungsgesetz), and require residence permits to obtain work permits.

EU and EEA Nationals. EU and EEA nationals do not need work permits to work in Austria. However, this rule does not apply to citizens of the new EU countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia). These individuals must obtain a work permit similar to the permit required for nationals of countries outside the EU and EEA.

Non-EU and Non-EEA Nationals. Non-EU and non-EEA nationals may be employed in Austria only if one of the following conditions is met:

- The employer obtains an employment permit (*Beschäftigungsbewilligung*).
- The employee obtains a work permit (*Arbeitserlaubnis*) or a certificate of dispensation (*Befreiungschein*).

The granting of employment permits to non-EU or non-EEA nationals is governed by the Employment of Foreigners Act. Applications must be filed by the prospective employer with the local labor authority (*Arbeitsmarktservice*), which grants a permit based on several requirements, including the following:

- Similar remuneration and working conditions for foreign and Austrian employees must be ensured; and
- Notice of job opportunities must be given to Austrian employees before a foreign employee is hired (this is not required in the case of highly qualified foreign applicants).

An employer who wishes to recruit foreign employees abroad must apply for an individual assurance certificate (*Sicherungsbescheinigung*), which indicates the employees or the number of employees for which employment permits are prospective. The individual assurance certificate is therefore only granted if the conditions for the issuance of an employment permit (and to a certain extent, a residence permit) are generally fulfilled. Accordingly, the requirements for the employment (and residence) permit are examined at this early stage of the permit procedure.

After the employer obtains an individual assurance certificate, the alien must apply for a residence permit (see Section H). A residence permit allows a foreigner to enter Austria. However, before the foreigner may work, the Austrian employer must apply for a work permit with the competent employment authority. A work permit is usually issued if an individual assurance certificate has been granted.

Employment permits are not transferable and are usually granted for one year with the possibility of renewal. They refer to a particular workplace in a particular company and therefore expire on the termination of employment. A request for a work permit renewal must be filed by the employer at least four weeks before expiration.

Under the Employment of Foreigners Act, an employment permit is granted if "the actual situation and the development of the employment environment allow for the employment of a foreigner, and the grant of the employment permit is not in opposition to important public or economic interests." The number of employment permits that may be granted by Austrian labor authorities is restricted under the Employment of Foreigners Act. For 2006, limits were determined by law for all regions of Austria. Special quotas apply to the employment of foreign nationals with special skills and qualifications.

The Employment of Foreigners Act includes a special regime for key persons. Under the regulation, key persons are foreigners that have special education or special skills, together with appropriate practical experience, which can be proved by reference letters and certificates. The monthly gross salary for the prospective employment in Austria must be at least 60% of the maximum base for Austrian social security contributions (for 2006, the maximum base is €3,750). Consequently, for 2006, the monthly gross salary must be at least €2,250 with additional special payments. As a result, for 2006, annual income must be €31,500 (14 times €2,250).

In addition to the salary requirement, one of the following requirements must be satisfied:

- Apart from the employer's point of view, the prospective employment has major significance for the relevant region or the relevant job market;
- The prospective employment will result in the addition of new jobs or ensure the maintenance of existing jobs;
- The prospective employee will have a significant influence over the prospective employer's company (that is, a leading position);
- The prospective employment will cause the transfer of investment capital to Austria of at least €100,000; and
- The prospective employee has a university degree or a degree from an academy or any other special education.

One application, which must be filed with the regional authority, is used to apply for the work permit and residence permit of a key person. A special quota exists for key persons, and the procedures are shortened.

It is also possible for a foreign national to apply for a work permit after he or she has been legally employed with an Austrian employer for 52 weeks during the last 14 months. A work permit is granted for at least two years. The work permit is issued directly to the employee, independent of the employer, and entitles the employee to work for any employer in the state (Bundesland) that issued the permit.

If any of the following conditions are met, a foreign national may request a certificate of dispensation, which is valid for five years and allows a foreigner to be employed without a work permit:

- The foreign national has been employed in Austria for at least five of the last eight years;
- The foreign national has been married to an Austrian citizen for the last five years and has a domicile in Austria;
- The foreign national has a residence permit, and at least one parent has lived in Austria for at least five years and worked for at least three years in the last five years;
- The foreign national has spent at least the last school year in Austria and has completed school in Austria; or
- The foreign national was not covered by the Employment of Foreigners Act and was a legal resident of Austria for two and one-half years within the last five years.

A non-EU or non-EEA employee who already has a work or employment permit in another European Economic Community (EEC) member state and who works for an employer based in an EU-member state must obtain an EU-sending certification (*EU-Entsendebestätigung*) to work in Austria. These certifications must be issued by the competent authority within six weeks after application and are usually issued for up to six months, with extensions possible. Because EEC-sending certifications are not subject to investigation by the employment authorities with respect to the Austrian labor market, this type of permit is easier to obtain than a work permit.

Sanctions are imposed on companies that hire employees without the correct visas and permits. These sanctions usually consist of fines of approximately €5,000 per worker. In the case of several violations within one organization or recurring violations, fines may be as much as €25,000 per worker.

Self-Employment. For most professions, self-employment requires a certificate of qualification. The extent to which foreign qualifications are accepted depends on the particular case. It may be possible to avoid certain restrictions by carefully choosing the form of legal entity used for the business.

Special rules apply to self-employed key persons.

H. Residence Permits

EU and EEA Nationals. No special documents are necessary for EU and EEA nationals who wish to stay in Austria for longer periods. EU and EEA nationals must prove, however, that they have sufficient funds to support themselves while in the country. In addition, visitors must have health insurance.

Non-EU and Non-EEA Nationals. Non-EU and non-EEA nationals who plan to stay in Austria for longer than three months must apply for a permanent residence permit (*Niederlassungsbewilligung*) or, to work in Austria without changing their permanent residence to Austria, a residence authorization (*Aufenthaltserlaubnis*). Permanent residence permits are usually granted for one year and may be renewed for a two-year period. After five years, the permanent residence permit is granted indefinitely.

First-time applications must be made outside Austria at any Austrian embassy. U.S. citizens are exempt from this rule and may apply for a residence permit from within Austria. Japanese citizens who do not intend to work in Austria may apply for a residence permit from within Austria. Swiss citizens may generally reside in Austria without a residence permit.

Residence authorizations are available to non-EU and non-EEA nationals who prove that they are registered at Austrian universities and who have a certain minimum income. The permits are valid for six months or one year and may be extended.

I. Family and Personal Considerations

Family Members. Working spouses of expatriates must apply independently for their own work permits. The family members of non-EU and non-EEA expatriates must obtain separate residence permits to reside in Austria. The children of non-EU and non-EEA expatriates must obtain student visas to attend school in Austria.

Forced Heirship. Forced heirship rules apply in Austria and require legacies for descendents and surviving spouses.

Drivers' Permits

EU and EEA Nationals. A driver's license issued by the authorities of any EU or EEA country is recognized on an equal basis with an Austrian driver's license.

Non-EU and Non-EEA Nationals. The validity of a foreign driver's license held by an individual without established principal residence in Austria generally is limited to one year. Individuals with their principal residence in Austria must change their driver's license to an Austrian driver's license within six months.

An Austrian driver's license may be obtained by presenting a foreign license if all of the following requirements are met:

- The applicant has stayed or has established a principal residence in the country of issuance of the driver's license for a minimum of six months;
- The applicant has moved his or her principal residence to Austria;
- The applicant has been residing in Austria for no longer than 24 months since the establishment of principal residence in Austria;
- No objections are raised with respect to the individual's driving record and no health obstacles exist that might hinder the person's driving ability (as defined by law); and
- The applicant's driving qualifications are proved by a practical driving test or the issuance of the foreign driver's license was subject to requirements similar to those in Austria.

The Ministry of Transportation has identified countries with processes similar to those of Austria for the issuance of various classes of licenses. The following countries have similar requirements for the issuance of all classes of licenses: Andorra; Guernsey; Hungary; Isle of Man; Japan; Jersey; Malta; Monaco; San Marino; and Switzerland.

The following countries have similar requirements for the issuance of B-class licenses: Canada; the Czech Republic; Korea (if issued after 1 January 1997); Israel; Poland; the Slovak Republic; Slovenia; South Africa; and the United States.

APPENDIX 1: SAMPLE TAX CALCULATION

The following is a sample tax calculation for a married employed individual whose spouse earns no taxable income.

	€
Calculation of Taxable Income	
Salary	140,000.00
Less:	
Vacation and Christmas bonus	(20,000.00)
Social security on salary	(8,100.00)
General lump-sum deductions	(132.00)
Taxable income	111,768.00
Calculation of Net Income Tax	
Tax	47,469.00
Less:	
Wage tax credit	(54.00)
Transportation tax credit	(291.00)
Sole earner's credit (without dependent children)	(364.00)
Tax on vacation and Christmas bonus, after deduction of social security and €620, at 6%	1,086.30
Net income tax	47,846.30
Calculation of Net Salary	
Total salary	140,000.00
Less: Social security	(9,375.00)*
Net income tax	(47,816.30)
Net salary	82,808.70

* The following is the calculation of the social security contributions:

	€
Regular salary (€3,630 x 12 x 18%)	8,100.00
Christmas and vacation bonus €3,750 x 2 x 17%)	1,275.00
	9,375.00

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A. Income Tax

Who Is Liable. Residents are taxed on worldwide income. Nonresidents are taxed on Azeri-source income only.

For tax purposes, individuals are considered resident if they are present in the country for 183 days or more in a calendar year.

Income Subject to Tax

Employment Income. Taxable income from employment consists of all compensation, whether received in cash or in kind, subject to certain minor exceptions as discussed below.

Income received in foreign currency is translated into Azeri manats (AZN) at the official exchange rate of the National Bank of Azerbaijan on the date the income is received.

Education allowances provided by employers to their employees' children 18 years of age and younger are taxable for income tax and social security purposes.

Self-Employment Income. Tax is levied on an individual's annual self-employment income, which consists of gross income less expenses incurred in earning the income.

Investment Income. Dividends and interest on securities and deposits are exempt from income tax for six years, effective from 1 January 2001. Royalties, copyrights and rental income are taxable.

Capital Gains. Capital gains derived from the sale of most movable tangible property or from the sale of real property that has been the taxpayer's primary residence for at least three years are exempt from tax in Azerbaijan.

Deductions

Income Exclusions. The following specific tax exemptions apply for resident and nonresident individuals:

- The cost of renting accommodations in Azerbaijan if paid or reimbursed by the employer;
- Food expenses paid or reimbursed by the employer; and
- Expenses paid or reimbursed by the employer for business trips.

Personal Allowances. Individuals with three or more dependants may reduce their annual taxable income by AZN 22.

Business Deductions. Deductible business expenses include expenditure for materials, amortization deductions, lease payments, wages, state social security payments, payments of interest and expenses for repairs to capital production assets.

Rates. The following tax rates apply to an individual's taxable income.

Annual Taxable Income Exceeding AZN	Not Exceeding AZN	Tax on Lower Amount AZN	Rate on Excess %
0	12,000	0	14
12,000	—	1,680	35

Relief for Losses. Losses incurred on the sale of property that cannot be offset in the year of the loss may be carried forward for up to three years. No limitation is imposed on amount of the loss that may be deducted each year.

B. Other Taxes

Estate and Gift Tax. Azerbaijan does not levy estate or gift tax.

The value of gifts and bonuses in kind up to a limit of AZN 1,100 is exempt from income tax. The value of an inheritance up to a limit of AZN 22,000 is exempt from income tax. Gifts, bonuses in kind and inheritances received from family members are exempt from income tax with no limit.

Property Tax. Azerbaijan levies an annual property tax at a rate of 0.1% on the appraised value of buildings exceeding AZN 5,500.

C. Social Security

Employers must make social security contributions at a rate of 22% of employees' gross salary to the Social Protection Fund. In addition, 3% is withheld from the employee's salary and is payable to the Social Protection Fund.

D. Tax Filing and Payment Procedures

The tax year is the calendar year.

Employers in Azerbaijan (Azeri entities, joint ventures and foreign representative offices) must withhold tax from the salaries of resident and nonresident employees paid in Azerbaijan. Withholding is required regardless of whether payments are made in manats or in foreign currency.

Resident and nonresident individuals are not required to file tax returns if they receive income from employment and do not have income from other sources.

Resident and nonresident individuals engaged in self-employment in Azerbaijan must comply with the following filing and payment requirements:

- Pay estimated taxes of one-fourth of the tax paid for the prior tax year or tax on actual income for the quarter, as measured at the effective tax rate for the prior year, due in four equal installments by 15 April, 15 July, 15 October and 15 January;
- Submit an annual tax return by 31 March of the year following the reporting year; and
- Submit a final tax return within one month following the end of activities in Azerbaijan.

The final tax due for the year is determined from the final tax return after it is filed with the tax authorities. However, the final tax must be paid by the deadline for filing the final tax return.

E. Double Tax Relief and Tax Treaties

Foreign taxes paid by residents on foreign-source income may be credited against Azeri tax, but the credit may not exceed the amount of the Azeri tax payable on the same income. To obtain relief, the taxpayer must present the appropriate form from the tax authorities of the foreign state verifying that tax has been paid in that country.

According to information provided on the official site of the Ministry of Taxes, double tax treaties with the following countries are effective in Azerbaijan: Austria; Belarus; Canada; China; France; Georgia; Germany; Kazakhstan; Lithuania; Moldova; Norway; Poland; Romania; the Russian Federation; Turkey; Ukraine; the United Kingdom; and Uzbekistan.

F. Temporary Visas

Citizens of countries other than the members of the Commonwealth of Independent States (excluding Turkmenistan) must have Azerbaijan visas to enter and leave Azerbaijan. Upon arrival in Baku, a visitor may obtain a single-entry visa valid for a period ranging from seven days to one month, renewable for one additional month. Multiple-entry visas valid for three months to a year are also available. Visa applicants must submit a valid passport, a photograph, a completed application form and the applicable fee.

Alternatively, foreign nationals of countries where Azerbaijan has consulates may obtain their visas from these consulates. Applicants must present a letter of invitation, a completed application (available at the consulate), a passport-size photograph, a passport and the applicable fee.

Foreign nationals must register with the police department of the Ministry of Internal Affairs within 3 days after arrival in Azerbaijan.

G. Work Permits

Foreigners must obtain a permit from the local labor authorities to work in Azerbaijan.

H. Family and Personal Considerations

Vaccinations. Although no vaccinations are required, a vaccination for malaria is recommended. Malaria is not a threat in Baku, but it exists in other regions of the country.

Drivers' Permits. A foreign national may drive legally using his or her home country driver's license if the license is legally translated into Azeri. Azerbaijan has driver's license reciprocity with other CIS countries.

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A. Income Tax

Income is not taxed in the Bahamas.

B. Other Taxes

Capital Gains. No tax is levied on capital gains.

Stamp Duty. Transfers of real property are subject to a stamp duty of up to 8% of the sale price.

Business License Fee. Self-employed persons are subject to an annual business license fee that varies according to revenues and gross profits. The license year is a 12-month reporting period that coincides with either the calendar year or a fiscal year. After it is selected, the business license reporting year may not change. Businesses with turnover of less than B$50,000 must pay a business license fee of B$100.

C. Social Security

All employees and employers must contribute to the national insurance scheme. Contribution rates are based on the amount of weekly or monthly wages, up to a maximum insurable wage of B$400 weekly or B$20,800 annually. Contribution rates for employees earning B$60 or more a week are 3.4% for the employee and 5.4% for the employer. Contribution rates for employees earning B$59 or less a week are 1.7% for the employee and 7.1% for the employer.

D. Tax Treaties

The Bahamas has not entered into any double tax treaties. The Bahamas has negotiated a tax information exchange agreement (TIEA) with the United States, which is effective from 1 January 2004 for criminal matters and 1 January 2006 for civil matters. The Bahamian government has not indicated that it intends to negotiate similar agreements with other jurisdictions.

E. Temporary Visas

All visitors entering the Bahamas must have return or onward tickets. If visitors intend to stay for more than a few days, they may be asked to provide evidence of financial support.

Visas are required for all foreign nationals entering the Bahamas except the following:

- British Commonwealth citizens and landed immigrants of Canada for visits not exceeding 30 days, if they possess Form 100.
- U.S. citizens entering as bona fide visitors for less than eight months, and holders of U.S. green cards for visits of up to 30 days. Although a current or expired passport is recommended, U.S. citizens may enter the Bahamas with other proof of nationality, for example, a birth certificate.
- Citizens of the following countries must have valid passports, but do not need visas, for stays of up to the stated periods:
  - Eight months: Belgium, Greece, Iceland, Italy, Liechtenstein, Luxembourg, the Netherlands, Norway, San Marino, Spain, Switzerland and Turkey;
  - Three months: Austria, Denmark, Finland, France, Germany, Ireland, Israel, Japan, Mexico, Sweden and South Africa; and
  - Fourteen days: Argentina, Bolivia, Brazil, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Peru, Suriname, Venezuela and Uruguay.

F. Work Permits

The right of expatriates to work in the Bahamas is restricted and regulated by the Bahamas government through the Department of Immigration. The government attempts to ensure that immigrants do not create unfair employment competition for Bahamians. An expatriate may not be offered a position for which a suitably qualified Bahamian is available.

No quota system exists for work permits. A work permit application is not considered if the employee is already in the Bahamas as a visitor.

The Department of Immigration considers the employment of a non-Bahamian if the prospective employee would be an asset to the Bahamas, and if the following conditions are met:

- The employer has advertised and interviewed locally and has found no suitable Bahamian to fill the position; and
- The employer has obtained a vacancy certificate stating that no qualified Bahamian is registered who might fill the position.

Normally, it is the employer's responsibility to submit the work permit application for the prospective employee. This includes all necessary documentation, along with a copy of the local job advertisement, the results of interviews with local applicants and a vacancy certificate. Employment may commence only after the work permit is approved and the fee is paid.

Cost of Work Permits. The annual fee for a work permit ranges from B$350 for farm workers to B$10,000 for senior professionals, such as executives. The fee is payable on the granting of the work permit.

Duration of Initial Work Permit and Renewals. A work permit is usually issued for one year, but may be issued for a longer period for certain key positions under contract. Contracts should indicate that renewal is subject to obtaining immigration permission. Many employment contracts stipulate that the employee is expected to train or be replaced by a suitable Bahamian within a stipulated period of time.

The renewal of a work permit on expiration is not automatic. Application for renewal must be made, and generally permits are not renewed for expatriates who have been employed in the same capacity for more than five years. However, the government exercises some flexibility with respect to this policy and considers various mitigating circumstances.

The Bahamas does not issue permanent work permits, but does issue permanent residence permits that grant the right to work. For further details, see Section G.

Other Important Stipulations. Work permits are issued for a specific position only. Changes in position within an organization require the issuance of a new work permit, which is subject to the same conditions stated above.

An employer must inform the Department of Immigration within 30 days if an international employee is no longer employed. An expatriate who ceases to be employed must take his or her work permit to the department for cancellation within seven days after ceasing employment.

For each expatriate work permit issued, employers must post a bond to repatriate the employee and his or her dependents, if necessary, and to pay any public charges incurred by the employee.

Due to the complexity of the employment confirmation process, it is recommended that employers submit all applications three to four months in advance of the desired start of employment.

G. Residence Permits

Temporary Residence. Individuals making the Bahamas their temporary home may apply for annual residence permits. The annual cost of this permit is B$1,000 for the head of a household and B$25 for a spouse and each dependent. A person attending an institute of higher education in the Bahamas must pay B$25 per year for an annual residence permit. Holders of annual residence permits may not work in the Bahamas under any circumstances.

Overseas investors who acquire residential property in the Bahamas are eligible for Home Owners' Residence Cards, which are renewable annually. The annual cost of the card is B$500. The card facilitates entry into the Bahamas and entitles the owner, spouse and minor children to remain in the Bahamas for the period covered by the card. This card is most appropriate for seasonal residents. Holders of the card may seek local employment.

Permanent Residence. Permanent residence with the right to work is typically reserved for spouses of Bahamians or overseas individuals who can demonstrate strong financial and family ties to the Bahamas.

Male spouses of Bahamians may apply for permanent residence after five years of marriage. Females married to Bahamians may apply any time after marriage. The cost of a certificate of permanent residence for the spouse of a Bahamian is B$250.

In certain cases, permanent residence with the right to work is available to overseas individuals who invest significantly in Bahamian properties or businesses. Investment proposals are reviewed with respect to economic, environmental and social benefits to the Bahamas, although several economic opportunities are reserved specifically for Bahamian nationals. The one-time cost of a permanent residence permit with the right to work ranges from B$1,000 to B$10,000 for each working adult, depending on the length of prior residency.

A permanent residence permit without the right to work may be suitable for foreign nationals who wish to reside in the Bahamas permanently. The one-time cost of a permanent residence permit ranges from B$1,000 to B$10,000 for the head of a household, depending on the length of prior residency in the Bahamas. This type of permit is suitable for retirees who plan to spend most of their time in the Bahamas or for persons who will not be conducting business in the Bahamas. Applicants must provide evidence of adequate financial support, and character and financial references. The Bahamas government gives accelerated consideration to owners of Bahamian residences valued at B$250,000 or more.

Foreign nationals holding permanent residence certificates may have their spouses and dependent children under 18 years of age endorsed on the certificate at the time of the original application or at a subsequent date.

H. Family and Personal Considerations

Family Members. Spouses and dependents of expatriates holding valid work permits should apply for annual residence permits as outlined in Section G.

Drivers' Permits. Visitors to the Bahamas may drive legally using their home country drivers' licenses for up to three months. However, holders of work permits must have Bahamian drivers' licenses when they start to work.

Drivers holding valid licenses issued outside the Bahamas may present the license and receive a Bahamian license for B$20, without completing verbal or written examinations. First-time drivers must take verbal and driving examinations.

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A. Income Tax

Except for certain taxes imposed on oil companies, Bahrain levies no taxes on income, capital gains, sales, estates, interest, dividends, royalties or fees.

B. Social Security

Social insurance contributions are payable for Bahrainis at a rate of 15% of basic salary and recurring constant allowances, with 10% paid by the employer and 5% paid by the worker.

Employers pay 3% of basic salary and recurring constant allowances for all expatriate workers to provide against employment injuries.

No ceiling applies to the amount of income subject to social security contributions.

C. Temporary Visas

All foreign nationals, with the exception of nationals of Gulf Cooperation Council (GCC) member countries and British passport holders, must obtain valid entry visas to enter Bahrain.

Bahrain has reciprocal arrangements with GCC-member countries. In addition, British nationals may enter Bahrain on a visa granted at the airport, but may not stay longer than a continuous period of 90 days. Sponsors intending to employ British and other foreign nationals in Bahrain must obtain work and residence permits for them.

In general, all types of visas (except certain categories of tourist visas, which may be obtained in Bahrain consulates abroad) are applied for by local sponsors in Bahrain. No set of specific conditions governs the granting of visas in Bahrain. However, qualifying rules are laid out for each type of visa. The Director of Immigration's approval is necessary for certain types of visas. For example, family visas are issued only if the foreign national earns a salary that exceeds a specified limit, and a visit visa may not be issued to individuals older than 60 years of age.

The specifics of tourist, 72-hour/7-day, visit and business visas are described below.

Tourist Visa. Tourist visas are issued to foreign nationals who intend to visit Bahrain for sightseeing and are normally valid for two weeks. Tourist visas may be obtained in countries where a Bahrain consulate exists. The visa may be extended in Bahrain, up to a maximum period of three months.

72-Hour/7-Day Visa. Seventy-two hour/7-day visas may be obtained upon arrival in Bahrain at the international airport or the causeway from Saudi Arabia. These visas are intended primarily for business visits, trade delegations, exhibitions and seminars. In addition to a passport, a foreign national must possess a confirmed return or onward journey ticket for his or her visa application to be processed.

Visit Visa. Visit visas are issued to foreign nationals who intend to visit Bahrain to meet their relatives or friends. The application for a visit visa must be made by a local sponsor to the General Directorate of Immigration and Passports (GDIP). The visit visa is normally valid for a one-month stay in Bahrain, but may be extended for up to a maximum of three months. A holder of the visit visa is not permitted to work or engage in business activities during his or her stay in Bahrain. An employer may obtain a work permit and residence permit for a person on a visit visa, to allow the person to take up employment in Bahrain.

Online Application. An application for a short-term visa for travel to Bahrain can be submitted online at www.evisa.gov.bh, based on the applicant meeting the eligibility criteria.

D. Work Permits

All foreign individuals resident in Bahrain, other than those working for banks, must be sponsored by a Bahrain individual or company. Applications for grants of visas to employees of branches and offices of foreign banks must be endorsed by the Bahrain Monetary Agency (the central bank of Bahrain).

Anyone intending to employ a foreign national in Bahrain must obtain a work permit and a work card, which are issued by the Ministry of Labor. The work permit along with the passport of the prospective employee must then be submitted to the GDIP to obtain a No Objection Certificate (NOC). The NOC issued by the GDIP is the document necessary for a foreign national to enter Bahrain for employment. Employment permits are required to work legally in Bahrain and to become resident in Bahrain. Permits are usually endorsed on the passports of such employees on the basis of NOCs issued by the GDIP.

On fulfilling certain conditions, expatriate employees may change their original employer-sponsor, without obtaining a release letter.

Under prior law, an employee was required to obtain a release letter from his or her current employer, stating that the employer has no objection to the employee taking up the new job. Employers are granted new work permits in lieu of former employees.

E. Residence Permits

On arrival in Bahrain, an employee must be registered in the Central Population Register of the Government of Bahrain. The sponsor then applies to the GDIP for a residence permit for the employee. The residence permit is normally issued for a period of two years and may be renewed every two years as long as the employee is employed with the same sponsor.

Resident foreign nationals may own land or other immovable property in certain areas of Bahrain.

F. Family and Personal Considerations

Family Members. Family visas are granted to spouses and children of visa holders. A family visa holder may not take up gainful employment in Bahrain, but may stay in Bahrain for the same period allowed for the visa holder.

Dependent visas are granted to dependants of Bahrain residents. A holder of this type of visa may not take up gainful employment in Bahrain, and may stay for as long as the head of the household stays in Bahrain.

Drivers' Permits. Bahrain has drivers' license reciprocity with all of the GCC-member countries.

Foreign nationals from specified countries may drive legally in Bahrain for a period of one year with an international driver's license issued by his or her home country. After obtaining a residence permit, nationals of such countries may be granted a license for a five-year term (renewable) on the basis of the international license held by them, without taking a driving test. The following is a list of the specified countries.

Ascension	Iceland	Norway
Argentina	Indonesia	Oman
Australia	Ireland	Poland
Austria	Italy	Portugal
Bahamas	Jamaica	Qatar
Belgium	Japan	Romania
Bermuda	Jersey	Russian Federation
Brazil	Jordan	Saudi Arabia
Brunei	Kenya	Singapore
Bulgaria	Korea	South Africa
Canada	Kuwait	Spain
China	Luxembourg	Sweden
Cyprus	Malawi	Switzerland
Czechoslovakia	Malaysia	Trinidad and Tobago
Denmark	Malta	Tunisia
Finland	Mauritania	Turkey
France	Mexico	United Arab Emirates
Germany	Monaco	United Kingdom
Ghana	Morocco	United States
Greece	Netherlands	Yugoslavia
Hong Kong	New Zealand	
Hungary	Nigeria	

The first step for obtaining a driver's license in Bahrain is to obtain a learner's license. The next step is to take driving lessons by hiring a driving instructor authorized by the Traffic Directorate. A driver's license is issued following a road test.

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A. Income Tax

Who Is Liable. An individual resident and domiciled in Barbados for tax purposes is subject to income tax on worldwide income, regardless of whether the income is remitted to Barbados. Residents who are not domiciled in Barbados are taxed on income derived from Barbados and on income remitted to Barbados. Nonresidents are taxed on income derived from Barbados only.

Individuals are considered resident if they are present in Barbados more than 182 days in a calendar year or if they are ordinarily resident in Barbados in a calendar year. Individuals are deemed to be ordinarily resident if they have a permanent home in Barbados and notify the Commissioner of Inland Revenue that they intend to reside in Barbados for a period of two consecutive years, including the current income year. Domicile is not defined in the Income Tax Act and is understood as it is used in the United Kingdom. Broadly, it is the jurisdiction that an individual regards as his or her permanent home.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable remuneration from employment includes salaries, commissions, bonuses, directors' fees, perquisites and pension income. In general, employees may be taxed on any benefit that is not conferred wholly, exclusively and necessarily for the performance of duties relating to their employment. For example, a company car is taxed at 10% of its cost, and the value of a rent-free residence or a housing allowance is included in the employee's taxable income, up to a maximum of BDS$48,000.

Educational allowances provided by employers to their employees' children are fully taxable for income tax and social security purposes.

Self-Employment Income. Taxable profits generally consist of business profits as disclosed in the business operation's financial accounts, subject to various tax adjustments. Income tax is imposed on net business income.

Investment Income. A resident's investment income, other than domestic dividends, domestic interest and income from the rental of property, is aggregated with other income and taxed at the rates set forth in *Rates*.

If a resident company pays an ordinary dividend to a resident individual shareholder, the dividend is subject to a final 12.5% tax withheld at source. For resident individuals, dividends received from shares held under dividend reinvestment plans are exempt from the 12.5% withholding tax if the shares are held for at least five years. However, this exemption is limited to 75% of the value of the dividend, up to a maximum of BDS$7,500 per year. Interest received by a resident individual, other than a pensioner, from a resident borrower is also subject to a 12.5% final tax withheld at source. Pensioners over 60 years of age are not subject to tax on interest income.

For residents, royalties are aggregated with other income and subject to tax at the rates set forth in *Rates*. Net income from the rental of property is taxed at a flat rate of 15%.

Nonresidents are taxed on domestic dividend income, interest, royalties and management fees, which are subject to a final 15% tax withheld at source. Rental income is subject to a 30% withholding tax, which represents a prepayment of tax. However, if the payer is a company operating in the international business and financial services sector, rental income is not subject to withholding tax. Interest on debentures, bonds and stock issued by the government of Barbados is tax-exempt.

Taxation of Employer-Provided Stock Options. Employees are taxed on income arising on the purchase of shares acquired under a stock option plan. The taxable amount is equal to the difference between the market price of the stock on the date the option is exercised and the price paid for the stock under the option, subject to a deduction of up to 10% of the employee's assessable income. The benefit is taxed in the same manner and at the same rates as other employment income. If the shares are disposed of within five years after the option is exercised, the 10% deduction is recaptured in the year the shares are sold. No distinction is made between qualified and nonqualified stock options plans.

Capital Gains. Capital gains are not subject to tax, and capital losses are not deductible.

Deductions

Personal Deductions and Allowances. Residents are entitled to the deductions and allowances listed below for 2006. Nonresidents are not entitled to these deductions and allowances. However, a tax exemption ranging from 35% to 60%, depending on the level of employment income, may be granted for an initial period of 3 years to qualified individuals working in the international business and financial services sector. The following are the deductions and allowances.

Type of Deduction	Maximum Deductible Amount
Basic allowance	BDS$22,500
Basic allowance for pensioners	BDS$30,000
Dependent spouse allowance	BDS$3,000
Dependent allowance*	BDS$1,000
Registered retirement contributions by a self-employed person	Lower of 15% of assessable income and BDS$4,000
Registered retirement savings plan contributions by an employee or self-employed person	Lower of 15% of assessable income and BDS$4,000
Contributions by an individual to a registered retirement plan and to a registered retirement savings plan	Lower of 15% of assessable income and BDS$6,000 for both plans

Type of Deduction	Maximum Deductible Amount
Registered retirement contributions by employee to an employer plan	Total contributions up to 15% of pensionable income
Home allowance	Up to BDS$10,000
Covenants to incapacitated individuals	5% of assessable income
Charitable covenants	10% of assessable income
Investment in a mutual fund	Up to BDS$10,000
Investment in a registered venture capital fund or innovation fund	Up to BDS$10,000
New shares purchased in a public company	Up to BDS$10,000
Rental allowance	Lower of 20% of assessable income and BDS$3,000

* This allowance is available for each dependant up to a maximum of two dependants.

Business Deductions. Any expenses incurred wholly and exclusively for the purpose of producing taxable income are deductible.

Reserves or provisions of a general nature are not allowable. Write-offs of specific amounts or balances generally are allowed if the Inland Revenue is satisfied that they are not recoverable.

In computing taxable income, depreciation and amortization from the financial statements is replaced by capital allowances for tax purposes. Annual allowances from 5% to 33⅓%, calculated on a straight-line basis, are granted on the original cost of fixed assets.

An investment allowance of 20% is granted on the cost of capital expenditure on new plant and machinery to be used in a basic industry. The allowance is 40% for new plant and machinery to be used in manufacturing and refining sugar and in manufacturing products from clay and limestone. Persons who export outside the Caribbean Common Market also qualify for an investment allowance of 40% of the cost of new plant and machinery purchased during the tax year. The investment allowance is not deducted from the cost of the asset in determining the annual allowance.

Industrial buildings qualify for an initial allowance of 40% and an annual allowance of 4% of the cost of the building.

An allowance of 1% is allowed on the improved value of commercial buildings.

Rates. The following tax rates apply to taxable income for 2006.

Taxable Income Exceeding BDS$	Taxable Income Not Exceeding BDS$	Tax on Lower Amount BDS$	Rate on Excess %
0	24,200	0	20
24,200	—	4,840	35

Nonresidents are taxed at the same rates as residents except on domestic dividend income, interest, royalties and management fees (see *Investment Income*).

For a sample tax calculation, see Appendix 2.

Relief for Losses. Business losses may be carried forward nine years and offset against income arising in those years. Losses may not be carried back.

B. Other Taxes

Property Transfer Tax. Property transfer tax is levied on all transfers of real estate, certain leasehold interests and shares, except shares traded on the Barbados securities exchange. The seller pays tax at a rate of 7.5% on amounts in excess of BDS$50,000 received for the sale of shares and on amounts in excess of BDS$125,000 received for the sale of land on which there is a building. Transfers of shares involving no change of beneficial ownership are exempt from property transfer tax if the beneficial ownership does not change within five years after the original transfer. The lessee pays tax at a rate of 7.5% on a lease of 25 years or more for residential and commercial property.

Estate and Gift Tax. Estate and gift tax is not levied in Barbados.

C. Social Security

Contributions. Contributions to the national insurance scheme must be made at the following rates on maximum monthly insurable earnings of BDS$3,290:
• For employees, 10%;
• For employers, 11.25%; and
• For self-employed persons, 16%.

Totalization Agreements. Barbados has entered into social security totalization agreements with Canada and the United Kingdom to provide relief from paying double social security taxes and to assure benefit coverage.

D. Tax Filing and Payment Procedures

Resident and nonresident individual taxpayers must file income tax returns by 30 April following the income year, which ends 31 December. Self-employed persons must file returns regardless of the amount of their taxable income. They must also prepay income tax quarterly based on a portion of the previous year's tax.

Tax on employees normally is collected through the Pay-As-You-Earn (PAYE) system.

Married persons are taxed separately, not jointly, on all types of income.

E. Double Tax Relief and Tax Treaties

Double tax relief is provided for foreign taxes paid to a British Commonwealth country.

Barbados has entered into double tax treaties with Botswana, Canada, the Caribbean Community and Common Market (CARICOM), China, Cuba, Finland, Malta, Mauritius, Norway, Sweden, Switzerland, the United Kingdom, the United States and Venezuela. Income received from a nontreaty country is taxed net of the foreign tax paid.

F. Temporary Visas

In general, visas are not required to enter Barbados, except for visitors from certain countries, including China, India and the

Russian Federation. In certain cases, individuals from these countries are required to have visas only if they are going to be in Barbados longer than 28 days.

Foreign nationals who own property in Barbados may enter on special entry visas or, if other criteria are met, may be granted immigrant status.

Visitor visas, also called temporary visas and extensions of stay, are issued to individuals who want to extend their stays on the island or to cover the waiting period while another type of visa is being processed. Visitor visas are also issued to spouses of work permit holders.

The following documents are required to qualify for an extension of stay:
• A valid airline ticket back to the country of origin;
• A passport;
• An application fee of US$25;
• One passport-size photograph; and
• Proof of financial support while in Barbados.

G. Work Permits and Self-Employment

Nationals of member countries of CARICOM who are university graduates are not required to have work permits to live and work in Barbados. All other foreign nationals who wish to work in Barbados must apply for work permits. Work permits allow individuals to reside and work in Barbados and normally are issued for a period of three years unless otherwise specified.

No quota system exists for issuing work permits; each application is evaluated on its own merit. To approve a work permit application, the government must be satisfied that no suitable Barbadians can fill the vacancy, or that the employer is an International Business Company, as defined, or an offshore bank.

Work permits are nontransferable. If a work permit holder leaves the employer, the work permit is cancelled. The employer should inform the Immigration and Passport Department that the employee has left the company.

Applicants may not work while their work permit applications are being processed.

Work permit holders should renew their work permits three to four months prior to expiration. Work permit holders who have lived in Barbados for six years or more may apply for nonimmigrant visas, (see Section H) which eliminate the necessity of applying for work permits. If necessary, an application should be made for a short-term work permit to cover the processing period of the nonimmigrant visa.

A fee is payable upon receipt of the work permit. The amount of the fee is based on the job level, the type of business, the length of the work permit and the nationality of the applicant. Fees are generally around US$55 per month.

The International Business Companies Act allows foreign nationals and foreign companies to establish companies in Barbados.

H. Residence Permits

Nonimmigrant visas are issued to individuals who wish to retire or reside on the island. Applicants must be of sound body and mind and must be capable of supporting themselves. Each application is processed on its own merit.

To approve a residence application, the government must be satisfied that the applicant can support himself or herself and will not be a burden to the country. The individual's qualifications and entitlement are also taken into consideration.

No quota system exists for issuing residence permits; each application is evaluated on its own merit.

I. Family and Personal Considerations

Family Members. Spouses and dependants of working expatriates must obtain their own work permits to be employed in Barbados and must obtain extensions of stay to reside there.

Children who accompany work permit holders, nonimmigrant visa holders or those who are in Barbados for the sole purpose of studying must obtain students' visas.

Marital Property Regime. Barbados does not have a community property or similar marital property regime.

Forced Heirship. The succession laws of Barbados provide that a surviving spouse is entitled to one-half of the estate of the deceased spouse, unless the surviving spouse elects not to claim this right or chooses instead to take his or her bequest under the will of the deceased spouse. Parents are not required to leave any part of their estate to their children unless the children are minors (under 18 years of age), in which case sufficient provision must be made for the maintenance of the children. These rules apply only to persons who are citizens or permanent residents or are domiciled in Barbados.

Drivers' Permits. A foreign national may not drive legally in Barbados with his or her home country's driver's permit, nor does Barbados have driver's license reciprocity with any other countries.

Holders of work permits who possess valid drivers' licenses in their home countries are excused from taking the written exam and driving test. They must submit the following documents to the Barbados Licensing Authority:
• Identification card;
• Three passport-size photographs; and
• Proof of possession of a work permit.

Other applicants for a driver's license in Barbados must take a moderately difficult written exam and a driving test at the Licensing Authority.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—

	Taxable*	Not Taxable	Comments
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(b)
Housing contribution	(X)	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Other Items			
Value of meals provided	X	—	—
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.

(a) By concession granted by the Barbados Inland Revenue, an expatriate employee who makes a contribution to an approved home country pension plan may claim a deduction for the contributions within a prescribed limit.

(b) Employer-provided housing is taxed up to a maximum value of BDS$48,000.

APPENDIX 2: SAMPLE INCOME TAX CALCULATION

A sample tax calculation is provided below for an expatriate resident in Barbados who is married with two children. The calculation is based on the following assumptions:

- The expatriate works in the international business and financial services sector and qualifies for a tax exemption of 35% of his salary;
- The expatriate's employer provides rent-free accommodation to him and pays the annual rent of BDS$60,000;
- The employer provides a fully maintained company car costing BDS$60,000;
- The expatriate makes annual charitable payments of BDS$12,000 under a deed of covenant; and
- The expatriate's wife has no income.

	BDS$	BD$
Calculation of Taxable Income		
Gross salary		100,000
Less: 35% deduction		(35,000)
Add:		
Housing benefit		48,000 (a)
Car benefit		6,000 (b)
Assessable income		119,000

	BDS$	BD$
Calculation of Taxable Income		
Deductions:		
Basic allowance	22,500 (c)	
Dependent spouse allowance	3,000 (d)	
Dependent allowance	2,000 (e)	
Charitable deed of covenant	11,900 (f)	(39,400)
Taxable income		79,600
Calculation of Tax		
Tax on BDS$24,200 at 20%		4,840
Tax on BDS$55,400 at 35%		19,390
BDS$79,600		
Tax payable		24,230

(a) The benefit taxable on rent-free accommodation is restricted to a maximum of BDS$48,000, even if the actual rent paid by the employer exceeds that amount.
(b) The car benefit equals 10% of the cost of the car.
(c) All resident individuals qualify for the basic allowance of BDS$22,500.
(d) A dependent spouse allowance of BDS$3,000 is granted if spouse has no income.
(e) A dependent allowance of BDS$1,000 is granted for each child. The allowance is granted for a maximum of two dependants.
(f) The deduction for a charitable payment under a deed of covenant is restricted to 10% of assessable income.

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A. Income Tax

Who Is Liable. Income tax is levied on the worldwide income of Belgian residents and on the Belgian-source income of nonresidents.

Residents are individuals who are domiciled in Belgium or who manage their wealth from Belgium. Residency status is determined based on the facts and circumstances. A rebuttable presumption exists that individuals enrolled in the National Register of the Population are resident in Belgium for tax purposes. For married individuals, an irrefutable presumption exists that the tax domicile is where the spouse and any dependent children live.

Certain foreign executives, specialists and researchers residing temporarily in Belgium are eligible for a special tax regime under which they are treated as nonresidents (see *Special Expatriate Tax Regime*).

The income of spouses and registered cohabitants is taxed separately.

Income Subject to Tax. The Belgian tax law provides for the following four categories of taxable income:

- Earned income, including employment income, director fees, self-employment income, business income and retirement income;
- Real estate income;
- Investment income, including dividends, interest and royalties; and
- Other miscellaneous income.

For each category of income the net taxable amount is determined as the gross income received minus a number of deductions specific to the income category. In addition, several deductions, allowances and credits can be set off against the total net taxable income.

The taxation of various categories of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income includes salaries, wages, bonuses, perquisites and benefits in kind, as well as retirement income. Benefits in kind are taxable based on the actual value of the benefit to the employee. Specific valuation rules are provided for several of the more common benefits, such as company cars, below-market interest loans and free housing.

Income from employment may be reduced by normal professional expenses, including, among others, the following:
- The cost of gasoline for the professional use of a car;
- 75% of most other automobile expenses;
- Commuting expenses up to €0.15 per kilometer; and
- 69% of restaurant expenses and 50% of other entertainment expenses incurred in Belgium.

Instead of claiming a deduction for actual professional expenses, the taxpayer may chose to claim a standard business expense deduction. The maximum standard deduction is €3,200 for the 2006 income year (2007 tax year).

Directors' Fees. Directors' fees are included in total earned income. Directors' fees include income earned by a director as fixed remuneration as well as participation in the profit of the company. Certain benefits derived by a director are also included in the taxable income of the director. Directors' fees also include amounts paid to in-house self-employed consultants with day-to-day managerial responsibilities of a technical, commercial or financial nature. A deduction for professional expenses (actual expenses or standard deduction amount) can also be claimed against the directors' fees. To avoid a tax surcharge (6.75% of the tax for the 2005 income year), tax prepayments and wage tax withholdings must equal the final tax due.

Self-Employment and Business Income. Self-employment and business income is included in total earned income. A deduction for actual professional expenses is also available against this income. To avoid a tax surcharge (6.75% of the tax for the 2005 income year) at the time of final assessment by the authorities, tax prepayments must be made.

Real Estate Income. Real estate income includes rental income from real estate that is used for a professional activity and from real estate used for private purposes by the occupant.

Nonresidents whose Belgian-source income consists only of real estate income are exempt from personal income tax if the annual rental income does not exceed €2,500.

Investment Income. Under the Belgian domestic tax law, investment income consists of dividends, interest and royalties.

Dividends and interests are subject to a withholding tax. Except for specified types of dividends and interest payments, an individual may elect to treat this Belgian withholding tax as the final tax. If this election is made, the dividend and interest income does not need to be included in the annual individual income tax return. Foreign-source dividends and interest payments must always be included in the individual income tax return of the recipient.

Special Expatriate Tax Regime. Foreign executives, specialists and researchers residing temporarily in Belgium may qualify for a special tax regime when they are assigned, transferred or recruited from outside Belgium to work for a Belgian operation of an international group of companies. The special expatriate status is obtained through a written application to the Belgian tax authorities that sets forth the reasons why the relevant employee should qualify. The application is filed jointly by the employee and the employer. It must be filed within six months after the beginning of the month following the month of arrival of the employee in Belgium.

Foreign executives, specialists and researchers qualifying under the special expatriate tax regime are treated as nonresidents for purposes of the Belgian tax law. As a result, they are taxed on Belgian-source income only. Accordingly, unearned income and real estate income arising outside of Belgium are ignored in the determination of Belgian taxable income.

Qualifying individuals are taxed only on employment income or directors' fees relating to professional activities performed in Belgium. Unless other reliable criteria are available, the amount of remuneration excluded from taxation in Belgium can be calculated as the fraction of the total worldwide remuneration that corresponds to the number of workdays performed outside Belgium compared to the total workdays performed (the travel exclusion). Special rules apply to the calculation of the exclusion. No maximum or minimum travel percentage is required to qualify for the special regime.

Certain allowances paid to the employee as a result of his or her temporary stay in Belgium are treated as deductible expenses for the employer and are nontaxable to the employee, within certain limits. An overall annual limit of €11,250 applies for qualifying expatriates working for regular operating companies. For qualifying expatriates employed by recognized headquarters, coordination offices, and research centers, an increased limit of €29,750 applies. The following are the most common recurring allowances:
• Cost-of-living allowance (COLA);
• Housing differential;
• Home leave; and
• Income tax differential.

The tax free allowances can be determined based on either the actual allowances granted by the employer (if these are based on recognized tables) or on a calculation method provided by the Belgian tax authorities (if no specific allowances are paid by the employer).

Expatriates are also allowed to exclude from taxable compensation the reimbursement of moving expenses and the reimbursement of education expenses for international primary and secondary schooling in Belgium and, by exception, outside of Belgium. These exclusions have no overall limitation other than that they be reasonable in amount. In this context, lump-sum relocation allowances are considered taxable in most instances unless justified by specific relocation expenses.

Taxation of Employer-Provided Stock Options. Effective from 1 January 1999, specific rules are included in Belgian domestic law relating to the taxation of stock options granted to employees, directors and other independent persons.

Two applicable tax regimes are provided for stock options.

Stock Options Granted between 1 January 1999 and 10 November 2002 or Granted after 10 November 2002 and Accepted within the 60-Day Period. Options offered on or after 2 November 1998 and before 10 November 2002 are deemed to be granted 60 days after the offer date (communication of the award to the employee), unless the beneficiary has indicated his or her refusal in writing within this 60-day period.

Options offered on or after 10 November 2002 are deemed to be granted on the 60th day following the offer if the beneficiary has given written notice of his or her acceptance of the option before the expiration of the 60-day period. If the option is accepted within the 60-day period, the taxable benefit is determined in the same manner as for the options granted between 1 January 1999 and 10 November 2002. If the option is not accepted within the 60-day period, special rules apply (see *Stock Options Offered on or after 10 November 2002 That Are Not Accepted within the 60-Day Period*).

The benefit arising from a unquoted stock option offered on or after 2 November 1998 and before 10 November 2002 or offered after 10 November 2002 and accepted within the 60-day period is taxable to the beneficiary on the date of grant on a forfeitary basis, regardless of whether the exercise of the option is unconditional. Under the forfeitary basis, the taxable income is determined as a percentage of the value of the underlying shares at the moment of the offer of the options.

In general, only the grant of an option results in a taxable benefit. The employee is exempt from tax on potential benefits arising from subsequent possession of the option, including benefits from the exercise or sale of the option or from the sale of the underlying shares. However, this rule does not apply to options that offer a benefit that cannot be valued at the time of the grant (for example, options under which the exercise price is a percentage of the value of the underlying shares at the time of exercise). For these options, additional taxation applies at the time of exercise, to the extent that the benefit exceeds the amount of the benefit taxed at the time of the grant.

If the exercise price of the option is lower than the value of the underlying shares at the time of the grant, the forfeitary basis is increased by the difference.

No social security contributions are required with respect to such options, unless the options are "in the money" (that is, granted at a discount) or if the options are "covered" (that is, the risk that the value of the underlying shares will decline is covered at the time of offer or until the end of the exercise period of the option, therefore granting a guaranteed benefit to the beneficiary of the option).

Stock Options Offered on or after 10 November 2002 That Are Not Accepted within the 60-Day Period. Special rules apply to stock options granted on or after 10 November 2002 that are not formally accepted within the 60-day period following the date of offer. Such options are taxed at the time of exercise on the difference between the fair market value of the underlying shares at the time of exercise and the exercise price. The benefit is also subject to social security contributions at the time of exercise.

No further taxes are due when the shares are sold.

Capital Gains. In general, capital gains on assets that are not used for a professional activity are not taxable. However, exceptions exist for the following types of capital gains:

- Capital gains derived from speculative activities.
- Capital gains derived from the sale of land that was acquired by purchase if the sale takes place within eight years of acquisition.
- Capital gains derived from the sale of land that was obtained by donation if the land was acquired by the donor within eight years before the donation.
- Capital gains derived from the sale of a Belgian corporation's shares to a nonresident company if the individual, alone or together with his or her family, directly or indirectly owned more than 25% of the corporation's shares at any time during the five years before the sale.
- Capital gains derived from the sale of certain intangible rights.
- Gains derived from the sale of developed real estate if the property is sold within any of the following time periods:
  - — Five years after purchase;
  - — Five years after the start of using a new building if construction began within five years after purchasing the land on which the building stands; or
  - — Three years after donation if the donor bought the property within five years before the donation.

Deductions, Personal Allowances and Credits

Deductible Expenses. Certain deductions are allowed against total taxable income, including, among others, the following:

- Interest on loans for financing the purchase, construction or renovation of privately owned real estate (subject to certain limits).
- Investment deduction for new fixed-asset acquisitions by self-employed persons. For the 2005 income year (2006 tax year), the investment deduction is 3.5%, subject to an annual review for inflation.
- Deduction for certain alimony and support payments (limited to 80% of the payments).
- Child care expenses for children up to the age of 12 (limited to €11.20 per child per day).
- Charitable contributions.

Some of the above deductions are not available if the payments are made by or to nonresidents.

Personal Allowances. All individuals may deduct personal allowances. Additional personal allowances are available for dependents. The personal allowances are applied to the lowest tax brackets.

For the 2006 income year (2007 tax year), the standard personal allowance equals €5,940 per person.

The following personal allowances for dependent children may be claimed for the 2006 income year (2007 tax year).

Number of Children*	€
1	1,260
2	3,250
3	7,280
4	11,770
Each additional child	4,490

* A handicapped dependent child is counted twice.

In general, nonresidents who do not have an abode in Belgium may not deduct any personal allowances.

Credits. A tax credit system, with limitations, operates in Belgium for the following:

- Life insurance premiums;
- Personal contributions to group insurance contracts or pension funds;
- Investments in shares issued by the individual's employer; and
- Loan principal used to finance real estate acquisitions or renovations.

Eligible taxpayers receive a tax credit that is determined by using an adjusted average tax rate between 30% and 40% (this percentage is increased by a municipal tax percentage).

Several other tax reductions are available, depending on the taxpayer's family situation and the type of professional income (pensions, prepensions for early retirees, unemployment income, and disability or sickness reimbursement).

Rates. The following are the tax rates for the 2006 income year (2007 tax year).

Taxable Income		Rate on
Exceeding €	Not Exceeding €	Excess %
0	7,290*	25
7,290*	10,380	30
10,380	17,300	40
17,300	31,700	45
31,700	—	50

* This bracket applies to amounts exceeding an individual's tax-free minimum income amount. Amounts for 2006 income are discussed below.

All tax amounts are increased by applicable municipal (commune) taxes, which are generally imposed at rates ranging from 6% to 9.5%. The municipal tax is calculated on the amount of income tax due.

For nonresidents, the final tax due is computed in the same manner as for Belgian residents, with personal allowances being allowed if nonresidents maintain their abode in Belgium. No municipal tax is due, but an additional federal tax at a flat rate of 7% on the amount of the individual's income tax is payable.

The professional income of a husband and wife is taxed separately. If only one spouse receives earned income, 30% of this income (limited to a maximum annual amount of €8,560 for the 2006 income year) is attributed to the non-earning spouse and is taxable to such spouse at the (lower) progressive rates. If the earned income of the secondary wage-earning spouse is less than the maximum attributable amount, additional income from the primary wage earner is attributed to the second spouse to the extent of the difference.

The following types of income are subject to special tax treatment:

- Severance payments are taxed at the average rate applicable in the last year of normal professional activity, taking into account the municipal tax;

- Prepaid Belgian holiday pay is taxed at the average rate applicable to all income in the year of payment, taking into account the municipal tax;
- The surrender value of life or group insurance contracts and lump sums paid instead of pensions are taxed at a rate of 10% or 16.5%, increased by the municipal tax; and
- Miscellaneous income from occasional benefits (including certain capital gains, prizes and subsidies) is taxed at a rate of 16.5% or 33%, depending on the nature of the income (the rates are increased by the municipal tax).

The above flat rates apply to the special items unless it is more favorable to include the income with other income taxable at the regular progressive rates.

For a sample income tax calculation, see Appendix 2.

Withholding Tax. Dividends are subject to withholding tax at a rate of 15% or 25%, depending on the type of dividends. However, exemption from withholding tax may apply to the following:
- Distributions made by Belgian mutual (investment) funds;
- Dividends paid to certain nonresidents exempt from tax abroad;
- Dividends paid by a Belgian investment company to certain nonresidents;
- Dividends paid by a Belgian coordination center; and
- If certain conditions are met, distributions made by a Belgian subsidiary to a European Union (EU) parent company.

Belgian-source interest is subject to a 15% withholding tax if the underlying agreement was concluded on or after 1 March 1990. Otherwise, a 25% withholding tax is imposed.

Royalties are subject to withholding tax at a rate of 15% if the underlying contract was concluded on or after 1 March 1990. Royalties paid on contracts concluded before that date are subject to withholding tax at a rate of 25%.

Employment income and director fees are subject to a withholding tax at source by the employer. This withholding tax is creditable against the final income tax liability and any excess income tax withheld is refundable to the employee or director.

A tax on immovable property is levied on all real estate property located in Belgium. The rate of this withholding tax ranges from 2.5% to 12.5%, depending on the region where the property is located. The basic tax is increased by a local surcharge depending on the municipality where the property is located. The tax is levied on the deemed rental income of the property.

Relief for Losses. Losses with respect to earned income may be offset against other earned income and may be carried forward indefinitely. No carrybacks are allowed. No losses may be deducted with respect to other types of income.

B. Other Taxes

Net Worth Tax. Net worth tax is not imposed in Belgium.

Inheritance and Gift Taxes. The inheritance tax rate system in Belgium varies depending on the region of residence of the deceased. Substantial differences exist between the rates applied by each region. Special rules apply with respect to the transfer of family-owned businesses. Readers are advised to obtain up-to-date information regarding these rules.

Under existing law, the estate of a deceased resident consists of the resident's worldwide assets. Belgian jurisdiction over estates of deceased nonresidents is limited to the nonresident's real estate located in Belgium. The definition of resident for inheritance tax purposes may differ from the definition used for income tax purposes. Nonresident status for purposes of the special expatriate tax regime (see Section A) does not automatically apply for inheritance tax purposes.

Inheritance taxes are levied according to a sliding scale, depending on the beneficiary's relationship to the deceased.

In most cases, gift taxes are levied on the same basis, and at the same rates, as estate tax.

Belgium has entered into estate tax treaties to prevent double estate taxation with France and Sweden.

Transfer Duties. Transfer duties, whether registration or succession duties, apply only to the extent an effective transfer of assets occurs under Belgian matrimonial or inheritance laws. On the death of a spouse, the transfer of assets to the surviving spouse resulting from the dissolution of the marital community is not subject to succession duties. Consequently, succession duties apply only to the portion of the property that was actually owned by the deceased spouse.

C. Social Security

Contributions. Social security contributions are generally compulsory for individuals working in Belgium. For 2006, the employee's social security contributions equal 13.07% on an unlimited amount of monthly gross compensation. In most cases, the employer's social security contributions are calculated at a rate of up to 34.82% of gross monthly compensation, with no ceiling. These percentages apply to white-collar workers.

No social security contributions are due on the benefit resulting from the personal use of a company car. However, a contribution that is based on the company car's CO_2 emission level is required.

Different rates apply to self-employment activities, including those of directors. For the 2006 income year, social security contributions are levied at a rate of 19.65% on net income up to €47,203.12 and at a rate of 14.16% on income between €47,203.12 and €69,567.99. Income in excess of €69,567.99 is not subject to social contributions. The annual maximum contribution for self-employment activities is €12,442.28 (increased by 3% to 5% for various management fees).

Social security contributions are deductible for income tax purposes.

An individual who is liable for Belgian social security contributions is also required to make a special social security contribution. For the 2006 income year, the maximum amount of this contribution is €731.28. The special social security contribution is not deductible for income tax purposes.

Coverage. An employee who pays Belgian social security is entitled to benefits, including health insurance, disability insurance, occupational insurance, unemployment allowances, family allowances, and retirement and survivor's benefits.

Totalization Agreements. To prevent double social security liability and to assure benefit coverage in situations of cross-border employment, Belgium has entered into agreements with several countries.

As a member state of the EU, Belgium applies EU Regulation 1408/71 (applicable to all member states of the European Economic Area (EEA), including the 10 new EU member states, and Switzerland). This agreement provides a 12-month exemption, which may be extended (in general, up to 5 years).

Belgium has also entered into social security totalization agreements with Algeria, Australia, Canada, Chile, Croatia, Israel, Morocco, Philippines, Poland, San Marino, Tunisia, Turkey, the United States and Yugoslavia. Belgium has signed totalization agreements with Bulgaria and Japan, but these agreements need to be approved by parliament before entering into force. A new totalization agreement with South Korea will be signed shortly, while negotiations for totalization agreements with Bosnia-Herzogovina, India and Uruguay are underway. Most of these agreements provide for an exemption up to a maximum of five years. However, the agreements with Japan and the United States exempt U.S. and Japanese citizens (and third-country nationals) working in Belgium from Belgian social security taxes for a period of five years (this period may be extended to up to seven years in exceptional circumstances).

D. Tax Filing and Payment Procedures

Individuals must file annual tax returns reporting income received during the preceding calendar year, which is the income year. The year of filing and assessment is considered the tax year. The tax return must be completed, dated, signed and returned to the tax authorities by the date indicated on the return, unless the taxpayer obtains an extension. The official filing date is 30 June, but the date is sometimes extended for resident individuals and is generally extended for nonresident individuals.

After filing, but no later than 30 June of the following year, a tax assessment or refund notice is issued. Within two months after the receipt of this assessment, the amount of tax due must be paid to the tax authorities. Any refund owed is paid within the same two-month period.

E. Double Tax Relief and Tax Treaties

Income derived by Belgian residents from a business activity performed in nontreaty countries is taxable at one-half the normal rate, to the extent the income is subject to standard taxation abroad.

Double tax treaties entered into by Belgium with other countries provide for the reduction of double taxation of Belgium residents through the exemption-with-progression method. Foreign-source income is exempt from tax in Belgium, but other taxable income is taxed at the average rate that would apply to all taxable income if the foreign-source income were included in taxable income.

Belgium has entered into double tax treaties with the following countries.

Albania	Iceland	Poland
Algeria	India	Portugal
Argentina	Indonesia	Romania
Armenia	Ireland	Russian Federation
Australia	Israel	Senegal
Austria	Italy	Singapore
Bangladesh	Ivory Coast	Slovak Republic
Belarus	Japan	Slovenia
Brazil	Kazakhstan	South Africa
Bulgaria	Korea (South)	Spain
Canada	Kuwait	Sri Lanka
China (c)	Latvia	Sweden
Croatia	Lithuania	Switzerland
Cyprus	Luxembourg	Thailand
Czech Republic	Malaysia	Tunisia
Denmark	Malta	Turkey
Ecuador	Mauritius	Ukraine
Egypt	Mexico	USSR (a)
Estonia	Mongolia	United Arab Emirates
Finland	Morocco	United Kingdom
France	Netherlands	United States
Gabon	New Zealand	Uzbekistan
Georgia	Nigeria	Venezuela
Germany	Norway	Vietnam
Greece	Pakistan	Yugoslavia (b)
Hong Kong	Philippines	
Hungary		

(a) Belgium is honoring the USSR treaty with respect to the republics comprising the Commonwealth of Independent States (CIS), except for those members of the CIS with which Belgium has entered into tax treaties.
(b) Belgium is honoring the Yugoslavia treaty with respect to Bosnia-Herzegovina, Macedonia and the Union of Serbia and Montenegro.
(c) The treaty does not apply to Hong Kong.

Belgium has signed a tax treaty with Taiwan, but this tax treaty has not yet become effective. This treaty is not considered an international treaty because Belgium has not recognized Taiwan as a foreign state.

F. Temporary Permits

Permission to enter Belgium temporarily is granted to foreign nationals of both EEA and non-EEA countries who wish to visit Belgium for up to three months. To obtain this permission, it is necessary to show a Schengen residence (identity) card or a passport. Passports or identity cards must be carried at all times. Whether a visa is required to enter Belgium depends on the nationality of the individual. A Schengen visa C is required for nationals of countries listed in the European Community (EC) regulation.

Students who are nationals of non-EEA countries may enter Belgium with visas if they can prove registration at a place of learning and if they have the financial means to support themselves during their stay in Belgium.

G. Work Permits and Professional Cards

Nationals of the EEA or Switzerland may enter Belgium without prior consent to take up or look for employment, to establish a business or to engage in self-employment. However, until May 2006, a Belgian work permit and authorization to employ, in principle, continue to be required for individuals who are nationals of the 10 new EU countries. An exception applies to employees who are nationals of Cyprus or Malta, employees seconded to Belgium within the framework of a service agreement and self-employed workers. At the time of writing, no decison had been reached on whether Belgium will extend the transitional period beyond May 2006.

Non-EEA nationals (excluding Swiss nationals) require a work permit to take up employment in Belgium. Work permits are generally restricted to highly qualified individuals or executives. The determination of this status is principally based on the employee's function in the Belgian entity. A minimum annual gross salary threshold applies to highly qualified individuals (€33,082 for 2006) and management (€55,193 for 2006).

In principle, the prospective employer must apply for an authorization to employ a foreigner before the arrival of the foreign employee in Belgium. In such circumstances, the work permit is nontransferable and is valid only for the specific employer that submits the application. The following work permits are available:

- "A" permits have unlimited duration and may be used for any employment (the exception to the nontransferability rule).
- "B" permits are valid for one year for all types of workers. They are renewable annually for a maximum of four years for highly qualified personnel but extendable under certain conditions for an additional period of four years.
- "C" permits are not linked to the employment with a particular employer and are valid for a maximum of one year, subject to renewal. They are typically granted to persons entitled to a temporary right of residence in Belgium, such as students.

Applications are submitted to the Belgian regional employment authorities. The specific documents required to be submitted as part of the application differ, depending on the type of work permit.

Non-EEA nationals (with the exception of Swiss nationals) who are self-employed must have a professional card, which is the equivalent of a work permit for employed persons. To acquire this card, applicants must file an application with the Belgian consulate in their last country of residence.

Access to certain professions is restricted in Belgium, and authorization from the competent authority is required.

H. Residence Visas and Permits

Individuals who plan to remain in Belgium beyond the three-month visiting period must apply for permanent residence and register with the communal authorities. A resident must carry at all times an identity card that specifies Belgian nationality, EU nationality or non-EU nationality.

The application processes differs for EEA and non-EEA nationals.

Non-EEA Nationals. Non-EEA nationals arriving in Belgium for prolonged assignments are required to obtain the appropriate residence permits.

After the non-EEA nationals have obtained a work permit or professional card, they must apply for a Schengen visa D. In principle, the application for the Schengen visa D must be filed with the Belgian consulate in the individual's country of residence, together with the required documents.

After the Schengen visa D application is processed and accepted by the Belgian authorities, the applicant may enter Belgium and, within one week after arrival, must register at the city hall in the city where he or she will live. At this time, the non-EEA national receives a certificate of registration in the foreigners' register, which is, in principle, valid for one year (linked to the validity of the work permit or professional card) and is renewable annually.

EEA Nationals. Registration in Belgium for permanent residence by EEA nationals (including Swiss nationals, but excluding until [at least] May 2006, the nationals of eight new EU countries [Cyprus and Malta are the exceptions]). All EEA nationals intending to reside in Belgium must register as residents personally at the city hall in the city where they live or intend to live.

EEA nationals receive temporary residence permits of five months while the government checks their credentials and ability to support themselves. These temporary permits may be renewed for an additional month. After the information is checked by the appropriate authorities, the applicant receives a five-year identity card and is entered into the Register of the Population.

If a worker employed in one of the EEA countries remains subject to his or her home country social security system during the Belgian assignment, proof of continued affiliation with the home country system is required at the time of registration at the local city hall.

I. Family Considerations

Spouses and children of non-EEA nationals may reside in Belgium with work permit or professional card holders if they meet all entrance requirements of the Belgian authorities.

Families must be registered within one week after their arrival in Belgium at the city hall in the city where they will live. The family is issued a certificate of registration.

The spouse of a non-EEA national may work in Belgium if he or she obtains a work permit, or a professional card if self-employed. However, a work permit or professional card is not required for a non-EEA national married to an EU national who settle together in Belgium.

APPENDIX 1: TAXABILITY OF INCOME ITEMS FOR NONRESIDENTS

	Taxable*	Not Taxable (a)	Comments
Compensation			
Base salary	X	—	(b)
Employee contributions to home country benefit plan	X	—	(b)

	Taxable*	Not Taxable (a)	Comments
Bonus	X	—	(b)
Retained hypothetical tax	(X)	—	(c)
Cost-of-living allowance	X	X	(c)
Housing allowance	X	X	(c)
Employer-provided housing	X	X	(b)(c)(d)
Housing contribution	(X)	(X)	(c)
Education reimbursement	X	X	(e)
Hardship allowance	X	—	(b)
Other allowance	X	—	(b)
Premium allowance	X	—	(b)
Home leave allowance	X	X	(c)
Other compensation income	X	—	(b)
Moving expense reimbursement	—	X	(e)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(f)
Value of meals provided	X	—	(g)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(h)
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.

(a) Assuming qualification for the special expatriate tax status in Belgium.

(b) Only the portion of base salary, bonus, and other taxable allowances that are Belgian-source is taxable.

(c) These allowances are nontaxable up to a limit of €11,250, or €29,750 for coordination centers, headquarters or research centers, if they correspond to the cost differential between Belgium and the home country and if they are determined based on international tables or by the formula of the Belgian tax administration. Home leave needs must be limited to the expense for one trip in economy class to the home country.

(d) Under certain circumstances, the value of housing and utilities provided by an employer may be determined under a standard formula that results in a lesser amount than the actual cost to the employer.

(e) These reimbursements are entirely nontaxable except for relocation lump-sum payments not supported by relevant documents, for kindergarten expenses and for university costs.

(f) Tax reimbursement is taxable if the assessment is the liability of the employer. It is not taxable if the individual is personally liable for the income tax. Tax equalization may be exempt under the special expatriate tax regime.

(g) No taxable income arises if the employer provides the daily standard minimum amount (per diem) in accordance with tables issued by the Ministry of Foreign Affairs.

(h) Belgium taxes the personal ordinary income of its residents. It does not tax the non-Belgian source personal ordinary income of a resident eligible for the special expatriate regime. Because most expatriates are eligible for the special regime, personal ordinary income is rarely subject to tax.

APPENDIX 2: SAMPLE INCOME TAX CALCULATION

A sample income tax calculation for the 2006 income year (2007 tax year) is set forth below. In this example, an expatriate, spouse, and two children are sent to Belgium on 1 January 2006 for a temporary assignment expected to last three years.

The following is the annual compensation for the individual for 2006.

	€
Salary	74,400
Bonus (attributable to 2004 non-Belgian services and charged to a non-Belgian company)	7,450
Housing differential	8,680
Schooling allowance	12,400
Cost-of-living allowance	3,700
Home leave	2,500
Total	109,130

During 2006, the individual works outside of Belgium for 20% of the work days in that year. The following is the computation of the expatriate's tax for 2006.

	€	€
Calculation of Net Taxable Income		
Salary	74,400	
Housing differential	8,680	
Cost-of-living allowance	3,700	
Home leave	2,500	
Gross taxable income	89,280	
Less Nontaxable allowances (maximum of €11,250)	(11,250)	
	78,030	
Less social security tax at 13.07%	(10,199)	
Subtotal	67,831	
Less travel exclusion (20% x €67,831)	(13,566)	
Total taxable income	54,265	
Less standard professional expense deduction (maximum deduction is €3,200)		
25% of €4,790 = €1,197.50		
10% of €4,610 = €461.00		
5% of €6,150 = €307.50		
3% x €38,845 = €1,165.35		
€3,131.35		
Allowable deduction (rounded)	(3,131.00)	
	51,134.00	
Allocation to spouse (30% of maximum of €28,533.33)	(8,560.00)	8,560.00
Net taxable income	42,574.00	8,560.00
Calculation of Tax		
Gross federal income tax	17,692.43	2,144.00
Individual tax credit	(1,445.00)	(1,445.00)
Credit for children	(882.00)	—
	15,365.43	699.00

	€
Calculation of Tax	
Total federal tax (€15,365.43 + 699)	16,064.43
Commune tax (€16,064.43 at 7%)	1,124.51
Total income taxes	17,188.94
Special social security contribution	614.94
Total Belgian tax liability	17,803.88

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A. Income Tax

Bermuda does not tax income or capital gains.

B. Payroll Tax

The standard rate of payroll tax payable by employers is 13.50% of the total value of cash and benefits paid to employees for services rendered in a tax period. Employers may withhold a maximum of 4.75% from employees' remuneration to pay the payroll tax.

Items exempt from the payroll tax base include employers' contributions to social insurance, the Hospital Insurance Plan, approved retirement plans, hospital and health schemes, life insurance schemes and workers' compensation schemes.

C. Estate Tax

Estate tax is payable on the value of a deceased's estate in Bermuda. Shares in a company exempt from the 60% Bermudian ownership requirement (an exempt company) are not included in the deceased's estate for this purpose, unless the deceased was ordinarily resident in Bermuda at the time of his or her death.

The estate tax rates are presented in the following table.

Taxable Estate Exceeding $	Not Exceeding $	Rate %
0	50,000	0
50,000	200,000	5
200,000	1,000,000	10
1,000,000	—	15

Exempt companies must report to the government and pay payroll tax contributions on annual remuneration paid up to $235,000 per employee. Exempt companies are allowed a reduction in reported remuneration of $600 for each employee who meets certain requirements.

D. Social Insurance

Contributions for Bermuda social insurance are payable at the flat rate of $50.68 per employee per week, for a total of $219.61 per month. The cost is shared equally between the employee and the employer. As a result, $109.81 is deducted from each employee's monthly paycheck and included with the employer's matching amount when remitted to the Bermuda Social Insurance Department.

E. Temporary Entry

The right to enter Bermuda is relatively restricted.

Visitors to Bermuda are normally allowed by immigration officers at the airport to stay for an initial period of 21 days. Application for extensions may be made subsequently at the Department of Immigration's headquarters in Hamilton. However, in all cases, proof of financial viability for the period being considered must be furnished. This may be done by way of a local resident sponsoring the visit or by furnishing proof of funds and a place of residence.

Visitors are not permitted to seek work or to engage in gainful occupation while in Bermuda.

F. Work Permits

The Ministry of Labor, Home Affairs and Public Safety has issued immigration procedures, including time limits for certain categories of work permits.

Certain procedures must be followed by those seeking employment in Bermuda. Immigration policy requires that qualified and interested Bermudians be given the first opportunity to fill job vacancies. If no qualified and interested Bermudians or spouses of Bermudians are available, then the employer may apply for a permit to employ a non-Bermudian, unless the position involved is in a closed category. The method of determining if any Bermudians are available is to advertise the job three times in approved local newspapers and to check if anyone is registered in the particular work category with the Government Employment Office.

Unless special circumstances exist, the Department of Immigration requires that a job held by a non-Bermudian be re-advertised before a renewal of the non-Bermudian's work permit is considered. If the employer determines that sound reasons exist for not advertising the job, then the application for renewal should set out those reasons, and a waiver of the requirement to advertise should be requested. If the Department of Immigration nonetheless requires the job to be advertised, the employer may appeal to the Minister of Labor, Home Affairs and Public Safety, setting out its reasons in writing.

Before any non-Bermudian obtains work, he or she must have a work permit. Initial work permit applications must be made in writing by the employer and addressed to the Chief Immigration Officer at the Department of Immigration. Applications must be accompanied by a completed Immigration Questionnaire form, a copy of the job advertisement and the required fee, together with supporting character references, employment references, police certificate, certified proof of citizenship, passport photos, a chest X-ray, a medical certificate and appropriate certificates of qualifications and experience. For prompt processing of a work permit, a letter of application should include a complete description of the job vacancy and the names, addresses and telephone numbers of each Bermudian applicant. If applicable, a detailed explanation or justification of why a Bermudian or non-Bermudian spouse of a Bermudian applicant is unsuitable for the advertised position must be included.

In general, international companies in Bermuda are required to operate under the same immigration policies and procedures that apply to domestic companies. However, it is recognized that due to the nature of their businesses, international companies cannot be expected to rely on Bermudian labor to the same extent as domestic companies. This is particularly true for senior positions in international companies.

With respect to international companies, the following exemptions to policies that govern domestic companies are in effect:

- Exempt companies are not generally required to advertise for the appointment of a new chief executive officer unless, in the opinion of the Minister of Labor, Home Affairs and Public Safety, a special reason exists for so doing.
- Exempt companies are not generally required to advertise the job of an incumbent chief executive officer upon expiration of his work permit unless, in the minister's opinion, a special reason exists for so doing.
- Exempt companies may apply for permission to employ individuals with more than two dependent children. These requests are considered on a case-by-case basis, and take into account the degree of expertise that the individual could bring to the business.

Processing standard work permits takes two to three months. The temporary work permit processing fee is $293 and the fee for a long-term permit is $587 per year.

Temporary Work Permits. Temporary work permits are issued at the request of employers who want to hire foreign nationals to perform short-term technical assignments. A temporary work permit is valid for a maximum of three months. An employer must write to the Department of Immigration justifying the issuance of the temporary work permit. The Department of Immigration must then ensure that no Bermudian is available who can perform the task.

If the employers require the employees immediately, the Department of Immigration may issue temporary work permits to those who have applied for long-term work permits but whose papers have not yet been processed.

Long-Term Work Permits. Historically, work permits were issued for periods of less than 18 months. However, a provision now exists for the issuance of permits for a longer period, and applications may be made for periods of up to five years in some work categories. The granting of a long-term work permit depends on whether it is likely that a Bermudian will be disadvantaged during the life of the permit. Non-Bermudian spouses of Bermudians may work in Bermuda without obtaining work permits except in certain very restricted categories of employment.

Long-term work permits may be granted either on first application or on renewal of long- or short-term work permits. Long-term work permits are not granted for restricted categories of employment unless special circumstances exist, for example, a long association with Bermuda or close family ties. The primary consideration is always whether a Bermudian might be materially disadvantaged by the grant.

A long-term work permit may be desirable for a variety of reasons. In any application, employers should set out these reasons in detail. The following are commonly cited reasons:

- The job requires a high degree of continuity, or a high degree of expertise.
- The job is of particular economic benefit to Bermuda.
- The job (and perhaps others) would not exist if it were not filled by a particular non-Bermudian. Although the most easily understood example of this condition is a person who is the president or owner of the company, the justification may apply equally to an employee who performs a vital role in a company or who brings special skills to a company.
- An overall shortage of qualified Bermudians exists in the category.
- Bermudians are undergoing training for the particular job within the company, but will not qualify for the job within the life of the permit.
- The application is made for the non-Bermudian to work for a specified, limited period with no renewals while a Bermudian is being trained. This provision applies only if a nonrenewable permit is sought by the employer that does not prevent holders of long-term work permits granted on other grounds from applying for extensions.

If a long-term work permit is sought specifically under the conditions in the last bullet above, the following conditions apply:

- Employees must sign a written statement indicating that at the end of the stated period, they and their dependants will leave and not seek further employment in Bermuda. The statement must be witnessed and submitted with the application to the Chief Immigration Officer.
- The employer must sign a statement that no extension of the work permit will be sought with respect to the employee or any of his or her dependants.
- An employee who has completed the term of such a work permit must leave Bermuda with his or her dependants.

- After leaving Bermuda, the former holder of a long-term work permit must remain abroad for a minimum period (usually two years) that the Minister of Labor, Home Affairs and Public Safety deems appropriate before that person may be considered for re-employment or new employment.

If a long-term work permit is sought specifically under the condition that a Bermudian is being trained but will not qualify for the job within the life of the permit, the following conditions apply:
- The Bermudian trainees must be identified.
- The validity of the permit is subject to continuing training.
- When training ceases, for whatever reason, the Department of Immigration must be informed immediately.
- If training ceases and the Department of Immigration is informed immediately, the work permit remains in effect for an additional three months or until the expiration date, whichever occurs first. During this grace period, another Bermudian may be identified as a bona fide trainee. Should this occur, the work permit resumes its effect as though no change had occurred. Otherwise, the work permit ceases to have effect and must be returned, and a new application must be made on other grounds. Individuals may apply for grace period extensions.

Any non-Bermudian employee who is replaced by a Bermudian, or whose position becomes redundant through the success of a trainee, is normally given sympathetic consideration if he or she wishes to seek alternative employment in Bermuda. However, an application must still be submitted to the Department of Immigration for permission to reside and seek employment in Bermuda.

Renewals. Prior to the expiration of a work permit, an employer must apply to the Department of Immigration to renew or extend a permit. Applications for the renewal of work permits should be submitted no earlier than 12 weeks and no later than 4 weeks prior to expiration.

Repatriation. Employers of non-Bermudians must guarantee the cost of repatriation of these employees. This is normally accomplished by requiring non-Bermudian workers entering Bermuda to have a return ticket valid for the period they will be employed. Alternatively, the employer may either submit a letter of guarantee to the Department of Immigration.

The employer's guarantee remains in effect until the employee leaves Bermuda or obtains other employment for which a work permit is issued. Extenuating circumstances may cause this policy to cease to have effect. Spouses of Bermudians are not subject to this policy.

Self-Employment. Non-Bermudians are normally not permitted to be self-employed in Bermuda.

People who possess Spouses' Employment Rights Certificates (SERCs) may be self-employed at the discretion of the Minister of Labor, Home Affairs and Public Safety. Policies governing self-employment apply to local companies only. Exempt companies may be owned and managed by non-Bermudians.

G. Residence Permits

A Residential Certificate gives a retired individual the right to enter and live indefinitely in Bermuda. Holders of this certificate may not undertake employment in Bermuda or elsewhere.

The right to enter or live in Bermuda granted by a Residential Certificate does not extend to the holder's dependents other than the spouse, who may apply for and receive a certificate that runs concurrently with his or her spouse's certificate. Other dependents must obtain permission in their own right to enter and reside in Bermuda. Residential Certificate holders may acquire a condominium anywhere in Bermuda if its annual rental value exceeds the minimum value for sale to non-Bermudians at the time of purchase.

Eligibility. The following groups of people are eligible to apply for Residential Certificates:

- Group A: Those owning residential property in Bermuda, including the leasehold of condominiums as well as the freehold of houses; and
- Group B: Those who have been gainfully employed in Bermuda for at least five years.

In addition, to be eligible to apply for a Residential Certificate, an applicant must be retired; must be over 50 years of age; must have no more than two dependent children on arrival in Bermuda to take up residence; must have substantial means (determined on a case-by-case basis) and good character.

Method of Application. In general, a non-Bermudian wishing to apply for a Residential Certificate must submit to the Department of Immigration a completed application form, a completed immigration questionnaire, two passport-size photos, a chest X-ray, a medical certificate and two character references (preferably from Bermudians, otherwise from people of good standing in their communities who have known the applicant for at least three years). A reference may not be the lawyer, agent or relative of the applicant. The applicant must also provide a bank reference attesting to his or her financial soundness and possessions.

All applicants must submit this documentation, with the exception of Group A applicants who acquired their property within the previous two years; Group B applicants recently employed in Bermuda may omit the X-ray and character references. A non-Bermudian in Group B who filled out an immigration questionnaire within three years of his or her application need not complete another one.

Fees. No fee is charged for the grant of a Residential Certificate to a Group A applicant because these people have already paid substantial fees to the government to acquire property. Group B applicants must pay the appropriate fee set out in the Government Fees Regulations.

Revocation. The Minister of Labor, Home Affairs and Public Safety may revoke a Residential Certificate if the holder's circumstances change (for example, if a person qualified on the basis of owning residential property sells the property). The minister may also revoke a certificate at his or her discretion at any time.

Restriction on Renting Property. Residential Certificate holders are not permitted to rent out their residential property for extended periods. Certificate holders may however obtain permission from the Minister of Labor, Home Affairs and Public Safety to rent their property for short periods while they are abroad.

H. Family and Personal Considerations

Spouses. Spouses of Bermudians may compete for jobs on equal footing with Bermudians. Among the benefits granted to spouses are the following:

- Prospective employers are not required to advertise the jobs in question.
- Although non-Bermudians are normally barred from being self-employed, the Minister of Labor, Home Affairs and Public Safety may approve self-employment for a spouse at the minister's discretion; each case is considered on its own merits.
- A spouse does not need a letter of release from his or her employer to change jobs.
- A spouse may change jobs as often as he or she likes.

Applications are submitted to the Bermudian Status Section of the Department of Immigration.

Dependent Children. In general, children younger than 18 years of age are classified as dependants. Non-Bermudian workers who are single parents with custody of dependent children, and married couples with more than two dependent children, are not normally given permission to enter Bermuda to work.

A dependent child older than 16 years of age of non-Bermudian work permit holders may work with the permission of the Minister of Labor, Home Affairs and Public Safety. The dependent child's work permit may extend beyond the termination date of the work permit of the parent who is the supporting work permit holder. However, work permits are granted to dependent children on the condition that if the supporting work permit holder's permit is not renewed, then the dependent's work permit becomes void immediately. A dependent who has his or her own work permit may not have his or her name placed on a parent's confirmation of employment or re-entry letter. Dependent children, on attaining 21 years of age, require permission in their own right to work and reside in Bermuda. This includes children studying abroad.

A resident non-Bermudian student may seek vacation employment without permission from the Department of Immigration, but the prospective employer must apply for a work permit. A permit is granted only after the employer has satisfied the department that qualified Bermudians are not available to fill the position. The Minister of Labor, Home Affairs and Public Safety may waive the requirement to advertise in exceptional cases.

Dependants who wish to remain in Bermuda after the primary work permit holder has left Bermuda require special permission. If the dependant is a work permit holder, the case is determined on its merit. If the dependant is not a work permit holder, he or she is expected to leave Bermuda with the primary work permit holder.

Drivers' Licenses. An expatriate may not drive legally in Bermuda with his or her home country driver's license. Bermuda does not have driver's license reciprocity with any other country.

To obtain a driver's license in Bermuda, an applicant must take a physical exam, a written multiple-choice exam and a practical driving test. Applications are generally not accepted unless the expatriate has already received permission to work or reside in Bermuda.

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A. Income Tax

Who Is Liable. Individuals earning income in Botswana are subject to income tax.

Individuals are considered resident in Botswana for any tax year (1 July to 30 June) if they meet any of the following conditions:

- Their permanent place of abode is in Botswana;
- They are physically present in Botswana 183 or more days during the tax year; or
- After staying in Botswana 183 or more days in a tax year, they physically remain in Botswana into the next tax year, even if they do not stay in Botswana 183 days during the latter tax year.

Income Subject to Tax

Employment Income. With a few exceptions, income derived from sources outside Botswana is not subject to tax. All salaries paid, and benefits provided, for work performed in Botswana are taxable, regardless of where paid or provided. Special tables are used for calculating the taxable value of fringe benefits.

For individuals who receive retrenchment packages, one-third of the amount of the package, or an amount equal to the tax threshold, whichever is higher, is tax-exempt.

Educational allowances provided by employers to their local and expatriate employees' children are taxable.

Self-Employment and Business Income. Business profits from self-employment activities are taxed at the rates described in *Rates*. Partners are individually subject to tax on their shares of business profits. If the owners of a company are residents and if the company's income is less than P 300,000, they may elect to have the company's profits taxed in the same manner as partnership profits.

Directors' Fees. Directors' fees are added to the taxable income of residents and nonresidents.

Investment Income. Interest paid to a resident is included with other taxable income and taxed at the rates described in *Rates*. Up to P 2,500 of interest received in a tax year by residents from banking institutions or building societies in Botswana is exempt from tax. Royalties and rental income from Botswana sources are also included with other taxable income and are taxed at ordinary rates.

Dividends from resident companies are not included in taxable income.

Interest, dividends, royalties, and management and consulting fees paid to nonresidents are subject to a 15% final withholding tax.

Taxation of Employer-Provided Stock Options. No specific provisions regulate the taxation of employer-provided stock options. Under general principles, the employee is taxed at the time of exercise on the difference between the fair market value of the stock at the time of exercise and the strike price.

Capital Gains. Capital gains tax is levied on gains derived from the sale of immovable capital assets on and from the sale of corporate shares and debentures.

To compute capital gains on sales of property acquired before 1 July 1982, the cost of acquisition and improvements is increased at a rate of 10%, compounded for every 12-month period from the date of acquisition to 1 July 1982, and then indexed for inflation from 1 July 1982 to the date of sale. For property acquired on or after 1 July 1982, the cost of acquisition and improvements is indexed for inflation in computing capital gains.

Only 75% of gains derived from sales of corporate shares is subject to tax. Gains derived from the sale of shares listed on the Botswana Stock Exchange are exempt from tax.

Net aggregate gains are subject to tax at the following rates for 2005–06 tax year.

Taxable Gain		Tax on Lower	Rate on
Exceeding P	Not Exceeding P	Amount P	Excess %
0	12,500	0	0
12,500	43,750	0	5
43,750	62,500	1,562	10
62,500	81,250	3,437	15
81,250	100,000	6,250	20
100,000	—	10,000	25

Deductions

Personal Deductions and Allowances. A single tax-free allowance of P 25,000 is incorporated into the individual tax table applicable to residents. A deduction for approved pension fund contributions is also allowed, limited to 15% of income, excluding investment income.

Tax-Free Gratuities for Noncitizens. A noncitizen employee who completes a two-year contract of employment may be paid a gratuity of 25% of his or her cumulative salary if so provided in the employment contract. For the second contract with the same employer, the percentage of the gratuity may be increased to 27.5% (30% for third and subsequent contracts). One-third of the gratuity is tax-exempt; the remaining two-thirds is subject to tax at the regular rates.

Business Deductions. Business expenses of sole proprietorships and partnerships are deductible to the extent incurred in producing taxable income. Resident sole proprietors and partners may take the same salary deductions as employees.

Rates. The following table sets forth the income tax rates for residents for the 2005–06 tax year.

Taxable Income		Tax on Lower	Rate on
Exceeding P	Not Exceeding P	Amount P	Excess %
0	25,000	0	0
25,000	43,750	0	5
43,750	62,500	937	10
62,500	81,250	2,812	15
81,250	100,000	5,625	20
100,000	—	9,375	25

The following table sets forth the income tax rates for nonresidents for the 2005–06 tax year.

Taxable Income Exceeding P	Taxable Income Not Exceeding P	Tax on Lower Amount P	Rate on Excess %
0	43,750	0	5
43,750	62,500	2,187	10
62,500	81,250	4,062	15
81,250	100,000	6,875	20
100,000	—	10,625	25

Relief for Losses. Losses may be carried forward for five years on a first-in, first-out basis.

B. Other Taxes

Estate Income Tax. An estate is subject to tax at the following rates on income earned in the 2005–06 tax year.

Taxable Income Exceeding P	Taxable Income Not Exceeding P	Tax on Lower Amount P	Rate on Excess %
0	43,750	0	5
43,750	62,500	2,187	10
62,500	81,250	4,062	15
81,250	100,000	6,875	20
100,000	—	10,625	25

Capital Transfer Tax. The recipient of property transferred gratuitously or by inheritance is subject to capital transfer tax. Liberal exemptions apply. For example, all transfers between spouses and the first P 100,000 transferred by inheritance are exempt. The following rates of capital transfer tax apply to individuals.

Taxable Transfer Exceeding P	Taxable Transfer Not Exceeding P	Tax on Lower Amount P	Rate on Excess %
0	100,000	0	2
100,000	300,000	2,000	3
300,000	500,000	8,000	4
500,000	—	16,000	5

C. Social Security

Social security taxes are not levied in Botswana.

D. Filing and Payment Procedures

The tax year runs from 1 July to the following 30 June. Returns are due within 90 days after the end of the tax year, unless an extension is requested. Payment is due within 30 days after assessment.

The pay-as-you-earn (PAYE) scheme covers noncash benefits, including employer-provided housing, utilities and cars.

Married persons are taxed separately.

E. Tax Treaties

Botswana has entered into double tax treaties with France, Mauritius, the Russian Federation, Seychelles, South Africa, Sweden and the United Kingdom.

F. Visitor Visas

All foreign nationals must obtain valid entry visas to enter Botswana, with the exception of nationals from most British Commonwealth countries and from the following countries with which Botswana has entered into visa-abolition agreements: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Liechtenstein, Luxembourg, the Netherlands, Norway, Samoa (Western), San Marino, Sweden, Switzerland, the United States and Uruguay.

All foreign nationals may visit Botswana as visitors or tourists subject to compliance with immigration regulations. Visitors are allowed 90-day stays every calendar year and may be permitted by the Chief Immigration Officer to stay longer than 90 days. The various types of visitor visas are described below.

A continuous visa authorizes the holder to enter Botswana on an unlimited number of occasions within a period of 12 months from the date the visa is issued.

A transit visa authorizes the holder to pass through Botswana in transit to other countries for the period endorsed on the visa.

An ordinary visa authorizes the holder to enter Botswana on a number of occasions for the periods endorsed on the visa. Normally, this visa application takes at least 14 days to be processed.

The following documents are required to apply for all visitor visas:
- A valid passport; and
- A letter requesting a visitor visa.

Visas are issued at the discretion of the Chief Immigration Officer.

Visitors holding all types of visas are expected to provide their own financial support.

G. Work Permits and Self-Employment

Foreign nationals may obtain work permits in Botswana. Generally, the permit is granted for two years. Work permits may be renewed for as long as their holders are employed. A foreign national holding a valid work permit may change employers after signing a contract with the new employer. The approximate time for obtaining a work permit, after all appropriate documents are submitted, is four to six weeks.

Foreign nationals may be self-employed in Botswana if they hold work permits and residence permits. No set minimum capital investment is necessary. A work permit holder may operate any business that is not reserved for the citizens of Botswana.

H. Residence Permits

Short-term residence permits of six months or less are administered by the Chief Immigration Officer.

The following residence permits are issued in Botswana for the specified durations:
- Business: five years;
- Employment: maximum three years, depending on the duration of the contract;

- Religious work: two years;
- Students: depends on the duration of the course of study;
- Dependents: varies based on the sponsor's residential status; and
- Research permits: duration according to the period requested.

The following documents are required for foreign nationals pursuing business, employment, research and religious work, and for students, immigrants and dependents:

- Completed application form;
- Medical forms completed by a medical practitioner;
- Valid passport;
- Proof of financial means for a dependant or a student;
- Proof of investment and clearance from the Ministry of Commerce and Industry for self-employed applicants; and
- Qualification certificates and proof of employment.

The applicant for both work and residence permits, which are considered simultaneously by the Regional Immigrants Selection Boards. All permits are renewable for an additional period if a request is made.

The holder of a residence permit must take up residence in Botswana within six months after the date of approval. If he or she does not take up residence within six months, the permit may be cancelled.

I. Family and Personal Considerations

Family Members. The working expatriate's spouse and dependents must obtain separate residence and work permits. The dependents of an expatriate do not need student visas to attend schools in Botswana.

Drivers' Permits. Foreign nationals may drive legally in Botswana using their home country drivers' licenses. The driver's license of the foreign national must be exchanged for a Botswana driver's license, but no time period is specified for this change.

Foreign nationals who do not hold valid foreign drivers' licenses must take written and physical driving exams to obtain Botswana drivers' licenses.

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A. Income Tax

Who Is Liable. Residents are taxed on worldwide income. Nonresidents are taxed on Brazilian-source income only.

Determination of residence for tax purposes depends on which visa an individual uses to enter the country. Foreign nationals holding either temporary type “V” visas based on a labor contract with a Brazilian company or permanent visas are taxed as residents from the time they enter Brazil. Other foreign nationals are taxed as nonresidents if they satisfy the following conditions: they hold other types of temporary visas; they are not involved in a local labor relationship; and they do not stay in Brazil for more than 183 days during any 12-month period. A foreign national who remains in Brazil for longer than 183 days is subject to tax on his or her worldwide income at the progressive rates applicable to residents.

Prior to their definitive departure from Brazil, tax residents should obtain tax clearance to resolve their final liability for Brazilian income tax. Otherwise, these individuals may be considered resident for tax purposes, subject to Brazilian income tax on worldwide income during the 12-month period subsequent to departure. From the time the expatriate requests a tax clearance or obtains a permanent visa for another country, the expatriate is taxed as a nonresident on Brazilian-source income only.

Income Subject to Tax. The various types of income subject to tax are described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income generally includes wages, salaries, and any other type of remuneration and benefits received by an employee from an employer. The treatment of employer-provided allowances varies, as described below.

Schooling allowances for an individual's family members are considered indirect salary and are taxed accordingly. For tax purposes, no distinction is made between amounts paid directly by the company or reimbursed by the company to an employee. Moving allowances are generally not taxable if paid in a lump sum by the employer.

Under Brazilian law, individuals are taxed on a cash basis. Payments from foreign sources, including bonuses or premiums related to services rendered, that are made before or after an assignment in Brazil are generally not taxable if received during a period when the individual is not resident for tax purposes. Therefore, these payments should be scheduled so that they are received when the individual is not yet resident for tax purposes or after tax clearance is requested prior to repatriation.

Reimbursements received by employees from employers for income tax liability are recognized as income on a cash basis. If employers make the income tax payments directly, the amounts paid are taxable to the employees.

Other allowances received by expatriates for work performed, including foreign service premiums and allowances for home leave, costs of living and housing, are subject to regular taxation.

Employees are not taxed on obligatory monthly deposits equivalent to 8.5% of gross salaries that are paid by employers to the Severance Pay Indemnity Fund (FGTS), which is administered by the government. The amounts deposited, plus interest, may be withdrawn tax-free by the employees under certain conditions, including retirement or dismissal without just cause.

In addition, an employee who is dismissed arbitrarily or without just cause is entitled to a tax-free indemnification from the employer equal to 50% of the employer's deposits in the employee's FGTS fund.

Self-Employment Income. Self-employed resident individuals are subject to tax on income from a trade, business or profession.

Investment Income. Interest income received by resident individuals from sources abroad is generally included in taxable income and is taxed at the rates stated in Rates.

Net rental income and royalty income from Brazilian and foreign sources are generally included in taxable income and are taxed at the rates stated in Rates.

Brazilian dividends paid to nonresidents are exempt from withholding tax. Other payments to nonresidents from Brazilian sources are subject to a 25% final withholding tax, unless a lower treaty rate applies.

Taxation of Employer-Provided Stock Options. Employer-provided stock options are not subject to tax at the time of grant. The taxation of equity plans represents a gray area in Brazil. In general, stock options are taxable at the time of exercise. The difference between the market price and the strike price is considered a fringe benefit and is taxable as employment income at a maximum rate of 27.5%. For purposes of capital gains tax, when the employee sells the shares the cost basis is the market value of the shares at the time of exercise (the spread between the strike price and the market value has already been taxed as employment income). Any gain is taxed as a capital gain at a flat rate of 15%. Sales by a resident of less than R$20,000 in any one month are exempt from capital gains tax.

Capital Gains. Gains realized on the sale of capital assets are subject to tax at a flat rate of 15%, regardless of whether the underlying assets are used in a trade or business. Capital gains on one transaction each month are exempt from tax if the sale price is less than R$35,000 (approximately US$15,200). Capital gains are defined as the difference between the sale price of an asset and its acquisition price.

Capital gains derived from the sale of shares listed on Brazilian stock exchanges are exempt from tax if the sale price is less than R$35,000. If the sale price exceeds R$35,000, the entire gain is taxed at a rate of 15%.

Capital gains derived from the sale of real estate are subject to income tax at a rate of 15% on the difference between the sale price and the acquisition price. For real estate acquired before 1 January 1989, the calculated gain is reduced based on the length of ownership; no tax is due if the real estate is held for 20 years or longer.

A special exemption is granted to individuals selling their only residence if they have owned it for at least five years and if the sale price does not exceed R$440,000 (approximately US$191,300). In addition, gains derived from sales of residential real properties is exempt from tax if the seller uses the proceeds from the sale to buy other residential real properties in Brazil within 180 days from the first contract execution date.

Deductions. The following are the only deductible expenses permitted when calculating monthly income tax liability:

- Social security taxes paid to Brazilian federal, state or municipal entities;
- Amounts paid as alimony and pensions in accordance with a Brazilian court decree;
- R$126 per month for each dependant, with no limitation on the number of dependants; and
- Brazilian Pension Funds contributions, up to 12% of gross income.

On the annual federal income tax return, the taxpayer may elect the standard deduction, which is 20% of taxable income up to a maximum deduction of R$11,167 or may deduct the following amounts:

- Brazilian Pension Funds contributions, up to 12% of gross income;
- Amounts paid as alimony and pensions in accordance with a court decree;
- R$1,516 for each dependant, with no limitation on the number of dependants;
- Social security taxes paid to Brazilian federal, state or municipal entities;
- Payments made by the taxpayer or a dependant for educational expenses, up to an annual limit of R$2,374 for each individual;
- Payments made during the calendar year to doctors, dentists, psychologists, physiotherapists, phono-audiologists, occupational

therapists and hospitals, as well as expenses for laboratory tests and X-rays, with no limit;
- Payments for medical treatment plans managed by Brazilian companies or by companies authorized to carry out activities in Brazil, as well as payments made to entities to ensure the right to either medical attention or reimbursement for medical, dental and hospital expenses; and
- Contributions to cultural and audiovisual activities and to the Children's Fund, up to 6% of income tax due.

Ordinarily, a dependant's medical expenses are deductible on the annual federal return. Expenses that are covered by insurance or reimbursed to the taxpayer are not deductible.

Rates. Federal income tax is levied on taxable income. The following tax rates apply to monthly taxable income.

Monthly Taxable Income		Deductible	
Exceeding R$	Not Exceeding R$	Amount R$	Rate %
0	1,257	0	0
1,257	2,512	189	15
2,512	—	503	27.5

The following rates apply to annual taxable income.

Annual Taxable Income		Deductible	
Exceeding R$	Not Exceeding R$	Amount R$	Rate %
0	15,085	0	0
15,085	30,145	2,263	15
30,145	—	6,031	27.5

Nonresidents are subject to tax at a flat rate of 25%.

For a sample tax calculation, see Appendix 2.

Relief for Losses. If a self-employed person's business activity shows a loss in one month, the loss may be carried forward to a later month in the same fiscal year (but not into a new year) if the proper supporting documentation is provided.

B. Estate and Gift Tax

The Senate has established a maximum estate and gift tax rate of 8%. States may levy estate and gift tax on transfers of real estate by donation and inheritance at any rate, up to 8%. A rate of 2% generally applies in Rio de Janeiro and 4% in São Paulo. Resident foreigners and nonresidents are subject to this tax on assets located in Brazil only.

For transfers of property through succession, inheritance or donation, the assets may be valued at either market value or the value stated in the declaration of assets of the deceased or donor. For transfers carried out at market value, the excess of market value over the value stated in the declaration of assets is subject to income tax at a rate of 15%.

C. Social Security

Contributions. All individuals earning remuneration from a Brazilian source are subject to local social security tax, which is withheld by the payer. Contributions are levied on employees at rates ranging from 7.65% to 11%, depending on the level of remuneration, with a maximum required monthly contribution of R$308 (approximately US$133). Employers' contributions are calculated at approximately 26.8% to 28.8% of monthly payroll, without limit.

Self-employed individuals' contributions are calculated at a rate of 20% of base salary. The base salary is fixed by the government, and its value depends on when the self-employed individual joined the social security system. The maximum monthly contribution for a self-employed person is R$560 (approximately US$243).

Totalization Agreements. Brazil has entered into social security totalization treaties with Argentina, Cape Verde, Chile, Greece, Italy, Luxembourg, Portugal, Spain and Uruguay.

D. Tax Filing and Payment Procedures

The Brazilian tax year is the calendar year. Brazil imposes a pay-as-you-earn (PAYE) system. Under the PAYE system, income tax on income received either abroad or from an individual is generally paid monthly through an estimated income tax calculation system known as *carnê-leão*. In addition, taxpayers are subject to withholding tax on salary received in Brazil.

Individuals who receive income from more than one source may pay the difference between tax paid or withheld at source and their total monthly tax liability at any time during the fiscal year or when they file their annual federal returns in the year following the tax year (the deadline for filing tax returns is generally the last business day of April). The balance of tax due is payable either in a lump sum when the return is filed or in six monthly installments. The installments are subject to interest based on a monthly rate set by the Central Bank (approximately 1.5% per month). Brazilian law does not provide for extensions to file tax returns. Nonresidents are not required to file tax returns.

Income tax on foreign earnings or on earnings received from other individuals in Brazil on which no Brazilian tax is withheld at source must be paid monthly, as described above. The tax is due on the last working day of the month following the month when the income is received. Late payments are subject to penalties (at a daily rate of 0.33%, limited to 20%) and to interest (at a monthly rate of approximately 1.5%).

Payments from companies to self-employed persons are subject to income tax withholding at source. The payer must withhold tax at the monthly rates set forth in Section A. If the payer makes several payments to a self-employed person during a month, the tax withheld at source must be calculated using the tax rate for the total amount paid that month.

To make monthly income tax payments, residents must register as individual income tax contributors and obtain a Taxpayer Identification Number (CPF). After obtaining a CPF, individuals receive a Taxpayer Identification Card, which includes their CPF number. Presentation of the CPF card or disclosure of the CPF number is mandatory in most financial transactions.

Tax on capital gains derived from Brazil is generally not included in the total annual tax liability calculated in the federal return. Instead, tax on capital gains is due on the last working day of the month following the month when the gain is realized. Special rules apply to gains derived from transactions on stock exchanges.

Married persons may be taxed jointly on all types of income if one spouse has no income and is listed as a dependant in the other spouse's return. In all other cases, married persons are taxed separately on all types of income.

Individuals resident or domiciled in Brazil who hold assets of at least US$100,000 on 31 December must annually declare to the Central Bank their holdings of the following items, regardless of the nature, monetary assets, properties and rights held abroad:

- Foreign deposits;
- Monetary loans;
- Financing;
- Leasing and financial leasing;
- Direct investments;
- Portfolio investments;
- Investments involving derivative instruments; and
- Other investments, including real properties and other assets.

The information must be submitted by 31 December of the prior calendar year. Penalties are imposed for failing to declare the required information or for submitting inaccurate declarations. Foreign nationals who were considered residents for tax purposes should obtain a tax clearance certificate from the Brazilian tax authorities before their definitive departure from Brazil. To obtain such certificate, individuals must file a final tax return covering the period of 1 January in the year of departure though the date on which the return is filed and pay all taxes due.

E. Double Tax Relief and Tax Treaties

In general, taxes paid to other countries may offset Brazilian income tax on the same foreign income, if the other country grants reciprocal treatment for taxes paid in Brazil. Brazil has entered into double tax treaties with the following countries.

Argentina	Finland	Luxembourg
Austria	France	Netherlands
Belgium	Germany	Norway
Canada	Hungary	Philippines
Chile	India	Portugal
China	Italy	Slovak Republic
Czech Republic	Japan	Spain
Denmark	Korea	Sweden
Ecuador		

Brazil has also signed treaties to avoid double taxation with Israel, Mexico, the Russian Federation, South Africa and Venezuela. Although some of these treaties have been approved by the congress and senate in Brazil, the Brazilian Federal Revenue and Customs Secretariat has not yet recognized the effectiveness of the treaties.

In addition, the Brazilian Federal Revenue and Customs Secretariat recognizes that although Germany, the United Kingdom and the United States have not entered into formal tax treaties with Brazil, these countries waive reciprocal tax treatment for individuals who may be subject to double taxation.

F. Tourist and Temporary Visas

With exceptions for nationals of Portugal, nationals of countries that border Brazil and nationals of countries that do not require visas of Brazilians, foreign nationals must obtain valid entry visas to enter Brazil.

Tourist Visas. Visitors who intend to visit Brazil for recreational purposes and who do not intend to immigrate or take up remunerated activities may obtain tourist visas. These are valid for five years and allow various entries into the country for stays of no longer than 90 days per year. Tourist visas are renewable once each year for an additional 90 days, for a total of 180 days per year. The visa must be renewed before the expiration of the 90-day period; otherwise, the holder is subject to a fine.

Temporary Visas. The following types of temporary visas are based on the characteristics of the visitor and the trip:
- Cultural or study trip (valid for one year);
- Business trip (valid for up to 90 days);
- Artist or entertainer (valid for up to 90 days);
- Athlete (valid for one year);
- Student (valid for up to one year and extendible if the school supplies documents on the student's performance and enrollment status);
- Scientist, teacher, technician or other professional contracted by the Brazilian government (valid for two years);
- Correspondent of a newspaper, magazine, radio, television or other foreign news agency (valid for five years); and
- Religious work (valid for one year).

Each of these visas is renewable for an additional equivalent period.

Temporary visas grant their bearers the right to undertake a specific activity. The two most commonly used work-related categories are the business category and the scientist, teacher, technician or other professional category.

Business visas are granted to short-term visitors who visit Brazil for business purposes. The visa allows its bearer to undertake any activity deemed usual and necessary for the purpose of the visit (for example, attending meetings and establishing business contacts).

A business visa does not permit the holder to work for any locally owned or multinational company or organization located in Brazil, nor does it permit the holder to receive any remuneration in Brazil for products or services supplied. In all cases, foreign nationals must obtain residence permits (see Section H) to receive remuneration in Brazil for services provided in Brazil.

A foreign national rendering consulting services under a temporary business visa must have a contract with a non-Brazilian company or individual, and fees must be paid outside Brazil, although the foreign national may be reimbursed locally for expenses incurred in Brazil.

The terms of business visas vary, depending on the degree of reciprocity between Brazil and the home country of a foreign national. In general, business visas are valid for up to five years, permit multiple re-entries and limit individual stays to 90 days, with one 90-day extension possible. The temporary business visa permits a maximum stay of 180 days per year.

G. Work Permits and Self-Employment

To obtain work permits for their foreign employees, employers must apply for authorization from the Ministry of Labor. The process and documents required depend on whether the visa is based on a service contract between a Brazilian company and a foreign company (temporary work permit, or type "V" visa), or whether the visa is for an expatriate employee of a Brazilian company (permanent visa).

Service Contract. If the visa is based on a service contract between a company in Brazil and a company abroad, a type "V" visa must be obtained. The contractor in Brazil initiates the procedure by applying to the Immigration Division of the Ministry of Labor. If the application is approved, the documents are forwarded through the Ministry of Foreign Affairs to a designated Brazilian consulate abroad, where the individual designated in the service contract completes the remaining steps of the process.

To obtain a type "V" visa under a service contract, a foreign individual must file the following documents:

- Copy of the passport (including those of dependants, if they will accompany the applicant to Brazil);
- Address in country of origin;
- *Curriculum vitae*, validated by the Brazilian consulate abroad; and
- Supporting documents for the *curriculum vitae*.

The contractor in Brazil must also file certain documents with the Ministry of Labor.

Expatriate Employee of a Brazilian Company. If an expatriate is to be an employee of a Brazilian company, the expatriate must apply for a temporary or a permanent visa.

To obtain a type "V" visa based on a labor contract with a Brazilian company, or a permanent visa, the individual must file proof of salary (*pro-labore*) in addition to the items required for a type "V" visa under a service contract.

Applicants who are to be employed as statutory directors must prove their labor relationships with their employers.

H. Residence Permits

Foreign nationals who intend to establish permanent residence in Brazil may obtain residence permits. A residence permit allows a foreign national to transfer his or her residency to Brazil for an indefinite period of time, beginning on the date he or she enters the country under the permit. As of this date, the foreign national may be employed by a Brazilian employer, perform a professional activity or establish a business. The granting of residence permits is subject to certain restrictions on the activity of the foreign national; on the type of business he or she may establish; and on the region where he or she may live.

Residence permits are granted most often to foreign nationals who enter Brazil for long assignments (longer than two or three years) with the Brazilian subsidiaries of foreign parent companies.

Foreign nationals who will be presidents, general managers or members of the board of Brazilian subsidiaries must be permanent residents.

A residence permit is valid for five years and may be renewed several times by the Brazilian Federal Police Department prior to expiration if the permit holder meets certain requirements.

Self-Employment. Foreign nationals may be self-employed in Brazil. Foreign nationals may obtain a permanent visa in Brazil as an investor either personally or as a representative of a foreign company. To obtain a permanent visa based on investor status, the following conditions must be satisfied:

- The foreign national must make a minimum investment, which is currently US$50,000, and register the investment at the Central Bank of Brazil; and
- The investor must commit to create a certain number of work positions for Brazilian nationals.

The investment amount and the number of work positions referred to above may vary depending on the region where the company is located. In the event of the cessation of the Brazilian business, the investment may be repatriated.

I. Family and Personal Considerations

Family Members. Working spouses of expatriates must apply for their own work permits. Working expatriates must list their dependants when applying for their visas. The dependants listed do not require separate permits to reside in Brazil. The children of working expatriates do not require student visas to attend schools in Brazil.

Marital Property Regime. The Brazilian Civil Code provides for the following three marital property regimes:

- Community property, under which all assets and liabilities of the spouses, whether acquired before or during the marriage, are held in common. Certain exemptions apply.
- Partial community property, under which assets acquired during the marriage are held in common.
- Separate property, under which assets acquired before and during the marriage are held separately.
- Final Participation in the assets, under which each spouse has his or her own wealth, and in case of divorce, the couple divides only the assets acquired during the marriage.

The above regimes apply only to heterosexual couples married under the laws of Brazil. The partial community property regime automatically applies unless the spouses elect one of the other regimes in a prenuptial agreement.

Forced Heirship. Under Brazilian law, parents and other relatives must leave a certain percentage of their estates to their direct lineal ascendants and descendants. An individual's descendants (sons, grandsons and great-grandsons) and ascendants (parents, grandparents and great-grandparents) are entitled to 50% of the individual's estate. The remaining 50% may be left to testamentary heirs. Successions of foreign individuals domiciled in Brazil are governed by Brazilian law if a Brazilian spouse or Brazilian sons survive.

Drivers' Permits. Foreign nationals may not drive legally in Brazil with their home country drivers' licenses. They may, however, use an international driver's license, which must be translated by a sworn translator and authorized by the Transport Department. These licenses are then valid for six months. After this period, a local Brazilian driver's license may be acquired by undertaking the following steps:

- Complete the required application, which may be purchased in any stationery store;
- Pay the tax in a state bank;
- Complete an eye examination; and
- Attach the following items:
  - — Copy of identity card;
  - — Copy of taxpayer number;
  - — Copy of residence supporting document;
  - — Translation of the foreign driver's license; and
  - — One photo of the applicant.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable (a)	Comments
Compensation			
Base salary	X	—	(a)
Employee contributions to home country benefit plan	(X)	—	(b)
Bonus	X	—	(a)
Retained hypothetical tax	(X)	—	(b)
Cost-of-living allowance	X	—	(a)
Housing allowance	X	—	(a)
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	(b)
Education reimbursement	X	—	(a)
Hardship allowance	X	—	(a)
Home leave allowance	X	—	(c)
Other allowances	X	—	(a)
Overseas premium	X	—	(a)
Moving expenses	—	X	(d)
Tax reimbursements	X	—	(a)
Value of meals provided	—	X	(e)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(f)
Capital gains from sale of personal residence in home country	X	—	(g)
Capital gains from sale of stock in home country	X	—	(h)
Capital gains from sale of other assets	X	—	(g)

* Bracketed amounts reduce taxable income.

(a) Income taxes are imposed on virtually all items included in a regular compensation package.

(b) If this negative item reduces the total wages that will (or would, if required) be reported to home country tax authorities (as on a Form W-2, for example), it may be treated as a reduction of the gross income reportable to Brazil.
(c) If the expatriate has also worked during the home leave and if supporting evidence of such fact can be produced, only that portion of home-leave expenses attributable to the other family members is taxable.
(d) Moving expenses may be treated as nontaxable if they represent actual moving costs rather than a transfer allowance and if they are paid in one lump-sum payment.
(e) This item is nontaxable if all employees in the same category are entitled to the benefit.
(f) Income tax is generally imposed on all kinds of unearned income.
(g) The sale of any asset at a gain is generally a taxable event. However, if the aggregate sale price of all assets of the same type that are sold in a given month is less than R$35,000, the transaction is nontaxable.
(h) Net gains realized on shares in Brazilian spot stock markets and in transactions involving gold are exempt from income tax if the alienation value realized during a month is equal to or less than R$35,000 for the share transactions and the gold transactions, respectively.

APPENDIX 2: SAMPLE TAX CALCULATION

The example below shows the regular withholding and the pay-as-you-earn (PAYE) tax computations for the month of May 2006, assuming the following facts:

- The expatriate is a U.S. citizen married to a nonworking spouse who is also a U.S. citizen and has three dependent children.
- The expatriate is living in Brazil under a permanent resident visa.
- The expatriate is employed by a U.S. company and also by two Brazilian subsidiaries of that U.S. company.
- The expatriate receives no other U.S.-source income and is fully reimbursed for the family's medical expenses.
- The expatriate's contribution to the Brazilian social security system during the month corresponds to the maximum amount.
- The expatriate spent R$350 in tuition fees for the three children during the month.
- The expatriate made no contributions or donations to Brazilian charities.
- The following is the expatriate's January 2005 compensation:
  - Local employer #1 paid R$1,000;
  - Local employer #2 paid R$5,000; and
  - U.S.-source compensation equals R$8,400 with no U.S. federal income tax withheld.

The following is the tax computation.

	Brazilian Employer #1 (a) R$	Brazilian Employer #2 (b) R$	U.S. Employer (c) R$
Gross income	1,000	5,000	8,400
Dependants	(505.44)	(505.44)	0
Social security	(308.17)	(308.17)	0
Taxable income	186.39	4,186.39	8,400
Tax liability	0	648.68	1,807.42

(a) Brazilian employer #1 computes the expatriate's withholding tax to be R$0. The income is below the threshold for both income and social tax purposes.
(b) Brazilian employer #2 computes the expatriate's withholding tax to be R$648.68.
(c) The expatriate's mandatory monthly PAYE tax on U.S.-source income is computed to be R$1,807.42. This amount must be paid by 30 June 2006. Because dependent deductions and social security deductions were already used by one local withholding agent, they cannot be used by the other withholding agent in determining PAYE tax liability on the foreign income.

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A. Payroll Tax

General. Under the Payroll Taxes Act, 2004, corporate tax, Pay-As-You-Earn (PAYE) income tax and any other income tax payable under the Income Tax Ordinance is applied at a 0% rate. Payroll tax is imposed on the following: remuneration provided in cash or in kind by employers to employees and deemed employees; remuneration received in cash or in kind by self-employed persons; and any benefits received in cash or in kind by employees, deemed employees or self-employed persons as a result of his or her employment. Remuneration is defined as the payment an employee receives for services rendered to his or her employer. The first US$7,500 of earnings is exempt from payroll tax. Persons receiving remuneration from a second employment are not entitled to the exemption of US$7,500.

Employers must pay the payroll tax, regardless of whether they withhold payroll tax from employee remuneration. Employers may withhold 8% of the remuneration of an employee and pay the amount withheld together with the balance of the tax due to the Inland Revenue. Employers may not withhold payroll tax from the first US$7,500 paid to an employee in a tax year.

Individuals are not subject to tax on investment income in the British Virgin Islands.

Rates. The applicable rate of payroll tax depends on whether the employer is classified as a Class I employer or Class II employer.

Class I Employers. For Class I employers, payroll tax is imposed at a rate of 10%.

A Class I employer or self-employed person is one whose meets the following conditions: its annual payroll does not exceed US$150,000; its annual turnover or gross receipts does not exceed US$300,000; and the total of its employees and deemed employees does not exceed seven.

Class II Employers. For Class II employers, payroll tax is imposed at a rate of 14%.

A Class II employer is an employer that does not satisfy all of the requirements for qualification as a Class I employer.

Capital Gains. No tax is levied on capital gains. However, transfers of real property are subject to stamp duty at a rate of up to 4% of the sales price. The rate of the duty doubles if the sale is made to a non-British Virgin Islander. British Virgin Islanders are persons who are born in the British Virgin Islands or who obtain "belonger" status, as defined by law.

B. Social Security

All employers and employees must contribute to the National Insurance Scheme. The total contribution rate is 8.5%; employers pay 4.5% and employees pay 4%. Contributions are based on the amount of weekly or monthly wages, up to maximum weekly wages of US$585 or to monthly wages of US$2,535. The maximum annual contribution is US$1,216.80 for employees and US$1,368.90 for employers.

C. Tax Filing and Payment Procedures

The tax year is the calendar year. Employers and self-employed persons must pay the payroll tax within 15 days after the end of each month for which the tax is due. The Commissioner of Inland Revenue may request that a return of payroll or remuneration for a tax year be submitted to the Inland Revenue.

Married persons are taxed separately.

D. Temporary Permits

In general, all visitors may enter the British Virgin Islands if they meet certain requirements.

A person entering the British Virgin Islands to visit must satisfy the Immigration Officer at the port of entry that he or she meets all of the following requirements:
- Possesses a valid travel document;
- Does not intend to remain permanently in the British Virgin Islands; and
- Has sufficient funds to support himself or herself, as well as any dependants, without working for the duration of his or her stay, and can meet the cost of return or onward travel (generally, a return ticket is required).

Citizens of the British Commonwealth, except Guyana, do not require visas to visit the British Virgin Islands.

All visitors to the British Virgin Islands are allowed entry without medical certification for up to six months. After the six-month period expires, a certificate of good health must be obtained and submitted to the Immigration Department.

E. Work Permits and Self-Employment

Individuals may apply for a multiple-entry visa if they will be staying in the islands for an extended period of time, and if their employers in the islands provide letters to that effect. These individuals must obtain temporary work permits.

Temporary work permits for foreign nationals are issued by the Labor Department for specific positions with specific employers if the positions cannot be filled locally. The permits are usually valid for one-year periods and may be renewed for an additional one-year period.

Individuals in the following categories are not required to obtain work permits:

- Expatriate government employees from other territories who are in possession of a letter from the British Virgin Islands' government offering them employment.
- Expatriates married to local women for at least three years are exempt, but must apply to the Ministry of Labor for this exemption. Expatriates married to local men automatically receive the same status as their husbands.
- Children of expatriates who have completed their primary and secondary education in the British Virgin Islands.
- Individuals entering the islands to provide volunteer services. They are issued an exemption on application to the Ministry of Labor.

The application process for a work permit must be carried out from the applicant's home country rather than from within the British Virgin Islands. Work permits may be issued within eight weeks if all of the appropriate documentation is in order when it is submitted to the Labor Department.

A person coming to the British Virgin Islands for the purpose of employment must produce the following documents at the port of entry:

- A letter issued to his or her prospective employer by the Labor Department approving employment in the British Virgin Islands. The possession of such a letter does not absolve the holder from complying with visa or immigration requirements.
- A certificate of good health from the country where the applicant lived prior to arrival.
- A Police Certificate of Character, issued by the police department in the applicant's country of residence for the six-month period immediately prior to arrival in the British Virgin Islands.

Applicants wishing to establish businesses in the British Virgin Islands must obtain trade licenses from the Chief Minister's Office, work permits from the Labor Department, documents required for permanent residence and entry permits from the Immigration Department.

F. Permanent Residence

Permanent residence visas are not granted in the British Virgin Islands. Applicants for permanent residence must satisfy the same requirements at the port of entry as other visitors (see Section E). If the requirements are satisfied, an initial admittance period of one month is granted.

A person wishing to reside in the British Virgin Islands without working must provide evidence to the Chief Immigration Officer that he or she is of good character and has sufficient funds to support himself or herself and any dependants. This requirement may be satisfied by producing bank statements, a statement of pension entitlement or any other evidence that the applicant has funds adequate for this purpose.

An application for permanent residence status must be submitted to the Chief Immigration Officer of the Immigration Department and must be supported by the following:

- Evidence that the applicant wishes to make the British Virgin Islands his or her home;
- Evidence of financial support for the applicant and any dependants;
- Evidence of marriage, if applicable;
- Evidence of birth;
- Photograph of applicant and any dependants;
- A certificate of good health from the country of embarkation; and
- Two copies of a Police Certificate of Character, one from the applicant's country of birth and one from his or her country of residence prior to arrival.

G. Family and Personal Considerations

Marital Property Regime. No community property or other similar marital property regime is in effect in the British Virgin Islands.

Drivers' Permits. An expatriate cannot drive legally in the British Virgin Islands using his or her home country's driver's license. The British Virgin Islands does not have driver's license reciprocity with any other countries. A foreign national must obtain a temporary three-month driver's license from the Licensing and Traffic Department. On expiration of the temporary driver's license, the applicant may apply for a permanent driver's license by presenting his or her work permit, documents of residency or certificate of land ownership.

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A. Income Tax

Individuals are exempt from income tax in Brunei Darussalam.

Individuals who are partners are not subject to tax on their apportioned shares of partnership income.

B. Capital Gains

No capital gains tax is levied in Brunei Darussalam.

C. Estate Tax

All property, wherever situated, owned by persons domiciled in Brunei Darussalam at the time of death is subject to estate tax under the Stamp Act. Estate tax is also levied on all property situated in Brunei Darussalam that is owned by persons not domiciled in Brunei Darussalam at the time of death.

The first B$2 million of the principal value of an estate is exempt from estate tax. The excess is taxed at the rates set forth in the following table.

Principal Value (in excess of B$2 million) Exceeding B$	Not Exceeding B$	Rate %
0	3,000	0
3,000	5,000	1
5,000	10,000	2
10,000	25,000	3
25,000	50,000	4
50,000	100,000	5
100,000	150,000	6
150,000	200,000	7
200,000	300,000	8
300,000	400,000	9
400,000	500,000	10
500,000	750,000	11
750,000	1,000,000	12
1,000,000	1,250,000	13
1,250,000	1,500,000	14
1,500,000	2,000,000	15
2,000,000	3,000,000	16
3,000,000	5,000,000	17
5,000,000	7,500,000	18
7,500,000	10,000,000	19
10,000,000	—	20

D. Social Security

Brunei Darussalam does not impose social security taxes.

E. Double Tax Relief and Tax Treaties

Double tax relief is available for estate tax paid overseas on assets that are also subject to estate tax in Brunei Darussalam. Brunei Darussalam has entered into double tax treaties with Indonesia and the United Kingdom.

F. Visitor Visas

In general, visitors must obtain entry visas prior to their visits to Brunei Darussalam. However, nationals of Austria, Germany, Ireland, Malaysia, the Netherlands, New Zealand, Singapore, South Korea and the United Kingdom who have the right to reside in the United Kingdom are exempt from the requirement to obtain visas for visits not exceeding 30 days, and visitors from the United States are exempt from the requirement to obtain visas for visits not exceeding 90 days. Entry visas are also waived for visits of 14 days or less for nationals of Belgium, Canada, Denmark, France, Indonesia, Japan, Liechtenstein, Luxembourg, Maldives, Norway, the Philippines, Sweden, Switzerland and Thailand.

Visitors to Brunei Darussalam may not take up remunerated employment during their stay in the country without the prior approval from relevant authorities.

G. Work Visas and Self-Employment

Employers in Brunei Darussalam who wish to hire foreign workers are allocated quotas that permit them to employ foreign nationals. An applicant is advised to verify with his or her potential employer that an appropriate quota is available and is suitable for the employment position and nationality of the applicant.

As in most countries, foreign workers may be employed in Brunei Darussalam for positions that cannot first be satisfied by citizens or permanent residents of the country. Therefore, employers may sometimes be required to provide justification to support their desire to hire foreign individuals by documenting their efforts to first hire locals.

For health security reasons, all foreign individuals whose applications to work in Brunei Darussalam are approved must undergo medical screening tests conducted by the Ministry of Health. This screening is not required for their spouses and dependent children.

Employment Visas. To work in Brunei Darussalam, foreign nationals must obtain employment visas, which are usually granted for an initial period of three months, and subsequently extended for two-year periods, if certain requirements are met.

The following are the procedures to obtain an employment visa in Brunei Darussalam:

- The employer must apply to the Department of Labor for a labor quota. The application must state the employment position and nationality of the prospective employee. It may take up to six months for a quota approval letter to be issued.
- The employer must then enter into an employment contract with the employee, which must be filed with the Department of Labor. The employee may also be required to attend an interview.
- The employer must submit copies of the quota approval letter, employment contract and employee's passport to the Department of Immigration, together with a security deposit to cover the employee's repatriation expenses. It usually requires from three to four weeks for an employment visa to be issued.
- An employment visa is initially granted on a temporary basis, usually for three months, during which the employee must undergo medical tests. The employee must also obtain an identity card, normally renewable every two years, which is issued by the Department of Immigration.
- On expiration of the initial temporary visa, if the results of the medical tests are satisfactory, an employment visa valid for a two-year period is normally granted.

The applicant may not undertake employment in Brunei Darussalam until the employment visa is granted. He or she is required to be in the country when the application for an employment visa is made with the Department of Immigration.

Self-Employment. Self-employed foreign nationals, who are professionals, including doctors, dental surgeons, lawyers, accountants, architects and consulting engineers, may set up practices in Brunei Darussalam. Before applying for an employment visa, however, the professional must apply for a practicing license from the relevant government ministry. Applications are considered on a case-by-case basis.

H. Permanent Residence Visas

Brunei Darussalam has a restrictive policy on granting visas to foreign nationals wishing to take up permanent residence. Applications are usually turned down unless the foreign individual has resided or been working in the country for at least 20 to 25 years, in which case the application may be considered.

I. Family and Personal Considerations

Family Members. The spouse and dependent children of a foreign national working in Brunei Darussalam generally are not permitted to engage in any form of remunerated employment in Brunei Darussalam. If they wish to work, they must qualify independently for employment visas.

Student passes are required for dependent children and are processed in Brunei Darussalam. The International School and Jerudong International School, whose curricula are generally based on the British system, are available for expatriate children.

Drivers' Permits. Holders of a valid driving license obtained in other countries are usually permitted to drive in Brunei Darussalam for a limited period.

A holder of a foreign driving license who wishes to obtain a Brunei Darussalam license may apply to the Department of Land Transport for exemption from having to take a full driving test. Full or partial exemption may be granted, depending on how long the applicant has had a valid license and on the country that issued the applicant's license.

If no license is held, a full driving test, which includes both written and practical examinations, must be taken. Applicants are advised to seek professional help from driving schools because the administrative and application procedures may be complicated and the waiting time for a driving test appointment may take up to three months.

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A. Income Tax

Who Is Liable. Resident and nonresident individuals employed by a resident company are subject to tax on their employment income, regardless of where the employment activity is performed. Income derived from employment effectively performed in Bulgaria is subject to Bulgarian withholding tax. Income derived from employment with a foreign employer must be reported on an annual tax return and is subject to personal income tax. Residents are subject to income tax on their worldwide income. Nonresidents are subject to tax on their Bulgarian-source income.

An individual, regardless of citizenship, who meets one of the following criteria is considered resident under the Personal Income Tax Act:

- An individual who is a permanent resident of Bulgaria;
- An individual who spends in Bulgaria more than 183 days within a 365-day period (considered resident for the calendar year during which the stay exceeds 183 days); or
- An individual sent abroad by the Bulgarian government or a Bulgarian enterprise.

Income Subject to Tax

Employment Income. Tax on employment income is withheld by the employer and is remitted to the state budget on a monthly basis. Emoluments from employment include salary, bonuses, benefits-in-kind and inflationary compensation. Certain specified items are not subject to personal income tax, including travel and accommodation allowances and certain social benefits provided by the employer that are taxed under the Corporate Income Tax Act.

Self-Employment Income. Self-employment and business income includes but is not limited to the following: income from activity as a sole trader or from a business conducted through a permanent establishment in Bulgaria; rental income; directors' fees; professional services income; a partner's share of income from a general partnership; copyright royalties; agricultural income; and forestry income. Earnings from employment under a civil contract (for a specific task) are considered self-employment earnings.

Non-employment Income. Non-employment income is taxed annually. This type of income includes the following: income derived by self-employed individuals; individuals providing services under a civil or consultancy contract; royalties; rental income; interest (other than bank interest); income from share participations; technical services fees; and income from the sale of movables. Directors of companies rendering services under management contracts are also taxed under the non-employment income rules. Individuals performing economic activities as sole proprietors are required to adjust their taxable income under the rules stipulated in the Corporate Income Tax Act.

Exempt Income. Certain forms of income are not subject to tax, including scholarships, pensions from compulsory security, alimony and certain insurance proceeds.

Deductions. Effective from 1 January 2005, tax relief for the raising of children under the legal age is available. The relief is a deduction from the annual tax base for one of the child's parents. The maximum amount of the deduction is BGN 360 for one child, BGN 780 for two children and BGN 1,140 for three or more children. The tax relief may be claimed if certain conditions specified in the law are satisfied.

Gifts and donations to Bulgarian charities, other qualified entities or Bulgarian individuals are deductible up to 10% of annual taxable income. This percentage is increased to 50% for gifts and donations to a fund for children's medical treatment. Mandatory social security and health insurance contributions that are paid by individuals are fully deductible from taxable income. The total of the payments for voluntary pensions and voluntary unemployment insurance in Bulgarian institutions is deductible up to 10% of the gross income. The total of the payments for voluntary health, life and rent insurance paid to Bulgarian institutions is also deductible up to 10% of gross income.

Sole traders calculate their taxable income in accordance with the corporate tax regime. Health insurance and social security contributions are deductible. In general, losses incurred by sole traders may be carried forward for five years but may not be carried back.

Freelance workers, as well as persons providing services under civil contracts, may deduct between 35% and 70% of their income as expenses without providing documentation. Directors may deduct an allowance of 10% of directors' fees received without providing documentation.

Rates. Effective from 1 January 2006, employees under labor contracts are subject to tax at the following monthly rates.

Monthly Taxable Income Exceeding BGN	Monthly Taxable Income Not Exceeding BGN	Tax on Lower Amount BGN	Rate on Excess %
0	180	0	0
180	250	0	20
250	600	14	22
600	—	91	24

The following are the annual tax rates for non-employment income.

Monthly Taxable Income Exceeding BGN	Monthly Taxable Income Not Exceeding BGN	Tax on Lower Amount BGN	Rate on Excess %
0	2,160	0	0
2,160	3,000	0	20
3,000	7,200	168	22
7,200	—	1,092	24

B. Inheritance and Gift Taxes

Inheritance tax is levied on all property located in Bulgaria and is paid by the recipient. Property located outside Bulgaria and owned by Bulgarian citizens is also subject to inheritance tax. Spouses or straight-line heirs without restrictions are not subject to inheritance tax. The following flat rates apply for determining the inheritance tax for collateral and other heirs:

- For brothers, sisters and their children: 0.7% for inheritance share over BGN 250,000; and
- For other heirs: 5% for inheritance share over BGN 250,000.

Property acquired as the result of a gift between straight-line relatives or between spouses is exempt from tax.

C. Social Security

Contributions. Different social security regimes apply to employees and self-employed individuals. Social security contributions payable by self-employed individuals vary depending on the individual's activity. No distinction is made between residents and nonresidents for social security purposes.

Labor is divided into three categories, depending on the characteristics of the work performed. Professions involving harmful or risky conditions are included in the first and second categories. The rates effective from 1 January 2006 for social security contributions payable by employers and employees with respect to employees in the third labor category (that is, normal work conditions) who work under employment contracts governed by the Labor Code are set forth in the following table.

	Employer's Share (%)	Employee's Share (%)	Total (%)
Social Security			
Pension Fund			
Individuals born before 31 December 1959	14.95	8.05	23
Individuals born on or after 1 January 1960	12.35	6.65	19
Illness and Maternity Fund	2.275	1.225	3.5
Labor Accident and Occupational Disease Fund	0.4 to 1.1 (a)	0	0.4 to 1.1
Additional Mandatory Social Insurance			
Individuals born before 31 December 1959	0	0	0
Individuals born on or after 1 January 1960	2.6	1.4	4
Unemployment Fund	1.95	1.05	3
Health Insurance	3.9	2.1	6
Guaranteed Receivables for the Employees Fund (b)	0.5	0	0.5

(a) The percentage depends on the category of basic economic activities into which the company falls.

(b) This fund guarantees an allowance that is distributed to employees in the event of the bankruptcy of the employer.

Social security contributions are imposed on the gross monthly remuneration (but not less than the minimum amount for the economic activity and the profession, as stated in the Social Security

Budget Law for the respective year), up to a maximum monthly remuneration amount of BGN 1,400.

Coverage. Employees working in Bulgaria under an employment contract are covered under all of the social security funds, as well as the pension fund. Foreign nationals working under management contracts and foreign employees who work in Bulgaria are subject to social security under the same procedures as those applicable to Bulgarian employees.

Sole traders, partners in business partnerships and freelancers secure themselves by paying contributions on a chosen level of monthly income of at least BGN 220, up to BGN 1,400. For these individuals, the annual amount of social security and health insurance contributions is recalculated at the end of the year based on actual income according to the taxpayer's tax return, up to a maximum of BGN 16,800. The rate of the contribution is 29% or 32%, depending on the scope of coverage desired.

D. Tax Filing and Payment Procedures

Tax returns must be filed with the affiliates of the National Revenue Agency by 15 April following the year-end. Individuals may make corrections to their tax returns by the deadline for payment of tax. If they make such corrections, interest is not due. Otherwise, corrections must be included in a new tax return.

Entities must withhold the tax on remuneration from salaries and other compensation paid and remit the amount to the tax authorities. The employer acts as a tax collector and can be penalized for erroneous calculations and withholdings of tax.

E. Double Tax Treaties

Bulgaria's recently concluded double tax treaties closely follow the Organization for Economic Cooperation and Development (OECD) treaty model. Bulgaria has entered into double tax treaties with the following countries.

Albania	Indonesia	Portugal
Armenia	Ireland	Romania
Austria	Israel	Russian Federation
Belarus	Italy	Singapore
Belgium	Japan	Slovak Republic
Canada	Kazakhstan	Slovenia
China	Kuwait	South Korea
Croatia	Latvia	Spain
Cyprus	Lebanon	Sweden
Czech Republic	Luxembourg	Switzerland
Denmark	Macedonia	Syria
Egypt	Malta	Thailand
Finland	Moldova	Turkey
France	Mongolia	Ukraine
Georgia	Morocco	United Kingdom
Germany	Netherlands	Vietnam
Greece	North Korea	Yugoslavia
Hungary	Norway	Zimbabwe
India	Poland	

F. Entry and Visa Requirements

A foreign national may enter Bulgaria if he or she has a valid identification document (for example, a passport) and, if required, an entry visa. Foreigners may stay in Bulgaria based on the following:

- A visa;
- International agreements providing no visa or released visa regimes; and
- Permits from the offices of foreigners' administrative control, such as residence permits.

Visas are issued by the Bulgarian diplomatic and consular offices abroad, or, in the case of emergency, at the border. For nationals of certain countries, visas can be issued at the border checkpoints on the day of submission of the required documentation.

The visa type and duration depend on the following: the purpose of the visit in Bulgaria; the number of entries allowed (for example, single-entry, double-entry, or multiple entry); the term of validity; and the place of issuance. The types of visa include the following:

- Visa for air transfer: this visa allows a foreign national to get off an airplane at an intermediate airport, but the national may not leave the transit hall for international flights.
- Visa for transit passage: this visa entitles a foreign national to stay up to 24 hours in Bulgaria.
- Short-term visa (Visa "C"): This visa allows single or multiple entry to Bulgaria for a total stay of up to 90 days during a 6-month period beginning from the date of first entry. Depending on the purpose of the visit, a short-term visa can be a business-trip visa, or tourist (general) visa.
- Group visa: This visa issued to a group of foreign nationals traveling with a group passport or other document for group travel.
- Long-term visa (Visa "D"): This visa is issued to foreigners intending to stay continuously or permanently in Bulgaria.

The overall stay in Bulgaria for a foreign national based only on visa cannot exceed 90 calendar days, unless otherwise provided in an international bilateral agreement entered into by Bulgaria.

Nationals of the following countries may stay up to 90 calendar days in Bulgaria without a visa within the 6-month period beginning on the date of the first visit in Bulgaria.

Austria	Greece	Netherlands
Belgium	Hungary	Norway
Brazil	Iceland	Poland
Chile	Italy	Portugal
Croatia	Japan	San Marino
Cyprus	Korea	Slovak Republic
Czech Republic	Latvia	Slovenia
Denmark	Liechtenstein	Spain
Estonia	Lithuania	Sweden
Finland	Luxembourg	Switzerland
France	Malaysia	Uruguay
Germany	Malta	

Members of diplomatic or consular missions and public officials may stay in Bulgaria without a visa.

Nationals of the following countries may stay up to 30 calendar days in Bulgaria without a visa.

Andorra	Macedonia	Serbia and Montenegro
Australia	Monaco	United Kingdom
Canada	New Zealand	United States
Ireland	Romania	Vatican City
Israel		

G. Residence Permits

General. Residence permits are issued to foreign nationals who intend to reside in Bulgaria for more than 90 days within a 12-month period. These permits relate to the grounds for the foreign national's stay in Bulgaria.

Residence permits may be issued for a continuous stay, which is for up to one year, or for a permanent stay in the country, which is for an indefinite period.

Foreign nationals may continuously stay in Bulgaria if they meet any of the following conditions:
- They work under an employment relation and obtain a work permit;
- They are managers of Bulgarian representative offices of foreign companies or managing directors of Bulgarian branches of foreign companies, and the enterprises are registered with the Bulgarian Chamber of Commerce and Industry;
- They are EU nationals who perform commercial activities in Bulgaria, which result in the opening of more than 10 workplaces for Bulgarian citizens;
- They are accepted for studying in licensed institutions;
- They are foreign specialists staying in Bulgaria under an international agreement;
- They are members of the family of a foreigner who has received a long-term residence permit; or
- They work as freelancers or they engage in nonprofit activities or other specified activities.

Permission for a permanent stay is granted to foreign nationals that have a strong relationship with Bulgaria. For example, they have resided in Bulgaria in the preceding five years, they have been married to a Bulgarian national for more than two years, they are of Bulgarian origin, or they have a large investment in the country.

Foreigners who entered into the country under a certain ground cannot extend their stay on different grounds, except in cases of emergency, or in case of marriage with a Bulgarian national (however, the marriage must have not been the principal purpose for the foreigner's stay in Bulgaria).

Procedure. The Migration Directorate of the Ministry of Internal Affairs issues residence permits after the filing of an application by the foreigner, supported by required documents. In general, foreign nationals must provide documentation establishing the grounds on which their stay in Bulgaria is based, such as a work permit, Visa "D" and documents evidencing the performed commercial activity in the country. In addition, they must prove that they have accommodation in Bulgaria and sufficient funds for the duration of their stay in Bulgaria. The directorate makes a decision on the application or requests additional documents within seven days of the application.

Fees. A fee of BGN 500 (approximately €255) is payable for a residence permit of up to one calendar year. The fee is BGN 200 (approximately €100) for a residence permit of up to six months.

Identification Card. Foreign nationals issued continuous or permanent stay residence permits must apply for an identification (ID) card under the Bulgarian Identifications Documents Act. The application must be submitted to respective Police Department, together with the following documents:
- Two pictures;
- A copy of the foreign national's international passport; and
- A document evidencing the address of accommodation, such as a rental agreement.

An ID is card issued within 10 working days if a state fee of BGN 20 (€10) is paid or within 20 working days if a state fee of BGN 10 (€5) is paid.

H. Work Permits and Self-Employment

General. Foreign nationals intending to work in Bulgaria must obtain a work permit issued by the Bulgarian National Employment Agency if either of the following applies:
- They will work as employees for a Bulgarian enterprise; or
- With respect to a secondment (posting) by a foreign company, they will work under an intercompany arrangement for the performance of services.

A work permit must be obtained before an individual enters Bulgaria because it serves as the ground for the issuance of a visa or a long-term residence permit.

The following individuals are not required to obtain work permits:
- Foreign nationals allowed permanent residence in Bulgaria;
- Statutory representatives (for example, managers) and members of collective managing bodies (for example, board of directors and managing board) of Bulgarian corporate entities (these foreign nationals receive residence permits on the grounds of the performance of commercial activities in Bulgaria), unless employed by the Bulgarian entity with respect to an intercompany transfer;
- Foreign nationals hired or transferred for work in Bulgaria on the grounds of an international agreement to which Bulgaria is party, which explicitly provides for a release from the work permit requirement;
- Foreign nationals who are sent for work in Bulgaria on the grounds of bilateral agreements entered into by Bulgaria, which provide explicit relief from the work permit requirement, or under programs for humanitarian, financial, expert and other aid to Bulgaria; and
- Heads of representative offices of foreign entities registered with the Bulgarian Chamber of Commerce and Industry.

Requirements. Work permits are issued to foreign nationals of special education (the degree must be at least as high as one obtained from secondary specialized educational institution) and skills and professional experience, corresponding to the position to be taken in the Bulgarian hosting company or to the activities to be performed. In general, the Bulgarian employer must be ready to prove that no Bulgarian national or permanent resident is suitable for the respective position. This requirement does not apply to certain individuals, including persons holding key positions in foreign-owned entities or branches of foreign companies, and to employees of foreign companies who specialize in the installation, putting into operation and repair of foreign equipment.

In addition to the above conditions, a work permit is issued only if the overall number of foreign nationals employed by the Bulgarian company does not exceed 10% of the average number of Bulgarian nationals or permanent Bulgarian residents employed by the company.

Term. A work permit is granted for the period of the employment relation but for not more than 365 days from the date of issuance. Two consecutive extensions (resulting in an overall term of three calendar years) are possible if the employment relation or secondment has not been interrupted. As an exception, if specific conditions are satisfied, an extension beyond an overall term of three years is allowed.

Procedure. The Bulgarian employer or hosting company (in the case of a secondment) is responsible for the procedure for the issuance of a work permit, such as the submission of the documents and the payment of fees. The documents are submitted to the Labor Bureau (a local division of the National Employment Agency), which verifies their completeness. The documentation is then forwarded *ex officio* (through official mail or correspondence) to the National Employment Agency, which issues a resolution. The procedure takes approximately 30 calendar days.

Fees. A fee of BGN 600 (approximately, €300) must be paid after the National Employment Agency decides on the issuance of a work permit.

Family Members. Members of the family of a foreign national granted a work permit by the National Employment Agency and staying in Bulgaria on lawful grounds may apply for a work permit.

Freelancers. Foreign nationals intending to perform activities as freelancers in Bulgaria must apply for a permit before entering the country. A set of documents must be submitted, including the following:

- A detailed plan for the activity;
- Documents evidencing the education for the relevant activity, acknowledged in Bulgaria; and
- A document evidencing that the individual has the necessary funds to begin the activity.

The above documents are submitted to the Bulgarian embassy or consular office. They are then sent *ex officio* to the Bulgarian National Employment Office, which must decide on the issuance of a work permit not later than one month after receiving the documents. A notification is communicated to the foreign national through the Bulgarian embassy or consular office. Permits to freelancers are issued for a term of one calendar year and can be renewed without limitation.

I. Family and Personal Considerations

Family Members. The dependents of working expatriates must apply independently for their own work permits if they wish to take up employment in Bulgaria. Family members must have separate stay permits to reside in Bulgaria with the expatriates.

Marital Property Regime. The mandatory marital property regime in Bulgaria is community property. In general, all property acquired during marriage, except by gift or inheritance, is community property. The regime applies to heterosexual couples married under Bulgarian law. Foreign spouses who are citizens of the same country and who establish marital domicile in Bulgaria are not covered by the regime. However, if one of the spouses is Bulgarian, the couple is covered by the regime if their marital domicile is in Bulgaria. No formal procedure exists for establishing a marital domicile in Bulgaria.

Parliament is currently considering legislation that would allow couples to elect out of the community property regime by contract.

Forced Heirship. Bulgarian succession legislation provides for a "reserved part right" that entitles close relatives (surviving spouse, descendants and parents) to inherit a reserved part of an estate, regardless of the provisions of any will. The rules apply to the estate of a Bulgarian citizen or to property located in Bulgaria. The law of the country of citizenship applies to the estates of expatriates who die in Bulgaria.

Drivers' Permits. Foreign nationals who have valid international or national drivers' licenses, issued according to the Vienna Convention for Traffic Rules of 1968, may drive legally in Bulgaria. A driver's license that is not issued in compliance with the above convention is also valid if the foreign national carries an official, legalized translation of the document while driving in Bulgaria.

A foreign national's driver's license may be exchanged for a Bulgarian driver's license after submitting the following documents together with the license issued abroad:
• Application form;
• Photograph of the applicant;
• Medical and psychological certificates; and
• Document of education.

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A. Income Tax

Who Is Liable. Individuals who have their tax domicile located in Cameroon are subject to personal income tax on their worldwide income. Persons who have their tax domicile located outside Cameroon are subject to personal income tax only on their income derived from Cameroon. Cameroonian and foreign nationals who earn income or profits taxable in Cameroon under the terms of an international convention to avoid double taxation are also subject to personal income tax, regardless of whether their tax domicile is located in Cameroon.

An individual is considered to have his or her tax domicile located in Cameroon if he or she meets one of the following conditions:

- He or she has a home or a principal place of residence in Cameroon and lives at least 183 days in Cameroon during the tax year;
- He or she is engaged in a salaried or nonsalaried activity in Cameroon, except when this activity is an accessory activity;
- He or she maintains a "center of interests or business" in Cameroon; or
- He or she is a civil servant or state employee working in a foreign country and is exempt from tax in the foreign country.

Income Subject to Tax. For personal income tax purposes, taxable income consists of total net income from all categories earned by the taxpayer within the tax year, plus the profit from any gainful transactions engaged in by the taxpayer, less an abatement of FCFA 500,000.

Employment Income. For purposes of the personal income tax, employment income includes all cash and noncash remuneration and allowances. Benefits in kind are valued according to the following fixed percentages of gross remuneration received.

Benefit in Kind	Rate
Housing	15%
Automobile	10% for each
Domestic servant	5% for each
Electricity	4%
Water	2%
Food	10%

Allowances covering professional expenses and family-related allowances and benefits are specifically exempt. The tax base for employment income consists of gross remuneration and benefits after the 30% deduction for professional expenses (see *Deductions*).

In addition to the personal income tax, Crédit Foncier and FNE taxes are levied on employment income. The tax base for purposes of these taxes is the same as the tax base for personal income tax, except that the 30% deduction may not be claimed.

Self-Employment and Business Income. Self-employed individuals are subject to personal income tax on profits derived from activities in Cameroon. Profits are categorized into the type of activity from which they are derived—commercial, professional and agricultural—and taxable income realized from each activity is calculated separately. Total net income from all categories is then subject to personal income tax under the rules applicable to employed individuals.

Taxable income derived from commercial activities and handicrafts depends on the tax regime of the taxpayer. Self-employed individuals with an annual turnover, exclusive of tax, of FCFA 15 million to FCFA 50 million are subject to the basic tax system. Taxable profit assessed under the basic tax system is determined based on the taxpayer's statement of accounts.

In the absence of a return or accounts, the taxable income is determined by applying to turnover a percentage of profit margin, which is fixed by a decree issued by the tax authorities. The following are the rates of the profit margins.

Types of Self-Employed Individuals	Profit Rate (%)
Non-importer traders, farmers and fishermen	7.5
Importer traders, producers and service providers	20
Craftsmen	15

Self-employed individuals engaged in commercial activities or handicrafts with annual turnover, exclusive of tax, exceeding FCFA 50 million, but not exceeding FCFA 100 million are subject to the simplified tax system. Their taxable income is the difference between revenue and expenses required for operations.

Self-employed individuals engaged in commercial activities or handicrafts with annual turnover exceeding FCFA 100 million are subject to the actual earnings tax system, and their tax is calculated in the same manner as company tax.

Except for individuals engaged in the liberal professions who are also subject to the actual earnings tax system, taxable income derived from professional activities is the difference between income received and expenses paid during the tax year and is computed on a cash basis.

Profits from agricultural activities of farmers, tenant farmers and sharecroppers are included in taxable income. In general, taxable income is determined in the same manner as income derived from commercial activities.

Investment Income. Investment income is subject to withholding tax at a rate of 16.5%, which includes a 10% local surtax. Special rules apply to capital gains (see *Capital Gains*).

The following types of interest income are exempt from personal income tax:
- Interest accruing on savings accounts containing deposits of not more than FCFA10 million;
- Interest on savings accounts for housing purposes;
- Interest on home loan accounts; and
- Interest on cash notes.

Income derived from the rental of real property is subject to a 5% withholding tax if the rent is paid by government bodies and public establishments, corporate bodies or self-employed individuals assessed under the actual earnings or simplified systems. Rent paid to enterprises assessed under the actual earnings system is not subject to this withholding tax.

Directors' Fees. Directors' fees are treated as dividend income, not as employment income. They are subject to withholding tax at a rate of 15%. The tax must be withheld by the payer company and remitted to the Treasury within 15 days after the payment.

Capital Gains. Capital gains derived from the sale of real property by individuals are subject to personal income tax at a flat rate of 25%, which is withheld by the notary in charge of executing the deed of conveyance.

Gains derived from the sale of shares are subject to personal income tax as income from securities at a rate of 10% if the total amount of the gains exceeds FCFA 500,000. Otherwise, the capital gains are exempt from tax.

The tax on capital gains derived from the transfer of certain fixed assets may be deferred if the gains are reinvested.

Deductions

Employment Deductions. The following expenses are deductible in determining employment income:
- An amount equal to 30% of the gross remuneration and benefits received; and
- Pension plan contributions.

Business Deductions. Deductible expenses for commercial, professional and agricultural activities are similar. They include the following items:
- Costs of materials and inventories;
- All expenses incurred to conduct the activity (including personnel expenses, certain taxes, rental and leasing expenses, and finance charges);
- Depreciation expenses; and
- Provisions for losses and expenses.

Rates. The following are the personal income tax rates.

Taxable Income		
Exceeding FCFA	**Not Exceeding FCFA**	**Rate %**
0	2,000,000	10
2,000,000	3,000,000	15
3,000,000	5,000,000	25
5,000,000	—	35

A 10% surtax, known as council tax, is levied on the amount of personal income tax.

Contributions to Crédit Foncier are withheld from employment income at a rate of 1.5%, and contributions to FNE are withheld from employment income at a rate of 1%.

Nonresident individuals normally are taxed on Cameroon-source income only; tax is generally withheld from payments. The applicable rates depend on the nature of the payments, as shown in the following table.

Type of Payments	Rate
Employment income and income from commercial activities carried out in Cameroon	Ordinary rates of personal income tax
Dividends, interest and directors' fees	16.5% (includes 10% surtax)
Royalties and fees for technical services and professional activities	15%

B. Inheritance and Gift Taxes

For deceased Cameroon residents, estate tax is levied on worldwide personal property, real estate situated in Cameroon and intangible property located outside Cameroon. For nonresidents, only personal property and real estate located in Cameroon are subject to estate tax.

The rates of estate tax vary from 0% to 10%, depending on the value of the net assets. The tax may be reduced, depending on the relationship between the recipient and the deceased.

All deeds that transfer real estate or business assets located in Cameroon, and all gift deeds executed in Cameroon, are subject to gift tax. The rates range from 5% to 20%, depending on the relationship between the recipient and the donor.

C. Social Security

Social security contributions are calculated at the following rates on the basis of remuneration paid, including benefits in kind. Contributions of employees are withheld monthly by the employer.

Description	Rate (%)
Family allowances, paid by the employer on salary up to CFA 3.6 million a year	7.0
Retirement pension on salary up to CFA 3.6 million a year; paid by	
Employer	4.2
Employees	2.8
Industrial accidents, varies depending on the employees' activities; paid by the employer	1.75 to 5.0

Cameroon has concluded a social security totalization agreement with France to eliminate double taxation.

D. Tax Filing and Payment Procedures

The tax year is the calendar year.

Individuals are required to file an annual tax return by 15 March of the year following the tax year if they earned income other than salaries and income from securities. Otherwise, they are not required to file a tax return.

Personal income tax on employment income must be withheld monthly by employers in accordance with a scale established by the tax administration and paid to the Treasury by the 15th day of the following month. Personal income tax on income from securities is withheld at source.

An individual must pay personal income tax for commercial, handicraft, professional, and agricultural activities to the tax office in accordance with the tax system applicable to the individual (see Section A). Individuals subject to the basic taxation system must pay an installment of 1.1% of their turnover for each quarter by 15 April, 15 July, 15 October and 15 January. Individuals subject to the simplified and actual earning systems must pay their installments by the 15th day of the following month. The balance of the tax must be paid in a single payment by 15 March of the year following the tax year.

E. Double Tax Relief and Tax Treaties

In general, no credit for foreign taxes is available in the absence of a treaty. Cameroon has entered into double tax treaties with Canada and France. It has also entered into the Central African Economic and Customs Union (UDEAC) treaty, along with the Central African Republic, Chad, Congo, Equatorial Guinea and Gabon.

A foreign tax credit equal to the tax paid in the other treaty country is generally available. The UDEAC treaty provides the following relief:

- Commercial profits are taxable in the treaty country where a foreign firm performs its activities through a permanent establishment;
- Dividends are taxable in the country of source, but interest and royalties are taxable in the beneficiary's country of residence; and
- Employment income is taxed in the treaty country where the activity is performed.

Under the treaties with Canada and France, withholding taxes may be levied on interest and royalties in addition to income taxes in the beneficiary's country. The rates of withholding are generally reduced, however, and the withholding tax may be offset against the tax payable in the beneficiary's country of residence.

F. Temporary Entry Visas

All foreign nationals wishing to enter Cameroon must have passports or other valid travel documents to obtain entry visas. When applying for a temporary entry visa, an individual must present a valid passport, a certificate of accommodation and payment of CFA 60,000. Cameroon does not have a specific quota system for the issuance of visas. Several types of temporary entry visas are described in the following paragraphs.

Tourist visas are granted to foreign nationals who intend to travel in Cameroon. They are issued by diplomatic embassies or Cameroon consulates abroad. Tourist visas are valid for three months, are not renewable and permit an unlimited number of entries into the country.

Business visas are granted to foreign nationals coming to Cameroon to take up technical, industrial or commercial positions. They are valid for one year, are nonrenewable and permit multiple entries into the country.

Student visas are issued to foreign nationals coming to Cameroon to pursue studies. They are valid for six months. Students must obtain sojourn permits valid for the length of stay (see Section H).

Temporary visas are granted to foreign nationals coming to Cameroon for all other purposes (for example, for family visits). They are valid for three months, are nonrenewable and permit an unlimited number of entries into the country.

Transit visas are issued to foreign nationals passing through the country en route to other destinations. They are valid for 15 days.

G. Work Permits and Self-Employment

Work permits are valid for two years and are renewable for an unlimited number of times; the renewed permit is valid for two years. Expatriates may obtain work permits in Cameroon.

Following the submission of the necessary documentation, work permits are processed in approximately six to eight weeks.

A foreign national may be self-employed if he or she obtains a residence permit. No minimum amount of capital is necessary to be self-employed.

H. Sojourn and Residence Permits

In general, foreign nationals must obtain sojourn permits to obtain residence status. These are valid for two years and are renewable for an unlimited period. In certain cases, foreign nationals without working papers may obtain sojourn permits. It is possible to obtain a temporary visa or a business visa by having a sojourn permit authorized in Cameroon.

Foreign nationals wishing to work in Cameroon must obtain residence permits, which, unlike sojourn permits, always include work permits. Residence permits are valid for 10 years and are renewable for unlimited periods.

To receive a residence permit, foreign nationals must present a valid passport and an international certificate of vaccination at the port of entry.

In certain cases, one or more copies of the following items and information must also be presented at the port of entry to receive a residence permit:

- The work contract;
- Authorization of entry and stay delivered by the delegated general of national security;
- Date of commencement of the stay;
- Sojourn permit issued by a delegated general of national security;
- A ministerial agreement; and
- Proof of intention to repatriate.

I. Family and Personal Considerations

Family Members. Under Cameroon law, the working spouses of expatriates are not obligated to have entry visas. Generally, it is advised that spouses wishing to work file jointly with the expatriates for work permits.

Independent children of foreign nationals should obtain personal sojourn permits; dependent children residing with their parents in Cameroon must obtain authorized entry visas.

Marital Property Regime. Cameroon's elective community property regime applies only to Cameroonian nationals. Non-Cameroonian nationals who are married in Cameroon or who establish a marital domicile in Cameroon are not subject to Cameroon's marital property regime.

Forced Heirship. Forced heirship rules in Cameroon apply only to Cameroonian nationals.

Drivers' Permits. Foreign nationals may drive legally in Cameroon if they exchange their home country drivers' licenses for Cameroon licenses. No examinations are required to exchange the home country driver's license.

In the absence of a home country driver's license, a foreign national may obtain a Cameroon driver's license by filing an application with the Ministry of Transport, taking a written examination and taking a practical driving test.

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The tax rates and other information for 2006 provided in this chapter are based on known and proposed rates as of 31 December 2005.

A. Income Tax

Who Is Liable. The major determinant of Canadian income tax liability is an individual's residence status. An individual resident in Canada is taxable on worldwide income. Nonresidents are taxed on Canadian-source income only.

The tax statutes do not contain a specific definition of "residence." Accordingly, the residence of an individual is determined by such matters as the location of dwelling places, spouse, dependants and personal property; economic interests; and social ties. However, a nonresident individual who stays temporarily in Canada for 183 days or longer in a calendar year is deemed to be a resident of Canada for the entire year. This provision applies only to an individual who would otherwise be considered a nonresident, and not to an individual who purposely takes up residence in Canada or to an existing resident who ceases to be a resident after moving away from Canada. These latter individuals may be treated as part-year residents.

In certain situations, an individual may move from Canada to another country and retain enough ties to continue to be considered a Canadian resident for domestic tax purposes. At the same time, this individual may be considered a nonresident of Canada for tax treaty purposes. Individuals who become treaty nonresidents of Canada after 24 February 1998 are deemed to be nonresident in Canada for domestic tax purposes as well.

In the year that an individual becomes a Canadian resident, that individual is considered a part-year resident, and is subject to tax in Canada on worldwide income for the portion of the year he or she is resident in Canada. A part-year resident is also subject to Canadian tax on any Canadian-source income received during the nonresidency period.

Income Subject to Tax. The taxation of various types of income is discussed below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Income from employment includes salaries, wages, directors' fees and most benefits received from employment. Some examples of taxable benefits are low-interest loans, the use of company-owned automobiles, subsidized or free personal living expenses and stock-option benefits (see *Taxation of Employer-Provided Stock Options*). Among the few nontaxable benefits are employers' contributions to certain employer-sponsored retirement savings plans, including registered Canadian pension plans and deferred profit-sharing plans.

Reasonable education allowances provided by an employer to its employee with respect to the employee's children who live away from home to attend school are not taxable for income and social security tax purposes if no suitable school is available in the location where the employee is required to live as a result of his or her employment. The school must be the closest one with the following attributes: suitable boarding facilities; and the language primarily used for instruction is an official language of Canada and the language primarily used by the employee.

A Salary Deferral Arrangement (SDA) includes most situations in which the following two circumstances exist: an employee has the right to receive an amount after the end of the year instead of salaries or wages for that year or a prior year; and one of the principal purposes of the arrangement is to postpone the payment of Canadian tax. Certain foreign deferred compensation plans may be subject to Canadian tax. If the SDA rules apply, the amount of salary deferred in the year and any interest earned on amounts previously deferred are subject to Canadian tax on a current basis.

An exception applies to certain amounts that were deferred under a plan established primarily for the benefit of nonresidents. Amounts deferred before an employee becomes resident in Canada, or deferred in the first 36 months of Canadian residence are not subject to Canadian tax if the employee was a member of the plan before moving to Canada, and if the deferred amount relates to services rendered while the employee was a nonresident of Canada (or during the first 36 months of Canadian residence). Amounts deferred after an employee becomes resident in Canada that are not taxed on a current basis are usually taxed when received. Consequently, other than in the case of the above exception, an amount deferred after an employee becomes resident in Canada is taxed in the year earned, while any interest or other amount accruing on the amounts deferred before moving to Canada is not taxable unless received while a resident of Canada.

Self-Employment Income. The computation of an individual's income from a business or property is similar to that for a corporation, with business income generally computed using the accrual method of accounting.

Income derived from a partnership is allocated among the partners in accordance with either the partnership agreement or, in the absence of such an agreement, the governing partnership law. Deductions and credits also flow through to the individual partners. Special rules limit the amount of business or property losses that may be claimed by a limited partner of a limited partnership.

Directors' Fees. Directors' fees derived from Canada or a foreign country are taxable to a Canadian resident as employment income. Tax treaties signed by Canada generally do not allow a resident of Canada to exempt, or otherwise treat favorably, directors' fees received from a foreign (nonresident) company.

For a nonresident, directors' fees are considered to be earned where the services of the director are rendered. Therefore, fees for services rendered at a specific board meeting in Canada are taxable in Canada. If a fee is related to services rendered both in and outside Canada, it may be possible to prorate the fee in proportion to the number of days that the director spent in Canada during the year. However, no specific guidelines for such allocations are provided.

Under certain tax treaties, directors' fees are considered similar to compensation from regular employment. If the conditions exempting a nonresident from Canadian taxes on compensation from regular employment are met, the directors' fees are exempt.

Investment Income. Interest income may be reported by an individual using the cash basis (when received), the receivable basis (when due) or the accrual basis (as earned during the year). Whichever method is selected, it must be applied to an investment consistently. For most investments acquired after 1989, accrued interest must be included in income annually. The bonus or premium paid on maturity of certain investments, such as treasury bills, strip bonds or other discounted obligations, must be reported as interest income.

Dividends received by individuals from taxable Canadian corporations are given special treatment to recognize corporate taxes already paid on the accumulated income used as the source for the dividend distribution. For these dividends, 125% of the actual amount received is included in income, and a credit against tax (federal and provincial tax combined) is allowed in an amount approximately equal to 25% of the cash amount of the dividend. For many Canadian-controlled private corporations and their shareholders, the result of this gross-up and dividend tax credit procedure is that the combined corporate tax on the original income and the net personal tax on the dividend is approximately equal to the tax that would have been paid on the original income had it been received directly by the individual rather than passed through the corporation.

Royalties and rental income are taxed as ordinary income. In computing a loss from the rental of real estate or leasing of other property, allowable depreciation generally is limited to the net income determined before deducting depreciation. Therefore, the depreciation claimed by an individual may not create or increase a rental loss.

Passive Income Derived by Nonresidents. Nonresidents with sources of income from Canada other than employment or business income generally are subject to a withholding tax of 25% of gross income received. Examples of income subject to withholding tax are rental income, royalties, interest, dividends, trust income, pensions and alimony. The payer must withhold and remit the appropriate amount of tax and must file the required returns.

For the recipient, withholding taxes generally are final taxes, and tax returns are not required for income subject to withholding.

Interest payments on most government and certain corporate bonds are exempt from withholding taxes. Specifically, no tax is withheld on interest paid by a corporation resident in Canada to an arm's length nonresident if all of the following conditions are met:

- The indebtedness was issued after 23 June 1975;
- The Canadian corporation is not obliged to pay more than 25% of the principal amount of the indebtedness within five years from the date of issue; and
- The interest owed on the bond is not related to the Canadian corporation's revenue, cash flow or profits.

The exemption applies even if the debt is convertible into shares, provided that the shares may not be redeemed or canceled within five years after the issue of the debt.

Interest paid to nonresidents on foreign-currency deposits at financial institutions is also exempt from withholding tax.

Canada's double tax treaties generally reduce withholding taxes to 15% or less on most types of passive income paid to nonresidents.

Other Sources of Income. Other amounts that must be included in income are receipts from superannuation or pension plans and amounts paid from Canadian Registered Retirement Savings Plans. In general, amounts received as a result of severance pay in recognition of long service at retirement, and spousal support payments (deductible to the payer, subject to certain limitations) are also includible in income. Child support payments pursuant to agreements or court orders made on or after 1 May 1997 are neither taxable to the recipient nor deductible by the payer. Payments made pursuant to agreements or court orders made before 1 May 1997, continue to be taxable to the recipient and deductible by the payer. However, the new rules may apply if the amount of child support payable under the agreement is changed.

Taxation of Employer-Provided Stock Options. Individuals are not taxed when the employer grants the stock options. In general, tax consequences arise when the employee exercises the options. Canadian tax rules require that a taxpayer include a stock option benefit in taxable income in accordance with the table below (special rules apply specifically to Canadian-controlled private corporations). The information in the table reflects Canada Revenue Agency's general assessing practice. However, under certain circumstances, a different position may be taken. This position is based on an allocation of the related employment services performed or to be performed for which the stock option is granted.

Residence Status of Recipient at Date of Grant	Residence Status of Recipient at Date of Exercise	Option Benefit Taxable in Canada
Resident of Canada	Resident of Canada	Yes (a)
Resident of Canada	Nonresident	Yes (b)
Nonresident	Resident of Canada	Yes (c)
Nonresident	Nonresident	No

(a) 100% of the benefit is taxable in Canada in the year of exercise and is generally considered to be 100% Canadian-source (however, see *Tax Deferral Election*).

(b) 100% of the benefit is taxable in Canada in the year of exercise and is generally considered to be 100% Canadian-source. Stock options are not subject to the deemed disposition rule if an individual ceases to be a Canadian resident (however, see *Tax Deferral Election*).
(c) 100% of the benefit is taxable in Canada for a Canadian resident in the year of exercise. The benefit is considered to be 100% foreign-source and is therefore eligible for a foreign tax credit.

Pending proposals regarding the Organization for Economic Cooperation and Development (OECD) model treaties, Canada Revenue Agency's position may change with respect to the sourcing of the stock option benefit.

The amount of the taxable benefit is equal to the difference between the value of the shares at the time the shares are acquired and the sum of the exercise price paid for the shares plus the amount paid, if any, for the stock option. The shares have a cost basis equal to the fair market value of the shares at the time of acquisition, provided the employee does not hold identical shares of the issuer at that time.

The employee may be entitled to a deduction equal to 50% of the taxable benefit (25% for exercises after 31 March 2004 for Quebec residents) if the option price is at least equal to the fair market value of the shares on the date of grant, if the shares are prescribed shares and if certain other conditions are met. The effect of this deduction is taxation of the benefit at tax rates applicable to taxable capital gains.

Tax Deferral Election. Employees of companies whose shares trade on prescribed stock exchanges may elect to defer taxation of the taxable benefits arising on the exercise of a qualifying stock option (subject to an annual limit), until the date of disposition of the share, or until deemed disposition arising from the taxpayer's death or emigration from Canada. The inclusion rate for qualifying stock option benefits is 50% (75% for exercises after 31 March 2004 for Quebec residents); that is, the stock option deduction is 50% (25% for exercises after 31 March 2004 for Quebec residents) of the taxable benefit.

If the employee is a resident of Canada at the time that the shares are sold, any gain is subject to the regular capital gains rules. If the employee ceases to be a Canadian resident prior to the sale of the shares, then he or she is subject to the deemed disposition rules at departure (see *Capital Gains and Losses*).

Capital Gains and Losses. Fifty percent of the year's capital gains are included in taxable income, to the extent that the amount exceeds 50% of capital losses for the year. This includes capital gains on real estate and personal property, regardless of whether used in a trade or business, and on shares held for personal investment. Special rules apply to determine the nature of the gain or loss on the sale of depreciable property.

The adjusted cost basis of identical shares must be averaged for the purpose of determining the capital gain or loss on a disposition of such shares if the individual has acquired shares of a particular corporation at different dates.

Special rules apply to the calculation of the adjusted cost basis if shares subject to a stock option deferral election have been disposed of or if the specific identification method is used to calculate the adjusted cost basis.

Capital gains derived from the sale of a principal residence are generally exempt from tax. Capital losses incurred on the sale of a principal residence may not be used to reduce income for the year.

Gains derived from the sale of qualifying farm property and from shares of small business corporations (see below) qualify for a lifetime C$500,000 exemption. However, the amount of this exemption is reduced by any amounts claimed in prior years under the C$100,000 lifetime capital gain exemption that was eliminated in 1994.

Qualifying Farm Property. Farmers are eligible for a lifetime C$500,000 exemption on the sale of qualified farm property, which includes farmland, shares of a family farm corporation or interest in a family farm partnership. The available exemption is reduced by the amount of any exemption claimed on the disposition of any other capital property during the tax year or in preceding years.

Shares of a Small Business Corporation. Capital gains realized on the disposition of shares of a small business corporation qualify for a lifetime C$500,000 capital gains exemption, provided that certain criteria are met. This exemption amount is reduced by any portion of a gain eligible for the exemptions described in the preceding paragraphs.

The use of this exemption may be restricted in a particular year because of cumulative net investment loss (CNIL) rules. Essentially, an individual's CNIL is the excess of his or her post-1987 investment expenses over investment income for those years. To the extent that an individual has a CNIL balance, the capital gains for the year that are eligible for the exemption are reduced.

An individual using the various capital gains exemptions may nevertheless be subject to minimum tax.

For capital gains realized after 17 October 2000, individuals are permitted a tax-free rollover on the disposition of an eligible small business investment if the proceeds of the disposition are used to make other eligible small business investments. A limit of C$2,000,000 is imposed on the amount of the original investment or reinvestment that qualifies for the tax-deferred reinvestment on disposition.

Capital Losses. Except for allowable business investment losses, capital losses not utilized in the year realized are deductible only against net capital gains realized in another year. Unused capital losses may be carried back to any of the three preceding years or may be carried forward indefinitely.

Allowable business investment losses (ABILs), a special type of capital loss, are deductible against any other source of income in the year incurred. Any unused ABIL realized in a particular year is converted into a business loss and is subject to the business loss carryover rules described in Relief for Losses. If an unused portion of the ABIL remains at the end of the seven years following the year when it was realized, the loss converts back into a capital loss and may be carried forward indefinitely.

Ceasing Canadian Residency. An individual who ceases Canadian residency after 1 October 1996 is generally deemed to have disposed of all assets, including taxable Canadian property, other than real property situated in Canada, capital property or inventory used in carrying on a business in Canada, certain pension rights and unexercised employee stock options, at the fair market value on the date that residency is terminated. Previously, a broader category of property was excluded from this deemed disposition rule. The deemed disposition rule is commonly referred to as the "departure tax."

The following special tax rules and exceptions apply to individuals entering or leaving Canada with respect to the calculation of capital gains or losses and the general deemed disposition rule:

- The departure tax provision is modified for an individual who was not resident in Canada for more than 60 months during the 120-month period preceding departure. Property owned by such an individual when he or she became resident, or property inherited since that time, is not subject to the deemed disposition rule.
- Nonresidents who return to Canada after emigrating may elect to reverse the tax effects of the deemed dispositions regardless of how long they were nonresidents.
- Emigrating taxpayers who are subject to the deemed disposition rules may post security for the departure tax. An individual will not be required to provide security for an amount at least equal to the taxes payable on the first C$50,000 of taxable capital gains resulting from the deemed dispositions.

Deductions

Deductible Expenses. Few deductions are allowed in computing income from employment. Among the deductible items are employee contributions to a registered pension plan (up to a certain maximum amount), travel and certain other expenses of commission employees, certain travel expenses of other employees, and union or professional dues.

Employers must generally withhold income tax, government pension contributions and unemployment insurance premiums from remuneration paid to employees, and must remit those amounts to the tax authorities for credit to the employees' accounts.

Interest may be claimed as a deduction in the year it is paid or when it becomes payable, depending on the taxpayer's normal practice, as long as the money is borrowed for the purpose of earning income. Other costs, including investment counseling fees and accounting costs (but not tax return preparation fees), are deductible. Personal interest, including interest on mortgages or charge accounts, is not deductible.

Other deductions include contributions to registered retirement savings plans (an individual retirement income plan), payments for alimony, expenses for certain moves within Canada and certain child-care expenses.

Federal Personal Credits and Allowances. A resident individual is allowed to deduct several federal personal tax credits in computing the amount of basic federal tax for the year. Personal tax credits include a basic personal credit of C$1,356 for 2006, a spousal credit subject to thresholds for spousal income, a disabled dependent's credit, an age credit, a disability credit, and education and tuition fee credits. An employee's contributions to the Canada/Quebec pension plan and to employment insurance are also eligible for tax credit treatment.

Charitable donations (up to 75% of net income) are eligible for a federal tax credit of 15% on the first C$200 and a tax credit of 29% for donations in excess of C$200. The unused portion of the donation credit may be carried forward for up to five years. Similarly, medical expenses in excess of the lesser of C$1,885 or 3% of net income are eligible for a federal tax credit equal to 15% of the excess. An individual is eligible for a federal tax credit of up to C$150 on the first C$1,000 of qualifying pension income.

The federal credit amounts mentioned above are based on known and proposed amounts as of 31 December 2005. The credit amounts are indexed annually for inflation, which in the past several years has ranged from 2% to 3%.

Provincial Tax Credits. Several provinces provide provincial tax credits against taxes otherwise payable for certain groups of taxpayers. The credits are available to taxpayers with low incomes and are calculated by reference to rental or other occupancy costs.

Business Deductions. Interest and other charges incurred to acquire business assets or investment property generally may be deducted. Limitations apply to the deduction of automobile and home office expenses. Deductions for business meals and entertainment expenses are limited to 50% of actual expenses.

Rates

Federal/Provincial Tax Authorities. The federal government, as well as the provinces and territories, impose income taxes on resident individuals. However, only the province of Quebec collects its own individual income tax and requires filing a separate return. The federal government collects the tax on behalf of all other provinces and territories, which means that only one combined return must be filed.

The calculation of an individual's tax payable is a two-step process. An individual's federal income tax for a given year is calculated on taxable income using a single graduated rate schedule. From this amount, allowable federal personal tax credits (see *Federal Personal Credits and Allowances*) and the dividend tax credit are deducted. The net result is the individual's basic federal tax payable.

Income tax is generally paid to one of the provinces or territories based on the individual's residency on the last day of the year. With the exception of Quebec (which has always administered its own separate and distinct tax systems), provincial tax has typically been calculated by applying the appropriate provincial rate to the basic federal tax payable. However, all of the provinces and territories have recently implemented new personal tax systems, which are based on taxable income rather than on federal tax.

Under the new system, a separate calculation of taxable income, which is similar to the calculation of federal taxable income, is required. However, the treatment of certain items may differ.

For a sample tax calculation, see Appendix 2.

Federal Tax Rates. Canada has four tax brackets for federal income tax purposes. These brackets are indexed annually by the inflation rate for the period from 1 October to 30 September of the previous year. The federal tax brackets and rates for 2006 shown below are based on known and proposed amounts as of 31 December 2005.

Taxable Income		Tax on Lower	Rate on
Exceeding C$	Not Exceeding C$	Amount C$	Excess %
0	36,378	0	15
36,378	72,756	5,457	22
72,756	118,285	13,460	26
118,285	—	25,297	29

Top Marginal Combined Rates. The following table summarizes the top marginal combined federal and provincial/territorial tax rates in 2006 for an individual residing in various provinces and territories.

	Top Marginal Combined Rate (a)		
	Ordinary Income %	Dividends (b) %	Capital Gain (c) %
Alberta	39.00	24.08	19.50
British Columbia	43.70	31.58	21.85
Labrador and Newfoundland	48.64	37.32	24.32
Manitoba	46.40	35.08	23.20
New Brunswick	46.84	37.26	23.42
Nova Scotia	48.25	33.05	24.12
Northwest Territories	43.05	29.64	21.52
Nunavut	40.50	28.96	20.25
Ontario	46.41	31.34	23.20
Prince Edward Island	47.37	31.96	23.69
Quebec	48.22	32.81	24.11
Saskatchewan	44.00	28.33	22.00
Yukon	42.40	28.64	21.20
Nonresident	42.92	—	—

(a) The rates shown are the maximum combined federal and provincial/territorial marginal tax rates, including surtaxes. The rates are based on known and proposed amounts as of 31 December 2005 (see *Top Marginal Provincial and Territorial Rates*).

(b) The rates apply to the actual amount of taxable dividends received by individuals from taxable Canadian corporations.

(c) Only 50% of capital gains is included in taxable income (see *Capital Gains and Losses*). Consequently, total capital gains are effectively taxed at 50% of the ordinary tax rates.

Top Marginal Provincial and Territorial Rates. The following table summarizes the top marginal provincial and territorial tax rates in 2006 for an individual residing in various provinces and territories.

	Top Marginal Provincial/ Territorial Rate on Ordinary Income (a)(b) %
Alberta	10.00
British Columbia	14.70
Labrador and Newfoundland	19.64 (d)
Manitoba	17.40
New Brunswick	17.84
Nova Scotia	19.25 (d)
Northwest Territories	14.05
Nunavut	11.50
Ontario	17.41 (d)
Prince Edward Island	18.37 (d)
Quebec	24.00 (c)
Saskatchewan	15.00
Yukon	13.40 (d)
Nonresident	13.92 (e)

(a) The rates shown are the maximum provincial/territorial marginal tax rates, including surtaxes. The rates shown are based on known and proposed amounts as of 31 December 2005.
(b) All provinces have implemented the tax-on-income system. Provincial and territorial tax calculations are based on a single graduated rate schedule applied to provincial/territorial taxable income.
(c) Residents of Quebec receive a federal tax abatement of 16.5% of basic federal tax.
(d) These jurisdictions levy an additional surtax on high-income earners, ranging from 5% to 56% of provincial/territorial taxes payable in excess of certain threshold amounts.
(e) Surtax at a rate of 48% of basic federal tax applies to an individual's income that is not earned in a province or territory, which is intended to approximate provincial/territorial tax rates.

Minimum Income Tax. To ensure that high-income taxpayers pay a certain level of tax, an alternative minimum tax applies. Under its provisions, individuals are required to recalculate taxable income, without deducting certain items that are otherwise deductible in the regular tax calculation. In recalculating taxable income, a blanket C$40,000 exemption is permitted. Individuals pay the greater of the regular tax or the minimum tax. If the minimum tax exceeds the regular tax, the excess amount may be carried forward for seven years. The carryforward amount may be used to reduce regular tax to the extent that regular tax exceeds minimum tax.

Relief for Losses. In general, business losses not utilized in the year incurred may be deducted from taxable income earned in the three years preceding the year of loss or in the seven years following the year of loss.

B. Estate and Gift Taxes

Canadian succession law does not include estate or gift tax. However, provincial probate fees may apply at rates that vary depending on the province.

In the year of death, the income of a deceased taxpayer includes income on an accrual basis from all sources up to the date of death, including accrued capital gains and losses. Various provisions alleviate hardship caused by the taxation of income and capital gains on an accrual basis at death. Among these provisions are the options to file a separate tax return for certain types of income and to tax the beneficiaries on certain transferred amounts. Special tax-free rollover provisions are available for property transferred to the Canadian-resident spouse of the deceased or to a qualifying trust for the benefit of the spouse, and for transfers of farm property to a child of the deceased.

C. Social Security

Contributions. Individuals employed in Canada and their employers must each make government pension plan contributions at a rate of 4.95% on salaries. They must also pay employment insurance premiums.

In 2006, an employee's required employment insurance premiums are calculated at a rate of 1.87% on the maximum annual amount of insurable earnings of C$39,000. This results in a maximum annual premium of C$729.30. Employers must make contributions equal to 1.4 times the amount of the employee's premiums, up to a maximum of C$1,021.02.

In 2006, the maximum amount of earnings subject to pension plan contributions is C$42,100, with a basic exemption of C$3,500. This results in a maximum annual contribution for employers and employees of C$1,910.70 each. Self-employed individuals must pay both portions for a maximum annual contribution of C$3,821.40.

Individuals are subject to social security contributions for the government pension plan (but not for employment insurance) on directors' fees in the same manner that they are for other employment income. It may be relevant whether the fees are subject to social security contributions in the other country.

Coverage. The following table shows the maximum monthly amounts of the listed Canada pension plan benefits for 2006 (the Quebec pension plan provides similar benefits).

Benefit	Amount (C$)
Retirement	844.58
Disability	1,031.02
Survivor with disability	1,031.02

The maximum amounts are paid to a person at 65 years of age. The pension amount is reduced if a person retires before reaching 65 years of age.

Canadian resident individuals or employers may have to contribute to health care plans operated by the provinces. Most hospital bills and physicians' fees, including those for drugs and dental care in some provinces, are covered by these plans.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Canada has entered into totalization agreements with the countries listed below (as of 14 February 2006). The agreements usually apply for a maximum of two to five years. The province of Quebec may not follow the agreements listed below.

Antigua and Barbuda	Guernsey	Norway
Australia	Hungary	Philippines
Austria	Iceland	Portugal
Barbados	Ireland	St. Kitts and Nevis
Belgium	Israel	St. Lucia
Chile	Italy	St. Vincent and the Grenadines
	Japan*	

Croatia	Jamaica	Slovak Republic
Cyprus	Jersey	Slovenia
Czech Republic	Korea (South)	Spain
Denmark	Latvia*	Sweden
Dominica	Lithuania*	Switzerland
Estonia*	Luxembourg	Trinidad and Tobago
Finland	Malta	
France	Mexico	Turkey*
Germany	Morocco	United Kingdom
Greece	Netherlands	United States
Grenada	New Zealand	Uruguay

* Agreements have been signed, but they are not yet in force.

D. Tax Filing and Payment Procedures

Married persons are taxed separately, rather than jointly, on all types of income. Therefore, spouses must file separate tax returns.

Individuals must file tax returns if they owe tax or if they are specifically requested to do so by the tax authorities. In addition, because of the capital gains exemption rules (see Section A), all individuals with capital gains or losses must file income tax returns, regardless of whether tax is owed for the year.

Nonresident individuals generally must file Canadian income tax returns if they earn employment or business income (including resource income, which is generally oil, gas and mineral rights) in Canada or if they have capital gains from dispositions of "taxable Canadian property" (TCP), which includes the following property:

- Real estate in Canada;
- Property used in carrying on a business in Canada;
- Shares of a company resident in Canada other than a public corporation;
- Shares of a public company resident in Canada if the nonresident alone or with related persons held at least 25% of the shares of any class within the preceding 60 months;
- A capital interest in a trust resident in Canada;
- An interest in a partnership having at least 50% of its value represented by the items listed above, by resource property or by both; and
- The shares of a nonresident corporation and an interest in a nonresident trust if, during any time in the 60-month period prior to disposal, at least 50% of the value was generated by the items listed above, including resource property.

Canada's double tax treaties may modify or exempt nonresidents from these tax provisions.

The tax year for individuals in Canada is the calendar year. Annual income tax returns must generally be filed on or before 30 April of the year following the tax year. The filing due date is extended to 15 June for individuals earning self-employment or business income. This extended due date also applies to these individuals' spouses. No other extension of time to file income tax returns is available in Canada.

Any unpaid income taxes are due on or before 30 April of the following year, regardless of the due date of the individual's return. Penalties are levied if any tax due is not paid on time, and interest is charged on unpaid taxes.

Individuals may be required to make quarterly installment payments if the difference between tax payable and the amount withheld at source is greater than C$2,000 (for Quebec residents, C$1,200 of federal tax payable after federal withholding) in both the current year and either of the two preceding years. The amount of the quarterly installments is based on the lesser of the liability calculated by the tax authorities on installment notices, the liability for the preceding year or the liability projected for the current year after deduction of withholdings.

Taxpayers coming to or departing from Canada during a tax year are taxed on their worldwide income for the portion of the year in which they are residents of Canada. They are entitled to the same deductions and tax credits for the period of residency as a full-time resident with the exception of personal credits, which are prorated for the number of days during the year in which they are resident in Canada.

E. Double Tax Relief and Tax Treaties

Foreign Tax Relief. Foreign taxes paid are generally allowed as credits. If an individual receives foreign-source income that has been subject to foreign tax, foreign tax credit relief may be provided in Canada to reduce the effects of double taxation. The foreign tax credit is computed on a country-by-country basis and may be taken only to the extent of Canadian tax payable on the net foreign income from the country. Separate foreign tax credits are computed for business income and nonbusiness income. The nonbusiness foreign tax credit allowed on income derived from property, other than real property, is further limited to 15% of gross foreign income from property.

To the extent that foreign taxes paid on foreign nonbusiness income are not credited against Canadian federal tax, the individual may deduct the excess amount in computing income derived from property. The individual also has the option of deducting from property income any foreign nonbusiness income taxes paid, rather than applying the amount for foreign tax credit purposes.

Unused foreign business tax credits may be carried back three years and forward seven years. Unused foreign nonbusiness tax credits are not eligible for carryover.

Provincial foreign tax credit relief is also provided. The provincial tax credit is generally limited to the lesser of the provincial taxes payable on the income and any foreign tax paid exceeding the amount of tax allowed as a credit and deduction for federal income tax purposes.

Double Tax Treaties. Canada has negotiated double tax treaties with most major industrialized nations and many developing nations. All treaties negotiated after 1971 generally follow the provisions of the model treaty developed by the Organization for Economic Cooperation and Development (OECD). Many treaties currently in force were negotiated prior to 1972 and may vary significantly from the OECD model treaty.

Double tax treaties have been entered into with the following countries (as of 14 February 2006).

Algeria
Argentina
Armenia
Australia
Austria
Azerbaijan
Bangladesh
Barbados (c)
Belgium
Bolivia (c)
Brazil
Bulgaria
Cameroon
Chile
China (b)(c)
Colombia (c)
Costa Rica (c)
Côte d'Ivoire
Croatia
Cuba (c)
Cyprus
Czech Republic
Denmark
Dominican Republic
Ecuador
Egypt (c)
Estonia
Finland (c)
France
Gabon (a)
Germany
Greece (c)
Guyana
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy (a)
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Korea (South) (c)
Kuwait
Kyrgyzstan
Latvia
Lebanon (a)
Lithuania
Luxembourg
Madagascar (c)
Malaysia
Malta
Mauritius (c)
Mexico (c)
Moldova
Mongolia
Morocco
Namibia (c)
Netherlands
New Zealand
Nigeria
Norway
Oman
Pakistan
Papua New Guinea
Peru
Philippines
Poland
Portugal
Romania
Russian Federation
Saint Lucia (c)
Senegal
Serbia and Montenegro (c)
Singapore (c)
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Tanzania
Thailand
Trinidad and Tobago
Tunisia
Turkey (c)
Ukraine
United Arab Emirates
United Kingdom
United States (c)
Uzbekistan
Venezuela
Vietnam
Zambia
Zimbabwe

(a) The treaty is signed, but is not yet in force.
(b) This treaty does not apply to Hong Kong.
(c) This treaty is under negotiation or renegotiation.

F. Temporary Permits

Entry Visas. An individual who is not a citizen or permanent resident of Canada and who wishes to enter the country as a tourist, business visitor, student or foreign worker must obtain a Temporary Resident Visa. However, nationals of certain countries are exempt from this requirement, including citizens and green-card holders of the United States and citizens of Japan and most European nations.

Tourists. An individual wishing to enter Canada as a tourist must generally first secure a Temporary Resident Visa. However, nationals from certain designated countries do not require entry visas. In these circumstances, the individual may simply present himself or herself at a Canadian port of entry for admission into Canada if he or she can produce a valid passport or other equivalent travel documents, such as a United States birth certificate and photo identification. Visitors are generally admitted to Canada for periods of up to six months after the original date of entry. Extensions may be obtained within Canada, depending on the circumstances.

Business Visitors. An individual wishing to enter Canada as a business visitor generally must first secure a Temporary Resident Visa, unless the individual is a national from a visa-exempt country. A foreign national may enter Canada as a business visitor, without obtaining a work permit, in certain limited instances. In general, these instances are limited to foreign nationals engaging in international business activities in Canada without directly entering the Canadian labor market, such as attending business meetings with colleagues. Other common circumstances in which a foreign national may enter Canada as a business visitor include the following:

- Foreign nationals seeking to purchase Canadian goods or services or receive training and familiarization with such goods or services;
- Foreign nationals giving or receiving training with a Canadian parent or subsidiary of the corporation that employs the foreign national abroad; and
- Foreign national sales representatives who come to Canada to sell goods (or services) manufactured outside Canada, if they do not sell to the general public.

G. Work Permits

The right to work in Canada is relatively restricted, but certain exceptions exist. The federal government, through Service Canada and Human Resources and Social Development Canada (HRSDC), is responsible for ensuring that all employment opportunities arising in Canada are offered to Canadian citizens and Canadian permanent residents before confirming that a particular job may be offered to a foreign worker. A foreign worker may apply to Citizenship and Immigration Canada (CIC) for a work permit only after Service Canada has confirmed to the employer that a job may be offered to a foreign worker. In certain circumstances, an employer is exempt from obtaining approval from Service Canada (see *Exempt Categories*), and the qualifying employee may apply directly to CIC at a port of entry for a work permit.

Labour Market Opinion. Except for certain exempt categories of employment (see *Exempt Categories*), a Canadian employer must demonstrate to Service Canada that a job offer to a foreign worker is likely to have a positive or neutral effect on the Canadian labor market. In reaching its opinion, Service Canada considers a number of factors, including the efforts made by the employer to recruit Canadians for the position, whether the work will result in direct job creation or retention for Canadians, and whether the work will result in the creation or transfer of skills and knowledge for the benefit of Canadians. Once Service Canada is satisfied that these criteria are met, it will issue a Labour Market Opinion (LMO) confirming the job offer to the foreign worker, who must then submit an application for a work permit to the CIC. Work permits are issued for a specific period of time, depending on various factors. To obtain an extension of a work permit, another LMO must be obtained and an application must be submitted to the CIC processing center in Canada. In general, temporary foreign workers may work in Canada for up to five years. If a foreign worker is contemplating a longer stay, he or she should consider obtaining permanent resident status.

Exempt Categories. Canadian immigration policies, which are administered by CIC, recognize that in certain specific situations, it is in Canada's best interest to waive the requirement to obtain a LMO. The most common LMO exempt categories are discussed below.

North American Free Trade Agreement Professionals. The North American Free Trade Agreement (NAFTA) provides a special opportunity for U.S. and Mexican citizens to secure a Canadian work permit. Applicants with certain education and skill levels may accept job offers from Canadian employers in listed professions. For certain professions, licensing in Canada may also be required. Listed professions include, among others, accountants, architects, economists, engineers, hotel managers, lawyers, librarians, management consultants and scientists. Applications for work permits under the NAFTA Professionals category may be made at a Canadian port of entry, although certain clearance procedures for Mexican citizens must first be reviewed by Canadian visa officials at posts abroad.

Students. Certain exemptions provide students with the opportunity to gain Canadian work experience. The following situations are covered under this category:

- A full-time student at a post-secondary institution seeks to engage in on-campus employment or, in certain circumstances, off-campus employment.
- The spouse of a foreign student wishes to work in Canada while the student is attending a full-time course at the post-secondary educational level.
- A foreign student who has graduated from a post-secondary educational program in Canada obtains a post-graduation work permit to allow the student to be hired for up to one year by a Canadian employer in an area directly related to his or her field of education. In certain Canadian provinces, the post-graduation work permit may be issued for two years.
- A reciprocal arrangement with the student's home country exists, creating working holidays or student work programs, allowing young people of certain countries to work in Canada for up to one year. Countries with which Canada has these reciprocal agreements include Australia, Japan, Sweden, the United Kingdom and the United States.

Intracompany Transfers. The most common confirmation-exempt category, the exemption for intracompany transfers, is designed to facilitate the transfer of "managerial" and "specialized knowledge" personnel from companies affiliated with those established in Canada. The applicant must be employed by the foreign affiliate for at least one year in the previous three years prior to the transfer, and must come to Canada to take a "senior management," "executive" or "specialized knowledge" position.

Information Technology Workers. The CIC, in conjunction with the HRSDC, has developed a national program designed to expedite the processing of temporary work permits for certain software professionals.

Spousal Work Permits. Spouses, including common-law and same-sex partners, who are in Canada accompanying their foreign worker or student spouses ordinarily qualify for work permits themselves under the spousal work permit program. These work permits are "open" work permits, which allow the accompanying spouse to work for any employer in Canada and are valid for a period concurrent with the foreign national spouse's status in Canada.

Self-Employment. A work permit may be issued to a self-employed individual if a Canadian visa officer is satisfied that the individual has the necessary skills, experience and capital to establish a business in Canada that would result in the creation or maintenance of significant social, cultural or economic benefits or opportunities for Canadians. To qualify, the applicant may not be employed by an existing Canadian employer.

H. Permanent Residence Status

Business Class Immigration Program. Canada has an immigration program designed to attract experienced businesspeople who will create jobs and contribute to Canadian economic development. The three specific categories of business immigrants are entrepreneurs, investors and self-employed persons.

Entrepreneurs. Entrepreneurs are experienced businesspeople who wish to buy or start a business in which they have an active and ongoing managerial role. The business must create jobs for one or more Canadians or permanent residents, other than the principal applicant and his or her dependents. Applicants must invest a substantial amount in the venture they establish within three years of permanent residency in Canada. Applicants must demonstrate their business experience and a minimum net worth of C$300,000. Such investment, the employment creation and the applicant's management role are reviewed by Canada immigration officials over this three-year conditional period. Applicants must meet the conditions of this category within a period of three years after the day when they become permanent residents of Canada. This category includes businesspeople who are experienced in managing small and medium-sized enterprises.

Investors. Investors must have a proven track record in business, as well as a minimum net worth of at least C$800,000 acquired through the foreign nationals' own endeavors. A minimum investment of C$400,000 is locked into government-sponsored investment funds for five years. The principle amount invested is fully insured by the government. Third-party financing may be permitted.

Self-Employed Persons. Self-employed persons are individuals with relevant experience in cultural activities, athletics or farm management. Applicants must have the intention and ability to establish a business that will, at a minimum, create employment for themselves, and must make a "significant contribution" to cultural activities or athletics, or purchase and manage a farm in Canada.

Skilled Worker Applicants. The Skilled Worker Class, through which the majority of applicants are assessed, is designed for individuals who are prepared to enter the Canadian work force and have education, skills and expertise. The assessment system is based on a "points grid," which awards applicants points under a number of factors, including age, education, language ability and work experience. To qualify for immigration under the Skilled Worker Class, an applicant must be assessed at least 67 out of a possible 100 points.

Residence. To maintain residence in Canada, an individual must be physically present in Canada for at least 730 days in the previous 5-year period (that is, for 2 out of 5 years). The previous five years is calculated from the date the individual seeks to re-enter Canada as a permanent resident. However, certain time spent outside Canada may qualify as physical presence in Canada and may be counted towards the 730-day requirement, including the following: time spent outside Canada accompanying a Canadian citizen spouse or common-law partner; time spent outside Canada employed on a full-time basis by a Canadian business or in the public service of Canada or a province; and time spent outside Canada accompanying a Canadian permanent resident spouse or common-law partner who is employed on a full-time basis by a Canadian business or in the public service of Canada or a province.

I. Family and Personal Considerations

Family Members. The spouse and any dependent children of the holder of a Canadian work permit may enter and reside in Canada for a term concurrent with the principal holder's work permit. These family members are usually issued Temporary Resident Visas, if required, to document their status as accompanying family members. Study Permits for minor children are not required unless the children require Temporary Resident Visas to enter Canada. Attendance at a post-secondary institution requires a letter of acceptance from that institution prior to the issuance of the Study Permit. Study Permits are not required if the student is enrolled in a short-term program in Canada of six months or less.

Married spouses, common-law, and same-sex partners may be eligible for work permits if their spouse/partner is in Canada on a work permit or a study permit. A "common-law partner" is defined as a person who has been cohabiting with the person in a conjugal relationship for a period of at least one year. An applicant for a Spousal Work Permit may be eligible for an open work permit if the applicant's spouse is performing work that is at a management level, is a professional occupation, or is a technical or skilled trade and is valid for a term of at least six months.

Drivers' Permits. Foreign nationals may drive temporarily in Canada using driver's licenses from their home countries. Because each Canadian province issues driver's licenses independently, rules for foreigners vary. In general, foreign nationals have 60 days from the time of their arrival in Canada to obtain a Canadian driver's license. Depending on the province, an eye examination and a driving examination may be required.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	(X)	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(b)(c)
Housing allowance	X	—	(b)(c)
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	X	—	—

	Taxable*	Not Taxable	Comments
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(c)
Value of meals provided	X	—	(b)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	(e)
Capital gains from sale of stock in home country	X	—	(f)

* Bracketed amounts reduce taxable income.

(a) Employer contributions to a foreign plan, such as a U.S. 401(k) plan, are generally not taxable if the employees were members of the plan at the time they became residents of Canada and if they have not been residents for more than 60 months. The Canada Revenue Agency (CRA) has taken the position that employee 401(k) plan contributions are taxable income for Canadian income tax purposes.

(b) Cost-of-living allowances are generally taxable. However, this does not include the value of board and lodging provided to an employee at a special worksite if it is not in excess of a reasonable amount and if the duties performed by the employee are temporary. The value of the living allowance is not taxable if the following conditions are satisfied:
- The employee maintains at another location a self-contained domestic establishment as a principal place of residence;
- Throughout the period of employment at the special worksite, the residence is available for the employee's occupancy and is not rented to any other person;
- By reason of distance, the employee cannot reasonably be expected to return daily from the special worksite; and
- The period during which the individual is required to be at the special worksite is at least 36 hours.

(c) Based on recent Canadian tax cases, cost-of-living, housing and tax reimbursements are generally considered to be taxable.

(d) In certain circumstances, payments or reimbursements of certain moving expenses to an employee may be treated as nontaxable for Canadian income tax purposes.

(e) Gains from the sale of property that has been designated by taxpayers as their principal residence is ordinarily not taxable if the taxpayers are Canadian residents and if the property has been their principal residence throughout the period of ownership. The reinvestment of the proceeds into a new home is not required.

(f) Only one-half of a capital gain is taxable and included in income. No holding period requirements are imposed. At the time that individuals become residents of Canada, they are deemed to acquire all capital property (except taxable Canadian property) for its fair market value at that time.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample income tax calculation is set forth below. For purposes of the calculation, the following facts are assumed:

- The taxpayer is married with two children under the age of 18 (the spouse and children have no income);
- The taxpayer is a full-year resident of Ontario, Canada;
- All workdays are spent in Canada;
- The taxpayer sold property in Canada and realized a C$3,000 capital gain, which is not eligible for the capital gains exemption;
- The taxpayer received foreign-source interest income in the amount of C$1,500 (no foreign tax paid);
- All other income and deduction amounts are as indicated in the computation;
- All amounts are expressed in Canadian dollars; and
- The taxpayer made the maximum contributions to the Canada pension plan (CPP) and paid the maximum amount for Employment Insurance (EI) premiums.

	C$	C$
Calculation of Taxable Income		
Base salary		120,000
Bonus		10,000
Cost-of-living allowance		7,000
Housing allowance		8,000
Total compensation		145,000
Interest (foreign-source)		1,500
Interest (from Canadian banks)		2,000
Capital gain (C$3,000 x 50%)		1,500
Total income		150,000
Deduction from total income:		
Registered retirement savings plan (RRSP)		(5,750)
Taxable income		144,250
Calculation of Tax		
Total federal tax		32,827
Less: personal tax credits		(2,903)*
Basic federal tax		29,924
Provincial tax – Ontario	13,623	
Less: personal tax credits	(1,097)*	
Basic Ontario tax	12,526	
Ontario surtax	4,388	
Total Ontario tax		16,914
Total Canadian income tax		46,838
Ontario health premium		750
CPP contributions		1,911
EI contributions		729
Total Canadian income, social security and employment insurance taxes		50,228

* The following are calculations of basic nonrefundable tax credits for federal and provincial tax purposes.

	Federal (C$)	Provincial (C$)
Basic	1,356	507
Spousal	1,151	430
CPP	287	116
EI	109	44
	2,903	1,097

CAYMAN ISLANDS

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A. Income Tax

The Cayman Islands government does not tax the income or capital gains of resident or nonresident individuals.

B. Social Security

No welfare or social security taxes are imposed. No deductions or contributions are required for any other government-sponsored programs. Medical insurance is mandatory for all private employees in the Cayman Islands. Pensions are also mandatory, except for foreign workers who have completed less than nine months of their employment contracts.

C. Business Licenses

Unless exempt, every person or company carrying on a trade or business in the Cayman Islands must have a business license for each location where the trade or business is conducted. The cost of the annual license depends on the type and location of the business and on the number and type of employees. Business licenses must be renewed annually on 1 January.

D. Gainful Occupation Licenses

Employers must pay an annual fee for a gainful occupation license for each non-Caymanian person working in the Cayman Islands. The fees vary from US$183 for domestic, manual and unskilled workers to US$18,293 for partners, managing directors and chief executive officers of organizations. No annual fees are charged for spouses of persons possessing Cayman-resident status, except for a nominal filing fee. An annual supplemental fee also applies for each dependant who requests to reside in the Cayman Islands as part of the employee's application, in the amount of US$610 per dependant with respect to skilled workers and professionals and US$305 per dependant with respect to unskilled workers.

On the initial grant of an annual gainful occupation license, employers are also required to pay a nonrefundable fee of US$244 per person as a guarantee for the repatriation of expatriate employees and their dependants.

E. Double Tax Treaties

The Cayman Islands has not entered into any double tax treaties.

F. Temporary Permits

Visitors, other than prohibited immigrants, wishing to enter the Cayman Islands are normally permitted to enter and remain initially for up to one month. Frequent short-term visitors and persons who have other close connections to the Cayman Islands may be granted permissions for entries lasting up to six months. Applications for extensions to these permitted visitations must be made within that period to the Chief Immigration Officer.

Before a visitor may enter the Cayman Islands, a valid passport or other document establishing the identity and nationality of the visitor is required. In addition, visas are required for nationals of all countries, except those listed below.

Andorra	France	Monaco
Argentina	Germany	Netherlands
Austria	Greece	Norway
Bahrain	Guatemala	Oman
Belgium	Iceland	Panama
Brazil	Ireland	Peru
British Commonwealth Countries*	Israel	Portugal
Chile	Italy	San Marino
Costa Rica	Japan	Spain
Denmark	Kuwait	Sweden
Ecuador	Liechtenstein	Switzerland
El Salvador	Luxembourg	United States
Finland	Mexico	Venezuela

* The visa exemption does not apply to nationals of the following British Commonwealth countries: Bangladesh; Cameroon; Gambia; Ghana; India; Nigeria; Pakistan; Sierra Leone; Sri Lanka; and Uganda.

A passport is not required for a visitor who is a British citizen, a British dependent territories citizen, a U.S. citizen or a Canadian citizen, although having one may avoid delay on entry. However, it is expected that under measures to be introduced shortly, U.S. citizens will be required to produce a passport for U.S. Immigration to reenter the United States from the Cayman Islands. Immigration officers have the discretion to waive the passport and visa requirements if visitors provide other proof of identity and citizenship (for example, a certified birth certificate and other government-issued photo identification). All visitors are required to possess a return ticket that is valid any time within six months after arrival to return to their home domicile or residence.

Any resident of the United States who arrives in the islands directly or is in transit and who produces a valid U.S. Alien Registration Card may be permitted to enter and remain in the islands for up to 30 days. This concession enables some individuals who otherwise would need to obtain Cayman Islands visas prior to their journeys to travel to the Cayman Islands without visas.

Foreign nationals, including tourists, who are granted permission to enter and reside in the Cayman Islands are not permitted to engage in any form of employment, or to carry on or offer to carry on any financial, professional, trade or business activity without valid work permits. An exception is made for individuals who have been granted permanent residence (see Section H).

G. Work Permits and Self-Employment

The islands' immigration policy gives employment precedence to those who hold Caymanian status, but recognizes that the continuing expansion of the economy often entails the recruitment of skilled individuals from overseas.

An employer who is unable to find a Caymanian with the necessary qualifications to fill a vacancy may apply for a work permit to bring in a qualified non-Caymanian. Non-Caymanians wishing to work in the islands must have job offers from local employers who must apply for work permits.

The applications are handled by the Immigration Board, which is appointed by the government to control the entry, residence and employment of non-Caymanians. Work permits (referred to as gainful occupation licenses, see Section D) are normally issued for a specific occupation with a specific employer. The board may set conditions or limitations on granting a permit.

Before an application is made to the board, the vacant position must be advertised in the local press for a minimum of two issues for two consecutive weeks and must indicate the remuneration, benefits and identity of the employer. Certain categories of workers are exempt from the advertising requirement, including individuals married to Caymanians, various unskilled laborers in construction, agriculture and other specified industries, and self-employed individuals.

The following actions are required by a foreign national seeking employment:

- Obtain, complete and return to the employer the work permit application form, together with evidence of qualifications and experience.
- Enclose three full-faced and one profile passport-size photographs.
- Obtain a police clearance certificate from the applicant's home district or last place of residence, issued within six months prior to the date of application. (For applicants from the United Kingdom and other countries where the police do not issue clearance certificates, an affidavit of no convictions, sworn before a notary public, may be submitted.)
- Obtain a medical certificate of good health, completed on the board's prescribed form.
- Provide copies of any professional certifications or credentials to support the applicant's qualification for the position.
- If the applicant's dependents are also seeking to reside in the Cayman Islands as part of the work permit application, provide certified copies of the marriage certificate for the spouse and birth certificates for the dependent children.

Companies may also submit a business plan outlining their requirements for the next three years, including identifying the number of Caymanians employed, plans for training and promotion programs and increasing the number of Caymanians on staff, and the demands for foreign expertise and personnel over that period. These business plans are reviewed by the Immigration Board and if accepted, obviate the requirement of advertisement prior to applying for a work permit. This also provides a fast track to identify the permit sought as within the categories of the plan.

The following individuals do not require work permits: employees of the civil service, U.K. government employees working in the islands, consular officers and staff, accredited representatives or agents of a government of a British Commonwealth country, members of the British armed forces, the crews of visiting vessels and aircraft, and other persons declared to be exempt under the provisions of the Immigration Law.

Anyone seeking self-employment in the islands in a particular profession or business should submit the same documents, photographs and fee as outlined above. However, the following are substituted for the cover letter from the employer:

- A detailed letter describing the field of business or profession to be undertaken and stating whether a local office will be opened offering local employment opportunities; and
- Evidence of financial status showing that the applicant is in a financial position to engage in the proposed business or profession.

Work permits are granted for employment with a specific employer and may not be transferred. With respect to entities with multiple subsidiaries, it is possible to demonstrate that such multiple employers share the permit at application. After an application is accepted, changes may be made under exceptional circumstances. Inappropriate variances from a permit that the Immigration Board considers abusive may result in the immediate termination of the work permit or nonrenewal of the work permit upon its expiration.

Temporary work permits allow foreign nationals to enter the islands for specified temporary employment. These permits may be issued for a period of up to 90 days. If a longer stay is necessary to complete the temporary employment, an application may be made for a short-term permit if the employment does not exceed a maximum of six months. Short-term permits are not renewable. Applications for temporary or short-term permits are made to the Immigration Board.

H. Residence Permits

Government policy encourages people of good reputation and financial standing who make substantial investment in the islands to become permanent residents. Anyone wishing to reside in the islands without engaging in employment may apply to the Chief Immigration Officer. To qualify, applicants must normally be able to financially support themselves and any dependants, without having to engage in any form of employment in the islands, and must be able to make an investment in a home or a local enterprise of at least US$183,000.

To apply for an initial residence permit, an applicant must submit the following:

- Application form completed in full. A separate application is not required for accompanying dependents.
- Police clearance certificate. This certificate, obtained from the applicant's home district or last place of residence, should cover the last 10 years. A certificate must be submitted for each accompanying dependent older than 16 years of age.
- A medical certificate of health for each family member.

- Three written references from persons not related to the applicant who have known the applicant for several years.
- Evidence of financial status. A statement of financial position and statement of income demonstrating the applicant's ability to support himself or herself without engaging in employment in the islands is required. These statements should be accompanied by such independent evidence as bank statements and tax returns and be certified by an independent accountant. (This information is treated in strict confidence.)

The application should be submitted to the Chief Immigration Officer after the applicant has resided in the Cayman Islands for at least six months and must be made in triplicate in the prescribed form, which may be obtained from the Department of Immigration. A separate application is not necessary for an accompanying spouse or for children younger than 18 years of age.

The application for permanent residence is referred to the Immigration Board, which may refuse, defer or grant the application either unconditionally or subject to conditions or restrictions. At this stage, the board takes into account whether the applicant has made an investment and is living in the islands. Evidence of home ownership is helpful.

The fee for permanent residency is US$18,293.

A permanent resident may, after two years of continuous residence, apply for permission to engage in gainful occupation. The Immigration Board considers the connections the applicant has with the islands, his or her standing in the community and the contribution the individual has made or is capable of making to the community. However, only in exceptional circumstances does the board grant this permission to an applicant with less than five years' residence. Individuals who have Caymanian connections are subject to less stringent physical residence requirements and lower fees.

Permission to engage in gainful occupation is normally restricted to a specified occupation, but not to a specified employer.

A permanent resident given permission to work must pay an annual fee equal to the fee for a gainful occupation license for the relevant type of work.

I. Family and Personal Considerations

Family Members. Except in exceptional circumstances and at the discretion of the Immigration Board, a work permit holder may not bring more than three dependants to the islands. Unskilled workers are rarely permitted to have any dependants accompany or join them in the islands.

Drivers' Permits. Foreign nationals may drive legally in the Cayman Islands with their home country drivers' licenses for up to three months. After three months, they must obtain Cayman Islands drivers' licenses.

The Cayman Islands does not have driver's license reciprocity with other countries. To obtain a driver's license in the Cayman Islands, an applicant must take written and physical exams. Holders of foreign drivers' licenses from certain countries that have agreements with the Cayman Islands are exempt from examination.

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A. Income Tax

Who Is Liable. All individuals domiciled or resident in Chile are subject to personal income tax on worldwide income. Non-residents are taxed on Chilean-source income only.

A person present in Chile for longer than six months in one calendar year or for longer than six months within two consecutive assessment years is considered a resident of Chile. However, during their first three years of residence, foreign nationals are subject to tax on Chilean-source income only.

Domicile is defined as residence in a particular place with the intention of staying there. The intention is proved through facts and circumstances, including employment within the country or moving one's family into the country.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income includes any kind of remuneration received under an employment contract, including entertainment expenses. However, board and lodging provided to workers for the employer's convenience are tax-exempt. Legal family allowance payments, social security benefits established by law and severance payments within certain limitations are not included in taxable income.

Scholarships provided by employers to their employees' children are not taxable.

Self-Employment Income. Personal income tax must be paid on income withdrawn from business enterprises that are subject to the 17% First Category Tax (that is, partnerships and sole proprietorships). However, individuals receive a credit equal to the amount of First Category Tax paid on the income by the enterprise. Income earned by professionals and independent workers, minus deductions for actual or deemed expenses, are also subject to personal income tax.

Income and expenses are subject to a monetary correction based on the change in the Consumer Price Index (inflation index) between the month prior to the collection or disbursement and the month preceding the financial year-end.

Individuals and small partnerships engaged in agriculture, mining, land transportation and certain other activities are entitled to special tax benefits for small taxpayers, which includes paying tax on deemed income if gross income does not exceed a specified amount.

Investment Income. Shareholders receiving dividends from Chilean corporations are entitled to a credit of the 17% First Category Tax. The dividends are then aggregated with other non-compensation income and taxed as personal income, along with interest derived from the following sources:
- Demand deposits or time deposits in cash; and
- Bonds, debentures or other debt instruments, unless otherwise provided by international agreement.

Income derived from rentals and royalties is included in taxable income and is subject to personal income tax.

Directors' Fees. Directors' fees are taxed in the same manner as professional income, without deduction of actual or deemed expenses.

Taxation of Employer-Provided Stock Options. Chilean tax laws do not specifically address the taxation of employer-provided stock options. Employees are taxed on stock options at the time of exercise if the spread is financed in whole or in part by the employer, whether Chilean or foreign. The spread is taxed as compensation income. In addition, a gain derived from the sale of shares of a foreign corporation is subject to regular income tax, while a gain derived from the sale of shares of a Chilean corporation is subject to a final 17% tax, unless the transaction occurs within one year or less from the date the shares are acquired.

Capital Gains. Capital gains derived from sales of personal property, including automobiles and household furniture, not used in connection with a trade or business, are exempt from tax. Gains derived from sales of real estate not used in connection with a trade or business are also exempt, unless the transactions are considered habitual or the property is held for less than one year before its transfer.

Gains derived from transfers of personal property and real property used in a trade or business are treated as ordinary income and are subject to tax at the regular rates (see *Rates*).

Capital gains derived from sales of shares and other investments are subject to a final 17% tax if the transactions are not habitual and not between related parties.

Deductions

Personal Deductions and Allowances. Individuals may deduct from taxable income social security contributions paid, up to certain limits. In addition, the amount invested during the year in shares of public corporations, certain financial instruments and certain other items may be partially deductible from taxable income. Within certain limitations, amounts invested in pension or insurance funds may be fully deductible from taxable income. Mortgage interest may be partially credited against personal income tax, subject to certain limitations.

Business Deductions. Deductible expenses consist of expenses necessary to produce taxable income.

Instead of accounting for actual expenses, individual professionals and independent workers may take a standard deduction equivalent to 30% of gross income, limited to 15 Annual Tax Units (ATUs, see *Rates*).

Rates

Employment Income. Personal income tax is levied on a progressive scale. The income brackets are adjusted monthly in accordance with a consumer price index variation expressed through a unit called a Monthly Taxable Unit (MTU). An MTU is equivalent to approximately US$60.

The following table presents the personal income tax brackets and corresponding tax rates.

Taxable Income Exceeding MTU	Taxable Income Not Exceeding MTU	Rate %
0	13.5	0
13.5	30	5
30	50	10
50	70	15
70	90	25
90	120	32
120	150	37
150	—	40

For sample tax calculations, see Appendix 2.

Self-Employment and Business Income. Tax is calculated on an annual basis rather than the monthly basis used by dependent employees. The brackets and rates are the same as those indicated above, except that the MTU is replaced by the ATU, which is equivalent to 12 MTUs or approximately US$720.

Sole proprietors are subject to a 17% first category tax on accrued income in the same manner as corporations or partnerships. The 17% amount is then credited against the personal income tax of the proprietor when profits are withdrawn from the enterprise if the profits are not reinvested in the same or another local enterprise. If they elect to be taxed as commercial entities, professional partnerships are subject to first category tax.

Certain self-employed taxpayers are subject to provisional tax, which is withheld by the payer in certain cases and credited against final tax, at a rate of 10% of gross fees or receipts. This applies to independent workers, professionals and individuals in professional partnerships who are not subject to the 17% first category tax.

Nonresidents. Individuals working in Chile for periods not exceeding six months in a year or for a total of six months within two consecutive years are considered nonresidents. They are taxed at a flat 35% rate on total income without any deductions.

However if they conduct technical, artistic or athletic activities in Chile, they are taxed at a flat 20% rate. If applicable, nonresidents may take a credit for the 17% first category tax.

Dividend income of nonresidents generally is subject to tax at a rate of 35%, with a credit for the 17% corporate tax. Profits from Foreign Capital Investment Funds, however, are subject only to a 10% withholding tax when repatriated, with no credit.

Interest and remuneration for certain services are generally subject to a 35% withholding tax. The tax rate for directors' fees is also 35%. Royalties are subject to withholding tax at a rate of 30%.

Relief for Losses. Business losses of a self-employed person must first be carried back. To the extent the loss exceeds profits from prior years, the unused portion of the loss may be carried forward indefinitely.

Individuals who are not self-employed or engaged in their own business may offset investment losses against investment profits in the same year.

B. Estate and Gift Tax

Estate and gift tax is a unified tax, assessed in accordance with rates and brackets expressed in ATUs (see Section A). Residents are subject to estate and gift tax on worldwide assets. Nonresidents are subject to estate and gift tax on assets located in Chile only. Estate tax paid abroad may be credited against Chilean tax.

A zero rate applies to the first 50 ATUs transferred from an estate to close relatives, including a spouse or children. Only five ATUs are subject to the zero rate if assets are transferred to other beneficiaries. The following rates apply after deduction of the exempt amount.

Taxable Amount		
Exceeding ATU	Not Exceeding ATU	Rate %
0	80	1
80	160	2.5
160	320	5
320	480	7.5
480	640	10
640	800	15
800	1,200	20
1,200	—	25

C. Social Security

Employers pay a basic contribution of 0.95% and an additional contribution ranging from 0% to 3.9% on payroll to cover accident insurance for employment activities considered risky. These contributions are paid on salaries up to a maximum of 60 U.F. (approximately US$2,100). The U.F. is an inflation-indexed unit expressed in Chilean pesos that varies according to the consumer price index. Social security contributions covering healthcare institutions and pension funds are paid by employees at a basic rate of 20% (7% for healthcare institutions and approximately 13% for pension funds) on salaries up to a maximum of 60 U.F.

The contributions described above are withheld and remitted by employers on a monthly basis. In addition, employees may contribute voluntarily in excess of the ceiling to individual funds or health insurance. Voluntary contributions are entitled to the same tax benefits as required contributions, up to certain limits.

Another mandatory social security contribution relates to unemployment insurance, which is financed by employers, employees and the government. The contribution rates are 2.4% for employers and 0.6% for employees, with a salary ceiling of 90 U.F. (approximately US$3,150) per month.

To provide relief from paying double social security contributions and to assure benefit coverage, Chile exempts foreign nationals from paying social security contributions in Chile if they are covered under a similar social security system in their home country.

D. Tax Filing and Payment Procedures

Taxes withheld from employees must be paid by the twelfth day of each month for the preceding month's payroll.

Spouses are taxed separately on their personal income.

Annual income tax returns must be filed in April for income received in the preceding calendar year. Tax withheld or paid monthly is credited against tax due. Any tax owed must be paid when filing the tax return. Balances in the taxpayers' favor are refunded in May.

Certain self-employed taxpayers, including independent workers, professionals and professional partnerships, are required to pay provisional monthly tax that is credited against final tax at a rate of 10% of gross monthly fees or receipts. Enterprises that pay fees to professionals or independent workers must withhold 10% from gross fees. The withholding is treated as a provisional payment by the taxpayer. Taxes withheld by payers of fees are credited against the provisional monthly payments.

E. Double Tax Relief and Tax Treaties

Chile has entered into a double tax treaty with Argentina with respect to income and social security taxes. Under the treaty, the source of income determines the country where income is taxed.

Chile has also entered into double tax treaties based on the Organization for Economic Cooperation and Development (OECD) model convention with the following countries: Brazil; Canada; Croatia; Denmark; Ecuador; Korea; Mexico; Norway; Peru; Poland; Spain; Sweden; and the United Kingdom.

F. Tourist Visas

Most foreign nationals do not need to obtain entry visas before entering Chile.

Tourist visas are generally issued on arrival to individuals who intend to visit Chile for business, family, health, recreational or sporting activities and who have no intention of immigrating or conducting remunerated activities. Tourist visas are valid for 90 days and are renewable for an additional 90 days.

G. Work Visas and Self-Employment

Expatriates who wish to engage in remunerated activities in Chile must apply for a visa or residence permit that entitles him or her to work. The most common visas and work permits are the provisional work permits for tourists, subject-to-contract visas and temporary visas. Except for provisional work permits, these permits may be obtained after the expatriate has entered the country or they may be obtained before his or her arrival through a Chilean consulate abroad.

Subject-to-contract visas are valid for up to two years and are renewable one time for an additional two years. Temporary visas are granted for up to one year, and may be renewed one time for an additional year. After the expiration of the renewal period, the expatriate must apply for permanent residence status.

Foreign nationals may start businesses in Chile if they comply with all legal requirements. Companies may be headed by foreign nationals if such nationals are residents or domiciled in Chile for tax purposes.

The above visas imply a residence and work permit.

H. Residence Visas

Residence visas are issued in the following different categories to the following persons:
- Officials: Members of the consular and diplomatic corps.
- Temporary: Gives the expatriate the right to work or perform other legal remunerated activities in Chile. This status may be granted to individuals who have relatives in Chile or who intend to make investments that are considered advantageous for Chile.
- Subject-to-contract: Valid for up to two years, and may be renewed for an additional two-year period.
- Student: Valid for up to one year and may be renewed for additional one-year periods, as many times as necessary.
- Political refugee: Issued to foreign nationals who intend to establish permanent residence in Chile.
- Permanent residence: An indefinite visa that gives the expatriate the same rights as an ordinary Chilean national, except for the rights to vote and seek public office.

In general, foreign nationals must file all or some of the following documents when applying for visas and permits:
- An application form;
- Passport and documents proving current visa status;
- Documents that prove professional status;
- Documents that prove marital status;
- Birth certificates;
- Documents that support the activities an applicant will develop in the country, such as a labor contract or documents that prove that the applicant has been accepted in a college or educational institution;
- A certificate proving that the applicant has no criminal record; and
- A health certificate.

I. Family and Personal Considerations

Family Members. Family members of a working foreign national do not need separate visas to reside in Chile, and children of a foreign national do not need student visas to attend schools in Chile, but they have to apply for a dependent visa. A separate work visa must be obtained by any family member of a working foreign national who intends to work legally in Chile.

Drivers' Permits. Foreign nationals may not drive legally in Chile using their home country drivers' licenses. However, they may legally drive in Chile with an international license while the license is in force. Chile has driver's license reciprocity with a few countries. To obtain a Chilean driver's license, a foreign national must take a basic written exam, a technical exam, a basic practical driving test and a basic medical exam.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	—	X	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	X	—	—
Education reimbursement	—	X	(a)
Hardship allowance	X	—	—
Other allowance	X	—	—
Foreign service premium	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	—	X	(b)
Value of lodging provided	—	X	(b)
Pension plan contributions	—	X	(c)
Welfare benefits	—	X	(d)
Other Items			
Foreign source personal ordinary income (interest and dividends)	X	—	(e)
Capital gain from sale of personal residence in home country	—	X	(f)
Capital gain from sale of stock in home country	X	—	(e)

(a) Education reimbursement is considered to be a scholarship and not an education allowance.

(b) These expenses must be incurred for company business (for example, trips and seminars). However, one meal per day or the price of a regular meal is acceptable.

(c) Mandatory pension plan contributions are exempt from tax. Voluntary pension plan contributions are exempt from tax up to certain limits.
(d) Welfare benefits established by law are exempt from tax.
(e) This item is taxable only to persons resident or domiciled in Chile. However, for foreign nationals, these gains are not taxable if earned during the first three years of residence.
(f) The gain is taxable if both of the following conditions are satisfied: the seller is a Chilean national or a foreign national with more than three years of residence in the country; and less than one year has passed between the acquisition and sale.

APPENDIX 2: SAMPLE TAX CALCULATIONS

Sample tax calculations are provided below. For purposes of the calculations, it is assumed that the exchange rate is US$1 = CH$520. For the purposes of these examples, social security contributions, which are generally deductible from gross salary up to certain limits, are not taken into account.

The following are the monthly tax brackets in Chilean pesos.

Salary			Tax
Exceeding CH$	Not Exceeding CH$	Rate %	Reduction CH$
0	429,178	0	0
429,178	953,730	5	21,459
953,730	1,589,550	10	69,145
1,589,550	2,225,370	15	148,623
2,225,370	2,861,190	25	371,160
2,861,190	3,814,920	32	571,443
3,814,920	4,768,650	37	762,189
4,768,650	—	40	901,249

1. Monthly Salary of CH$440,000

	CHS$
CH$440,000 at 5%	22,000
Tax reduction	(21,459)
Tax	541

2. Monthly Salary of CH$980,000

	CH$
CH$980,000 at 10%	98,000
Tax reduction	(69,145)
Tax	28,845

3. Monthly Salary of CH$1,800,000

	CH$
CH$1,800,000 at 15%	270,000
Tax reduction	(148,623)
Tax	121,377

4. Monthly Salary of CH$2,500,000

	CH$
CH$2,500,000 at 25%	625,000
Tax reduction	(371,160)
Tax	253,840

5. Monthly Salary of CH$3,000,000

	CH$
CH$3,000,000 at 32%	960,000
Tax reduction	(571,443)
Tax	388,557

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For information on the tax and immigration rules for Hong Kong and Macau, see those jurisdictions' respective chapters.

A. Income Tax

Who Is Liable. People's Republic of China (PRC) residents are generally subject to tax on their PRC-source and non-PRC-source income; nonresidents are subject to tax on their PRC-source income only.

PRC residents include the following persons:
- Individuals who maintain a permanent home in the PRC; and
- Individuals who do not maintain a permanent home in the PRC but reside in the PRC for one year or longer.

Individuals are considered to have resided in the PRC for one year if they reside in the PRC for 365 days during one calendar year. In calculating the number of days an individual is present in the PRC, temporary absences from the PRC may not be excluded. Temporary absence is defined as a single absence from the PRC for a period of no longer than 30 days, or as multiple absences from the PRC for an aggregate of no longer than 90 days.

Individuals who are considered one- to five-year tax residents are subject to PRC individual income tax on income earned in the PRC and on foreign income borne by the individual's PRC employer during the period of residency.

Individuals who maintain a permanent home in the PRC and those who reside in the PRC for five years or longer are subject to PRC individual income tax on worldwide income, regardless of whether the income is remitted to the PRC.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. The types of compensation taxable under PRC individual income tax law include wages and salaries, foreign service or hardship allowances, cost of living and automobile allowances, tax reimbursements and bonuses. Nontaxable compensation includes housing provided by the employer, reimbursed home leave (limited to twice a year for employee only), relocation or moving costs, business-related local transportation, language training and children's education expenses. Meals, laundry and other employee business travel expenses are taxable if paid in a lump sum as allowances and nontaxable if reimbursed on presentation of receipts.

The annual bonus is treated as a separate one-month salary for tax purposes. The applicable marginal tax rate and quick reckoning deduction amount (see Appendix 2) must be determined based on 1/12 of the annual bonus. This calculation method can be used by each individual only once in a calendar year. Bonuses other than the annual bonus must be treated as a part of monthly salary income and are taxed based on the aggregated amount of monthly income.

Self-Employment Income. Taxable income includes compensation for independent personal services performed in the PRC, bonus payments and income specified as taxable by the Ministry of Finance.

Investment Income. Interest, dividends and other investment income from PRC sources are subject to tax at a flat 20% rate, with no deductions allowed. However, dividends and bonuses paid on B shares (shares issued for sales to foreign investors) and on H shares (shares of PRC enterprises listed on foreign stock exchanges) issued by enterprises in the PRC are tax-exempt.

Dividends, interest, royalties and rental income received by nonresident foreign nationals from PRC sources are normally subject to a 10% withholding tax under most double tax treaties entered into by the PRC. No tax return is required if the income is subject to withholding tax.

Dividends paid by a foreign-investment enterprise in the PRC are exempt from withholding tax.

Directors' Fees. Directors' fees, excluding expense reimbursements received by foreign nationals from PRC sources, are considered income from independent personal services and are taxed as income derived from labor services.

Fees of directors not normally resident in the PRC are taxable as lump sums, with tax liability computed by applying the rules outlined for income from independent personal services.

Exempt Income. The following income is tax-exempt:

- Prizes and awards for scientific, technological or cultural achievements;
- Interest on savings deposits in state banks and credit cooperatives in the PRC;
- Welfare benefits, pensions and relief payments;
- Severance or retirement pay received from the PRC government;
- Salaries of diplomatic officials of foreign embassies and consulates in the country;
- Tax-free income as stipulated in agreements to which the PRC is a party; and
- Other income designated tax-free by the Ministry of Finance.

Capital Gains. After deducting costs and related expenses, income derived from the sale or transfer of movable or immovable property in the PRC is taxed at a flat 20% rate.

Income derived from transfers of real property is also subject to real property gains tax, which is levied at the following progressive rates.

Gain in Excess of Cost Basis	Rate (%)
Less than 50%	30
50% to 100%	40
100% to 200%	50
Over 200%	60

Certain expenses are deductible in determining taxable gains.

Capital gains derived from transfers of B and H shares (see *Investment Income*) are exempt from tax.

Foreign individuals who do not have other income subject to PRC individual income tax are subject to a 20% withholding tax on gains derived from the sale of equity in a foreign-investment enterprise in the PRC (for example, an equity joint venture).

The applicable tax rate may be reduced for individuals resident in treaty countries.

Taxation of Employer-Provided Stock Options. Taxable income is recognized on the date an employee exercises an employer-provided stock option. For foreign nationals, stock option income is taxable if it is considered attributable to PRC employment. No clear rules categorize stock option income, but in general, a stock option that is granted and vested when the employee is resident in the PRC is considered to be PRC-source taxable income. If the expense is charged back to the PRC office, then taxable income is recognized on the earlier of the date of exercise or the date of chargeback.

The amount of taxable income is the difference between the fair market value of the stock and the exercise price. The taxable income is reported in the month of exercise as stand-alone employment related income, which is subject to individual income tax at progressive rates ranging from 5% to 45%. In addition, the employer may divide the total stock option benefits into the number of months that the employee has worked in China (capped at 12) for the purpose of determining the applicable individual income tax rates.

Deductions

Deductible Expenses. An individual is allowed a flat RMB 1,600 deduction each month in computing his or her net taxable income. Expatriate employees are allowed an additional deduction of RMB 3,200 per month. Approved charitable donations are also deductible.

For foreign expatriates, social security contributions are not deductible.

If an employer is responsible for paying the employee's PRC income tax liabilities, the employee's taxable income is grossed up by the amount of the payment. Any hypothetical tax, which is an amount withheld by the employer as full or partial compensation for satisfying the employee's PRC tax liability, is allowed as a deduction in computing the employee's net taxable income.

Personal Deductions and Allowances. On approval by the local tax bureau, employees who do not have a permanent residence in the PRC and who have job responsibilities both within and outside the PRC may allocate their income between sources in proportion to the services provided. For example, if an employee works 50% of the time in the PRC, 50% of his or her salary is taxable in the PRC based on the time apportionment formula prescribed in the tax regulation. To qualify, however, an employee must provide supporting documentation.

No distinction is made between married and single taxpayers, and no relief by allowance or deduction is provided for dependants.

Business Deductions. Independent personal services income, royalties, and rental or leasing income is allowed a deduction of RMB 800 or 20% of income, whichever is higher.

Rates. Income is not accumulated for purposes of calculating monthly tax liabilities. Income tax for individuals is computed on a monthly basis by applying the following progressive tax rates to employment income.

Monthly Income		Tax on Lower	Rate on
Exceeding RMB	Not Exceeding RMB	Amount RMB	Excess %
0	500	0	5
500	2,000	25	10
2,000	5,000	175	15
5,000	20,000	625	20
20,000	40,000	3,625	25
40,000	60,000	8,625	30
60,000	80,000	14,625	35
80,000	100,000	21,625	40
100,000	—	29,625	45

Independent personal services income, royalties and rental or leasing income is subject to tax at a flat rate of 20%.

Additional tax may be levied on abnormally high single payments for labor services. For these purposes, taxable income in excess of RMB 20,000, but not exceeding RMB 50,000, is subject to an additional tax charge equal to 50% of the tax normally payable. Taxable income over RMB 50,000 is subject to an additional tax charge equal to 100% of the tax normally payable.

Copyright income is taxed at a flat 20% rate, with a deduction of RMB 800 or 20% of income, whichever is higher. A further 30% reduction of tax payable is allowed.

For a sample tax calculation, see Appendix 2.

Relief for Losses. No provisions exist for the carryover of losses.

Nonresidents. Individuals who do not maintain a permanent place of abode in the PRC and who work in the PRC fewer than 365 days in a calendar year are considered nonresidents and are subject to individual income tax under different rules, as described below.

Resident for 90 Days or Less. Individuals who reside in the PRC continuously or intermittently for not more than 90 days during a calendar year are treated in the following manner:

- The expatriate is exempt from individual income tax if the salary is paid and borne by an overseas employer.
- Employment income paid or borne by the employer's establishment in the PRC is subject to individual income tax to the extent that the income is attributable to services actually performed in the PRC. For these purposes, an establishment includes a representative office and the site of a contract project in the PRC.
- Normally, the tax liabilities are apportioned to PRC and non-PRC services in accordance with the actual number of days the expatriate resides in the PRC. However, for tax determination purposes, employment income paid by an employer in the PRC and by an employer outside the PRC and not charged back against a PRC-registered entity must be aggregated in calculating the tax liabilities payable. The apportionment is based on the tax liabilities payable, which is calculated on the total earned income. Accordingly, individuals with higher earned income are unfavorably affected by the progressive tax rates system.
- The residency threshold is increased from 90 days to 183 days if the expatriate is resident, during the relevant calendar year, in a country that has concluded a double tax treaty with the PRC (a tax treaty expatriate).

Residents for 90 to 364 Days. Individuals who reside in the PRC for more than 90 days (183 days for tax treaty expatriates), but less than one year, are treated in the following manner:

- The expatriate is subject to individual income tax on employment income derived from services actually performed in the PRC.
- Assessable income includes all employment income, whether it is paid (or borne) by an employer inside or outside the PRC.
- Employment income attributable to services performed outside the PRC is exempt from individual income tax. Normally the tax liabilities are apportioned to PRC and non-PRC services in accordance with the actual number of days the expatriate resides in the PRC.

Income paid by an employer outside the PRC to these individuals is taxed in one of the following ways:

- The income is exempt from individual income tax if the individual resides in the PRC for not more than 90 days (or 183 days for tax treaty expatriates) during a calendar year; or

- The income is subject to individual income tax if the period of residency extends to more than 90 days (or 183 days for tax treaty expatriates) to the extent that the income is attributable to services performed in the PRC.

B. Other Taxes

Net Worth Tax. No net worth tax is levied in the PRC.

Estate and Gift Taxes. No estate and gift taxes are levied in the PRC.

C. Social Security

Normally, Chinese nationals employed by PRC entities are eligible for the social security system in China, and foreign nationals working in the PRC are exempt from the system. However, special rules apply to foreigners from certain countries or territories. Under the totalization agreements with Germany and Korea, if German and Korean employees do not contribute to their home country's pension and unemployment insurance during their employment in China, they must contribute to pension and unemployment insurance in China. Also, under rules effective from 1 October 2005, employees from Hong Kong, Macau and Taiwan, who have entered into local labor contracts must contribute into the PRC social security system.

Social security tax rates vary among different cities. PRC nationals are subject to social security taxes at an average rate of 50% of gross income. For this purpose, the amount of gross income is capped at three times the average salary in the city for the preceding year as published by the local government.

D. Tax Filing and Payment Procedures

The tax year is the calendar year. Spouses are taxed separately, not jointly, on all types of income.

Foreigners must register with the local tax bureau or, if individuals are engaged in offshore oil and gas exploration activities, with the local offshore oil tax bureau.

Foreigners subject to PRC individual income tax must complete a tax registration form and provide an employer's certification stating the amount of their compensation, along with copies of relevant passport pages to verify their date of arrival.

Although the recipient of income is responsible for payment of income tax, it is generally collected through a withholding system under which the payer is the withholding agent.

Effective from 1 January 2006, a withholding agent is required to notify its supervising tax authorities of the basic personal details regarding all individuals to whom it has paid taxable income. Required personal details for payees include name, personal identification number, position, residential address, telephone number and correspondence address. Additional information is required if the income recipients are not employees of the withholding agent, investors, equity owners, or nonresidents of the PRC. However, payers of dividends and interest are required only to file a set of simplified information with respect to the recipients. The withholding agent must submit the above information in the month following the month of payment of taxable income to an individual, regardless of the availability of deductions or concessions that may be offset against the income. The withholding agent must also notify the tax authorities of any subsequent changes.

All taxpayers, including those earning PRC-source income but not covered by the withholding system, and employees who are paid outside the PRC must file monthly income tax returns and pay the relevant tax to the local tax bureau. The returns must be filed within seven days after month-end.

Chinese residents with foreign-source income must file income tax returns and pay tax due within 30 days after the end of the calendar year. Foreign taxes paid on this income are allowed as a tax credit, up to the amount of PRC individual income tax levied on the same income.

Individuals who are taxpayers are now required to register and file annually with a tax bureau in charge if any of the following circumstances apply:
- The individual's annual income exceeds RMB 120,000;
- The individual receives wages or salaries from two or more sources in China;
- The individual receives income from outside China;
- The individual receives taxable income from a payer who cannot act as withholding agent; or
- Other circumstances specified by the State Council exist.

Individuals earning more than RMB 120,000 a year must undertake the annual registration and filing within three months after the end of the tax year. The State Administration of Taxation will provide further details on annual tax registrations and filing.

Foreigners departing from the PRC must pay all taxes within seven days prior to departure and complete the relevant "deregistration" formality with the local tax authorities.

Late payment of tax is subject to a daily interest charge of 0.05%. A penalty of up to five times the amount of unpaid tax may be levied for tax evasion or refusal to pay tax.

E. Double Tax Relief and Tax Treaties

An individual subject to PRC individual income tax on worldwide income may claim a foreign tax credit against income subject to tax in another country. The credit is limited to the PRC tax payable on the same income.

The PRC has entered into double tax treaties with the following countries.

Albania	Ireland	Philippines
Armenia	Israel	Poland
Australia	Italy	Portugal
Austria	Jamaica	Romania
Bahrain	Japan	Russian Federation
Bangladesh	Kazakhstan	Seychelles
Barbados	Korea	Singapore
Belarus	Kuwait	Slovenia
Belgium	Kyrgyzstan	South Africa
Brazil	Laos	Spain
Bulgaria	Lativia	Sri Lanka

Canada	Lithuania	Sudan
Croatia	Luxembourg	Sweden
Cuba	Macedonia (a)	Switzerland
Cyprus	Malaysia	Thailand
Czechoslovakia (b)	Malta	Tunisia
Denmark	Mauritius	Turkey
Egypt	Moldova	Ukraine
Estonia	Mongolia	United Arab Emirates (a)
Finland	Nepal (a)	United Kingdom
France	Netherlands	United States
Georgia	New Zealand	Uzbekistan
Germany	Norway	Venezuela (a)
Hungary	Oman	Vietnam
Iceland	Pakistan	Yugoslavia (c)
India	Papua New Guinea (a)	
Indonesia		
Iran		

(a) Not yet in force.
(b) The PRC honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics until new treaties are in force.
(c) The Yugoslavia treaty currently applies to Croatia and Slovenia. This position is subject to change.

Under the treaties, remuneration derived from employment in the PRC is generally exempt from PRC individual income tax if all of the following conditions are met:
- The recipient is present in the PRC for a period or periods not exceeding 183 days in the calendar year, or in a 12-month period for certain countries;
- The remuneration is paid by, or on behalf of, an employer that is not resident in the PRC; and
- The remuneration is not borne by a permanent establishment or a fixed base maintained by the employer in the PRC.

Under many of the treaties, income derived from independent professional services or other independent services is exempt from PRC individual income tax if the recipient meets both of the following conditions:
- The recipient does not have a fixed base regularly available to him or her in the PRC for the purpose of performing the services; and
- The recipient is present in the PRC for a period or periods not exceeding 183 days in the relevant calendar year.

On 11 February 1998, Hong Kong and the PRC signed a memorandum regarding the avoidance of double taxation of income. The arrangement is in effect for all income derived in the PRC after 1 July 1998 and in Hong Kong after 1 April 1998. Under the arrangement, after 1 July 1998, a Hong Kong resident who spends fewer than 183 days in the PRC during a calendar year is exempt from PRC individual income tax if the income is not borne by or charged back to a PRC-registered entity and if the resident does not hold an official title in a PRC-registered entity.

F. Types of Visas

All foreign nationals entering, leaving, passing through or residing in China must obtain permission to do so from the relevant Chinese authorities, which include the Chinese diplomatic missions, consulates and other representatives in foreign countries and the Ministry of Public Security, the Ministry of Foreign Affairs or local designated authorities within China.

Depending on the status and type of passport held by a foreign national, a diplomatic, courtesy, business or ordinary visa may be issued.

Ordinary visas are designated by letters that correspond to the purposes of the individuals' visits. The following are selected letter designations:
- D: Issued to a person who plans to reside permanently in China.
- Z: Issued to a person who enters China to take up employment and to that person's accompanying family.
- X: Issued to a person who enters China for study, further education or practical training for six months or longer.
- F: Issued to a person who has been invited to visit China for no longer than six months for the following purposes:
  - — Business, seminars and fact-finding purposes;
  - — Scientific, technical or cultural exchanges;
  - — Short-term continuing education or practical training; or
  - — Any other such activities.
- G: Issued to a person who passes through China in transit.
- L: Issued to a person who enters China for tourist or other private purposes.

The only requirements for a foreign national to be self-employed in China are a valid work permit and a residence permit. No minimum amount of capital investment is required for self-employment.

G. Steps for Obtaining Visas

Foreign nationals wishing to enter China should apply for visas at a Chinese diplomatic mission or consulate or with other representatives in foreign countries authorized by the Ministry of Foreign Affairs. The following documents are required when applying for a visa:
- A valid passport or an equivalent certificate of identification.
- A completed visa application form with two recent passport-size photographs.
- Other relevant documents that vary according to the type of visa for which the foreign national is applying. The following are the relevant documents:
  - — D: A residence confirmation form, which should be applied for by the applicant or an entrusted relative in China at the entry-exit control department of the municipal or county police security bureau where the applicant intends to reside;
  - — Z: An Employment License issued by the local Labor Bureau (employment approval certificate) and Single-Z Visa Notification (employment visa letter) issued by an authorized unit;
  - — X: A certificate issued by the receiving unit or the relevant department in charge;
  - — F: An invitation extended by an authorized unit;
  - — G: A valid visa for the country (region) to which the applicant intends to travel next or, in the absence of such a visa, an onward ticket; and
  - — L: A certificate or letter issued by the receiving tour agency of China and a round trip ticket.

When applying for an entry visa, if a foreign national intends to take up permanent residence or stay in China for one year or more, he or she must present a notarized health certificate issued by a public health and medical unit designated by the Chinese embassy in the foreign national's home country, or issued by any authorized health and medical unit in China. The health certificate must remain valid for six months from the date of issuance.

Under the following special circumstances, an application for a visa may be made at any designated entry point authorized by the Ministry of Public Security (landing visa):

- The foreign person is invited, because of a late confirmation on the part of the Chinese party, to attend a trade fair in China.
- The foreign national is invited to submit a bid or to formally sign an economic or trade contract.
- The foreign national, pursuant to an agreement, visits China to conduct inspection of import or export products or for contract verification and acceptance.
- The foreign national is invited to perform equipment installation or to undertake emergency repairs.
- The foreign national is requested by a Chinese party to come to China for a settlement of claims.
- The foreign national is invited to visit China to provide scientific and technical consulting services.
- The foreign national is an additional or substitute member of a group that has already been issued visas.
- The foreign national comes to China to visit a seriously ill person or to arrange funeral matters.
- The foreign national is in direct transit but, for unavoidable reasons, cannot leave China within 24 hours.
- The foreign national is invited to China but is unable to apply in time to the aforementioned Chinese organizations abroad, and he or she holds a document issued by the designated authorities indicating he or she is approved to apply for a visa at the port of entry.

The following cities can accept the landing visa application: Beijing; Dalian; Fuzhou; Guangzhou (BaiYun airport); Guilin; Kunming; Shenzhen (Luohu, Shekou airport); Shanghai; Tianjin; Xiamen; Xi'an; Zhuhai (Gongbei); and 31other cities.

H. Free Visas

Citizens of Brunei Darussalam, Japan and Singapore who enter China for tourist or business purposes, or to visit friends need not apply for a China visa for 15 days.

I. Residence Permits

Foreign nationals may obtain residence permits from the local Public Security Bureau. The term of the resident permit varies from one to five years, depending on the purpose of residence. The renewed permit is normally valid for one year.

Foreign nationals holding D, Z or X visas must submit their resident permit or temporary resident permit to the local Public Security Bureau within 30 days after the entry.

Foreign nationals holding F, L or G visas may stay in China until the expiration date of the visa and do not need to apply for resident permits.

No separate resident permits have been issued since September 2004. The resident permit is affixed to the foreign national's passport.

J. Family and Personal Considerations

Family Members. Family members of a working expatriate do not automatically receive the same type of work visa as the expatriate and must apply independently for visas. These applications are completed when the expatriate applies for a work permit.

Subject to the decision of the local government, children of working expatriates may be required to obtain student visas to attend schools in China.

Marital Property Regime. No community property or other similar marital property regime is in effect in the PRC.

Forced Heirship. Forced heirship rules do not apply in the PRC.

Drivers' Permits. China does not have driver's license reciprocity with any country. Foreign nationals may not drive legally in China with their home country drivers' licenses, but they may take written exams and exchange their licenses for Chinese licenses.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(a)
Housing allowance	—	X	(b)
Employer-provided housing	—	X	(b)
Housing contribution	(X)	—	(b)
Education reimbursement	—	X	(a)
Hardship allowance	X	—	—
Other allowance	X	—	(a)
Premium allowance	X	—	(a)
Home leave allowance	—	X	(a)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(a)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	—	X	(a)
Other Items			
Foreign-source personal ordinary income (interest, dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from the sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.

(a) Allowances, such as meal, cost-of-living, and hardship, paid to an employee in the form of cash, without reference to any specific receipts, are considered taxable compensation received and subject to PRC individual income tax. Under the current practice rule, if the amount paid is a reimbursement of expenses incurred, supported by appropriate receipts and claimed through expense reports, the payment is not taxable. The home leave allowance may be granted only twice a year for the employee only.

(b) If foreign housing is provided for by the employer, either paid directly or on a reimbursement basis, the amount paid by the employer is treated as a nontaxable compensation item. In determining the amount of the employee's income subject to PRC individual income tax, the corresponding housing contribution made by the employee is not deductible. However, if the housing contribution made by the employee is netted off from his base salary and not shown as a separate item, the nondeductibility issue does not arise.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample income tax calculation is provided below. The calculation uses the following assumptions:

- A foreign national, married with children, resides in the PRC for all of 2006;
- The individual works 100% of the time in the PRC;
- The individual's tax burden is not borne by the employer (that is, no gross-up tax);
- Allowances are dispensed to the employee and not paid directly by the employer; and
- The individual is entitled to a standard deduction of RMB 1,600, plus an additional foreign expatriate deduction of RMB 3,200.

	Annual Package RMB	Monthly Amount RMB
Calculation of Taxable Income		
Base salary	1,080,000	90,000
Home country hypothetical tax	(240,000)	(20,000)
Housing allowance (a)	432,000	36,000
Housing retention (b)	(108,000)	(9,000)
Per diem allowance	156,000	13,000
Home leave payment	96,000	8,000
Hardship premium	120,000	10,000
Subtotal	1,536,000	128,000
Less: Home leave payment made directly by employer	(96,000)	(8,000)
Total taxable income	1,440,000	120,000
Calculation of Monthly Tax		
Total monthly taxable income		120,000
Less: Standard deduction and foreign expatriate deduction		(4,800)
Net monthly taxable income		115,200
Tax on RMB 115,200 at a rate of 45%		51,840
Less: Quick reckoning deduction (resulting from graduated tax rate and standard deduction)		(15,375)
Monthly tax payable		36,465

(a) Housing costs paid directly by the employer are not treated as taxable income.
(b) This item must be shown as a reduction of the base salary.

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For information purposes, the following exchange rate is used in this chapter: US$1 = approximately Col$2,556.72.

A. Income Tax

Who Is Liable. Resident nationals are subject to tax on their worldwide income. Nonresident nationals are subject to Colombian tax on their Colombian-source income only. Resident foreigners are subject to tax on their Colombian-source income only for the first four years or tax periods of continuous or discontinuous residence in Colombia. They are subject to tax on their worldwide income beginning with their fifth year of residence in Colombia.

Individuals are considered resident for tax purposes in Colombia if they reside in Colombia for six or more months in a tax year or if they complete this period within a tax year.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income for individuals consists of salaries, wages, bonuses, benefits in kind and other income. However, 25% of employment income is exempt from tax, limited to a monthly amount (*see Exempt Income*), which is modified annually.

Self-Employment and Business Income. Taxable self-employment and business income is income less allowable business expenses (see *Business Deductions*).

Investment Income. Dividends received by residents generally are not taxed, unless they are paid out of untaxed profits. Interest is taxed with other income at the rates described in *Rates*, but relief is available for inflation. Royalties and rental income are included in taxable income and taxed at the regular rates.

Directors' Fees. Directors' fees are subject to an 11% withholding tax (if the individual is required to file an income tax return; otherwise, a rate of 10% applies) and are included in the taxable income of resident individuals. The withholding tax is credited against final tax liability when the resident files a tax return.

Exempt Income. Twenty-five percent of salary income is exempt from income tax, limited to a maximum monthly amount of Col$4,769,000 (for the 2006 tax year; approximately US$1,865).

Capital Gains. Capital gains are taxed at ordinary income rates. These rates are applied separately from the ordinary income. As a result, the effective rate is reduced. In determining the amount of capital gains, the acquisition costs of shares and real estate are adjusted for inflation, regardless of whether the asset is used in a trade or business.

Capital losses may offset only capital gains.

Deductions

Deductible Expenses. No deductible expenses are allowed for employees who are not required to file tax returns.

In addition, voluntary contributions paid by the employee to a pension fund are deductible from taxable income, subject to a 30% limitation. For this purpose, required pension contributions are included, as well as contributions to AFC Accounts (for housing construction promotion) opened in commercial local banks and payments for leasing of housing.

Personal Deductions and Allowances. Interest and indexation on loans for the acquisition of a taxpayer's house are deductible, up to a limit set annually. Payments made for education and health in favor of a taxpayer and his or her spouse and two children can be treated as a deduction for income tax withholding purposes, if such payments do not exceed 15% of the taxpayer's taxable income arising from employment and if the taxpayer's income in the preceding year did not exceed Col$92,522,000 (approximately US$36,199).

Business Deductions. Self-employed entrepreneurs and professionals may deduct all legally acceptable expenses incurred in carrying out their business activities. For self-employed professionals, deductible expenses may not exceed 50% of business income (90% for architects and engineers on construction contracts); however, this limitation does not apply if the taxpayer issues appropriate invoices for all his or her income and if such income is subject to withholding tax.

Rates. The rates in the following tables apply to residents for the 2006 tax year.

Withholding Rates for Employees

Employment Income Exceeding Col$	Employment Income Not Exceeding Col$	Rate %
0	1,895,000	0
1,895,000	8,096,000	0.26 to 21.58*
8,096,000	—	35

* Within this range are 125 different rates and brackets.

The basis for applying withholdings on employment income is 75% of such income.

Income Tax Rates for Employees or Self-Employed Persons

Employment Income Exceeding Col$	Employment Income Not Exceeding Col$	Rate %
0	22,742,000	0
22,742,000	100,154,000	0.26 to 21.99*
100,154,000	—	35

* Within this range are 125 different rates and brackets.

Nonresidents generally are subject to tax on all Colombian-source income at a flat rate of 35%. Dividends are taxed at a rate of 7% for the 2006 tax year, and certain remittances, including directors' fees, are subject to an additional 7% withholding tax. Withholding taxes for nonresidents are final taxes.

A 10% surtax applies to net income tax of individuals required to file an income tax return up to and including the 2006 tax year.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses derived by self-employed persons may not be carried forward.

B. Estate and Gift Tax

The first Col$23,442,000 (for the 2006 tax year) received as a gift or inheritance by spouses and legal heirs is exempt from tax. For inheritances or legacies received by persons other than the legitimate heirs and spouse, as well as for donations, the exempt amount of capital gain is 20% of the value received, up to Col$23,442,000 (for the 2006 tax year).

C. Social Security

Employees may choose between a private social system or the public system administered by the Institute of Social Security (ISS). The contribution rates are the same in each system.

Employers and employees are subject to the following monthly social security contributions (amounts expressed as percentages of salaries).

Contribution	Employer (%)	Employee (%)
Health (a)	8.0	4.0
Pensions (b)	11.625	3.875
Additional contribution (c)	—	1.0 to 2.0 (d)
Professional risks	0.35 to 8.7 (e)	—

(a) Contributions to the health scheme are mandatory for all employees.
(b) The pension system is voluntary for foreign employees.
(c) An additional 1% contribution for pensions must be paid by employees who earn at least four monthly minimum legal salaries (that is, Col$1,632,000 or approximately US$638) per month.
(d) Contributions to the Solidarity Pension Fund are 1%, which is increased by 0.2%, 0.4%, 0.6%, 0.8% or 1%, depending on the total amount of the salary (from 16 to 25 minimum monthly legal salaries. One minimum monthly legal salary equals Col$408,000 (approximately US$159.57).
(e) The contribution for professional risks ranges between 0.35% and 8.7% of the employee's salary, depending on the risk associated with the company's activities.

The base on which these contributions are calculated is limited to the equivalent of 25 minimum legal salaries (Col$10,200,000, or approximately US$3,989) per month.

D. Tax Filing and Payment Procedures

The tax year is the calendar year. Each year the Colombian government establishes deadlines for filing income tax returns through the issuance of an Official Decree. For 2006, tax filing and payment dates are between April and May of 2007. The 2006 Colombian income tax return may also be submitted to any Colombian consulate abroad by June 2007, and, in such case, the tax due must be paid in Colombian currency at an authorized Colombian commercial bank by June 2007. The exact dates will be defined at the end of the year by an Official Decree, as mentioned above.

Income tax liability on employment income is generally satisfied by employers' withholding of tax based on gross salary. Employees are not generally required to file tax returns if at least 80% of their gross income consists of employment income. However, income tax returns for 2006 must be filed by employees if their net worth exceeds Col$89,183,000 or if their annual income exceeds Col$66,888,000. Resident self-employed professionals or entrepreneurs who receive business income in excess of Col$66,888,000 or who have net worth inside or outside the country in excess of Col$89,183,000 on 31 December 2006 must file tax returns. These amounts are adjusted annually by the Colombian government. Nonresidents need not file tax returns if tax is withheld from all income received during the year. If nonresidents receive income from which tax is not withheld, they must file tax returns and meet the filing deadlines that apply to residents.

Individuals who are required to file tax returns must make advance payments of tax under certain conditions.

Married persons are taxed separately, not jointly, on all types of income.

E. Double Tax Relief and Tax Treaties

Colombian national taxpayers who receive foreign-source income subject to income tax in the country of origin are entitled to deduct the foreign tax from Colombian income tax, up to the amount of Colombian tax payable on the same income.

Colombia has a double tax treaty with the Andean Community member countries (Bolivia, Ecuador, Peru and Venezuela).

Colombia has signed a double tax treaty with Spain, which is expected to be ratified during 2006 and take effect on 1 January 2007.

F. Entry Visas

Decree 4000 of 30 November 2004 provides immigration policies in Colombia. Under Decree 4000, foreigners who wish to work or carry on business in Colombia must apply for an appropriate visa.

Visas may be granted by the Ministry of Foreign Affairs or by consular offices abroad. However, an individual requesting a temporary visa for the first time must apply at a Colombian embassy or consulate abroad, except for certain special visas such as for pensioners, beneficiaries and medical treatments.

The most common types of visas are discussed below.

G. Business and Temporary Visas

Business Visa. A business visa may be granted to a foreigner who wishes to enter Colombia to act as a legal representative, director or executive of a Colombian or foreign company that carry out certain business activities in Colombia.

A business visa has a maximum term of four years and allows multiple entries. After each entry, the visa holder may stay within the country for a term of up to six months. Holders of this visa may not be domiciled in Colombia, may not receive salaries or fees in Colombia, and may not request any other type of visa.

A business visa does not entitle the holder to work in Colombia.

Temporary Working Visa. A temporary working visa may be granted to the following individuals:

- A foreigner who has been hired by a person, public or private entity or company, and intends to enter and remain in the country to carry out employment within his or her specialty or to provide technical training;
- A foreigner who intends to enter and remain in the country under an academic agreement executed between universities, or under an administrative agreement which provides for the management of certain activities regarding a specialized area;
- A director, technician, or administrative employee of a public or private commercial or industrial entity, who has been transferred to Colombia in order to serve in specified positions for his or her company; and
- A foreigner who does not have an employment agreement with a company domiciled in Colombia, but renders personal services with respect to specific projects requested by a domiciled company.

The temporary visa has a maximum term of two years and allows multiple entries.

Reporting Requirements. All employers must advise the Departmento Administrativo de Seguridad (DAS) in writing within 15 days following the employment or termination of foreign personnel.

H. Resident Visas

Resident visas are issued by the Ministry of Foreign Affairs or by the consular offices abroad to foreign nationals intending to become permanent residents of Colombia. These visas are valid for an indefinite time and allow multiple entries. However, they are voided if the permit holder leaves the country for more than two consecutive years.

The following categories of residence permits are available:

- Visas for family members or relatives of Colombian nationals;
- Qualified resident visas issued to the foreigners who have held a temporary visa for five uninterrupted years, have stayed in Colombia regularly and request the qualified resident visa within 30 days before the original visa expires; and

• Investor resident visas issued to foreigners who make a direct foreign investment, in accordance with the foreign-exchange regulations and in an amount determined by the Ministry of Foreign Affairs.

I. Family and Personal Considerations

Family Members. Visas for family members are issued by the Ministry of Foreign Affairs or by consular offices abroad to the applicant's spouse, parents and children. These visas have the same duration as the applicant's visa.

Drivers' Permits. Foreign nationals may drive legally in Colombia with their home country drivers' licenses for a maximum of four months if they carry their passports. Foreign nationals may drive with international drivers' licenses until they expire. Colombia does not have driver's license reciprocity with any other country.

To obtain a Colombian driver's license, an expatriate must mail a letter of request to the License Division of the Transit Secretariat, including his or her name, address, telephone number, type of request and identification document number. An answer is usually received by mail within eight business days. No written exam is required.

The following documents must be attached to the request:

• One photograph;
• A deposit slip or the equivalent of approximately US$30;
• A copy of the foreigner's Colombian identity card;
• A physical exam signed by a licensed physician;
• A photocopy of the foreign country driver's license (translated by the consulate of the driver's license's country of origin); and
• A blood type test.

APPENDIX 1: TAXABILITY OF INCOME ITEMS — EXPATRIATE PERSONNEL

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	(a)
Employee contributions to home country benefit plan	X	—	(b)
Bonus	X	—	(a)
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(c)
Housing contribution	(X)	—	—
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowances	X	—	—
Home-leave allowances	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(d)
Tax reimbursement			
Current gross up	X	—	—
One-year rollover	X	—	—
Deferred compensation	X	—	(e)
Value of meals provided	X	—	(f)

	Taxable*	Not Taxable	Comments
Food allowance (up to two monthly minimum legal salaries)	—	X	(g)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(h)
Capital gain from the sale of personal residence in home country	—	X	(h)
Capital gain from sale of stock in home country	—	X	(h)

* Bracketed amounts reduce taxable income.
(a) 25% of this item is exempt from tax, up to a monthly amount of Col$4,769,000.
(b) Employee contributions are not deductible from compensation. Benefit plan payments made in Colombia are taxable, regardless of the employee's nationality.
(c) Housing allowances paid by the employer and housing paid for by the employer are regarded as taxable income. Housing provided and borne by a foreign employer is not taxed if it is required for the performance of the job (for example, housing provided in oil camps if the expatriate is on call 24 hours).
(d) Actual moving expenses, whether reimbursed to an employee or paid directly by the employer to a third party, are not treated as taxable compensation.
(e) Deferred compensation is taxable when paid if the compensation is for services rendered in Colombia or if the expatriate has been resident in Colombia for five years or more.
(f) Under recently introduced tax rules, all indirect payments made by employers to their employees are taxable.
(g) This exemption applies only to employees who earn less than 15 times the minimum monthly legal wages. For 2006, this amount is Col$6,120,000.
(h) These items are taxable if the income is Colombian-source income or if the expatriate has resided in Colombia for five or more years.

APPENDIX 2: SAMPLE TAX CALCULATION

A tax calculation is set forth below for an expatriate who has been resident in Colombia for less than five years as of 31 December 2006. The expatriate's income and expenses, and the amount of taxes withheld during 2006 are listed below.

	Col$	Col$
Income		
Salary, under salary package basis		96,000,000
Bonus		8,000,000
Rentals of real estate in Colombia		24,000,000
Dividends, certified as:		
Nontaxable	10,000,000	
Taxable	2,000,000	12,000,000
Costs and Expenses		
Land tax paid on real estate that generates rental income	(600,000)	
Interest paid on home loans (maximum deductible amount allowed by the tax rules)	(24,072,000)	(24,672,000)

	Col$	Col$
Withholdings		
Salary and bonus	13,297,000	
On rentals (3.5% rate)	840,000	14,137,000

The following is the tax calculation.

	Col$	Col$
Calculation of Taxable Income		
75% taxable portion of salary package	72,000,000 (a)(b)	
Bonus (75% taxable portion)	6,000,000	
Rentals	24,000,000	
Taxable dividends	2,000,000	104,000,000
Deductions:		
Land tax (80% deductible)	(480,000)	
Deductible interest on home loan	(24,672,000)	(25,152,000)
Taxable income		78,848,000
Calculation of Tax Payable		
Total tax		15,124,000
Tax withholding		(14,137,000)
Tax payable (c)		987,000

(a) Income resulting from work performed or services rendered in Colombia is taxable, regardless of the place of payment.
(b) Compensation for services rendered outside Colombia is not taxable for resident expatriates who have resided five or less years in Colombia.
(c) An advance payment for the following year is required when filing the income tax return. The advance is equal to 25% of the tax liability less withholdings for the first year. The percentage is increased to 50% for the second year and to 75% for subsequent years.

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A. Income Tax

Who Is Liable. Residents are subject to tax on worldwide income. Nonresident employees who work in Congo more than two weeks a year are subject to tax on their Congolese-source income, regardless of where their employers are resident.

Individuals are considered resident if they have a dwelling in Congo, either as owners or as tenants with leases for at least one year, or if they otherwise maintain their principal residence in Congo.

Income Subject to Tax

Employment Income. Taxable employment income includes all compensation, allowances and benefits in kind. Benefits in kind are valued at the following rates based on gross compensation.

Benefit	Rate (%)
Accommodation	20
Domestic servants	7
Utilities	5
Food	20
Car	3
Phone	2

Self-Employment and Business Income. Self-employed individuals are subject to tax on income from commercial, agricultural and professional activities. Taxable income consists of total income from all categories.

Taxable income from commercial and agricultural activities includes all receipts, advances, interest and gains directly related to the activities. It is calculated on an accrual basis, with a possible option for a deemed-profits system if turnover does not exceed a certain amount. Capital gains derived from sales of fixed business assets may be exempt if reinvested.

Taxable income from professional activities is determined on a cash basis. Taxable income equals the difference between amounts received and expenses paid during the calendar year, including gains or losses from the sale of professional assets.

Investment Income. Dividend and interest income from investments in Congo are included in taxable income. Residents are also taxed on foreign investment income.

A withholding tax, called proportional tax, is levied on dividends at a rate of 20%, on directors' fees at a rate of 22%, and on bonds and debentures at a rate of 30%. After the income is included in taxable income, the proportional tax withheld is deducted from general income tax due.

Directors' Fees. Compensation paid to directors is treated as investment income and is subject to income tax. Taxes withheld by the payer may be credited by the recipient against general income tax payable.

Taxation of Employer-Provided Stock Options. Congolese law does not specifically address the taxation of employer-provided stock options.

Capital Gains. Capital gains are taxed at ordinary income rates.

The taxable portion of gains from the disposal of real property is the difference between the sale price and the revalued purchase price. For developed land, the gain is reduced by 5% for each year of ownership in excess of 10 years. Therefore, the gain is exempt from tax if the real property is owned for at least 20 years before the sale. For undeveloped land, the gain is reduced by 3% for each year of ownership in excess of 10 years.

Gains derived from sales of shares are generally exempt from tax. However, one-third of the gain is taxed if, during the five preceding years, the seller, together with his or her ascendants, descendents and spouse, held more than 25% of the capital stock of the company and if any of these individuals served as managers or directors in the company at any time during the five-year period.

Deductions

Deductible Expenses. To determine taxable income, the following expenses are deducted:

- A 20% deemed deduction for employment-related expenses.
- Pension plan contributions, limited to 6% of gross compensation.
- Social security contributions.
- Interest on loans for which the taxpayer is liable, restricted to the first six annual payments of loans related to the construction or acquisition of a principal apartment building. The deductible amount is limited to FCFA 1 million.
- Alimony paid pursuant to a judicial decision.
- Medical expenses paid by the taxpayer and dependants, not exceeding 10% of net income up to a maximum of FCFA 200,000.

Personal Deductions and Allowances. The family coefficient rules described in *Rates* are used instead of a schedule of personal allowances and deductions.

Business Deductions. All expenses necessary to carry on a professional activity are deductible. Deductible expenses for commercial and agricultural activities include the following:

- Expenses necessary to carry on the activity, such as personnel and rental expenses;
- Depreciation;
- Provisions for losses and expenses;
- Interest on loans from shareholders; and
- Certain taxes, including business tax, license fees and tax on wages.

Rates. Tax is levied at progressive rates, up to a maximum rate of 50%. Income is taxed under a family coefficient system, which adjusts the amount of income subject to the progressive tax rate table according to the number of family members. Under this system, taxable income is divided by the number of family allowances to which the taxpayer is entitled. The amount calculated corresponds to the income per allowance. Tax is then computed for one allowance and multiplied by the number of family allowances. No more than 6.5 allowances may be taken. The following allowances are available.

Type of Allowance	Number of Allowances
Single, divorced or widowed individual with no children	1
Married with no children, single or divorced with one child	2
Widowed, with one child	2.5
Each additional child	0.5

The following table presents the tax rates that apply to income for one allowance.

Taxable Income Per Allowance		Tax on Lower Amount	Rate on Excess
Exceeding FCFA	Not Exceeding FCFA	FCFA	%
0	200,000	0	1
200,000	800,000	2,000	15
800,000	2,500,000	92,000	30
2,500,000	8,000,000	602,000	45
8,000,000	—	3,077,000	50

In general, nonresidents are considered unmarried for tax purposes (married without children if they are French). Tax payable is the greater of the tax that results from the application of the regular rates or 20% of their taxable income.

Nonresidents are subject to withholding tax at a rate of 20% on payments for work or services carried out in Congo. This rate also applies to French residents under the France-Congo tax treaty. The withholding rate is 20% for royalties derived by nonresidents, except residents of France, for whom the rate is 15%.

Relief for Losses. Losses in one category may be deducted from income in other categories. If income from all categories does not fully offset the loss, the remaining loss may be carried forward for three years.

B. Other Taxes

Global Minimum Tax. Global minimum tax (*impôt global forfaitaire*, IGF) includes industrial and commercial profit tax, value-added tax (VAT), standard tax and apprenticeship duty. IGF applies to taxpayers whose annual turnover does not exceed FCFA 10 million (FCFA 30 million for sellers and FCFA 20 million for artisans). IGF is levied at a rate of 8% on turnover multiplied by 1 for taxpayers not subject to VAT and by 1.18 for taxpayers totally or partially subject to VAT.

Inheritance and Gift Tax. If a deceased person or donor was a resident of Congo, inheritance or gift tax is payable on worldwide net assets, unless otherwise provided by applicable tax treaties. Resident foreigners and nonresidents are subject to inheritance and gift tax only on assets located in Congo.

Inheritance and gift tax rates vary, depending on the relationship between the recipient and the deceased or donor and on the value of the gift or inheritance. The rates range from 0% to 60%.

C. Social Security

Contributions. Social security contributions are withheld monthly by employers. The tax base includes all compensation, benefits and allowances.

The following contributions are required and are paid by the employer, with the exception of the pension contribution, which is paid by the employer and the employee.

Description	Rate (%)
On monthly salary, up to FCFA 600,000	
Family allowances	10.035
Accidents and illnesses due to professional activity	2.25
National Housing Fund	2
Onemo contribution, on gross monthly salary	0.5
Pension contributions on monthly salary up to FCFA 1,200,000, paid by	
Employer	8
Employee	4

Totalization Agreement. To provide relief from double social security taxes and to assure benefit coverage, Congo has concluded a totalization agreement with France, which applies for a maximum period of one year.

Congo has signed a social security treaty with other member countries of the Common African and Mauritian Organization (OCAM), which are Benin, Burkina Faso, Central African Republic, Côte d'Ivoire, Gabon, Mauritius, Niger, Rwanda, Senegal and Togo.

D. Tax Filing and Payment Procedures

The tax year is the calendar year. Individuals must file general income tax returns before 1 March following the end of the tax year. An extension until 30 April is provided for self-employed individuals required to file balance sheets. Self-employed individuals must file separate returns by 30 April for income derived from commercial and agricultural activities. Although tax on employment is withheld monthly by employers, employees must file annual income tax returns.

Individuals engaged in commercial, professional or agricultural activities must make two prepayments, each equal to one-third of the tax paid the previous year. The balance is payable on receipt of a tax assessment.

Married persons are taxed jointly or separately, at the taxpayer's election, on employment income.

E. Double Tax Relief and Tax Treaties

No foreign tax credit is available unless a double tax treaty provides otherwise. However, taxes withheld in a foreign country are deductible for determining taxable income in Congo.

Congo has entered into double tax treaties with France and with other member countries of the Central African Economic and Customs Union (UDEAC), including Cameroon, Central African Republic, Chad, Equatorial Guinea and Gabon. Although OCAM has been dissolved, Congo's tax administration continues to apply the provisions of the OCAM tax treaty.

The following relief is available under the UDEAC and OCAM treaties:

- Commercial profits are taxable in the treaty country where a foreign firm performs its activities through a permanent establishment;
- Dividends are taxable in the country of source;
- Interest is taxable in the country of residence of the beneficiary (but, under the OCAM treaty, the country of source may withhold the tax at source if its internal law allows);
- Royalties are taxable in the country of residence of the beneficiary; and
- Employment income is taxable in the treaty country where the activity is performed (except in the case of a short assignment under the OCAM treaty).

F. Temporary Permits

Foreigners who have expired visas, who enter the country for the first time, or who have visas that were canceled when they left the country, must apply for 15-day visas at a Congolese embassy or consulate before entering Congo.

A temporary permit (Attestation Provisoire de Séjour, or APS) is a green card. It is valid for three months and may be obtained from the Regional Director of Immigration in Pointe Noire.

To obtain a temporary permit, the applicant must submit the following documents:

- A valid passport or substitute document, with a visa if the foreigner is not a citizen of France (which has signed an immigration agreement with Congo);
- A criminal record certificate issued with the past three months by the judicial authority in the applicant's country of birth;
- A medical certificate;
- A copy of the return ticket (for tourists);
- Four identical photographs of the applicant; and
- A lodging certificate, valid for 15 days (a letter from a Congolese resident agreeing to lodge the foreign national for the duration of the sojourn).

G. Residence Permits

Temporary Residence Permit. A temporary residence permit (*carte de résident temporaire*) is a pink card. It is valid for one year, and is granted exclusively by the General Director of Immigration Services in Brazzaville.

To obtain a temporary residence permit, the applicant must submit, in addition to the documents required for a temporary permit, the following documents:

- A duty stamp of FCFA 5,000;
- A valid passport or substitute document, with a visa if the foreigner is a national of a country that has signed an immigration treaty with Congo;
- Four photographs of the applicant;
- An international vaccination book;

- A receipt for payment of a deposit guaranteeing repatriation (for applicants who are neither citizens of Central African Customs and Economic Union [UDEAC] countries or of Democratic Congo); and
- A work contract signed by the Congolese Minister of Labor if the applicant is a salaried employee, a certificate of inscription in a school or university if the applicant is a student, or a commercial agreement if the applicant is an independent worker.

Privileged Resident Permit. A privileged resident permit (*carte de résident privilégié*) may be granted only by the Ministry of Interior.

H. Family and Personal Considerations

Marital Property Regime. The following marital property regimes apply in Congo:
- Community property;
- Division of property; and
- Conventional community.

The community property regime is the default regime and applies automatically if a couple does not specifically choose another regime.

The choice of marital regime is made when the marriage is solemnized. The marital property regime may not be changed during the first two years of the marriage. After two years, changes are allowed only if the rules under the original regime conflict with the family's interests. Changing regimes must be official and accepted by the authorities.

Congo's marital property regimes apply to married couples who solemnize their marriage in Congo or to couples who solemnize their marriage abroad but under Congolese laws. The regimes do not apply to couples who establish a permanent domicile in Congo if they were married under foreign laws. The community property claims purport to survive a permanent move to a non-community property country.

Forced Heirship. Forced heirship rules do not apply in Congo.

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A. Income Tax

Who Is Liable. Resident and nonresident individuals, regardless of their nationality, are taxed on their income earned in Costa Rica. Foreign-source income is not taxed.

Individuals are considered resident if they have lived in Costa Rica for more than six consecutive months during a taxable year. However, the tax authorities may apply a shorter term for employed individuals.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Monthly income in excess of ¢419,000 is taxable, including salary, pensions, bonuses, premiums, commissions and allowances (for example, housing and educational allowances). Payments made to board members, other executives and counselors not included in the payroll are subject to a 15% withholding tax.

Self-Employment and Business Income. Income derived from self-employment or from a trade or business is subject to taxation.

Investment Income. Dividends paid or credited by local companies to resident and nondomiciled individuals and to nondomiciled business entities are subject to a 15% withholding tax. Dividend distributions between local corporations and limited liability companies are not subject to withholding. If dividends are paid by publicly traded companies registered on the Costa Rican stock exchange, the withholding tax rate is reduced to 5% if the shares were acquired through the stock market. Interest paid abroad is generally taxed at a rate of 15%. However, interest paid to a nondomiciled entity recognized by the Costa Rican central bank and tax authorities as a first-order financial institution are exempt from the 15% withholding tax. In addition, interest derived from commercial invoices paid abroad is not subject to taxation in Costa Rica. Royalties from franchises, technical advice and similar payments are not subject to a 25% withholding tax.

Directors' Fees. Directors' fees paid to resident and nonresident individuals are subject to a 15% withholding tax.

Capital Gains. Capital gains are taxable and capital losses deductible only if derived from the sale of depreciable assets or from the sale of nondepreciable assets in the ordinary course of business. Occasional (nonhabitual) sales of nondepreciable assets are not subject to tax.

Deductions

Personal Deductions and Allowances. Annual tax credits are allowed in the amounts of ¢9,480 for each dependent child and ¢14,040 for a spouse. The spouse tax credit may be taken by either the husband or the wife, but not by both.

Business Deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. Employment income is taxable at the following rates applicable from 1 October 2005 to 30 September 2006.

Annual Taxable Income Exceeding ¢	Not Exceeding ¢	Tax on Lower Amount ¢	Rate on Excess %
0	5,028,000	0	0
5,028,000	7,548,000	0	10
7,548,000	—	252,000	15

Fringe benefits and salary in kind are subject to a 15% withholding tax.

Self-employment and business income are taxable at the following rates applicable from 1 October 2005 to 30 September 2006.

Annual Taxable Income Exceeding ¢	Not Exceeding ¢	Tax on Lower Amount ¢	Rate on Excess %
0	1,850,000	0	0
1,850,000	2,775,000	0	10
2,775,000	4,629,000	92,500	15
4,629,000	9,276,000	370,600	20
9,276,000	—	1,300,000	25

Withholding tax is levied on nonresidents at a rate of 15% on salaries, other remuneration, pensions, commissions, directors' fees and other similar items.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Self-employed individuals may not carry their losses forward or back.

B. Estate and Gift Taxes

Costa Rica does not impose estate or gift taxes. However, estates may be taxed as ordinary taxpayers if they derive income before the distribution of assets to beneficiaries.

C. Social Security

Social security contributions are levied on salaries, at a rate of 26% for the employer and 9% for the employee. Contributions are computed based on an employee's gross compensation, with no deductions allowed.

D. Tax Filing and Payment Procedures

Employers are responsible for withholding income taxes and social security contributions from the employee's salary on a monthly basis. Employees are not required to file an annual income tax return if their only source of income is employment compensation. Nonresidents are not required to file tax returns if they are only subject to income tax withholding at source.

The ordinary fiscal year runs from 1 October to 30 September. Returns must be filed, and any tax liabilities due must be paid, no later than 15 December. However, in certain specific circumstances, taxpayers may elect to file using a calendar tax year (1 January to 31 December). Self-employed individuals and individuals with a trade or business must make advance quarterly tax payments.

E. Double Tax Relief and Tax Treaties

Costa Rica has not entered into any tax treaties. However, Costa Rica has a Tax Information and Exchange Agreement with the United States. In certain circumstances, the tax authorities may exempt specific types of income, such as earnings, dividends, interest, commissions, royalties and patents, from tax in Costa Rica if the nondomiciled beneficiaries of the Costa Rican income demonstrate that they will not be granted a total or partial credit in their countries for taxes paid in Costa Rica. This relief does not apply if the Costa Rican income is not taxed in the foreign jurisdiction.

F. Work Permits

Foreigners must apply for a work permit to work in Costa Rica. The approximate time for obtaining a work permit once all documents are filed with the immigration authorities, is approximately eight weeks. However, after the required documents are filed with the immigration authorities, a receipt may be obtained and used as a temporary permit until final approval is received. Work permits are valid for one year and are renewable for similar periods of time.

Foreign companies with more than 30 permanent employees in Costa Rica may obtain company permits to bring foreign technicians and executives to work in Costa Rica. Company permits are valid for one year and are renewable.

G. Residence Permits

Immigration and visa requirements generally are amended constantly in Costa Rica; therefore, foreigners wishing to come to Costa Rica are urged to seek legal advice before entering the country. Foreigners may apply for local residency with the General Direction of Migration and Foreigners (Direccíon General de Migracíon y Extrangería) if certain requirements are met. Residency is granted for a renewable one-year period.

H. Family and Personal Considerations

Family Members. Spouses of foreigners that are granted work permits in Costa Rica do not automatically receive the same treatment as the original permit holders and must apply for independent visas or permits.

Children of expatriates may use the granted migratory status of their parents to attend school in Costa Rica.

Drivers' Permits. Foreigners may drive legally in Costa Rica using their home country drivers' licenses for up to three months. After the three-month period expires, resident foreigners must obtain a Costa Rican drivers' license.

Costa Rica does not have driver's license reciprocity agreements with any other country.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—

	Taxable*	Not Taxable	Comments
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement	X	—	—
Value of meals provided	X	—	(a)
Value of lodging provided	X	—	(b)
Pension from retirement	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gains from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* The bracketed amount reduces taxable income.

(a) Meals received by employee are considered nontaxable if the employee receives the meals to perform his or her regular activities and would otherwise be unable to obtain meals on his or her own (this applies to activities performed in remote locations).

(b) Housing provided for the immediate personal use of an employee and his or her family is considered a direct benefit, which constitutes salary in kind. In such circumstances, the housing benefit must be included on the local payroll and the corresponding income tax and social security charges apply. However, in certain cases, housing provided is not considered a taxable benefit. For example, if an executive who comes to the country uses a company's apartment, but the apartment does not become the domicile for the executive and his or her family, the use of the apartment is not considered a taxable benefit.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample annual tax computation for a married resident individual who is employed and has two children.

	¢	¢
Calculation of Taxable Income		
Cash salary		10,000,000
Salary in kind:		
Housing allowance	2,500,000	
Car allowance	2,500,000	
Home maintenance allowance	2,500,000	
Other allowance	2,500,000	
Total salary in kind		10,000,000
Taxable income		20,000,000

	¢	¢
Calculation of Tax		
Social security:		
¢20,000,000 at 9%		1,800,000
Withholding tax on salary in kind:		
Housing allowance	375,000	
Car allowance	375,000	
Home maintenance allowance	375,000	
Other allowance	375,000	
Total withholding taxes on salary in kind		1,500,000
Withholding tax on cash salary		619,800
Gross withholding taxes		2,119,800
Tax credits:		
1 spouse	(14,040)	
2 children	(18,960)	
Total tax credits		(33,000)
Net withholding tax		2,086,000
Net pay (¢20,000,000 - ¢1,800,000 - ¢2,086,000)		16,114,000

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At the time of writing, the 2006 Financial Law was expected to be published. Because this law may contain tax changes, readers should obtain updated information before engaging in transactions.

A. Income Tax

Who Is Liable. Individuals are subject to proportional tax on earnings from employment and self-employment activities and to general income tax on total net income.

Individuals domiciled in Côte d'Ivoire are subject to proportional tax on worldwide employment and on self-employment income. Individuals not domiciled in Côte d'Ivoire are subject to proportional tax on income derived from services performed in Côte d'Ivoire only.

Residents are subject to general income tax on worldwide income. Nonresidents are taxed on income derived from Côte d'Ivoire only.

A person is considered resident in Côte d'Ivoire for tax purposes if he or she satisfies either of the following conditions:

- The person's usual residence is a dwelling in Côte d'Ivoire, either as an owner or a tenant with a lease of at least one year, or his or her principal place of residence is in Côte d'Ivoire.
- The person is an employee who, during periods of absence from Côte d'Ivoire, continues to be paid by the employer for which he or she works while in Côte d'Ivoire. The rule is the same for any person who transfers his or her place of residence to Côte d'Ivoire during the year.

A holder of a tourist visa or a short-stay visa is deemed to be a nonresident until one of the preceding conditions is fulfilled.

Income Subject to Tax

Employment Income. Taxable income for purposes of proportional tax includes 80% of all remuneration, allowances and benefits. Benefits in kind, including housing, furniture, energy, water, food and domestic help, are deemed to have a certain value, depending on the benefit. Allowances covering professional expenses (limited to one-tenth of total remuneration) and family allowances are specifically exempt.

An individual is subject to general income tax on total net revenue derived in the preceding year. Net revenue is equal to the net income from all categories, less the proportional tax for each category.

Self-Employment Income. Individuals are subject to income tax on their self-employment income from commercial, agricultural and professional activities. Like employment income, self-employment income is subject to both proportional tax and general income tax.

Self-employed individuals must pay proportional tax on their income and profits derived from Côte d'Ivoire. General income tax is levied on net income under the same rules that apply to employed individuals.

For purposes of general income tax, taxable income consists of income from all categories. For purposes of proportional tax, taxable income includes income only from the following sources:

- Commercial and agricultural activities: Taxable income from commercial and agricultural activities includes receipts, advances and profits from all relevant sources during the fiscal year, determined under the accrual method.
- Professional activities: Taxable income from professional activities is equal to the difference between income accrued and expenses paid during the fiscal year.

Proportional tax is withheld at a rate of 20% (reduced to 10% under tax treaties) from income realized by nonresidents who engage in professional activities.

Investment Income. Investment income is subject to both proportional tax and general income tax.

Interest income and dividends are subject to proportional tax if the payer is domiciled in Côte d'Ivoire. Certain types of interest are taxable if the beneficiary is domiciled in Côte d'Ivoire, even if the payer is not.

Directors' fees are treated as investment income and are subject to proportional tax and general income tax. Proportional tax is withheld by the paying company at a rate of 12%.

Proportional tax on investment income is withheld by the payer at rates of 10%, 12% or 18% for dividend income, 13.5% to 18% for interest income, and 15% for rental income. The net amount of investment income is aggregated with other income in determining general income tax, which is taxed at the rates set forth in *Rates*.

The proportional tax withholding rates on interest, dividends and directors' fees paid to nonresidents range from 9% to 25%. These payments are subject to general income tax after the proportional tax is deducted from taxable income. Proportional tax is withheld at a rate of 20% on nonresidents who receive payments of royalties from Côte d'Ivoire. No general income tax is due on these royalty payments.

Taxation of Employer-Provided Stock Options. Employer-provided stock options are not subject to tax at the time of grant, but may be taxed at the time of exercise. The difference between the fair market value of the stock at the time of exercise and the strike price is added to the employee's monthly compensation for purposes of calculating tax on salary and wages.

Foreign-exchange control regulations restrict the ownership of foreign stocks by Côte d'Ivoire residents.

Capital Gains. One-third of the gain in excess of FCFA 100,000 derived from the sale of shares is subject to general income tax if, during the previous five years, the seller, together with his or her ascendants, descendents and spouse, held more than 25% of the capital stock of the company and if any of those individuals held a post as administrator or manager in the company at any time during the five-year period. Otherwise, tax is not levied on gains from the sale of shares. Gains from the sale of real property are not taxable, unless they are included in commercial, agricultural or professional profits or the sale is by a partnership.

Deductions

Deductible Expenses. No expenses are deductible from the proportional tax base.

The tax base for purposes of general income tax is equal to the proportional tax base, less the proportional tax on salaries and wages, the *contribution nationale* and a fixed-rate deduction of 15%. Individuals are also entitled to deduct the following items:

- Interest on loans and debts;
- Alimony payments;
- Life insurance premiums, within certain limits;
- Donations to sports associations and scientific research organizations, within certain limits; and
- The general income tax itself (a schedule from the tax administration is used for the direct calculation of the tax).

Personal Allowances. Allowances are described in *Rates*.

Business Deductions. Expenses deductible for purposes of proportional tax on commercial, professional and agricultural activities are those expenses necessary to carry out the activity, including the following:

- Costs of material and stock, as well as additional costs, including freight;
- Personnel expenses, including salaries, allowances, benefits, and social and fiscal contributions relating to employment;
- Interest on loans;
- Depreciation;
- Provisions for losses and expenses; and
- The business license duty, payroll taxes and taxes on goods, services and transactions (all taxes accrued during the fiscal year and due).

The deductions available for purposes of general income tax for self-employed individuals are the same as those for employed individuals, except that taxes that were paid but not deducted in determining the proportional tax base may be deducted in determining general income tax. For income from commercial, agricultural and professional activities, the deductions may be taken against either general income tax or proportional tax, but not against both.

Rates

Proportional Tax. Proportional tax rates range from 2.2% to 10.7% (on gross salary without deductions). Proportional tax consists of tax on salaries and wages, *contribution nationale* and *contribution pour la reconstruction nationale*, as indicated below.

	Rate (%)
Tax on salaries and wages	1.2
Contribution nationale	0 to 8
Contribution pour la reconstruction nationale	1 to 2.5

Proportional tax is levied at a rate of 25% on income derived from commercial, professional and agricultural activities. Taxpayers may opt to apply proportional tax at a rate of 35%, which exempts the income from general income tax.

Proportional tax is withheld at a rate of 20% from income realized by nonresidents who engage in professional activities or who receive payments of royalties from Côte d'Ivoire.

General Income Tax. General income tax is levied at progressive rates, up to a maximum of 60%.

Income is taxed under a family coefficient system, which adjusts the amount of income subject to the progressive tax rate table according to the number of family members. Taxable income is divided by the applicable number of family allowances, and the final tax liability is calculated by multiplying the tax computed for one allowance by the number of allowances claimed. No more than five allowances may be taken. The following allowances are available.

Type of Allowance	Number of Allowances
Single, divorced or widowed individuals with no children	1
Married individuals with no children, single or divorced individuals with one child	2
Each additional child	0.5

The following tax rates apply to income for each allowance.

Taxable Income Per Allowance		Tax on Lower Amount	Rate on Excess
Exceeding FCFA	Not Exceeding FCFA	FCFA	%
0	525,000	0	10
525,000	900,000	22,500	15
900,000	1,350,000	78,750	20
1,350,000	2,250,000	168,750	25
2,250,000	3,750,000	393,750	35
3,750,000	7,500,000	918,750	45
7,500,000	—	2,606,250	60

No general income tax is due on income realized by nonresidents who engage in professional activities or who receive payments of royalties from Côte d'Ivoire.

Relief for Losses. In calculating proportional tax, taxable income is computed separately for different categories of revenue. Expenses incurred in creating the income in each category are deductible only from the income in that category. If the net result is a loss, no proportional tax is payable for that category, but the loss may not offset income from other categories. It may be carried forward as an expense, however, and deducted from income in the same category in the following three years for professional activities, and the following five years for commercial and agricultural activities.

B. Inheritance and Gift Taxes

Inheritances and gifts are taxable if the transferred goods are located in Côte d'Ivoire. Inheritance and gift tax rates range from 0% to 45%, depending on the net value of the property and the relationship between the beneficiary and the donor or deceased. Côte d'Ivoire has concluded an estate tax treaty with France.

C. Social Security

The social security system covers all people employed in Côte d'Ivoire. Employers with employees performing services in Côte d'Ivoire must register with the Côte d'Ivoire social security organization. Employers withhold contributions from employees' remuneration monthly (quarterly if the employer has fewer than 20 employees). The following table sets forth the contribution rates.

Description	Rate (%)
On annual salary (and benefits in kind valued on a deemed basis), up to FCFA 840,000; paid by the employer	
Family allowances	5.75
Industrial accident insurance contributions	2 to 5
Pension contributions on annual salary (and benefits in kind valued on a deemed basis), up to FCFA 19,767,780; paid by	
Employer	4.8
Employee	3.2

Illness and unemployment are not covered under social security in Côte d'Ivoire.

Each temporary resident who is allowed to work in Côte d'Ivoire must contribute to the system, with the exception of certain French nationals. French employees sent by their employers to work in Côte d'Ivoire continue to contribute to the French social security system if they are in Côte d'Ivoire for a specific job and for a period not exceeding two years, holidays included.

Coverage of foreign residents who contribute to the system is available only in Côte d'Ivoire and may not be extended to their home countries, except for French workers.

To provide relief from double social security taxes and to assure benefit coverage, Côte d'Ivoire has concluded a totalization agreement with France.

D. Tax Filing and Payment Procedures

The tax year in Côte d'Ivoire for purposes of general income tax is the calendar year. The financial year for income derived from a professional, commercial or agricultural activity is also the calendar year.

Income from a financial year ending with or within the tax year is reported in the general income tax return. Individuals must file general income tax returns by 1 May. Employees whose proportional tax and general income tax are withheld at source by employers need not file returns, unless they have other income in specified amounts in addition to their salary, or receive income from more than one employer.

Married persons are taxed separately on employment income and jointly on all other types of income. The income of children up to 21 years of age (27 for students) is also included in joint returns, but minor children may be taxed separately if the head of the household so elects. Married persons may file separately only if they are legally separated or if one spouse is not resident in the household.

For self-employed persons, prepayments of general income tax are due by 15 February and 15 May following the end of the tax year. Each payment must equal one-third of the total tax paid the previous year. The remaining amount is payable when the taxpayer receives a tax assessment after the administration examines the return.

Depending on the amount of their business income, individuals with commercial or agricultural income must file their proportional tax returns by 30 April. Individuals with professional income must file their proportional tax returns by the end of April. Self-employed individuals must pay their proportional tax in three installments: the first by 20 April, the second by 20 June and the third by 20 September. Each of these payments must equal one-third of the total tax due for the year.

E. Double Tax Relief and Tax Treaties

In the absence of treaty relief, foreign taxes paid may be deducted from the related income if the individual is subject to general income tax on worldwide income.

Côte d'Ivoire has entered into double tax treaties with Belgium, Canada, France, Germany, Italy, Norway, Switzerland and the United Kingdom. In addition, Côte d'Ivoire has signed the West African Economic Community (CEAO) tax treaty, along with Benin, Burkina Faso, Mali, Mauritania, Senegal and Togo.

Although the Common African and Mauritian Organization (OCAM) has been dissolved, Côte d'Ivoire's tax administration continues to honor the provisions of the tax treaty, which was signed by Benin, Burkina Faso, Congo, Côte d'Ivoire, Gabon, Mauritius, Niger, Republic of Central Africa, Rwanda, Senegal and Togo.

Under the treaties, commercial profits are taxable in the treaty country where a foreign firm performs its activities through a permanent establishment. In addition, employment income is taxed in the treaty country where the activity is performed, except in the case of a short assignment.

Under the CEAO and bilateral treaties, dividends are taxable in the country of source. Under the OCAM treaty, dividends are taxable in the country where the beneficiary is resident, but are subject to withholding tax in the country where the payer is resident.

Under the bilateral treaties, interest and royalties are taxable in the country where the beneficiary is resident, but a limited amount of taxation by the country where the payer is resident is also permitted.

Under the OCAM and CEAO treaties, interest is taxable in the country of residence of the beneficiary, but the country of source may apply a withholding tax if its internal law allows. Royalties are taxable in the country of residence of the beneficiary.

F. Temporary Visas

Foreign nationals of the following countries must obtain visas to enter Côte d'Ivoire: Germany, Norway, the South African Republic, the United Kingdom and the United States. Côte d'Ivoire does not have a quota system for immigration. Côte d'Ivoire visa regulations are currently being studied by the Ministry of Foreign Affairs.

Tourist visas, issued in the foreign national's home country by Côte d'Ivoire embassies or consulates, are granted for recreational purposes. Application for a tourist visa requires submission of the following items:

- Passport;
- A duty stamp, the amount of which depends on the country of origin of the foreign national; and
- Travel ticket.

Short-stay visas, issued by the Ministry of Security, are available for stays in Côte d'Ivoire of less than three months. Short-stay visas do not grant their bearers the right to work in Côte d'Ivoire. Application for a short-stay visa requires submission of the following items:

- Two photos;
- A duty stamp in the amount of FCFA 12,000;
- A typed application addressed to the Director of the National Police; and
- An identification sheet filed by the applicant.

Tourist visas and short-stay visas allow their holders to attend meetings and establish business contacts but do not permit them to undertake employment.

G. Work Permits and Self-Employment

Residence permits allow individuals to work in Côte d'Ivoire. Côte d'Ivoire does not impose restrictions on foreign nationals establishing businesses in the country. Foreign nationals may head foreign companies and subsidiaries.

H. Residence Permits

Foreign nationals must obtain residence permits to work in Côte d'Ivoire.

The Ministry of Security issues residence permits, which are valid for one year and renewable for additional one-year periods. Even individuals who have worked legally in Côte d'Ivoire for several years must renew their residence permits annually.

Residence permits are required for all foreign nationals over 16 years of age who are staying longer than three months in Côte d'Ivoire. A residence permit allows its bearer to transfer his or her permanent residence to Côte d'Ivoire.

A residence permit is the only permit that allows a foreign national to work in Côte d'Ivoire. A foreign national may not work until he or she obtains a residence permit; however, a foreign national who has sent his or her application to the Ministry of Security for a residence permit is immediately issued a receipt that serves as a temporary residence permit until the actual permit is delivered. Consequently, the foreign national may begin to work as soon as he or she receives this receipt. Holders of residence permits may change employers.

Application for a residence permit requires submission of the following items:

- A copy of the applicant's passport or birth certificate;
- Two photos;
- A rent, electricity or gas bill; and
- A duty stamp of an amount that varies according to the home country of the applicant.

Applicants who will be employed in Côte d'Ivoire must submit the following additional documents to obtain a residence permit:

- An expatriate employment contract approved by the Côte d'Ivoire Labor Office (AGEPE). To obtain AGEPE's approval, the employee must produce four copies of the employment contract written on special forms, a medical certificate issued by an accredited doctor and a report of any criminal record dated no earlier than three months before the application is made.
- A worker's certificate filed by the employer.

Application for AGEPE approval is subject to variable fees ranging from FCFA 10,000 to FCFA 750,000. The fee depends on the applicant's home country and the position to which he or she is appointed.

Applicants for residence permits who are self-employed or sole proprietors must file a copy of the statutes of the company, a copy of the registration with the Trade Register, a copy of the commencement of business with the tax administration and a copy of the certificate of nonliability of taxes.

Spouses of applicants for residence permits must present a cohabitation certificate or a wedding certificate.

Applicants who are students must present attestations of attendance at school.

An exit visa allows the resident foreign national to leave and re-enter Côte d'Ivoire. Applicants for exit visas must present the following items:
- A typed application addressed to the Director of the National Police;
- A copy of the residence permit;
- An exit visa application;
- Two photos; and
- A duty stamp in the amount of FCFA 20,000.

I. Family and Personal Considerations

Family Members. Family members of foreign executives are granted no special privileges with respect to the right to work in Côte d'Ivoire. For residence permit requirements, see Section H.

Marital Property Regime. Couples who marry in Côte d'Ivoire may elect a community property or separate property regime to apply to their marital property. Community property is the default regime. A couple married abroad is subject to the laws of the country where the marriage was solemnized.

Forced Heirship. Under the forced heirship rules in effect in Côte d'Ivoire, children and grandchildren are entitled to inherit three-quarters of an estate. If no children or grandchildren survive, siblings, nieces and nephews are entitled to inherit one-half of the estate.

Drivers' Permits. Foreign nationals may not drive legally in Côte d'Ivoire using their home country drivers' licenses. Côte d'Ivoire does not have driver's license reciprocity with other countries.

To obtain a driver's license in Côte d'Ivoire, a foreign national already possessing a driver's license from his or her home country may apply for a foreign driver's license (*permis conduire étrangères*), which requires the temporary surrender of the home country driver's license.

A foreign national who does not possess a driver's license from his or her home country must take a written exam and a practical exam.

An applicant for a foreign driver's license must present the following items:
- Original home-country driver's license, accompanied by a certificate of authenticity issued by the home-country embassy;
- A photocopy of the front and back of the home-country driver's license;
- A photocopy of the applicant's residence permit; and
- A duty stamp of FCFA 500.

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A. Income Tax

Who Is Liable. Residents are subject to income tax in Croatia on their worldwide income. Nonresidents are subject to income tax on their Croatian-source income only.

A resident taxpayer is an individual who has a permanent or temporary place of residence in Croatia. A nonresident taxpayer is an individual who does not have a permanent or temporary place of residence in Croatia, but derives Croatian-source income that is subject to tax in Croatia.

An individual is considered to have a place of permanent residency if he or she owns a place of abode or has one at his or her disposal for an uninterrupted period of 183 days. An individual does not need to stay in the place of abode to meet the 183-day threshold. If an individual stays in Croatia for at least 183 days, he or she is considered to have a temporary place of residence in Croatia. In both cases, the 183-day period may span more than one calendar year.

Income Subject to Tax. Taxable income is equal to personal income less the statutory social contributions and personal allowances.

Residents are subject to income tax on the following types of income:
- Income from employment;
- Income from self-employment;
- Income from capital;
- Income from property and property rights;
- Income from insurance; and
- Other income.

Nonresidents are subject to tax on the same types of income as residents. However, they are taxed only on income sourced in Croatia.

The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Residents are subject to tax on their worldwide employment income. Nonresidents are subject to tax on their employment income if the income is paid for employment exercised in Croatia.

Education allowances provided by employers to their local or expatriate employees' children 18 years of age and under are generally taxable for income tax and social security purposes. However, employer subsidies for students of up to HRK 1,600 are not subject to tax. Gifts of up to HRK 400 to employees' children 15 years of age and under are also not taxable.

Self-Employment and Business Income. Individuals performing small business activities (sole trader activities) in their own name and at their own risk are subject to income tax on income derived from these activities, which is known as income from self-employment. Business income is subject to tax at the rates set forth in *Rates*.

In principle, all income attributable to business, including gains from the sale of property (other than gains derived from the sale of financial assets) used in a business, is subject to income tax.

Investment Income. Interest income received from lending activities is taxable at a rate of 35%. Interest income on bank savings is not taxable. Dividends and profit shares are not considered income if they are distributed from profits of 2005 and subsequent years. Dividends and profit shares distributed from profits of 2001, 2002, 2003 and 2004 are subject to income tax at a rate of 15%.

Directors' Fees. Directors' fees are treated as other income and advances of personal income tax are calculated at a rate of 25%, without the right to deduct personal allowances.

Capital Gains and Losses. Capital gains derived from the sale of financial property or real estate are generally not subject to income tax. However, capital gains derived from the sale of real estate are taxable if the real estate meets the following conditions:
- It was held for less than three years; and
- It was not used by the owner or dependent family members for lodging.

Deductions

Deductible Expenses. Compulsory social contributions are deductible in determining taxable income. Insurance premiums paid for additional and private health insurance, life insurance and voluntary pension insurance may be deducted from taxable income up to the amount of HRK 1,000 on a monthly basis. Personal expenses incurred to produce income from employment are not deductible.

Personal Allowances. Resident and nonresident taxpayers may claim a basic personal allowance of HRK 1,600 per month. Retired persons may claim a personal allowance of HRK 3,000 per month. Resident taxpayers may also increase personal allowances by the following:
- 50% of the basic personal allowance for a dependent spouse and other dependent family members;
- 50% of the basic personal allowance for the first dependent child, 70% for the second, 100% for the third, 140% for the fourth, 190% for the fifth, 250% for the sixth, 320% for the seventh, 400% for the eighth, 490% for the ninth, 590% for the tenth and increasing percentages for each additional child; and
- 30% of the basic personal allowance for a dependent invalid child or other family member or for an invalid taxpayer.

Resident taxpayers may also claim deductions for the following:
- Purchases of medical services and orthopedic instruments that are not covered by the basic, additional or private health insurance;

- Rent paid for accommodation, if the person has not resolved his or her accommodation needs;
- Amounts paid to purchase a person's first apartment or house for the purpose of permanent residence and to refurnish an apartment or house, and interest paid on a loan used for these purposes (if a loan was obtained before 1 January 2003, relief is allowable only if interest rate paid in the tax year was 6% or more); and
- Donations up to the amount of 2% of income earned in the preceding year.

The total of the allowances under first three items above and the deductible expenses mentioned above cannot exceed the amount of HRK 12,000.

Business Deductions. All business-related expenses are deductible from gross income for taxpayers who maintain business books. Living or personal expenses are not deductible. Seventy percent of representation costs and 30% of business car costs are not deductible. Per diem allowances and travel costs are not taxable up to certain amounts specified by the tax regulations.

Rates. Personal income tax on employment income is levied at the following progressive rates.

Taxable Income Exceeding HRK	Taxable Income Not Exceeding HRK	Tax Rate %
0	38,400 (a)	15
38,400	96,000 (b)	25
96,000	268,800 (c)	35
268,800	—	45

(a) The first tax bracket is equal to two times the amount of the annual basic personal allowance.
(b) The second tax bracket is equal to the difference between two and five times the amount of the annual basic personal allowance.
(c) The third tax bracket is equal to the difference between five and fourteen times the amount of the annual basic personal allowance.

Income tax is increased by municipal surcharges ranging from 0% to 18%, which are levied on personal income tax by local governments. The highest rate of 18% applies in Zagreb.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Tax losses may be carried forward for five years. Nonresidents may carry forward only losses incurred in Croatia. Losses may not be carried back.

B. Other Taxes

Wealth Tax. Croatia does not levy wealth tax on net property. However, tax is levied on certain types of property, including vacation houses (up to a maximum tax of HRK 15 per square meter per year), cars (up to a maximum tax of HRK 1,500 per year), motorbikes (up to a maximum tax of HRK 1,200 per year), and boats and yachts (up to a maximum tax of HRK 5,000 per year).

Estate and Gift Taxes. A tax is imposed on movable and immovable property, including cash, monetary claims and securities received by inheritance or donation at a rate of 5% on the fair market value of the property transferred. Certain transfers of property are tax-exempt, depending on the relationship between the transferee and the transferor and on the type of property. In addition, transfers of movable property are exempt if the fair market value of the property is less than HRK 50,000 or if the transfer is subject to VAT.

C. Social Security

Social security contributions are levied on income from employment in Croatia. The employer's portion is 17.2% of gross wages, and the employee's portion is 20% of gross wages.

D. Tax Filing and Payment Procedures

Croatian residents and nonresidents receiving certain types of income, such as income from self-employment and income received from abroad, must file annual personal income tax returns by 28 February following the year in which the income was earned. Resident employers must file monthly personal income tax (payroll tax) returns for their employees.

Individuals who earn self-employment income from ongoing business activities must pay advance tax monthly in an amount determined by the tax authorities. The balance of tax due is payable or refundable after the official assessment of annual personal income tax. The payer of self-employment income must withhold and pay personal income tax and contributions with respect to such income.

Nonresidents receiving Croatian-source income must register with the tax office. For nonresidents employed by resident employers, the employer is responsible for tax withholding and reporting requirements. Nonresidents working in Croatia for a nonresident employer are required to file monthly and annual tax returns and to pay advances of personal income tax within eight days after income is received.

E. Tax Treaties

Croatia has entered into double tax treaties with the following countries.

Albania	France	Romania
Austria	Greece	Russian Federation
Belarus	Hungary	San Marino
Belgium	Ireland	Serbia and Montenegro
Bosnia-Herzegovina	Latvia	Slovak Republic
Bulgaria	Lithuania	Slovenia
Canada	Macedonia	South Africa
Chile	Malaysia	Switzerland
China	Malta	Turkey
Czech Republic	Mauritius	Ukraine
Estonia	Netherlands	
	Poland	

Croatia has adopted double tax treaties entered into by the former Yugoslavia with the following countries.

Denmark	Italy	Sweden
Finland	Norway	United Kingdom
Germany		

Croatia has signed or initialed tax treaties with Germany, Indonesia, Iran, Italy, Jordan, Korea, Kuwait, Moldova and Spain, but these treaties have not yet become effective.

F. Travel Visas

Whether a foreign national must have a travel visa to enter Croatia depends on the national's country of origin. Travel visas are issued for tourist, business, personal or other purposes. The period of the stay of a foreign national with a travel visa may not exceed 90 days within a 6-month period. If the foreign national intends to reside in Croatia for a period longer than 90 days or if he or she intends to work in Croatia, the foreign national must obtain a temporary residence permit unless the foreign national has obtained a business permit (see Section G).

G. Work and Business Permits

Work Permits. Under the Act on Foreign Nationals, foreign nationals must obtain work permits to work in Croatia.

A work permit is granted to a foreign national according to the work permits annual quota, which is determined by the Croatian government on the basis of the opinion of the Croatian Institute of Employment. The Ministry of Internal Affairs issues work permits, which are usually granted for a period of up to two years. However, foreigners who have obtained permanent residence in Croatia do not need to obtain a work permit. Employers are fined if their foreign employees do not possess valid work permits.

Work Booklets. A foreign national must obtain a work booklet only if he or she is regularly employed by a Croatian employer under a labor contract. The Croatian employer must register each labor contract concluded with a foreigner at the Ministry of Internal Affairs.

Business Permits. A business permit is issued to a foreign national if any of the following apply:

- The foreign national has a registered craft or self-employment activity in Croatia.
- The foreign national manages his or her own business entity or an entity in which he or she has a majority interest.
- The foreign national provides services on behalf of his or her foreign employer for a Croatian company. In this case, the business permit may be issued only if an Agreement on Provision of Services between the employer and a Croatian company has been concluded. If the business permit is being issued for this purpose, the Agreement on Provision of Services between the foreign employer and Croatian company must be enclosed with the request for the issuance of the business permit.

The Ministry of Internal Affairs issues business permits. In exceptional cases, foreign nationals who provide services in Croatia on behalf of their foreign employer can apply for the business permit at a Croatian diplomatic mission or consulate.

A business permit is issued for a period of up to two years. After expiration of the two-year period, if the reasons for a foreign national's stay in Croatia are unchanged, the business permit can be extended on the request of the foreign national.

A business permit is a permit for work as well as a permit for temporary residence; that is, a foreign national with a business permit does not have to apply for a temporary residence permit even though his or her stay in Croatia is for a period longer than 90 days.

H. Residence Permits

Under the Act on Foreign Nationals, foreign nationals may obtain residence permits for temporary residence or permanent residence.

Registration. Foreign nationals who stay in Croatia up to 90 days (with travel visa, without travel visa if it is not required, or with a borders pass) must register at the local police station within 24 hours after their arrival in Croatia. If the foreign national stays in a hotel, the hotel must complete the registration. Each change of residence must also be registered.

Foreign nationals with temporary residence in Croatia must register their place of residence or change of address at the local police station within three days after their arrival in Croatia or their change of address. Foreign nationals with permanent residence in Croatia must register their place of residence or their change of address at the local police station within eight days.

Temporary Residence. The temporary residence permit is issued for purposes of work, education, joining the family or other purposes determined by the law or by the international treaties. It must be obtained if the foreign national intends to stay in Croatia for a period longer than 90 days or if he or she intends to work in Croatia. Temporary residence permits for purposes of work are issued on the basis of work permits.

Temporary residence is limited to stays of up to two years with the possibility of extension, depending on special circumstances.

Temporary residence permits are issued by Croatian diplomatic missions or consulates, or by the Croatian Ministry of Internal Affairs for foreign nationals who do not need a travel visa to enter Croatia.

Permanent Residence. In general, permanent residence is granted to foreigners married either to Croatian citizens or to other foreigners with permanent residence, and to foreigners who held temporary residence permits for five years without interruption before filing the request for permanent residence.

The Ministry of Internal Affairs must approve permanent residence.

I. Family and Personal Considerations

Family members of foreign nationals working in Croatia must apply separately for permits.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	(X)	—	(a)

	Taxable*	Not Taxable	Comments
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	X	—	—
Education reimbursement	X	X	(b)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	X	(c)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	X	(d)
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from the sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.

(a) Employee contributions are deductible from compensation if payments are made to a mandatory home country system and if Croatia has entered into a totalization agreement with such country.

(b) If the education is related to business and if the reimbursement covers actual costs, the reimbursement is not taxable. If the amounts reimbursed were paid for private purposes or if the reimbursement is made to other family members, the reimbursement is taxable.

(c) This item is generally taxable except for hotel stays on business trips performed for the benefit of a Croatian employer or a Croatian entity to which the employee is seconded.

(d) If, under Croatian law, the individual is a nonresident for tax purposes, foreign-source interest and dividends are not taxable in Croatia. If he or she is a Croatian resident, foreign-source dividends are taxable if they are paid out profits earned in 2001, 2002, 2003 or 2004. Dividends received by Croatian residents are not taxable if they are paid out of 2005 profits. Savings bank interest is not taxable. Interest on loans made by individuals is taxable.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2006 is provided below for an expatriate with a dependent wife and two dependent children. It is assumed that the expatriate is paying mandatory health and social security contributions in his home country and that Croatia has entered into a social security totalization agreement with the home country. It is further assumed that the expatriate resides in Zagreb when he or she is in Croatia.

	HRK	HRK
Calculation of Taxable Income		
Gross salary		360,000
Personal allowances:		
Basic personal allowance	(19,200)	
Increased personal allowance (dependent wife and two children)	(32,640)	
Total personal allowances		(51,840)
Taxable income		308,160
Calculation of Tax		
Personal income tax:		
Tax on HRK 38,400 at 15%	5,760	
Tax on HRK 57,600 at 25%	14,400	
Tax on HRK 172,800 at 35%	60,480	
Tax on HRK 39,360 at 45%	17,712	
HRK 308,160		
Total personal income tax		98,352
Zagreb city tax (18% of personal income tax)		17,703.36
Total of personal income tax and city tax		116,055.36
Annual net salary (HRK 360,000 - HRK 116,055.36)		243,944.64

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A. Income Tax

Who Is Liable. Residents are taxed on their worldwide income. Nonresidents are taxed on only their Cyprus-source income from a permanent establishment in Cyprus, rental of immovable property located in Cyprus and pensions from employment exercised in Cyprus.

An individual is resident in Cyprus if he or she is present in Cyprus for more than 183 days in any calendar year.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Gains or profits from any office or employment in Cyprus, regardless of whether services were performed in Cyprus or elsewhere, are considered Cyprus-source income and are subject to tax. Foreign-source income from employment is not taxed if the recipient spends at least 90 days in any calendar year outside Cyprus.

Taxable income from employment includes the estimated value of any accommodation and other allowances from employment, whether paid in cash or in kind.

Nonresidents employed in Cyprus may deduct the lower of 20% of their salary or £5,000 during their first three years of employment in Cyprus.

Self-Employment and Business Income. Residents are subject to income tax on self-employment income. Nonresidents are subject to income tax on self-employment income received from sources in Cyprus.

Gross income derived from Cyprus by nonresident professionals, artists, athletes and entertainers is subject to 10% final withholding tax.

Investment Income. Dividends and interest received are exempt from income tax. Dividends received by resident individuals are subject to a defense tax of 15%. Interest received by resident individuals is subject to a defense tax of 10%.

Pensions received by residents for employment exercised outside Cyprus are taxed at a rate of 5% for amounts exceeding £2,000.

Withholding tax is not imposed on dividends and interest paid to nonresidents. Royalties, premiums, compensation and other income derived from Cyprus by nonresidents from sources within Cyprus are subject to a 10% withholding tax. Income received by nonresidents from film rentals is subject to a 5% withholding tax. Withholding taxes on income paid to nonresidents are final taxes.

Directors' Fees. Directors' fees are considered compensation and are taxed in the same manner as income from employment.

Directors' fees transferred abroad are subject to withholding tax unless the director files a return, in which case the director is taxed as an individual.

Capital Gains. Tax at a rate of 20% is levied on gains derived from the disposal of immovable property located in Cyprus or from the disposal of shares of companies whose assets include immovable property located in Cyprus. The gain is the difference between the sale proceeds and the original cost of the property, adjusted for increases in the cost-of-living index. No other assets are subject to capital gains tax.

The following lifetime exemptions from tax on capital gains derived from property sales are available to individuals.

Type of Property	Amount of Exemption £
Ordinary property	10,000
Agricultural land	15,000
Private residence	50,000

Deductions

Deductible Expenses. The range of deductible expenses allowed in Cyprus is limited. Membership fees for trade and professional organizations (if membership is mandatory), and documented donations to approved charitable institutions are fully deductible.

Personal Deductions and Allowances. The following are the principal deductions and allowances permitted.

Deduction or Allowance	Allowable Amount
Contributions to social insurance and other approved funds	Various
Life insurance premiums paid (certain restrictions exist)	Various

Business Deductions. All expenses incurred wholly and exclusively in the production of income are deductible. In addition, the following allowances are given for depreciation and amortization:

- Plant and machinery: A straight-line allowance of 10% a year is given on most capital expenditure, except expenditure on certain automobiles.
- Industrial buildings: A straight-line allowance of 4% a year is available for industrial buildings.
- Disposal of assets: On the disposal of assets other than buildings, if the sales proceeds are less than the remaining depreciable base, a further allowance is granted, up to the difference. If sale proceeds exceed the depreciable base, the excess (up to the amount of allowances received) is included in taxable income.

Rates. Income derived by Cyprus residents, other than capital gains income, is taxed at the following rates.

Taxable Income Exceeding £	Taxable Income Not Exceeding £	Tax on Lower Amount £	Rate on Excess %
0	10,000	0	0
10,000	15,000	0	20
15,000	20,000	1,000	25
20,000	—	2,250	30

Spouses are taxed separately, not jointly, on all types of income.

Employment and business income received by nonresidents, as well as rental income, is taxed at the rates that apply to residents.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Operating losses may be carried forward indefinitely.

B. Estate and Gift Taxes

Cyprus does not impose estate or gift tax.

C. Social Security

Employers and employees each must make social security payments of 6.3% of monthly compensation up to a maximum monthly amount, which is currently £2,076. Self-employed persons must contribute to the social security scheme at a rate of 11.6% of monthly income. Minimum and maximum monthly incomes of self-employed persons are classified according to the type of business, profession or vocation.

Foreign nationals employed by local employers must contribute to the Cyprus social security system unless either of the following applies: they can claim exemption on the basis of bilateral agreements entered into by Cyprus (applicable for employees working in Cyprus for periods of up to three years); or they are EU nationals who are in Cyprus on secondment.

Cyprus has entered into social security totalization agreements with Australia, Austria, Canada, the Czech Republic, Egypt, Greece, Slovak Republic, Switzerland and the United Kingdom. Coverage for one to three years is usually permitted under these agreements.

D. Tax Filing and Payment Procedures

The tax year in Cyprus is the calendar year. Every person who has chargeable income must notify the Commissioner of Income Tax no later than 30 April following the income tax year. Taxes are due by 1 August following the income year.

Income from employment is taxed on a Pay-As-You-Earn (PAYE) basis. For business income, an estimate of tax due must be made by 1 August of the income tax year, and provisional tax must be paid in three equal installments on 1 August, 30 September and 31 December. Tax assessed for any other year is payable at the end of the month following the month when the assessment is made.

Overdue tax is subject to interest at a rate of 9% a year.

Nonresidents are not required to file tax returns.

E. Double Tax Relief and Tax Treaties

Residents are entitled to a credit for foreign taxes paid, up to the amount of Cyprus tax payable on the same income, regardless of whether a tax treaty applies.

Cyprus has entered into double tax treaties with the following countries.

Austria	Greece	Romania
Belarus	Hungary	Russian Federation
Belgium	India	Singapore
Bulgaria	Ireland	South Africa
Canada	Italy	Sweden
China	Kuwait	Syria
Czech Republic	Lebanon	Thailand
Denmark	Malta	USSR*
Egypt	Mauritius	United Kingdom
France	Norway	United States
Germany	Poland	Yugoslavia

* Cyprus honors the USSR treaty with respect to the republics of the Commonwealth of Independent States (CIS).

These agreements usually allow expatriates to obtain credits against taxes levied in the country where the taxpayer resides. In general, the taxpayer pays no more than the higher of the two rates.

F. Temporary Visas

Entry visas are not required for citizens of member countries of the European Union, the British Commonwealth, the United States and several countries with which Cyprus has entered into bilateral agreements.

Legally, the ownership of assets located in Cyprus has no impact on whether an individual is able to obtain a visa; however, in practice, a visa is granted if the applicant owns property.

Foreign nationals may enter Cyprus under visitor visas or employment visas.

Visitor visas are issued to foreign nationals who intend to visit Cyprus for recreational purposes. These visas are valid for up to 90 days.

G. Employment Visas and Self-Employment

A foreign national may work in Cyprus if he or she has an employment visa. Employment visas are issued to foreign nationals who are employed in Cyprus by Cypriot entities. Nationals of other EU countries are routinely granted employment visas.

EU nationals may work freely in Cyprus.

A non-EU national in an executive or managerial position who works for an international business company that maintains administrative offices in Cyprus may easily obtain an employment visa. Professional and clerical employees are not granted visas unless no qualified local personnel is available. A local employer must prove that it cannot find a Cypriot employee with comparable experience.

To obtain employment visas in Cyprus, applicants must submit to the Migration Office a passport or equivalent travel documents and an employment contract. Application for employment visas may be made in either the home or host country.

Employment visas are issued approximately four to six weeks after the foreign national submits the required documents.

Seasonal work permits for periods of up to six months may be granted to unskilled workers in the hotel, farming and construction industries.

H. Residence Permits

Foreign nationals may obtain residence permits valid for one year. The residence permit is renewable. The number of times the permit may be renewed and the renewal period depend on the purpose of the permit.

I. Family and Personal Considerations

Family Members. The working spouse of a foreign national does not automatically receive an employment visa. An employment visa may be applied for when the expatriate applies. This does not apply to EU nationals.

Drivers' Permits. Foreign nationals may drive legally in Cyprus with their home country driver's license for one year unless they are resident in Cyprus, in which case they must obtain a Cyprus driver's license. To obtain a Cyprus driver's license, applicants must take an oral exam on traffic laws and a practical driving test.

Cyprus has driver's license reciprocity with most other countries.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	X	—	(a)
Hardship allowance	X	—	—
Other allowances	X	—	—
Foreign-service premium	X	—	—
Home leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(b)
Value of lodging provided	X	—	(c)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	(d)
Capital gain from sale of stock in home country	—	X	(e)

* Bracketed amounts reduce taxable income.

(a) Compensation for educational costs incurred for the employee's children is taxable income. Reimbursement of job-related education expenses is exempt from tax. Education is considered to be job-related if the employer has paid for the training or if it paid a salary to the employee during the education period.

(b) The value of meals is normally taxable income; however, if the employer provides meals during business meetings and similar events, the value of the meals is exempt from tax.

(c) Lodging during a business trip is exempt from tax if the employer pays the cost. It is deductible if the employee pays the cost.

(d) Capital gains are subject to capital gains tax at the rate of 20%. Capital gains up to £50,000 derived from the sale of a personal residence in Cyprus by an expatriate are exempt from tax if certain conditions are met. If the residence is located outside Cyprus, no capital gains tax is payable.

(e) Foreign capital gains are not taxable unless the expatriate remits the gains to Cyprus.

APPENDIX 2: SAMPLE INCOME TAX CALCULATION

A sample tax calculation is provided below. Local employees and foreign nationals are now taxed in the same manner.

	£
Gross income	25,000
Tax on £20,000	2,250
Tax on £5,000 at 30%	1,500
£25,000	
Total tax	3,750

CZECH REPUBLIC

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Because of the changing political and economic situation in the Czech Republic, readers should ascertain that the information contained in this chapter is still accurate before engaging in transactions.

A. Income Tax

Who Is Liable. Czech residents are subject to tax on their worldwide income. Nonresidents are subject to tax on Czech-source income only. Nonresidents are taxed as residents on their Czech-source income, except for certain types of income and the amounts of their personal allowances.

The term "resident" includes any person residing in the Czech Republic for at least 183 days within a calendar year or having a permanent home in the Czech Republic. Employment income received by a nonresident whose employment activity in the Czech Republic does not exceed 183 days during any 12 successive calendar-month period is not considered Czech-source income if it is paid by a foreign entity with no permanent establishment in the Czech Republic.

Individuals assigned by a foreign employer to the Czech Republic who continue to be employed and paid by the foreign employer, and who perform work for and under the instruction of a Czech resident individual or legal entity, are deemed to be employed by the Czech resident individual or legal entity and are subject to monthly withholding of personal income tax from their employment income.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income includes salaries, wages, bonuses, other compensation of a similar nature and most benefits in kind. Employment income also includes fees paid to directors and shareholders of private limited companies and to limited partners of limited partnerships for work performed for the company or partnership, regardless of whether their position with the entity is one of authority.

Self-Employment and Business Income. Taxable self-employment and business income consists of income from business activities and professional services, less deductible expenses. Authors, lecturers, athletes and artists are considered providers of professional services. Net income from business activities and professional services is subject to tax with other income at the rates set forth in *Rates*.

Investment Income. Interest income derived from personal investments is subject to a 15% final withholding tax. However, if the source of the interest income is part of the individual's business activities, then the interest income is taxed in the individual's tax return at the normal progressive rates, and the tax withheld is credited against this tax liability. Other investment income, including dividends and limited partners' shares of partnership profits, is subject to a 15% final withholding tax. Rental income and nonrecurring income (for example, arbitration awards) generally are taxed with other ordinary income at the rates set forth in *Rates.*

Dividends and interest earned by nonresidents are subject to a 15% withholding tax. Royalties, copyrights and fees for professional services are subject to a 25% withholding tax. Nonresidents' rental income is subject to a 1% final withholding tax on lease-purchase contracts and to a 25% final withholding tax on other rental income. These rates may be reduced under applicable tax treaties.

Capital Gains and Losses. Capital gains derived from the sale of property acquired for the purpose of resale or exchange for profit are taxed as ordinary income at the rates set forth in *Rates*. Capital gains realized from the sale of real or personal property not acquired for resale are generally exempt from income tax if the minimum required holding period is met. The minimum required holding periods are 2 years for a primary residence, 12 months for automobiles and 6 months for securities. Other holding periods apply to other types of personal property.

Capital losses derived from the sale of property are not deductible, except losses realized on the disposal of fixed assets depreciated by the taxpayer.

In general, capital losses derived from the sale of securities can only be offset against gains derived from the sale of other securities within the same tax period. The same rule applies to movable assets or immovable property. As a result, gains derived from the sales of such assets can be offset only against losses derived from the sales of the same types of assets.

Taxation of Employer-Provided Stock Options. No specific law in the Czech Republic addresses the tax treatment of stock options.

In general, employer-provided stock options do not result in a taxable event until the option is exercised if the following conditions are met:

- The exercise price is at least equal to the fair market value of the underlying stock at the date of grant;
- The option is not transferable; and
- The option is subject to a suspensive condition and is capable of lapsing before it vests (for example, if the option holder ceases to be an employee).

However, this treatment is not a settled matter, particularly whether the taxable event occurs at grant, vesting or exercise. Readers are encouraged to consult with professional advisors on this matter. The taxation of stock options must be examined on a case by case basis.

The difference between the exercise price and the fair market value of the stock at the date of exercise is taxed as employment income at the exercise date, at the same progressive tax rates applicable to other employment income. Under Czech tax law, capital gains tax is not levied on shares sold by an individual, including a foreigner, if the individual holds the shares for more than six months prior to disposal. For shares held for six months or less, the excess of the sale proceeds over the exercise price is taxable, at the normal progressive rates, in the year the disposal occurs.

Deductions

Employment Deductions. Compulsory social security and health insurance contributions paid by employees under the law in the Czech Republic are deductible from employment income.

If an expatriate is assigned from an EU country or a country that has entered into a totalization agreement with the Czech Republic, he or she can apply for a certificate of coverage (such as an E 101 form) confirming that the expatriate is covered by his or her home country's social security and health insurance system. If such certificate is obtained, the mandatory foreign social security and health insurance contributions may be deducted.

Business Deductions. In general, expenses and costs are considered to be deductible for tax purposes if they are incurred to generate, assure and maintain taxable income. In addition, the law explicitly provides that certain expenses are deductible (for example, depreciation) and that certain expenses are not deductible (for example, representation expenses and fees paid to board members of a joint stock company).

Instead of deducting actual expenses, taxpayers engaged in certain business activities may choose to deduct a percentage of gross revenues. The deductible percentage varies depending on the individual's business activity, as indicated in the following table.

Activity	**Deductible Rate (%)**
Agriculture, forestry, fishing and fish farming	80
Craft	60
Trade other than craft	50
Licensing intellectual property rights (inventions and copyrights) and sole proprietorships	40

Personal Tax Reliefs. Czech tax residents may subtract personal tax reliefs from their annual tax liability. The amounts of these reliefs for 2006 are described below.

The general annual personal tax relief is CZK 7,200. In addition, tax relief of CZK 4,200 is granted for a spouse living in the same household with the taxpayer, unless the spouse's income exceeds CZK 38,040 a year.

The personal tax relief is CZK 1,500 for partially disabled persons and CZK 3,000 for totally disabled persons.

A tax relief of CZK 6,000 applies for each dependent child. This relief is capped at CZK 30,000 per year.

The tax reliefs, except for the general personal tax relief, are available to nonresidents only if the nonresident individual's Czech-source income accounts for at least 90% of his or her total annual income.

Rates. Taxable income of residents and nonresidents, other than income taxed at a flat rate (see *Investment Income*), is taxed at the following rates for 2006.

Taxable Income		**Tax on Lower**	**Rate on**
Exceeding CZK	**Not Exceeding CZK**	**Amount CZK**	**Excess %**
0	121,200	0	12
121,200	218,400	14,544	19
218,400	331,200	33,012	25
331,200	—	61,212	32

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses incurred may be carried forward for five years.

B. Inheritance and Gift Taxes

In general, Czech nationals and foreigners with permanent residence in the Czech Republic are subject to inheritance and gift taxes on all movable and immovable property, apartments, commercial premises, securities, domestic currency, foreign currency and other property acquired by inheritance or gift in the Czech Republic or abroad, except for real estate located abroad.

Foreign recipients are subject to inheritance tax only on assets located in the Czech Republic.

Donors are subject to the gift tax on donations abroad.

Inheritance and gift tax rates vary, depending on the recipient's relationship to the deceased or donor. Recipients are divided into the following groups:

- Group I, which consists of lineal relatives and a spouse;
- Group II, which consists of brothers, sisters, lineal relatives of a spouse, children's spouses, nieces, uncles, aunts and persons who lived with the transferor longer than one year in one community; and
- Group III, which consists of other beneficiaries and includes both individuals and all legal entities.

The tax rates are progressive and range from 0.5% to 40%. Group I recipients are exempt from inheritance taxes.

C. Social Security

Contributions. Social security and health insurance contributions are paid by both the employer and the employee on salaries at the following rates. No ceiling applies to the amount of income subject to social security contributions.

	Employer %	Employee %	Total %
Social security			
Old-age pension	21.5	6.5	28.0
Sickness	3.3	1.1	4.4
Unemployment	1.2	0.4	1.6
Health insurance	9.0	4.5	13.5
Total contributions	35.0	12.5	47.5

EU Social Security Legislation and Totalization Agreements. As a member state of the European Union (EU), the Czech Republic is bound by the European Union (EU) Social Security Regulations and other EU law. In addition, to prevent double social security taxation and to assure benefit coverage, the Czech Republic has entered into or is negotiating totalization agreements with some non-EU jurisdictions, including, Bosnia-Herzegovina, Bulgaria, Canada, Chile, Croatia, Israel, Macedonia, Quebec, Romania, the Russian Federation, Serbia and Montenegro, Switzerland, Turkey, Ukraine and Yugoslavia.

D. Tax Filing and Payment Procedures

Czech employers must withhold tax from all compensation paid to their legal or deemed (economic) employees for work performed in the Czech Republic.

Tax on income other than income from which tax has been withheld at source is declared by the taxpayer in the tax return.

The tax year for individuals is the calendar year. Individual tax returns must be filed by 31 March of the following year. Extensions may be granted until 30 June. The deadline may be extended to 31 October for individuals who must include in their Czech tax return income taxed abroad.

Effective from the 2005 tax year, joint filing by spouses is possible under certain conditions.

E. Double Tax Relief and Tax Treaties

The Czech Republic has entered into double tax treaties with the following countries.

Albania	Kazakhstan	Russian Federation
Australia	Kuwait	Singapore
Belarus	Latvia	Slovak Republic
Belgium	Lebanon	Slovenia
Bulgaria	Lithuania	South Africa
Croatia	Macedonia	Switzerland
Egypt	Malaysia	Thailand
Estonia	Malta	Turkey
Finland	Mexico	Ukraine
Hungary	Moldova	United Arab Emirates
Iceland	Mongolia	United States
India	Philippines	Uzbekistan
Indonesia	Poland	Venezuela
Ireland	Portugal	Vietnam
Israel	Romania	

The Czech Republic also honors the double tax treaties of Czechoslovakia with the following countries.

Austria	Greece	Norway
Brazil	Italy	Spain
Canada	Japan	Sri Lanka
China	Korea	Sweden
Cyprus	Luxembourg	Tunisia
Denmark	Netherlands	United Kingdom
France	Nigeria	Yugoslavia*
Germany		

* The Czech Republic honors this treaty with respect to Bosnia-Herzegovina, Montenegro and Serbia.

F. Temporary Permits

General. EU nationals do not need to obtain a visa to enter and stay in the Czech Republic. However, they must be registered at the Labour Office by the first day of their work in the Czech Republic. EU nationals must also be registered at the Foreigners' Police within one month from the date of arrival if they plan to stay in the Czech Republic longer than three months. EU nationals are not required to obtain a residence permit.

Foreign nationals traveling to the Czech Republic from countries requiring entry visas must have visas to enter the country. Other foreign nationals may enter the Czech Republic and stay for up to 180 days, depending on the term specified in the relevant bilateral agreement. However, if they intend to work, both work permits and visas are required. A visa is issued for a single purpose, such as for business, study or employment.

Business Visitors. In general, a foreign national who is in the Czech Republic on a business trip is not required to have a work permit or visa. These are required only if the individual is performing work for a Czech individual, a Czech or foreign legal entity or a Czech branch of a foreign legal entity.

Students. Students may study in the Czech Republic after obtaining visas. They may apply for visas after they obtain confirmation of registration from an educational institution. Students wishing to work in the Czech Republic need both visas and work permits.

Trainees. Trainees working in the Czech Republic for any type of company, including Czech legal entities or Czech branch offices of foreign companies, must have both visas and work permits.

G. Work Permits and Self-Employment

To work legally in the Czech Republic, an expatriate must obtain a work permit from the Labour Office. A work permit is valid for one year and is renewable. EU nationals do not need a work permit.

If an expatriate wishes to change employers, he or she must obtain a new work permit.

All non-EU nationals working in the Czech Republic are subject to the above rules, regardless of whether they are working under an employment contract with a Czech legal entity or have been assigned by their foreign employer to a branch office or Czech legal entity. The following individuals are exempt from the work permit requirement (however, they must still apply for a visa):

- A foreign national arranging the delivery of goods or services or carrying out repairs based on a trade agreement, if the activity does not exceed 7 successive days or 30 days in the calendar year in the Czech Republic;
- A foreign national covered by an international treaty;
- A foreign national employed in international public transportation;
- An accredited journalist; and
- A foreigner seconded to provide services in the Czech Republic by his or her employer with a seat in an EU country.

Foreign employers must apply to a Labour Office in the Czech Republic to obtain authorization to send foreign nationals to work in the Czech Republic. If granted, the authorization specifies the total number of foreign employees who may be employed and designates the particular positions. The authorization is initially for one year but may be extended on application and proof of need. After an employer obtains authorization to employ a foreign national, the employee must then apply to the Labour Office for a work permit.

The process takes approximately four to eight weeks after all the required documents are submitted.

After a work permit is issued, the foreign national may apply for a visa. A work permit is valid only in conjunction with a visa. A foreign national working in the Czech Republic without a visa may be subject to deportation.

Self-employed individuals must have trade licenses, which are the equivalent of work permits for self-employed persons. To acquire this license, the individual must apply at the appropriate trade license office. An entrepreneur may start his or her activities in the Czech Republic after both a trade license and a visa are issued. The process takes approximately four months after all the required documents are submitted.

H. Visas for a Stay of More than 90 Days

Visas are issued by the Foreigners' Police in the Czech Republic based on an application filed at a Czech embassy or consulate abroad. The process takes about three months. EU nationals do not need a visa to enter and stay in the Czech Republic.

The foreign national must have health insurance coverage for the period of stay in the Czech Republic including repatriation. If foreign insurance is not available, contractual health insurance may be obtained in any district office of the General Health Insurance Office of the Czech Republic. Contractual health insurance enables all people not insured by law (especially foreign nationals and their family members) to secure their own health care. Contractual health insurance covers all necessary health care, including diagnostic and curative treatment, hospitalization, medicine, medical technology and transportation to health institutions. Foreign nationals who are contractually insured have the right to use medical institutions throughout the Czech Republic with which the General Health Insurance Office has signed insurance contracts.

I. Family and Personal Considerations

Family Members. The spouse and dependents of a long-term visa holder may reside in the Czech Republic with the visa holder if they comply with all entrance requirements of the Czech authorities. They must have their own visas.

Marital Property Regime. The Czech marital property regime applies to couples who solemnize their marriages in the Czech Republic if one of the spouses is a Czech citizen, and to couples who solemnize their marriages abroad if both spouses are Czech citizens. The regime does not apply to homosexual couples.

Under Czech law, community property includes all types of property acquired by either spouse during the marriage, with the following exceptions:

- Property acquired by inheritance or gift;
- Property that, by its nature, serves personal needs; and
- Property that was returned to one of the spouses in his or her own right or as the legal successor to the original owner under restitution legislation.

Liabilities that arise during the marriage are considered community property. Spouses may agree by notary's deed to extend or restrict the scope of their legally defined community property. This applies to existing and future property and liabilities. In addition, before their marriage is solemnized, spouses may agree by notarial deed to postpone the creation of community property until the marriage ends.

The settlement of the division of community property at the end of a marriage is based on a written agreement. If no agreement exists, either party may petition the court for a decision. Settlements proceed from the principle that the shares of each spouse are equal. However, each spouse is entitled to reimbursement for expenditure on joint property paid from separate property.

Forced Heirship. Under the Czech forced heirship law, descendants who are minors must receive under a written will at least as much of the testator's estate as they would have received under intestacy, and descendants who are adults must receive at least one-half of their intestate share. Any portion of a will that contradicts this provision is invalid, unless the descendants are disinherited for committing an intentional criminal act against the deceased or his or her spouse, children or parents, or for other limited reasons.

Drivers' Permits. Foreign nationals may drive legally using their home country drivers' licenses during short-term stays in the Czech Republic if the license meets the requirements of the Geneva and Vienna Conventions on International Roads. If the license does not conform to the conventions, the foreign national may drive using the home country driver's license accompanied by an international driver's license issued by his or her home country. Foreign nationals who stay for longer periods must obtain Czech drivers' licenses. Any foreign national who holds a Czech long-term visa and uses a car in the Czech Republic must apply for a Czech driver's license within three months after obtaining the visa. EU nationals are not required to exchange their drivers' licenses. They can use their home country driver's license in the Czech Republic.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to mandatory system of social security and health insurance	(X)	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	—	X	(b)
Housing contribution	(X)	—	(b)
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowances	X	—	—
Home-leave allowances	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(c)
Tax reimbursement:			
Current gross-up	X	—	—
One year rollover	X	—	—
Deferred compensation	—	X	(d)
Value of meals provided	—	X	(e)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	(f)
Capital gain from sale of stock in home country	—	X	(g)

* Bracketed amounts reduce taxable income.
(a) Employee contributions required by law are deductible from compensation.
(b) Benefits derived from private accommodation provided by an employer to an employee are exempt from taxation in the Czech Republic if the following conditions are satisfied:
- The lease agreement is concluded between the employer and the landlord;
- The employer pays the rent directly to the landlord; and
- The temporary accommodation is away from the employee's place of permanent residence.

If the housing contribution is netted against salary in the compensation package, it reduces taxable income.
(c) Actual moving expenses, whether reimbursed to an employee or paid directly by the employer to a third party, may not be taxable compensation if properly structured.
(d) Deferred compensation is not taxable until it is paid. However, vesting prior to payment, could result in taxation at the time of vesting.
(e) This item is not taxable if the employer organizes the meals and if other conditions are met.
(f) The gain is not taxable if the residence was held for at least two years and used by the taxpayer as his or her permanent home.
(g) The gain is not taxable if the shares were held for more than six months.

APPENDIX 2: SAMPLE INCOME TAX CALCULATION

A sample income tax calculation is provided below for an expatriate who is a Czech nonresident. The calculation is based on the following assumptions:
- The individual is single with no children; and
- The individual worked the entire year in the Czech Republic for a Czech entity but was assigned to the Czech Republic from a non-European Union (EU) country or from a country that has not entered into a totalization agreement with the Czech Republic.

	CZK
Gross employment income	1,725,000
Taxable income	1,725,000
Income tax:	
On the first CZK 331,200	61,212
On the remaining CZK 1,393,800 at 32%	446,016
Total tax	507,228
Personal tax relief	(7,200)
Tax liability	500,028

The following example is based on the same facts as the above example, except that the expatriate was assigned from an EU country or from a country that has entered into a totalization agreement with the Czech Republic.

	CZK
Gross income	1,725,000
Social security and health insurance	(215,625)
Taxable income	1,509,375
Tax base (rounded down to the nearest hundred)	1,509,300
Income tax:	
On the first CZK 331,200	61,212
On the remaining CZK 1,178,100 at 32%	376,992
Total tax	438,204
Personal tax relief	(7,200)
Tax liability	431,004

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A. Income Tax

Who Is Liable. Persons resident in Denmark are taxed on worldwide income. Nonresident individuals are taxed on Danish-source income, including income from a permanent establishment in Denmark, salaries paid in Denmark, directors' fees, real property in Denmark, dividends and royalties.

Individuals are generally considered to be resident if they permanently reside or are present in Denmark for longer than six months.

Income Subject to Tax. Income is divided into personal income and net capital income. Taxable income consists of personal income plus net capital income (or less net capital loss), less allowable deductions. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Personal income from employment consists of wages, salaries, directors' fees, pensions, allowances and fringe benefits. In principle, all benefits are taxable at their fair market value. However, in practice, the value assigned to the personal use of a company car, the personal use of company-provided accommodation and certain other benefits are determined according to special tables.

School fees paid by employers on behalf of their employees' children, such as international school fees, are deemed to be salary income and taxed accordingly.

A special expatriate tax regime applies to foreigners employed by a Danish-resident employer. Under qualifying contracts, salary income is taxed at a flat rate of 25% instead of at the ordinary rates of 38% to 59%. To qualify, individuals must reside in Denmark and their cash salary must be at least DKK 58,600 a month in 2006 after deducting social security contributions. Expatriates may participate in the regime for one or more periods totaling no more than 36 months during a 10-year period. After the 36 months, the expatriate is taxed according to ordinary income tax rules.

Under prior rules, in certain cases, tax was levied retroactively for the period during which the employee was covered by the expatriate tax regime. Such employees were those who had left Denmark to avoid retroactive taxation. In general, the rules on retroactive taxation have been abolished, effective from the 2002 income year. Consequently, employees to whom retroactive taxation would have applied after 1 January 2002 are exempt from retroactive taxation and may return to Denmark without being subject to retroactive taxation. However, in certain cases, employees may still be subject to retroactive taxation.

Self-Employment and Business Income. Business income, also known as self-employment income, is taxed as ordinary income (personal income) of the business owner. Expenses are deductible to the extent they are incurred to obtain, secure or maintain business income.

Persons with business income may choose to have this income taxed under special rules contained in the Business Tax Act. Under these rules, taxable income from a trade and industry, including income from partnerships, is assessed in accordance with the principles used for companies, including rules for depreciation and write-offs.

Investment Income. Net capital income includes interest income (less interest expense), taxable gains on securities, rental income and other investment income, except dividends, which are taxed separately. Royalties received by residents are taxed as capital income. Royalties received by nonresidents are subject to a 30% withholding tax.

Dividends are subject to a final 28% withholding tax. If total dividend income in 2006 exceeds DKK 44,300 (DKK 88,600 for married couples), residents are subject to a supplementary 15% tax on the excess when they file their returns. Nonresidents are not subject to this supplementary tax.

Taxation of Employer-Provided Stock Options. Gains realized by an employee on the exercise of an option obtained under an employer-provided stock option plan are taxable. No tax is due at the time of vesting. In general, the gains are subject to the highest marginal rate of income tax, which is 59%. The gains are subject to social security contributions at a rate of 8% in 2006.

Tax may be deferred until the disposal of the shares. In the event of such deferral, the employee is taxed at the lower rates for capital gains on shares and the Danish entity cannot claim a tax deduction for the costs. Several requirements have to be fulfilled to obtain a tax deferral, including the following:
- The employee and the employer must enter into an agreement on the matter; and
- The accountant of the Danish entity must issue a statement certifying that the requirements for a tax deferral are satisfied.

Capital Gains and Losses. Capital gains tax is levied on individuals at rates of up to 59%.

Gains derived from disposals of bonds issued in Danish kroner generally are not taxable if the bonds' interest rates at the time of issue are equal to or higher than the lowest official Danish interest rate index (*mindsterente*), which is published biannually. Losses on disposals of such bonds generally are not deductible.

Gains derived from the disposal of bonds issued in a foreign currency are taxable, and losses are deductible.

Gains derived from the disposal of shares are taxable as dividend income at a maximum rate of 43%. On departure from Denmark, certain shareholders are deemed for tax purposes to have disposed of their shares at the fair market value and are taxed on the deemed gain. However, these shareholders may obtain a refund of the difference between the tax on the deemed gain and the tax on any subsequent lesser gain actually realized. The tax on the deemed gain applies only to individuals who are fully taxable for one or more periods totaling 7 years within the 10 years prior to departure.

Gains derived from the disposal of residential property are not taxable if the owner occupied the property. Gains derived from the disposal of other real property are taxable as capital income.

Deductions

Deductible Expenses. Contributions to a capital pension scheme (a one-time payout of capital) are deductible, up to a maximum annual amount of DKK 42,000, at a rate of 44%. Unlimited contributions to schemes with current payouts are deductible if a return is not scheduled to occur until contributions have been paid in at least 10 years.

Interest paid on all types of debt is fully deductible from capital income. If this results in a negative amount, 32.5% of the negative amount may be offset against tax payable on other income.

An employee may deduct from taxable income the following expenses necessary to generate income:
- Travel costs to and from work (special rates);
- Dues paid to trade unions and unemployment insurance; and
- Other employee expenses to the extent they exceed DKK 5,100.

Personal Deductions and Allowances. Each taxpayer is permitted a personal allowance deduction of DKK 38,500. In addition, certain alimony payments are deductible. The personal allowance not fully used by one spouse may be transferred to the other spouse.

Business Deductions. In calculating taxable income, interest expenses relating to business debt may be fully deducted for tax purposes. In contrast, under the ordinary rules for individuals, interest expense is deductible from net capital income, thereby providing a tax relief of only 32.5%, although any profit is regarded as personal income and is taxed at rates of up to 59%.

Rates. For 2006, income tax is levied on residents at the marginal rates in the following table. Dividends are taxed separately (see *Investment Income*).

Total Income Exceeding DKK	Not Exceeding DKK	Rate %
0	38,500	0
38,500	265,500	38
265,500	318,700	44
318,700	—	59

Personal income is aggregated with capital income.

The same tax rates apply for nonresidents as for residents, except the rates applicable to dividends, royalties and individuals qualifying for the special expatriate tax regime.

For sample tax calculations, see Appendix 2.

Relief for Losses. Trading losses and interest expense may be offset against other income and taxable gains. Tax losses may be carried forward for an unlimited number of years, but carrybacks are not permitted. Losses from certain types of passive partnership interests, for example, a business with more than 10 nonworking owners, may be offset only against income from the same business.

B. Other Taxes

Home-Ownership Tax. Home-ownership tax is imposed if an owner of property is fully liable to tax in Denmark. Individuals fully liable to Danish tax must also pay tax on their properties located abroad. Home-ownership tax is not imposed if the property is rented out. The rate of tax is 1% of the public value of the property up to DKK 3,040,000, and 3% of the value exceeding DKK 3,040,000.

Net Worth Tax. Denmark does not levy a net worth tax.

Inheritance Tax. Assets inherited by a spouse or registered partner (see Section G) are not subject to inheritance tax.

Inheritance tax at a rate of 15% is levied on the total value of estates exceeding DKK 242,400. No additional tax is levied if the beneficiaries are closely related to the deceased (for example, descendents, stepchildren and their descendents, parents, sons-in-law and daughters-in-law and divorced spouse). For other beneficiaries, an additional tax at a rate of 25% is levied on their part of the inheritance. For these beneficiaries, the total effective tax rate is 36.25%.

Nonresidents are subject to inheritance tax only if the estate includes property situated in Denmark or if a Danish probate court administers the estate.

Denmark has entered into estate tax treaties with Finland, Germany, Iceland, Italy, Norway, Sweden, Switzerland and the United States.

Gift Tax. Gifts to a spouse or registered partner are not subject to tax.

Gift tax at a rate of 15% is levied on gifts to descendents, stepchildren and their descendents, sons-in-law and daughters-in-law, the spouse of a deceased child or stepchild, and parents.

Gift tax at a rate of 36.25% is levied on gifts to stepparents and grandparents. Gifts to less closely related persons and to unrelated persons are subject to ordinary income tax, not gift tax.

Gifts of up to DKK 53,900 a year may be donated free of gift tax to descendants, the spouse of a deceased child or stepchild, parents, stepparents and grandparents. A yearly tax-exempt gift of DKK 18,800 may be donated to sons-in-law and daughters-in-law.

Nonresidents are subject to gift tax if the donor or donee is a resident of Denmark or if the gift is Danish real estate.

C. Social Security

Contributions. Social security tax is levied at a flat rate of 8% on most types of personal income, including employment and self-employment income. No ceiling applies to the amount of income subject to contributions. Social security tax is fully deductible for income tax purposes.

In addition, employees must make minor monthly contributions of DKK 81.30 to the Danish Supplementary Pension Scheme. The additional contribution of 1% by employees to the Extraordinary Pension Scheme is suspended until 2007.

Danish employers do not pay any social security contributions other than small amounts for compulsory work-related insurances and certain other items.

Totalization Agreements. To provide relief from paying double social security contributions and to assure benefit coverage, Denmark has concluded totalization agreements, which usually apply for a period of 12 months, with the following countries.

EU member states	Israel	Pakistan
Australia	Liechtenstein	Serbia and Montenegro
Canada (Quebec)	Macedonia	Slovenia
Chile	Morocco	Switzerland
Croatia	New Zealand	Turkey
Iceland	Norway	

D. Tax Filing and Payment Procedures

The Danish income year is the calendar year. Before each income year, an advance income assessment is made for each taxpayer. Advance tax payable is paid by deductions (withholding) from employment income and, if self-employment income or net capital income rises to a certain level, by prepayments. After each income year, all taxpayers must prepare tax returns to be filed no later than 1 May in the year following the taxable period. Any positive difference between the final tax and the advance tax is refunded by the tax authorities between May and June. Any tax due is paid by the taxpayer in three equal installments in September, October and November. Married persons must file separate tax returns. In the tax calculations, certain deductions can be transferred between the spouses in specified circumstances.

E. Double Tax Relief and Tax Treaties

If a resident receives income from a foreign country and the income is taxed abroad, tax relief is provided either through a foreign tax credit or by exemption with progression (that is, foreign-source income is exempt from taxation, but is considered when determining the tax rate to impose on the remaining income). The relief is provided in accordance with either a tax treaty or Danish law.

Danish law grants a foreign tax credit for income taxes paid abroad. The credit may not exceed the lesser of the income tax paid abroad or the Danish tax payable on the same income. Danish law also contains an exemption with progression that applies to salary income for work performed outside Denmark in treaty countries and, if the working period is at least six months, in nontreaty countries. The rule applies only to individuals who are fully taxable in Denmark while working abroad.

As of 1 January 2006, Denmark had entered into double tax treaties with the following countries.

Anguilla
Argentina
Aruba
Australia
Austria
Bangladesh
Belgium
Bosnia-Herzegovina
Brazil
Bulgaria
Canada
Cayman Islands
Chile
China (b)
Croatia
Cyprus
Czech Republic
Egypt
Estonia
Faroe Islands
Finland
France
Germany
Greece
Greenland
Guernsey
Hungary
Iceland
India
Indonesia
Ireland
Israel (c)
Italy
Jamaica
Japan
Jersey
Kenya
Korea (South)
Kuwait
Latvia
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mexico
Morocco
Netherlands
New Zealand
Norway
Pakistan
Philippines
Poland
Portugal
Romania
Russian Federation
Serbia and Montenegro
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Tanzania
Thailand
Trinidad and Tobago
Tunisia
Turkey
Uganda
Ukraine
USSR (a)
United Kingdom
United States
Venezuela
Vietnam
Zambia

(a) The Denmark-USSR double tax treaty of 1986 probably covers Armenia, Belarus, Georgia, and Kyrgyzstan, but this needs to be definitively confirmed. Denmark has entered into double tax treaties with Estonia, Latvia, Lithuania, the Russian Federation and Ukraine. Azerbaijan, Moldova, Tajikistan and Uzbekistan do not regard themselves as being covered by the Denmark-USSR double tax treaty of 1986.
(b) The treaty does not apply to Hong Kong or Macau.
(c) This treaty does not apply to Palestine.

A treaty with Nigeria has been negotiated, but it has not yet been ratified.

F. Work and Residence Permits

Denmark is a member of the European Union (EU) and of the Nordic Council. Consequently, varying rules apply for EU nationals, for citizens of other Scandinavian countries (Finland, Iceland, Norway and Sweden) and for non-EU nationals who wish to enter Denmark.

A special transitional plan applies to citizens from the following new EU member countries: Czech Republic; Estonia; Hungary;

Latvia; Lithuania; Poland; the Slovak Republic; and Slovenia. The ordinary rules for EU citizens apply to Cyprus and Malta.

Scandinavians. Nationals from other Scandinavian countries may stay and work in Denmark without restrictions. However, if they take up residence in Denmark, they must register with the National Registration Office.

Permission to be self-employed in Denmark is normally granted. However, for certain types of businesses, permission is granted only if the Danish Commerce and Companies Agency finds that a special Danish interest is served by establishing the business in Denmark.

EU Nationals. EU nationals do not need work permits but must apply for residence permits within three months after their arrival in Denmark. Applications are filed in person with the chief of police in the district of intended residence or at the Supreme Administrative Authority of the county where the EU national resides. Residence permits are readily granted to those showing proof of employment (as an employee or self-employed) and personal identification. Each member of an applicant's family must apply separately for a residence permit. The authorities process the application within four to six weeks, and the applicant is normally not prevented from working during that time.

Residence permits issued to citizens from other EU-member countries are valid throughout Denmark for five years and may be renewed.

Non-EU Nationals. Citizens from countries other than EU-member countries and Nordic Council countries may stay in Denmark for either the period of time stated in their tourist visas or, if a visa is not requested, for up to three months.

Non-EU nationals who want to extend their stay and work in Denmark must apply for work permits and residence permits at a Danish embassy or consulate in the area where they resided for the last six months.

In general, residence and work permits may be obtained in Denmark only if a family connection or a similar close association to the country exists. People without these connections to Denmark may obtain residence and work permits if material employment or business considerations favor their applications. For example, residence and work permits are granted to managing directors and other senior personnel according to specific considerations of work areas and remuneration. Trainees may obtain residence and work permits under this regulation if the previous training, considered in conjunction with the contemplated employment, favors the application.

Permits for other personnel are granted if the local labor market board or the relevant professional organization recommends the employment.

G. Family and Personal Considerations

Family Members. After specific consideration, residence permits may be granted to family members of individuals who have residence and work permits in Denmark.

Marital Property Regime. Under Danish law, a regime of "ordinary community property" (*fælleseje*) applies between spouses and between persons of the same sex who have formed a registered partnership. (The legal consequences of a registered partnership are the same as those of a marriage.) Community property includes all property brought into the marriage and all property acquired during the marriage.

Drivers' Permits. Different rules apply to citizens from Nordic countries, EU-member countries and non-EU-member countries who wish to use their home country drivers' permits in Denmark. Expatriates from Nordic countries and EU nationals may drive legally in Denmark with their home countries' drivers' licenses until expiration. Non-EU nationals may use their home countries' drivers' permits (if the individual is at least 18 years of age) only for 14 days.

Denmark does not have driver's license reciprocity with other countries.

To obtain a driver's permit, an expatriate must submit to the driver's license bureau the home country driver's license, a residence permit, a photo and a fee of DKK 260. A first-time driving examination and a written exam are given, both of which are rather difficult to pass. Individuals from most countries must also take a physical examination. U.S. citizens are exempt from examinations.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(a)
Housing allowance	X	—	(b)
Housing contribution	(X)	—	—
Education reimbursement	X	—	(c)
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(e)
Value of meals provided	X	—	(f)
Value of lodging provided	X	—	(g)
Company-provided automobile	X	—	(h)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(i)
Capital gain from sale of personal residence in home country	—	X	—

	Taxable*	Not Taxable	Comments
Capital gain from sale of stock in home country	X	—	(i)

* Bracketed amounts reduce taxable income.

(a) Compensation received in cash as reimbursement for costs is taxable. Compensation received for business travel is normally tax-free.

(b) Cash housing allowances are treated as taxable income.

(c) Compensation for education costs incurred for the employee's children is taxable income. Reimbursement for education that is necessary for the employee to conduct his or her work is tax-free. Education is considered to be necessary for the employee if the employer pays for the training or if it pays salary to the employee during the education period.

(d) Moving expense reimbursement is normally taxable income. In some cases, the employee may claim certain deductions. Moving expenses paid directly by the employer are not taxable if the relocation occurs with respect to the same employer.

(e) No tax-planning possibilities exist with respect to tax reimbursements. Tax reimbursements are taxable in the year to which they relate even if they are paid in a later year.

(f) The value of meals is normally taxable income. However, if the employer provides meals during business meetings and similar events, the meals are tax-free.

(g) Free lodging is valued from special tables. Free lodging during a business trip is tax-free.

(h) A free car is valued under special rules, (in general, 25% of the purchase price up to DKK 300,000, and 20% of the excess). However, the minimum taxable value of a free car is DKK 40,000 (25% of DKK 160,000).

(i) In principle, the gain is taxable if the expatriate is considered to be resident in Denmark for tax purposes. Taxes paid abroad are deductible for Danish tax purposes.

APPENDIX 2: SAMPLE INCOME TAX CALCULATIONS

Two sample income tax calculations are provided below. The first calculation illustrates the application of the ordinary tax rules, while the second calculation illustrates the application of the special expatriate tax regime (see Section A).

Calculation under Ordinary Tax Rules	DKK
Cash salary (personal income) after deduction of social security taxes	675,000
Net capital income	50,000
Net allowances	(10,000)
Taxable income	715,000
Government, local and county tax at 37.5% (average rate) of taxable income (DKK 715,000)	268,125
Additional 6% government tax on personal income and net capital income (DKK 725,000) on amount over DKK 265,500	27,570
Additional 15% government tax on the sum of personal income, capital income and contribution to a capital pension (DKK 725,000) on amount exceeding DKK 318,700	60,945
Total	356,640
Personal relief (DKK 38,500 x 37.5%)	(14,438)
Tax payable	342,202
Net income (DKK 675,000 – DKK 342,202)	332,798

Calculation Under Special Expatriate Tax Regime	DKK
Cash salary	703,200*
Tax at 25% on salary	175,800
Capital income	50,000
Taxable income under ordinary rules	50,000
Tax at 37.5%	18,750
Personal relief (DKK 38,500 x 37.5%)	(14,438)
Tax payable on capital income	4,312
Net income (DKK 703,200 – DKK 175,800 – DKK 4,312)	523,088

* The cash salary must be a minimum of DKK 58,600 per month after contribution to social security.

DOMINICAN REPUBLIC

Country Code 1

Please direct all inquiries regarding Dominican Republic to the persons listed below in the San José, Costa Rica office of Ernst & Young. All engagements are coordinated by the San José, Costa Rica office.

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A. Income Tax

Who Is Liable. Resident individuals are subject to tax on their Dominican Republic-source income as well as on their foreign-source income resulting from technical assistance and from investments and financial gains (passive investment income). Nonresident individuals are subject to tax on their Dominican Republic-source income only. Individuals who become residents of the Dominican Republic are subject to tax on foreign-source income after the third year of residency.

Individuals who spend 182 days in a fiscal year in the Dominican Republic are considered to be residents of the Dominican

Republic for tax purposes, regardless of whether the 182 days are continuous.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Annual employment income in excess of RD$276,422 is taxable. Employment income includes salary, bonuses, premiums, commissions and allowances (for example, housing and education allowances).

Self-Employment and Business Income. Income derived from self-employment or from a trade or business is subject to tax.

Investment Income. Dividends paid or credited by local companies to resident and nonresident persons are subject to a 30% withholding tax. Interest not paid by a financial institution is subject to a 10% withholding tax. Interest received from abroad is subject to tax in accordance with the tax rate schedule set forth in *Rates*. Royalties from franchises, technical advice and similar payments are subject to a 30% withholding tax. This rate will be gradually reduced to 25%.

Directors' Fees. Dominican-source director's fees that are paid or credited to an individual who is a nonresident or nondomiciliary of the Dominican Republic are subject to a 30% income withholding tax. This rate will be gradually reduced until it reaches 25%.

Capital Gains. Under Dominican Republic law, capital gains are taxed at the ordinary corporate income tax rate of 30%. The tax basis for capital gain purposes is the difference between the historical cost of the asset adjusted for inflation purposes and the transaction value (that is, the sales price). Capital gains result from sales of shares or land.

Deductions

Personal Deductions and Allowances. Employee contributions to a pension plan may be deducted for income tax purposes.

Business Deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. For 2006, ordinary income derived by resident individuals is taxable at the following rates:

Annual Taxable Income		Tax on Lower	Rate on
Exceeding RD$	Not Exceeding RD$	Amount RD$	Excess %
0	276,422	0	0
276,422	414,632	0	15
414,632	575,878	20,732	20
575,878	900,000	52,981	25
900,000	—	134,012	30

For a sample tax calculation, see Appendix 2.

Relief for Losses. A tax reform issued in December 2004 extended the loss carryforward period for companies from three to five years. However, such reform applies only to legal entities and does not refer to individuals. Under existing law, individuals may not carry forward or carry back losses. It is expected that in the near future the tax authorities will issue a regulation that will clarify whether individuals may also carry forward losses to future tax years.

B. Estate and Gift Taxes

Estates and gifts are included in taxable gross income and are taxable at the rates included in the tax rate schedule set forth in Section A.

C. Social Security

Social security contributions are levied on salaries at a rate of 5.72% for the employer and 2.28% for the employee, with a ceiling of 20 legal wages (the monthly legal wage is RD$4,900).

Employers must pay a labor risk security contribution at an average rate of 1.2%. This contribution is composed of a fixed 1% tax and a variable tax at a rate of up to 0.6%. The social security legislation provides a ceiling of 10 legal wages for this contribution, but in practice, a ceiling of 6 legal wages is applied.

An additional tax (contribution) of 1% of payroll to the Institute for the Development of Technical Professionals (Instituto de Formación Técnico Profesional, or INFOTEP) is also imposed on employers.

D. Tax Filing and Payment Procedures

Employers are responsible for withholding income taxes and social security contributions from the employees' salaries on a monthly basis.

Individuals must file an annual income tax return by 31 March. Employees are not required to file an annual income tax return if their only source of income is employment compensation. Nonresidents are not required to file an annual income tax return if their tax liability has been satisfied through withholding at source.

E. Double Tax Relief and Tax Treaties

The Dominican Republic has entered into a double tax treaty with Canada.

F. Work Permits and Visas

To work in the Dominican Republic, a foreigner must have a valid employment contract with the local entity and enter the country with a business visa. The business visa is valid for one year and can be renewed annually for two additional years. It usually takes between three months and six months to obtain a business visa.

G. Residence Permits

Foreigners normally apply for a resident or business visa to work in the Dominican Republic. After all documents are filed with the immigration authorities, the approximate time for obtaining a business or resident visa is approximately three to six months. Business or resident visas are valid for one year and are renewable for similar time periods.

Alternatively, employees of companies registered as foreign investors with the Banco Central de la Republica (central bank) may apply for an investment visa, which may be issued within a 45-day period.

H. Family and Personal Considerations

Family Members. Spouses of foreigners that are granted work permits do not automatically receive the same treatment as the original permit holder and must apply for an independent visa or work permit.

Children of expatriates must have student visas to attend schools in the Dominican Republic.

Drivers' Permits. Foreigners may drive legally in the Dominican Republic using their home country drivers' licenses for up to three months. After the three-month period expires, resident foreigners must obtain a Dominican Republic driver's license.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(a)
Housing allowance	X	—	(a)
Employer-provided housing	X	—	(a)
Hardship allowance	X	—	(a)
Other allowance	X	—	(a)
Premium allowance	X	—	(a)
Home-leave allowance	X	—	(a)
Moving expense reimbursement	X	—	(a)
Tax reimbursement	X	—	—
Value of meals provided	X	—	(a)
Value of lodging provided	X	—	(a)
Pension from retirement	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gains from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* The bracketed amount reduces taxable income.

(a) If the employer pays an allowance to a third party for the benefit of the employee and if it is not granted as a collective benefit for all employees, the company may be required to pay a supplementary contribution tax at the rate of 30%. If the employer pays an allowance directly to the employee, the allowance is considered to be part of the regular salary and, accordingly, the company must withhold the corresponding income tax and social contributions.

APPENDIX 2: SAMPLE INCOME TAX CALCULATION

The following is a sample annual tax computation for a married resident individual who is employed and has two children.

	RD$	RD$
Calculation of Taxable Income		
Cash salary		5,200,000
Salary in kind:		
Housing allowance	2,100,000	
Car allowance	500,000	
Home maintenance allowance	500,000	
Other allowance	300,000	
Total salary in kind		3,400,000
Taxable income		8,600,000
Calculation of Tax		
Social security (RD$1,176,000 at 2.28%) (exempt from income tax)		26,813
Withholding tax on cash salary		2,435,967
Total of social security and withholding tax		2,462,780
Net pay (RD$8,600,000 – RD$2,462,780)		6,137,220

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A. Income Tax

Who Is Liable. Ecuadorians and resident foreigners are subject to tax on worldwide income. Nonresidents are subject to tax on Ecuadorian-source income only, regardless of where it is paid. Ecuadorians and foreigners who receive income for professional, commercial or other services performed in Ecuador are subject to income tax.

Individuals are considered resident for tax purposes if they reside in Ecuador for longer than a six-month period.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income includes income from services rendered under a verbal or written contract of employment. Income from social security, compensation for industrial accidents and death, severance pay, pension and retirement plans, and employee profit-sharing plans is tax-exempt.

In general, all employees receive a yearly Christmas bonus approximately equal to one-twelfth of their annual compensation, which is known as the thirteenth salary or Christmas bonus.

Self-Employment and Business Income. Individuals are subject to tax on income from business activities conducted within Ecuador and on income arising from goods and assets located in Ecuador.

Business income includes the income of individuals who are sole proprietors or active members of a partnership in a commercial, industrial, mining or agricultural business in which they have invested capital. Income is taxed at the rates set forth in *Rates*.

Investment Income. No tax is levied on dividends paid by Ecuadorian companies to residents and nonresidents, including dividends remitted abroad to foreign shareholders, if the company has paid income tax on the underlying profits.

Royalties are treated as ordinary income. A 25% tax is withheld from payments of royalties remitted abroad. Payments for services and technical assistance payments remitted abroad are subject to a 25% withholding tax.

Interest paid to residents and nonresidents is added to the taxpayer's taxable income and taxed at the rates set forth in *Rates*. However, interest paid to residents is subject to withholding tax at a rate of 5%, which is credited against the taxpayer's annual tax due.

Taxation of Employer-Provided Stock Options. The benefit derived from stock options is exempt from tax.

Capital Gains. Capital gains derived from the occasional sale of stock are tax-exempt.

Deductions

Deductible Expenses. Social security taxes are deductible if paid by an employee.

Personal Deductions and Allowances. No allowances are available for spouses and dependants.

Business Deductions. The following business expenses are deductible:

- Costs and expenses incurred in the production of business income;
- Interest paid on business debts;
- Certain taxes levied on the business (not including income tax or taxes that give rise to a tax credit);
- Insurance premiums paid to secure employees' work risks and the assets of the business;

- Losses due to *force majeure* or criminal acts;
- Necessary travel expenses and lodging;
- Depreciation and amortization;
- Amortization of losses;
- Wages, salaries and compensation in general, fringe benefits, 15% profit-sharing, severance indemnities and other expenditures under the Labor Law;
- Provisions for uncollectible receivables;
- Income tax and social security for employees if assumed by the employer; and
- Provisions for retirement pension funds.

Rates. For the 2006 income tax year (1 January to 31 December), tax is levied on employment, self-employment and business income at the following rates.

Taxable Income		Tax on Lower	Rate on
Exceeding US$	Not Exceeding US$	Amount US$	Excess %
0	7,400	0	0
7,400	14,800	0	5
14,800	29,600	370	10
29,600	44,100	1,850	15
44,100	58,800	4,025	20
58,800	—	6,965	25

Nonresidents residing in Ecuador for six months or less are subject to a flat 25% withholding tax, which is a final tax.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses may not be carried forward.

B. Inheritance and Gift Taxes

Tax is assessed at a rate of 5% on inheritances and gifts that exceed US$7,400. Nonresidents are subject to inheritance and gift tax on assets located in Ecuador only.

C. Social Security

Coverage. The Social Security Institute of the government manages the social security system, which covers health benefits, pensions and certain social payments. All private, public and foreign employees are covered by social security legislation.

Contributions. An employer must pay approximately 11.15% of payroll to cover health, retirement and unemployment plans; an employee's contribution is 9.35%. An employer must also contribute 0.5% of payroll to the Institute of Professional Training and another 0.5% to the educational credit program. No limits apply to the amount of wages subject to these contributions.

Expatriates working on a temporary basis in Ecuador must contribute to the social security system if their stays in Ecuador exceed six months. No obligation to contribute is imposed if the stay is shorter than six months. Temporary residents may receive social security benefits in Ecuador even if their stays do not exceed six months, by asking the Ecuadorian employer to affiliate them with local social security from the first day of work. Foreign residents who contribute to the system may not continue to receive coverage from their home countries.

Totalization Agreements. Ecuador does not have social security totalization agreements with any other countries.

D. Tax Filing and Payment Procedures

Tax on income from wages is withheld at source by employers. Taxpayers are not required to file returns if 100% of their gross income for the calendar income year consists of employment income from one employer. Otherwise, in the following year, taxpayers must file returns between 12 March and 30 March, depending on the ninth digit of the individual's taxpayer identification number.

Married persons are taxed separately, not jointly, on all types of income. However, they may file a joint return.

The fiscal year runs from 1 January to 31 December.

Late filers must pay a monthly penalty of 3%, up to 100% of the tax due, plus monthly interest at a low rate.

E. Double Tax Relief and Tax Treaties

A credit is available for foreign taxes paid and is limited to the amount of Ecuadorian tax payable on the underlying income.

Ecuador has entered into double tax treaties with Brazil, Canada, Chile, France, Germany, Italy, Mexico, Romania, Spain and Switzerland. Ecuador has also entered into a double tax treaty with Bolivia, Colombia, Peru and Venezuela (the Andean Pact countries), but this agreement has more limited application.

F. Temporary Visas

Applications for visas may be obtained from the Ecuadorian embassy or consulate in the applicant's country of origin. Both immigrant and nonimmigrant visas are issued to foreign nationals.

G. Work Permits and Self-Employment

The Law for the Promotion of Investment and Citizen Participation, enacted 18 August 2000, eliminated many of the difficulties involved in obtaining a work permit. In addition, the law extended the permitted terms of stay and introduced new types of visas that make it easier for expatriates to work in Ecuador.

Foreign nationals intending to work in Ecuador must apply for residence permits, and then for work permits. All foreign nationals must obtain work permits to work legally in Ecuador. Work permits are valid for two years and are renewable an indefinite number of times for a maximum of two years each time.

In granting work permits to foreign nationals, the Ecuadorian government considers whether an applicant will be a burden to society, is fully skilled, has economic solvency and can contribute with new technology and techniques, and whether his or her employment will jeopardize Ecuadorian employees or workers. In general, the percentage of foreign nationals working in an Ecuadorian company may not exceed 20% of the total number of employees.

A foreign national may start his or her own business in Ecuador. However, a foreign national heading a foreign company, branch or subsidiary must be a resident of Ecuador, whether an immigrant or nonimmigrant.

Work permits are issued to foreign nationals on arrival in Ecuador. However, an applicant may not work in Ecuador while his or her application and other papers are being processed.

Foreign nationals traveling temporarily in Ecuador with business visas may apply for a change of status during their stays in Ecuador without leaving the country. With prior authorization from the Ministry of Labor and Human Resources, a foreign national may change employers after he or she has received a permit.

H. Residence Permits

Permanent residence permits are valid for an indefinite period of time. Holders of permanent residence permits may be required in certain circumstances to obtain work permits to be employed in Ecuador.

I. Family and Personal Considerations

Family Members. The family members of expatriates working in Ecuador do not need separate permits to reside with the expatriates in Ecuador. However, any family member intending to work in Ecuador must apply independently from the working expatriate for a separate work permit. The children of an expatriate do not require student visas to attend schools in Ecuador.

Marital Property Regime. Ecuadorian law provides for a marital property regime that applies to all couples legally married under Ecuadorian law and to foreign couples living in Ecuador who register their marital status with the Ecuadorian officials. Under the regime, all types of property interests arising during the marriage belong to the couple in common. Income earned on jointly held property is divided equally between spouses. Property acquired before the marriage remains separate, unless it is contributed to the marital community at the time of the marriage.

Drivers' Permits. A foreign national may drive legally in Ecuador using his or her home country driver's license for a period of up to two months. After that, an applicant must obtain an Ecuadorian driver's license from the Transit Authorities. A general examination is required.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
13th salary	X	—	(a)
Annual reserve fund	—	X	(b)
Employee contributions to home country benefit plan	—	X	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing cost allowance	X	—	(c)
Education allowance	X	—	(d)

	Taxable*	Not Taxable	Comments
Hardship allowance	X	—	—
Foreign-service premium	X	—	—
Automobile or use of automobile (personal)	X	—	—
Home-leave allowance	X	—	—
Storage cost	—	X	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(e)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	—

* The bracketed amount reduces taxable income.

(a) The thirteenth salary, paid in December each year, is equal to one-twelfth of all income received throughout the year by an individual.

(b) The reserve fund is an annual contribution made by an employer on behalf of an employee. It is equal to a month's salary and must be deposited in the Social Security Institute.

(c) Housing allowances are normally taxable in Ecuador. In general, all income included in remuneration is taxable. Ecuadorian law considers remuneration to be everything the employee receives in money, services or goods.

(d) Compensation for education costs incurred for the employee's children is taxable. However, reimbursements for education that is necessary for the employee to conduct his or her work are tax-free.

(e) The value of meals provided is normally taxable income. However, if the employer provides meals during business meetings and similar events, the value of the meals is tax-free.

APPENDIX 2: SAMPLE INCOME TAX CALCULATION

The following is a sample tax calculation for an expatriate residing in Ecuador for the entire year who receives a base salary and allowances totaling US$50,000.

	US$
Calculation of Taxable Income	
Annual income	50,000
Less 9.35% contribution to social security	(4,675)
Taxable income	45,325
Calculation of Tax	
Tax on US$44,100	4,025
Tax on US$1,225 at 20%	245
US$45,325	4,270

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A. Income Tax

Who Is Liable. Income tax is imposed on the following sources of income:

- Worldwide income from employment or dependent services paid by the Egyptian government or any Egyptian public organization, regardless of the employee's residence, the place services are rendered or the place of payment; and
- Egyptian-source income paid by Egyptian or foreign companies or by private sector enterprises to any employee resident in Egypt or resident abroad, in return for services rendered in Egypt (pension payments are excluded).

Under the law, persons are deemed to be residents of the country where they have permanent homes. A person who resides in Egypt for a period exceeding 183 days during a calendar year is deemed to be resident in Egypt for tax purposes.

Nonresident individuals and expatriate experts (as defined) are generally taxed on Egyptian-source income only.

Income Subject to Tax. Income tax is levied on the following types of income:

- Employment income; and
- Business profits, noncommercial profits (self-employment income) and income from immovable properties (including the assessed rental values of agricultural lands and buildings).

Employment Income. Income is levied on salaries, wages, compensation awards, overtime pay and all cash and in-kind fringe benefits.

The following rules apply to the taxation of employment income:

- Casual workers are also subject to tax.
- Tax is imposed on income generated from Egyptian sources, regardless of whether the work is performed in or outside Egypt. Tax is also imposed on income generated from foreign sources for work performed in Egypt.

- Tax is imposed on all salaries, remunerations and bonuses paid to managing directors, board members and managers of corporations for the performance of administrative duties.

In addition to other tax exemptions prescribed in special laws, the following types of income are exempt from tax:
- Certain collective allowances in-kind for employees, which are meals distributed to the workers, collective transportation of workers or equivalent transportation costs, health care, tools and uniforms necessary for performing work and housing provided by the employer to workers for performing their work.
- Workers' share in the profits distributed according to the law.
- All compensation received by members of diplomatic and consular corps, international organizations, and other foreign diplomatic representatives in the context of their official work. This exemption is conditioned on reciprocity of treatment and is granted within the limits of such treatment.

Self-Employment and Business Income. Income tax is levied on noncommercial profits derived by professionals or independent persons practicing other noncommercial activities in Egypt if work is the primary element of the activity (for example, lawyers, accountants, artists and writers). This tax applies to any income derived from professions or activities not otherwise subject to tax in Egypt. Graduates and members of a professional association about to practice for the first time enjoy certain exemptions.

Taxable noncommercial income consists of net noncommercial profits from various operations after deduction of all related costs. If no proper books are kept, gross revenue is estimated using indicators and guidelines issued by the tax authorities.

Income tax is levied on the net profits of business income from all activities carried on by commercial and industrial entities operating as sole traders, partnerships and limited partnerships in Egypt, and on profits derived from certain other categories of income as specified by law.

Nonresidents with commercial and industrial activities are taxed only on income earned from an establishment in Egypt or from operations carried on in Egypt.

Taxable commercial and industrial income consists of net commercial and industrial profits derived within a calendar year from all business transactions, including sales of assets (after deduction of all business charges, expenses and personal allowances).

Investment Income. Dividends and interest received by residents from shares, bonds and debentures of companies that are officially listed on the Egyptian stock exchange are exempt from income tax. See *Capital Gains and Losses* for the taxation of capital gains on these investments.

Dividends received by residents from foreign sources are not subject to tax.

Certain interest is exempt from tax, including interest derived from securities listed on the Egyptian stock exchange and interest on savings deposits.

Commission payments unrelated to a resident taxpayer's profession and royalties received by residents are taxed on gross income as commercial and industrial profits (business income; see *Self-Employment and Business Income*).

Payments by domestic corporations to foreign or nonresident persons are subject to final withholding taxes in accordance with the following rules:
• Dividends are not subject to withholding tax because the domestic corporation's profit has already been subject to corporate tax.
• Royalties are taxed on gross income at a rate of 20%. Several tax treaties concluded between Egypt and other countries have specific rates for taxes on royalties, varying from complete exemption to a tax of up to 20% of gross royalties.
• Interest is subject to a 20% withholding tax with some specific exemptions. Special rates are established by certain tax treaties.

Capital Gains and Losses. Capital gains derived from transfers of real estate are not subject to tax unless the real estate is used in a trade or business. However, a 2.5% tax is levied on the gross proceeds from the disposal of urban land and buildings, regardless of whether used in a trade or business or whether gains are realized.

Tax on capital gains realized by business entities from the sale of other capital assets, including machinery and vehicles, is calculated in the same manner and at the normal rates that apply to commercial and industrial profits. Trading losses and capital losses on the sale of these assets are deductible from taxable capital gains.

Capital gains on sales of personal property, including automobiles, jewelry and shares, owned by an individual are not taxed in Egypt, unless used in a trade or business. Capital gains realized on the sale of shares, bonds and debentures of companies that are listed on the Egyptian stock exchange are not taxed.

Deductions. The following deductions may be claimed:
• An annual personal deduction of LE 4,000 for each individual;
• Social insurance and other contributions that may be deducted in accordance with the measures in the social insurance law and under alternative systems;
• Employees' contributions to private insurance funds established according to the provisions of the Private Insurance Funds Law, as promulgated by Law No. 54 for 1975; and
• Premiums paid for life and health insurance for the benefit of the individual or the individual's spouse or minor children, and insurance premiums paid with respect to pensions.

The total deduction for the last two items mentioned above may not exceed 15% of the net income or LE 3,000, whichever is higher.

For purposes of computing taxable commercial and industrial income, all costs generally are deductible. In particular, the following specific deductions are allowed:
• Costs for rental of premises;
• Tax depreciation and accelerated depreciation for new machines;
• All taxes except taxes on business income;
• Social insurance contributions;
• Contributions to pension and savings funds; and
• The deductions described in the first paragraph of this section.

Rates. The following progressive tax rates apply to employment income.

Taxable Income Exceeding LE	Not Exceeding LE	Tax Rate %
0	5,000	0
5,000	20,000	10
20,000	40,000	15
40,000	—	20

Tax is imposed at the rate of 10% on amounts paid and benefits provided to nonresidents performing activities in Egypt and on amounts received by resident employees from entities other than their original employers. No deductions or exemptions are allowed with respect to the calculation of the 10% tax.

Income tax is imposed at a rate of 20% on commercial, industrial and noncommercial profits, as well as on income from immovable properties.

Relief for Losses. A taxpayer may offset losses against profits of a business and may carry losses forward for a period up to five years. Losses may not be carried back. Losses incurred in long-term projects may be carried back within the same project.

B. Inheritance Tax

Egypt does not impose inheritance tax.

C. Social Security

Social insurance contributions are levied only on Egyptian nationals with full-time employment. An employee pays 14% on monthly base salary up to LE 700, and 11% on monthly amounts exceeding this amount or on other payments, including overtime or representation allowances, up to LE 500.

To provide relief from double social security taxes and to assure benefit coverage, Egypt has concluded totalization agreements with Cyprus, Greece and Sudan, which usually apply for an unlimited period of time.

D. Tax Filing and Payment Procedures

The tax year in Egypt is the calendar year. Married persons are taxed separately, not jointly, on all types of income.

Individuals engaged in business or professional activities must notify the tax authorities within 30 days after beginning activities and within 30 days after ceasing activities or relocating. They are also required to obtain a tax identification card.

Individuals deriving noncommercial profits, regardless of the amount, must submit annual tax returns and pay tax before 1 April for income derived in the preceding calendar year. The returns must give details of profits or losses, and must be supported by the relevant books of account together with all necessary documents. An individual may request to extend the date of submitting his tax return if the request is submitted 15 or more days before the due date for the submission of the return and if, on the date of submitting the request, the individual pays the estimated tax stated in the tax return. If the extension request is submitted in accordance with the above requirements, the date for submitting the tax return is extended for a period of 60 days.

Employees are not required to submit annual returns for their employment income.

Companies must withhold monthly tax from the salaries of employees and remit such amounts to the tax authorities. They must submit a quarterly declaration to the relevant tax office in January, April, July and October of each year. Companies must submit an annual declaration to the relevant tax office in January of each year. Free-zone projects must withhold the taxes due from their employees and remit such amounts to the tax authorities.

Nonresidents with commercial and industrial activities operating as partnerships must file annual tax returns within four months after the end of the financial year or within 30 days after the cessation of their activities.

Tax becomes due and is payable within 30 days after receipt of a notice of final tax assessment from the tax authorities. If an individual fails to pay the tax due before the due date, a delay penalty applies until the date of payment. The delay penalty is imposed at a rate of 2% plus the credit and discount rate set each January by the Central Bank of Egypt.

E. Double Tax Relief and Tax Treaties

Egypt has entered into double tax treaties with the following countries.

Albania	India	Poland
Algeria	Indonesia	Romania
Austria	Iraq	Russia Federation
Bahrain	Italy	South Africa
Belarus	Japan	Sudan
Belgium	Jordan	Sweden
Bulgaria	Korea (South)	Switzerland
Canada	Lebanon	Syria
China	Libya	Tunisia
Cyprus	Malaysia	Turkey
Czech Republic	Malta	Ukraine
Denmark	Morocco	United Arab Emirates
Finland	Netherlands	United Kingdom
France	Norway	United States
Germany	Pakistan	Yemen
Hungary	Palestine	Yugoslavia

Because Egypt levies no withholding taxes on dividends, the treaties provide reduced withholding tax rates only for interest and royalties.

Treaty discussions have been initiated but treaties have not yet been negotiated with Armenia, Bangladesh, Ireland, Kuwait, Mongolia, Oman, Seychelles, Sri Lanka, Thailand, Uganda and Vietnam. Treaties have been negotiated but not yet ratified with Congo, Korea (North), Macedonia and Singapore.

F. Temporary Visas

All foreign nationals are required to obtain valid entry visas to enter Egypt, with certain exceptions for nationals of countries that do not require visas for Egyptians.

Tourist Visas. Tourist visas are issued to foreign nationals visiting Egypt for recreational purposes or to foreign nationals whose stay in Egypt will not exceed three months. Most Europeans and North Americans may obtain tourist visas at the port of entry. Tourist visas may be renewed for similar durations.

Temporary Visas. Temporary visas are issued to foreign nationals who enter Egypt for reasons other than recreational purposes and whose stay exceeds three months, but does not exceed one year.

Certain foreigners, including foreign investors, may receive temporary visas for a period of five years.

The following documents are required when applying for temporary visas:
- Passport or equivalent travel document;
- An application form; and
- Other documents at the discretion of the consul or the Department of Immigration, depending on the type of visa requested.

G. Work Permits, Work Visas and Self-Employment

A foreign national may work in Egypt if he or she obtains a work permit. Work visas are issued to foreign nationals after they obtain work permits in Egypt. After a work permit is obtained, the foreign national's visa (whether tourist or temporary) is converted into a work visa, with the same duration as the work permit.

A work permit is granted for one year if no Egyptian workers are available to fill the position. The permit must be renewed annually, regardless of the number of years the foreign national has spent in Egypt.

The process of obtaining a work permit is the same for any foreign national working in Egypt. An application must be filed with the labor office in Egypt, supported by documents regarding the entity for which the foreign national intends to work. A medical certificate showing that the applicant is HIV-negative is also required. No quota system for immigration exists in Egypt.

The Ministry of Manpower has the discretion to reject or accept a work permit application. A permit is not granted to a foreign national whose presence in Egypt is deemed to be harmful to the public order or who does not fulfill the health conditions. In addition, the number of foreign nationals working in any entity may not exceed 10% of the entity's workforce. The possibility of filling the position with an Egyptian, and the number of Egyptians employed by the entity in which a foreign national intends to work, are the two major criteria considered when reviewing work permit applications.

The approximate time period for obtaining a work permit after all documents have been received from the expatriate is four to six weeks. After an application is filed, the foreign applicant may start working in Egypt, pending the issuance or the rejection of the work permit.

After the applicant receives a work permit, a new application must be filed to change employers, by the new employer sponsoring the foreign employee.

Foreign nationals may start businesses in Egypt. Foreign companies may set up subsidiaries or branches in Egypt that are headed by foreign nationals. Ministerial Order No. 354 of 1996 explains the registration procedure for foreigners practicing export activities in Egypt under Law No. 98 of 1996.

H. Residence Visas

Ordinary Visas. Ordinary visas are issued for a period of five years to foreign nationals who are married to Egyptians or who were born in Egypt or Palestine.

Special Visas. Special visas are issued to foreign nationals for political reasons or to individuals who have provided beneficial services to Egypt. The duration of this visa is 10 years, and it is renewable for similar durations.

I. Family and Personal Considerations

Family Members. The working spouse of an expatriate does not automatically receive the same type of work permit or visa as the expatriate, but he or she does receive a residence permit with a duration equal to that of the work permit holder. If the spouse wishes to obtain a work permit or visa, he or she must do so independently of the expatriate.

Drivers' Permits. Foreign nationals may drive legally using their home country drivers' licenses only if they are visiting Egypt temporarily and hold international driving licenses. After permission to work is granted, they must obtain local drivers' licenses.

To obtain an Egyptian driver's license, an individual must submit a doctor's certificate, take a verbal examination and perform a fairly simple driving test.

Egypt does not have driver's license reciprocity with other countries.

EL SALVADOR

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A. Income Tax

Who Is Liable. Resident and nonresident individuals, regardless of their nationality, are taxed only on their income earned in El Salvador. Foreign-source income is not taxed.

Individuals are considered tax resident if they stay in El Salvador for more than 200 days during a tax year. An individual staying 200 days or less within a tax year is considered a nonresident for tax purposes. Individuals that have been deemed residents for more than one calendar year may remain outside the country for up to 165 days without losing their resident status. In addition, individuals whose principal place of trade or business is in El Salvador are also considered residents.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Tax is imposed on salary, remuneration, fees and other compensation received for services rendered or used in El Salvador.

Self-Employment and Business Income. Income derived from self-employment services rendered or used in El Salvador or from a trade or business is subject to tax in El Salvador.

Investment Income. Individuals are not subject to tax on interest income derived from savings and time deposits and from other savings certificates or instruments with banks and financial institutions.

Resident and nonresident individuals are not subject to tax on dividends received in cash or in kind if the company distributing the dividends has already paid the corresponding income tax at the corporate level.

Directors' Fees. Directors' fees paid to resident and nonresident individuals are subject to withholding tax at a rate of 10% for resident individuals and 20% for nonresident individuals.

Capital Gains. Effective from 1 January 2006, capital gains are subject to a flat tax rate of 10% if the gain was derived more than 12 months following the date of acquisition of the asset. If the gain is derived within 12 months following the date of acquisition of the asset, the net capital gain is taxed at a flat rate of 25%.

Deductions

Personal Deductions and Allowances. A deduction of US$1,371.43 is allowed for each employed individual with annual income that does not exceed US$5,714.29. Individuals with income exceeding US$5,714.29 may deduct up to US$571 for medical expenses and up to US$571 for education expenses.

Business Deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible. Payments for services are subject to withholding taxes that are imposed in the month of payment. If by 31 December, the payment for services has not been made, the payer must remit the corresponding tax that would have been withheld from the payments in order to deduct the payments when calculating its annual taxable income.

Rates. Employment and self-employment income is taxable at the following rates, effective from 1 January 2006.

Annual Taxable Income Exceeding US$	Annual Taxable Income Not Exceeding US$	Tax on Lower Amount US$	Rate on Excess %
0	$2,514.30	0	0
2,514.30	9,142.86	0	10(a)
9,142.87	22,857.14	720	20
22,857.15	—	3,462.86	30(b)

(a) To calculate the tax for this bracket, US$57.14 is added to the amount determined by applying the 10% rate.
(b) The effective tax rate may not exceed 25% of taxable income.

Withholding tax is imposed on nonresidents at a rate of 15% on salaries, other remuneration, pensions, commissions, director fees and other similar items of compensation that are classified as El Salvador-source income.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses may not be carried forward or back. However, capital losses derived from the sale of movable or immovable assets may be offset against future capital gains for up to five years.

B. Estate and Gift Taxes

El Salvador does not impose separate estate or gift taxes. However, estates may be taxed as ordinary taxpayers if they derive income before the assets are distributed to the beneficiaries.

C. Social Security

Social security contributions are levied monthly on salaries at a rate of 7.5% for employers and 3% for employees, with a monthly salary ceiling of US$685.71. Death and pension funds are covered by private institutions (AFPs), which are funded through monthly contributions levied on salaries at a monthly rate of 6.75% for employers and 6.25% for employees, with a monthly salary ceiling of US$5,274.52

D. Tax Filing and Payment Procedures

The ordinary fiscal year is the calendar year. Returns must be filed and any tax liabilities due must be paid by 30 April of the following tax year. Extensions are not available.

Employers are responsible for withholding income tax and social security contributions from the employee's salary on a monthly basis. Employees are required to file annual income tax returns, which report their employment compensation and corresponding taxes withheld. However, employees are not required to file annual income tax returns if their annual earnings are less than US$5,714.29. In principle, nonresidents are required to file tax returns even though they are subject to withholding at source.

E. Tax Treaties

El Salvador has not entered into a tax treaty with any other country.

F. Work Permits

Foreigners must apply for a work permit to work in El Salvador. The approximate time for obtaining a work permit after all documents are filed with the immigration authorities is up to two months. However, after the required documents are filed with the immigration authorities, a receipt may be obtained and used as a temporary permit until final approval is received. Work permits are valid for one year and are renewable for similar periods of time.

G. Residence Permits

Immigration and visa requirements generally are amended frequently in El Salvador. Consequently, foreigners wishing to come to El Salvador are urged to seek professional legal advice before entering the country.

Foreigners may apply for local residency with the General Direction of Immigration and Foreigner Issues (Direccíón General de Migración y Extranjería) if certain requirements are met. Residency is granted for a renewable one-year period.

H. Family and Personal Considerations

Family Members. Spouses of foreigners that are granted work permits in El Salvador do not automatically receive the same treatment as the original permit holder and must apply for their own visa or work permit.

Children of expatriates must have student visas to attend schools in El Salvador.

Drivers' Permits. Foreigners may drive legally in El Salvador using their home country driver's license for up to 30 days. After the 30 days have elapsed, drivers' permits can be acquired from a private entity authorized by the government to issue the permits.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(a)
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(a)
Moving expense reimbursement	X	—	(a)
Tax reimbursement	X	—	—
Value of meals provided	X	—	(b)
Value of lodging provided	X	—	(b)
Pension from retirement	—	X	(c)
Other Items			
Foreign-source personal ordinary income			
Dividends	—	X	(d)
Interest	—	X	(e)

	Taxable*	Not Taxable	Comments
Capital gain from sale of personal residence in home country	X	—	—
Capital gain from sale of stock in home country	—	X	(f)

* The bracketed amount reduces taxable income.
(a) The allowance or reimbursement is taxable if it is granted for services rendered or used in El Salvador.
(b) Meals and lodging received by an employee are considered nontaxable if the employee needs the meals and lodging to perform his or her regular activities and would otherwise be unable to obtain meals or lodging on his or her own (this applies to activities performed in remote locations).
(c) Pensions managed by the El Salvador Administrator of Pension Plans are exempt to the extent that they are accumulated through the pension system. However, according to the tax authorities, any excess amount is taxable.
(d) Dividends received are not taxable if the distributing company has paid the corporate income tax corresponding to the amount of the dividends.
(e) Interest received by individuals on deposits in banks or financial institutions is not taxable.
(f) Capital gains derived by an individual from sales of stock are not taxable if the stock is registered and authorized by an El Salvador stock exchange and the Superintendency of Values and if the issuance of the stock is made through an El Salvador stock exchange.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample 2006 tax calculation for an expatriate who is resident in El Salvador and is married with one child. The expatriate works in El Salvador for an entity domiciled in El Salvador.

	US$	US$
Calculation of Taxable Income		
Gross employment income		114,285
Personal deductions:		
Medical, dental, and hospitalization	(571)	
Education of children	(571)	
Charitable contributions to entities previously qualified by the tax authorities	(3,428)	
Total personal deductions		(4,570)
Social security and pension contributions:		
Illness, accident, occupational disease and disability* (US$685 x 12 x 3%)	(246)	
Old age and retirement benefits (US$5,274.52 x 12 x 6.25%)	(3,956)	
Total employee contributions		(4,202)
Taxable income		105,513
Calculation of Tax		
US$105,513 at 25%		$26,378

* For the purposes of calculating this contribution, monthly salary is limited to US$685.

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A. Income Tax

Who Is Liable. Residents of Estonia are subject to tax on their worldwide income. Nonresidents are taxable on income from Estonian sources at the same rates applicable to residents. Nonresidents, except for residents of European Union (EU) member states who receive at least 75% of their income from Estonia, may not claim the deductions and allowances available to residents.

For tax purposes, individuals are considered to be resident if they have a permanent place of residence in Estonia or if they remain in Estonia for 183 or more days during a period of 12 consecutive months.

Income Subject to Tax. Income for tax purposes is income derived from all sources, including salaries, wages, pensions, scholarships, grants, lottery prizes, alimony and maintenance support, directors' fees, insurance indemnities, payments from a pension fund (supplementary and voluntary pension), rent payments, royalties, interest accrued from loans, securities, leases or other debt obligations, and other payments made for services rendered (under contracts governed by the Law of Obligations, which stipulates the terms of all civil law agreements).

Individuals acting independently in their own name and at their own risk are subject to income tax on income derived from self-employment or entrepreneurial activities.

Education allowances provided by employers to their local or expatriate employees' children 18 years of age and younger are taxable for income tax and social tax purposes.

Items Excluded from Taxable Income. In general, fringe benefits, including a company car, housing, lunch vouchers and similar items, are not treated as taxable income to the recipient. Instead, the company pays the income tax on fringe benefits. However, foreign employees working in Estonia who are paid solely by a foreign company must pay income tax on fringe benefits received from the foreign company.

The following items are excluded from the taxable income of residents:
- Inheritances received (accepted succession);
- Gifts received from other individuals and from resident entities;
- Insurance payments received under insurance contracts;
- Indemnification paid to an employee for employment accidents, at prescribed rates;
- Dividends received from resident companies;
- Dividends received from nonresident companies, if income tax was paid on the share of profits out of which the dividends were paid or if income tax on the dividends was withheld in a foreign country;
- Income from the exchange of a holding (for example, shares) in the course of a merger, division or transformation of companies or nonprofit associations;
- Income from the increase or acquisition of a holding in a company through a nonmonetary contribution;
- Income from the exchange of units of an investment fund from an EU member state;
- Interest received from EU resident credit institutions and branches of nonresident credit institutions entered in the Estonian commercial register;
- Income from transfers of movable property used for personal purposes;
- Gains from transfers of real estate, structures or apartments treated as movables (property not yet entered in the register of real estate is treated as a movable) or as contributions to housing associations, if the asset is privatized under government order, is received as restitution for the unlawful alienation of property or is used as the taxpayer's primary or permanent place of residence;
- Gains from transfers of summer cottages or garden houses owned by residents taxpayer for more than two years;

- Employment income and service fees for working in a foreign state if the individual has stayed in the foreign state for the purpose of employment for at least 183 days during a period of 12 consecutive calendar months and if the relevant income has been included in the taxable income of the person in the foreign state and this is certified, with the amount of income tax indicated on the certificate (even if the amount is zero);
- Per diem allowances and accommodation costs of business trips, and compensation for business use of a private car, in accordance with the prescribed rates;
- Childbirth allowances paid by an employer to an employee or public servant, in an amount not exceeding 5/12 of the basic exemption (EEK 24,000 in 2006) granted to a resident individual during a tax year;
- In-service training and retraining of employees paid for by the employer on termination of the employment or service relationship as a result of redundancy;
- Payments by an employer for the treatment of damage caused to the health of an employee or public servant as a result of an accident at work or an occupational disease;
- Payments made to diplomats on the basis of the Defense Forces Service Act;
- Lottery winnings;
- State pensions and scholarships and other scholarships; and
- Property returned as restitution in the course of ownership reform.

Self-Employment Income. All income attributable to self-employment or entrepreneurship is subject to income tax. General partnerships are taxed as entities.

Investment Income. Dividends received by residents from resident companies are exempt from tax. Residents are taxed on all dividends and other profit distributions received from foreign companies unless income tax was paid on the profit out of which the dividends were paid or unless income tax on the dividends was withheld in a foreign country.

A 23% withholding tax is applied to dividends paid to nonresident companies who own less than 20% of the share capital of the payer. Dividends paid to individuals and nonresident shareholders (except companies located in a low-tax territory) who own 20% or more of the share capital of the payer are not subject to withholding tax.

Effective from 1 January 2006, dividends and profit distributions paid by resident companies are subject to income tax at a rate of 23/77 on the level of distributing companies. This tax is not a withholding tax and is paid in addition to the amount of dividends distributed.

Interest received by resident individuals from resident credit institutions, EU resident credit institutions and branches of nonresident credit institution entered in the Estonian commercial register is exempt from tax.

Rental payments and royalties received by residents are subject to withholding tax at a rate of 23%.

Nonresidents. Nonresident individuals are taxed on the following types of income derived from Estonian sources:

- Income from the alienation or lease of assets located in Estonia;
- Interest received from Estonia, residents of Estonia and nonresidents with a permanent establishment registered in Estonia, to the extent that the interest received significantly exceeds the amount of interest payable on similar debt obligation under the market conditions;
- Royalties and income from sales or licenses of patents, copyrights, trademarks, software, know-how and other information in Estonia;
- Liquidation distributions and payments related to a company's reduction of its stock capital, to the extent the amount received exceeds the acquisition cost of the shares; and
- Salary, wages and other employment income for work performed in Estonia.

Nonresidents are exempt from tax on the following types of income:
- Inheritances received (accepted succession);
- Income from the transfer of movable property used for personal purposes;
- Interest received from resident credit institutions or branches of nonresident credit institutions entered in the Estonian commercial register;
- Pensions, scholarships, grants, awards and benefits; and
- Per diem allowances and accommodation costs with respect to business trips, and compensation for business use of a private car, in accordance with the prescribed rates.

Taxation of Employer-Provided Stock Options. Shares received under stock option plans are normally taxed at the time the shares are sold.

Capital Gains. Capital gains derived from the following sources are not subject to income tax:
- Sale of movable property for personal use; and
- Real estate, a dwelling house or an apartment, if the asset is privatized, received as restitution or inherited.

Capital gains derived from the sale of business property or securities are taxable at a rate of 23%.

Nonresident individuals are taxed on gains derived from the sale of property located in Estonia, excluding securities issued by companies registered in Estonia. However, this exclusion does not apply if the following circumstances exist:
- The transferred holding represents at least 10% of the company; and
- According to the balance sheet of the company, as of the last day of the preceding financial year, immovables or structures as movables, which are located in Estonia, account for more than 75% of the assets of the company.

Deductions

Deductible Expenses. Estonian residents, as well as residents of other EU member states who derive at least 75% of their taxable income from Estonia and submit an income declaration in Estonia, may claim deductions for the following items:
- Alimony and maintenance support payments that are required to be paid;

- Gifts to registered nonprofit organizations and listed agencies of the state or local governments, up to 5% of taxable income;
- Payments to pension funds;
- Unemployment insurance premiums, acquisition of pension fund units and contributions to mandatory funded pension;
- Training expenses; and
- Interest paid to EU credit institutions on housing loans for the purpose of acquiring an apartment or dwelling house.

The total amount of deductions for a tax year is limited to the lesser of EEK 50,000 or 50% of the individual's income after business deductions.

Business Deductions. Only documented expenses directly related to entrepreneurial or self-employment activities, including expenses for work-related advanced training and retraining of employees, and losses incurred from the disposal of assets (except for losses incurred on the sale of securities), are deductible. If certain expenses are only partly related to the entrepreneurial or self-employment activities, only the part directly related to those activities is deductible.

Expenses for entertainment and recreation and other expenses not directly related to the entrepreneurial or self-employment activities may be deducted from income, up to a maximum amount of 2% of adjusted income. Adjusted income is financial income after adjustments for nontaxable income and expenses that are not deductible for tax purposes.

Rates. The standard income tax rate is 23%, effective from 1 January 2006. Effective from 1 January 2006, the basic annual exemption for resident individuals is EEK 24,000.

Withholding tax rates are presented in the following table.

Type of Payment	Rate (%)
Dividends	
Nonresident companies owning less than 20% of the payer's share capital	23
Other recipients	0
Interest	
Paid by EU resident credit institutions and branches of non-resident credit institutions entered in the Estonian Commercial Register	0
Paid by others	23
Wages, salaries and alimony	23
Payments for services rendered in Estonia	
By nonresidents from a low tax rate territory	23
By nonresidents	15
Royalties	
Paid to residents	23
Paid to nonresidents	15
Rent	23
Payments made to nonresident athletes and artists	15
Supplementary and voluntarily funded pension payments	10

Credits. Residents may claim a credit for foreign tax paid, up to the amount of Estonian tax attributable to the foreign-source income.

The rules regarding the calculation of the credit are summarized below.

Income tax is calculated separately for income derived in Estonia and for income derived in each foreign country. The individual must pay in Estonia the difference between the foreign income tax and Estonian income tax if the income tax calculated on income derived from abroad exceeds the amount of income tax paid in the foreign country. The overpaid amount of income tax abroad is not refunded in Estonia.

If the income tax on income derived in a foreign country is paid during a tax year other than the tax year in which the income is derived, the foreign income tax is taken into account in Estonia during the tax year in which the income taxable in a foreign country is received.

Effective from 1 July 2005, income tax withheld on interest payments in accordance with the procedure contained in Article 11 of Directive 2003/48/EC of the EU Council (on interest payments) received by a resident individual from a resident of Austria, Belgium or Luxembourg may be credited against the income tax payable in Estonia on the income for the same tax year. The portion of the income tax that is not credited is refunded based on the individual's income tax return.

Relief for Losses. Losses from entrepreneurship, except losses incurred on the sale of securities and receivables, may be offset against income derived from other sources. Losses may generally be carried forward for seven years. However, losses incurred on the sale of securities may be carried forward indefinitely.

B. Inheritance and Gift Tax

Inheritance and gift taxes are generally not levied in Estonia. However, gifts received from nonresident entities are taxed at a rate of 23%.

C. Social Security

Contributions. Social tax is levied on employers at a rate of 33%; employees are not liable for social tax. No ceiling applies to the amount of salary subject to social tax. In addition, an unemployment insurance charge is imposed on gross salary. Effective from 1 January 2006, the rates are 0.3% for employers and 0.6% for employees. This charge is withheld by employers.

Self-employed persons must pay social tax at a rate of 33% on their net income.

Totalization Agreements. Estonian social security legislation follows the rules provided in European Council Regulation No. 1408/71. Estonia has also entered into a totalization agreement on social security with Ukraine.

D. Tax Filing and Payment Procedures

The tax year in Estonia is the calendar year.

An individual must file an income tax return if his or her annual income exceeds EEK 24,000 in 2006. Individual income tax returns for the preceding year must be filed by 31 March. Individuals must pay income tax due by 1 July of the current year.

Spouses may file a joint income tax return, in which case they are taxed jointly.

Employers must withhold the appropriate amount of income tax from employees' salaries. Tax liability is determined by deducting taxes withheld, and creditable amounts of foreign taxes paid, from the computed amount of income tax.

E. Double Tax Relief and Tax Treaties

Most of Estonia's double tax treaties follow the Organization for Economic Cooperation and Development (OECD) model convention. The income tax law provides relief for foreign taxes paid, up to the amount of Estonian tax imposed on the foreign-source income (see Section A).

Estonia has entered into double tax treaties with the following countries.

Armenia	Germany	Norway
Austria	Hungary	Poland
Belarus	Iceland	Portugal
Belgium	Ireland	Romania
Canada	Italy	Spain
China	Kazakhstan	Sweden
Croatia	Latvia	Switzerland
Czech Republic	Lithuania	Turkey
Denmark	Malta	United Kingdom
Finland	Moldova	United States
France	Netherlands	Ukraine

F. Temporary Visas

Exceptions to the Visa Requirement. In general, a foreign national must have a visa to enter Estonia or stay in Estonia. However, visas are not required for the following individuals:

- Citizens of EU and European Economic Area (EEA) member states, which are Austria, Belgium, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom, and citizens of Switzerland. A citizen of an EU member state may stay in Estonia without a residence permit for up to three months from the date of his or her arrival in Estonia. Individuals employed in Estonia or engaged in business in Estonia may also stay in Estonia without a residence permit.
- Citizens of Andorra, Argentina, Australia, Bolivia, Brazil, Brunei, Bulgaria, Canada, Chile, Costa Rica, Croatia, El Salvador, Guatemala, Hong Kong, Honduras, Israel, Japan, Macau, Malaysia, Mexico, Monaco, New Zealand, Nicaragua, Panama, Paraguay, Romania, San Marino, Singapore, South Korea, the United States, Uruguay, Venezuela and Vatican City. In addition, the holders of a South African passport can enter Estonia if they hold a visa for Latvia or Lithuania. In general, the individuals listed above may stay in Estonia for up to 90 days during a 6-month period.

Citizens of Bosnia-Herzegovina and Serbia and Montenegro with diplomatic passports may stay in Estonia without a visa for up to

90 days during a 6-month-period, and citizens of Turkey and Ukraine with diplomatic passports may stay in Estonia without a visa for up to 30 days during a 6-month period.

Types of Visas. Foreign nationals may enter Estonia with the following types of visas:
- Airport transit (Type A);
- Transit (Type B);
- Short-term (Type C); and
- Long-term (Type D).

An airport transit visa is issued for entry into the international transit zone at an Estonian airport and for the stay in such zone until the departure to the next transit country or arrival country, where the person has a legal right to enter. The visa does not grant a foreign citizen the right to enter Estonia or stay in Estonia.

A transit visa is issued for a single- or dual-entry transit journey through Estonia to the next transit country or arrival country, where the person has a legal right to enter. The transit visa may also be granted for multiple journeys if necessary for the completion of professional or employment duties.

A short-term visa is given for a single- or multiple-entry and a stay in Estonia. Short-term visas may vary by validity of the visa and duration of the stay. The following are the applicable time limits:
- Single entry and stay in Estonia: the visa is valid for up to six months, and the duration of the stay is up to 90 days; and
- Multiple-entry and stay in Estonia: the visa is valid for up to 5 years, and the duration of the stay is up to 90 days in a 6-month period.

Long-term visas are given for single- or multiple-entry and stay in Estonia (for example, accredited journalists representing foreign mass media, Estonian Honorary Consuls and individuals who have registered their short-term employment before applying for the visa, as well as their family members (spouse, minors and dependent adult children).

A foreign national in Estonia may not work in Estonia on the basis of a visa.

G. Work Permits and Self-Employment

To work in Estonia a foreign national must have a residence permit for work. For details, see Section H.

A private entrepreneur must apply for a residence permit for business. For details, see Section H.

H. Residence Permits

Residence Permit for Work. The following documents must be submitted when applying for a temporary residence permit for work in Estonia:
- A standard application form;
- An additional form entitled “Application for residence permit or extension of residence permit;”
- An additional form entitled “Data concerning close relatives, spouse, family members and dependants;”

- Employer's confirmation that it will employ the foreign national and that the employment of the foreign national has the consent of the Labour Market Board (additional form);
- Applicants' written explanation as to why he or she wants to work in Estonia;
- Standard CV;
- Identity document of the applicant;
- Colored photograph sized 40 x 50 mm; and
- A document evidencing the payment of a fee.

In addition to the above mentioned documents, a sole proprietor must submit a written explanation about his or her work in Estonia.

A decision as to whether or not to issue a temporary residence permit must be reached within six months after the date on which the processing of the application begins if the immigration quota applies to the applicant. Otherwise, the decision must be reached within three months after the date on which the processing of the application begins.

A residence permit for employment is issued for a period of employment in Estonia that is guaranteed by an employer. The period of validity of this permit is up to two years, and it can be extended for up to five years at a time.

Legal Income Residence Permit. A temporary legal income residence permit may be issued to a person whose income ensures his or her subsistence and whose legal income corresponds to the amounts established by the government of Estonia, unless the Aliens Act precludes the issuance of the residence permit. This type of residence permit is valid for up to two years, and may be extended for two additional years.

Residence Permit for Settling with a Spouse. A temporary residence permit may be issued to a foreign national to settle with his or her spouse who resides in Estonia permanently and who satisfies any of the following conditions:
- He or she is an Estonian citizen;
- He or she is an alien who has resided in Estonia for at least five years on the basis of a permanent residence permit;
- He or she is settling with a spouse who is an alien and who has been granted a residence permit for employment in Estonia under the Aliens Act; or
- He or she settling with a spouse who is an alien and who has been granted a residence permit for business or for doctorial studies in Estonia.

Residence Permit for Settling with a Close Relative. A temporary residence permit may be issued to the certain foreign citizens to settle with a close relative who is an Estonian citizen or to settle with a close relative who is an alien who has resided in Estonia for at least five years on the basis of a permanent residence permit. This permit may be issued to the following individuals:
- A minor child in order to settle with his or her parent;
- An adult child in order to settle with a parent if the child is unable to cope independently as a result health reasons or a disability;
- A parent or grandparent in order to settle with his or her adult child or grandchild who legally resides in Estonia if the parent or grandparent needs care that he or she cannot receive in his or her home country in another country and if the permanent legal

income of his or her child or grandchild ensures that the parent or grandparent will be maintained in Estonia; and
- A person under guardianship in order to settle with the guardian if the permanent legal income of the guardian ensures that the ward will be maintained in Estonia.

Residence Permit for Study. A temporary residence permit for study may be issued to a foreign national for any of the following purposes:
- Study in a primary school, basic school, gymnasium, vocational educational institution, institution of applied higher education or university;
- Participation in pre-degree foundation courses offered by the institutions listed in the preceding bullet;
- Carrying out scientific work or research in a university or an institution of applied higher education; or
- Participation in field training administered by an international students' organization.

A residence permit for study may be issued for a period of up to one year but no longer than the estimated duration of the studies. If a foreign national continues his or her studies in the same educational institution, his or her residence permit may be extended by one year at a time but for no longer than a total period of six years.

Foreign nationals who are issued residence permits for study are exempt from the immigration quota.

To qualify for a residence permit for study, the foreign national must have permanent legal income for subsistence in Estonia.

Residence Permit for Business. A temporary residence permit for undertaking business in Estonia may be issued to a foreign national who owns shares in a company or acts as a sole proprietor if all of the following conditions are satisfied:
- The company or the sole proprietor is registered in the Estonian Commercial Register;
- The business is necessary for the national interest of developing the Estonian economy and the settlement of the foreign national is important for the business; and
- The foreign national has invested EEK 1 million (€63,912) or more in an Estonian company controlled by him or her or the foreign national has invested EEK 250,000 (€15,978) or more in a sole proprietorship.

The fields and, if necessary, the location for the activities, is stated in the residence permit for business.

The residence permit for business may be granted up for a period of up to five years. If a foreign national has been granted a residence permit for business he or she cannot work in Estonia under the subordination of any other person.

Permanent Residence Permit. A permanent residence permit is issued to a foreign national who has lived in Estonia under a temporary residence permit for at least three of the last five years, and who currently has a valid temporary residence permit, place of residence and sufficient income for subsistence in Estonia. A permanent residence permit may not be issued to a foreign national who received a residence permit for study or work in Estonia.

An application for a permanent residence permit must be filed no later than two months before the expiration of the temporary residence permit. The Citizenship and Migration Board must make a decision on whether to issue a permanent residence permit within three months from the date it begins to process the application, but not later than 10 days before the expiration date of the temporary residence permit.

A foreign national with a permanent residence permit does not need a work permit to work in Estonia.

Residence Permit for Citizens of EU or EEA Member States, Citizens of Switzerland and Family Members. Citizens of EU and EEA member states and citizens of Switzerland (Citizens) can apply for a residence permit in Estonia for the following purposes:
- Employment or engagement in business;
- Study in a basic school, gymnasium, vocational educational institution; and
- Long-term stay in Estonia.

A Citizen may apply for a residence permit if he or she has sufficient legal income to ensure his or her own subsistence and that of his or her family members in Estonia.

Family members of the Citizen can apply for residence permits for the purpose of settling with the Citizen. The period of validity of the residence permit is up to 5 years. A residence permit for study is issued for one-year terms.

Citizens may stay in Estonia without a residence permit in any of the following circumstances:
- They may stay for up to three months beginning on the date of his or her arrival in Estonia if they are employed in Estonia or engaged in business in Estonia;
- They are employed in another EU member state, but reside in Estonia and return to Estonia at least once a week;
- They are seasonal workers in Estonia; or
- They may stay for up to six months for the purpose of seeking employment if they registered the seeking of employment under the procedure provided in the Employment Service Act.

I. Family and Personal Considerations

Family Members. An Estonian citizen residing in Estonia or a foreign national permanently residing in Estonia may call their spouse to live with them in Estonia, if the spouses share close economic ties, they have a close psychological relationship, the family is stable and the marriage is not fictitious.

Resident permits are issued to family members who are settling with citizens of EU or EEA member states or Switzerland.

Marital Property Regime. Under Estonian family law, property acquired during a marriage is the joint property of the spouses. Proprietary rights of spouses may be specified in a marital property contract. A marital property contract may be entered into before or during a marriage.

Forced Heirship. Regardless of the terms of a deceased relative's will, disabled ascendants, descendants and spouses are entitled to receive a compulsory portion of the estate, which equals one-half of the share they would receive in an intestate succession.

Drivers' Permits. If a person who holds a residence permit in Estonia settles in Estonia, his or her driver's license issued in a foreign state is valid for the 12-month period beginning on the date of the issuance of the residence permit. A driver's license issued in a foreign state may be replaced with an Estonian driving license without a test.

A driver's license issued in an EU member state of a person who settles in Estonia need not be replaced with an Estonian driving license.

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A. Income Tax

Who Is Liable. Residents are subject to tax on their worldwide income. Nonresidents are subject to tax on their Ethiopian-source income only.

An individual is considered to be resident in Ethiopia if any of the following circumstances exist:
- He or she has a domicile in Ethiopia and a habitual abode in Ethiopia;
- He or she is a citizen of Ethiopia who serves abroad as a consular, diplomatic or similar official of Ethiopia; or
- He or she is physically present in Ethiopia for more than 183 days in a period of 12 calendar months, either continuously or intermittently.

Income Subject to Tax. The taxation of various types of income is described below.

Employment Income. Employment income includes any payments in cash or in kind received by an individual as a result of employment, including income from former employment or prospective employment.

Employment income is subject to tax at progressive rates ranging from 10% to 35%. For a table of these rates, see *Rates*.

The following categories of employment income are exempt from income tax:

- Income derived by casual employees who do not work for more than 1 month for the same employer in any 12-month period.
- Pension, provident fund and all other forms of retirement contributions paid by employers, up to 15% of the monthly salary of the employee.
- Subject to reciprocity, income from employment received by diplomatic and consular representatives and other persons employed in an embassy, legation, consulate or mission located in a foreign state for the performance of state affairs if such individuals are nationals of that state and bearers of diplomatic passports or if, in accordance with international usage or customs, they are normally exempt from income tax.
- Actual cost of medical treatment of the employee paid by the employer.
- Subject to limits set by the tax authorities, the following payments:
  - Transportation allowances.
  - Reimbursement of traveling expenses incurred on duty.
  - Traveling expenses paid on the commencement or termination of employment to employees recruited from a location other than the place of employment. For foreign employees, these expenses include traveling expenses to or from their country if such payments are made in accordance with specific provisions of the employment contract.
- Hardship allowance.
- Allowances paid to members and secretaries of boards of public enterprises and public bodies as well as to members and secretaries of study groups established by the federal government or regional governments. In this context, secretaries are individuals who arrange and attend meetings and record minutes of meetings. They are usually paid a certain amount per meeting by public enterprises.

Rental Income from Buildings. Rental income from buildings derived by individuals is subject to tax at progressive rates ranging from 10% to 35%. For a table of these progressive rates, see *Rates*.

Self-Employment and Business Income. All business profits derived in Ethiopia are subject to tax. Taxable business income is determined for each tax year on the basis of the income statement. Business income is subject to tax at progressive rates ranging from 10% to 35%. For a table of these progressive rates, see *Rates*.

Investment Income. Dividends are subject to a 10% final withholding tax. Interest received on deposits and royalties are subject to a 5% final withholding tax.

Directors' Fees. Directors' fees are considered employment income.

Other Income. Income from games of chance or from the casual rental of property not used for business is subject to a 15% final withholding tax.

All payments made for technical services (expert advice or technological services) rendered to resident persons outside of Ethiopia are subject to a 10% final withholding tax.

Taxation of Employer-Provided Stock Options. Ethiopian tax law does not specifically address the treatment of stock options. Such options are usually not available because Ethiopia does not have companies whose shares are publicly traded on a stock market.

Capital Gains and Losses. Gains derived from the transfer (sale or gift) of buildings used for a business, factory or office are subject to tax at a rate of 15%. Gains derived from the transfer of buildings used as a residence are exempt from tax. Gains derived from the sale of shares of companies are subject to tax at a rate of 30%. Subject to limitations, losses incurred on the transfer of such properties may be used to offset gains derived from such transfers. Unused losses can be carried forward indefinitely.

Deductions

General. In principle, all expenses incurred wholly and exclusively to produce income are deductible. However, measures in the tax law contain limitations on the deduction of expenses.

Employment Deductions. Employees may not claim deductions from employment income.

Business Deductions. Expenses incurred wholly and exclusively in the production of gross business income may be deducted from income derived from the same source. However, certain items may not be deducted, including the following:

- Voluntary pension or provident fund contributions exceeding 15% of the monthly salary of the employee;
- Interest in excess of the rate used in transactions between the National Bank of Ethiopia and commercial banks, increased by two percentage points;
- Damages covered by insurance policies;
- Punitive damages and penalties;
- Income tax paid on business income derived from entrepreneurial activities and recoverable value-added tax;
- Representation expenses exceeding 10% of the salary of the employee;
- Personal consumption expenses;
- Entertainment expenses; and
- Donation or gifts.

Depreciation charged in the financial accounts is not a deductible expense. However, depreciation of business assets calculated at rates specified by the tax authorities may be claimed as a deduction.

Rates. Progressive tax rate tables apply separately to employment income, business income and rental income.

Employers must withhold the tax from each payment to an employee and pay the tax over to the tax authorities for each month. The following is the progressive rate table for monthly employment income.

Monthly Employment Income		
Exceeding Birr	Not Exceeding Birr	Rate %
0	150	0
151	650	10
651	1,400	15
1,401	2,350	20
2,351	3,550	25
3,551	5,000	30
5,000	—	35

The following is the progressive rate table for annual business income.

Annual Business Income Exceeding Birr	Not Exceeding Birr	Rate %
0	1,800	0
1,800	7,800	10
7,800	16,800	15
16,800	28,200	20
28,200	42,600	25
42,600	60,000	30
60,000	—	35

The following is the progressive rate table for annual rental income.

Annual Rental Income Exceeding Birr	Not Exceeding Birr	Rate %
0	1,800	0
1,800	7,800	10
7,800	16,800	15
16,800	28,200	20
28,200	42,600	25
42,600	60,000	30
60,000	—	35

Although identical rate tables apply to business income and rental income, these types of income are taxed separately.

Credits. For details regarding the foreign tax credit, see Section D.

Relief for Losses. Individuals may carry forward net operating losses from businesses for three years. However, if a business incurs losses in any of the three years following the year of the loss, the loss carryforward period may be extended for a year for each loss year in the three-year period, up to a maximum loss carryforward period for six years. Earlier losses must be offset first. Losses may not be carried back.

Nonresidents. Nonresidents are subject to tax at the same rates as residents on Ethiopian-source income only.

B. Other Taxes

Certain property, including land and buildings, are subject to annual property taxes. Ethiopia does not impose wealth and net worth taxes.

C. Social Security

For employees of government organizations and public enterprises, contributions to a government-operated retirement fund must be made in accordance with the law. Employers and employees must make monthly contributions at rates of 6% and 4%, respectively.

Employees of private businesses and nongovernment organizations are not subject to the scheme described in the preceding paragraph. In general, these employees may participate in provident fund schemes operated by their respective employers. The contribution rate varies depending on the scheme. Participation in the scheme is usually covered in an employee's compensation package.

D. Tax Filing and Payment Procedures

The tax year is the Ethiopian budgetary year, which runs from 7 July to 6 July of the following calendar year.

Individuals who receive employment income only are not required to file personal income tax returns. Instead, employers must withhold tax from each payment to an employee and to pay the tax authorities the amount withheld during each calendar month. This withholding tax represents the final tax liability of employees.

Other taxpayers are classified into the following three categories:
- Category A: individuals whose annual business turnover is below Birr 100,000. They must file tax returns and pay tax within one month of the end of the tax year.
- Category B: individuals whose annual business turnover is between Birr 100,000 and Birr 500,000. They must file tax returns and pay tax within two months of the end of the tax year.
- Category C: individuals whose annual turnover is above Birr 500,000: They must file tax returns and pay tax within four months of the end of the tax year.

E. Double Tax Relief and Tax Treaties

Ethiopia has entered into double tax treaties with various countries, including Italy, Kuwait and the Russian Federation. Ethiopia has also signed double tax treaties with Algeria, Iran, Israel, Oman, Romania, South Africa and Turkey, which are pending ratification.

Foreign tax paid by residents may be claimed as a credit against tax payable with respect to the foreign-source income, limited to the amount of tax in Ethiopia that would otherwise be payable on such income.

F. Temporary Visas

Ethiopia requires that visitors entering the country have an entry visa. The following are the five types of visas or permits that Ethiopia issues to foreigners:
- Tourist visa (single entry, and multiple entry for three months or six months);
- Business visa (single entry, and multiple entry for three months, six months or one year);
- Work permit;
- Resident permit; and
- Transit visa (single and double transit).

Ethiopian embassies issue tourist visas. These visas are valid for a period of one, two or three months and, in exceptional cases, for a period of up to six months.

Depending on the duration of the work, a business visa is valid for up to three months. Ethiopian embassies issue this visa after verifying the request submitted by the employer or by the Ethiopian client (the entity responsible for bringing the expatriate to Ethiopia).

G. Work Permits

The Ministry of Labor and Social Affairs issues a work permit if it is satisfied with the application of the employer. The employer must justify the necessity of employing the foreign employee for the particular position. The current Ethiopian Investment Proclamation states the following with respect to the employment of foreign professionals: "Any investor may employ, in accordance with the law, duly qualified senior expatriate experts and managers required for the operation of his business; provided that Ethiopians with comparable qualifications are not available, and the investor shall be responsible for replacing, within a limited period, such expatriate personnel by Ethiopians and for arranging the necessary training thereof."

H. Residence Permits

In general, after a work permit is issued, an individual may obtain a resident permit from the Security Immigration and Refugee Affairs Authority. The residence permit is valid for one year and can be renewed annually. During the period of validity of the residence permit, the holder of the permit may travel freely to and from Ethiopia.

To change employers, consent must be obtained from the Ministry of Labor and Social Affairs.

I. Family and Personal Considerations

Work Permits for Family Members. Family members must have resident permits. When the employer applies to the Security Immigration and Refugee Affairs Authority for his or her work permit, he must provide to the authority a full list and information regarding his or her family member who want to live with him or her in Ethiopia. This information includes names, passport numbers, nationalities and countries of residence. On request, family members may obtain residence permits based on their inclusion in this list. To be employed, family members must obtain a work permit even if they have a residence permit.

Drivers' Permits. A foreign driver's license held by an expatriate employee is valid in Ethiopia if the foreign country accepts Ethiopian drivers' licenses. The Ethiopian Bureau of Transport and Communication, which is the authority for converting foreign drivers' licenses and issuing equivalent Ethiopian licenses, issues a list of countries whose driver's licenses are acceptable in Ethiopia. For example, Finland is on the list.

To obtain a converted driver's license, the foreign license must be authenticated by the embassy of the expatriate's home country located in Addis Ababa. The Ethiopian Ministry of Foreign Affairs then approves the foreign license. After reviewing the documentation, the Bureau of Transport and Communication issues an equivalent Ethiopian driver's license.

An expatriate who does not have a valid driver's license must pass an examination given by the Bureau of Transport and Communication to obtain a driver's license.

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A. Income Tax

Who Is Liable. Fiji residents are subject to tax on worldwide income. Nonresidents are subject to tax on Fiji-source income only.

A resident is defined as a person who resides in Fiji and includes a person who meets either of the following conditions:
- Whose domicile is in Fiji; or
- Who is present in Fiji continuously or intermittently during more than one-half of the income year, unless the tax authorities are satisfied that the person's usual place of abode is outside Fiji and that the person does not intend to take up residence in Fiji.

Income Subject to Tax

Employment Income. Taxable income includes all wages, salaries, directors' fees and compensation, as well as the estimated value of other benefits provided by an employer, including accommodation and housing, employer-provided vehicles, free overseas travel and discounts for goods and services.

Education allowances provided by employers to their local and expatriate employees who are 18 years old or younger are taxable for income tax purposes.

Self-Employment and Business Income. Resident individuals are subject to tax on worldwide business income. Nonresident individuals are taxed on Fiji-source income only.

Taxable income is determined based on the accounting profit shown in the annual financial statements, adjusted for taxable and nontaxable items.

Investment Income. Dividends paid by publicly listed companies and those paid by other companies out of profits that have been subject to tax are tax-exempt to the recipient. Dividends paid by unlisted companies out of profits that have not been subject to tax are taxable as ordinary income. Dividends paid from realized capital gains are totally tax-exempt.

Interest income is taxable at the rates set forth in *Rates*.

Dividends, interest, royalties and know-how fees paid to nonresidents are subject to the final withholding taxes shown in the following treaty withholding tax rate table.

	Dividends* %	Interest %	Royalties %	Know-How %
Australia	20	10	15	15
Japan	15	10	15	15
Korea	15	10	10	15
Malaysia	15	15	15	15
New Zealand	15	10	15	15
Papua New Guinea	17	10	15	15
United Kingdom	15	10	15	15
Nontreaty countries	15	10	15	15

* Applicable to dividends paid by unlisted companies out of profits that have not been subject to tax.

Capital Gains. Profits from the sale of certain undeveloped land are subject to capital gains tax at a maximum rate of 30%. No other capital gains are taxable.

Deductions

Deductible Expenses. If a lump-sum entertainment allowance is paid by an employer, an employee must justify the amount spent for business entertainment. The allowance is taxable to the extent that it is not fully justified.

Personal Deductions and Allowances. The following personal allowances are deductible in determining income subject to tax.

Type of Allowance	Deductible Amount
Dependent spouse	F$1,200
Children (up to five)	F$500 each for the first two, F$300 each for next three
Superannuation contributions	F$1,500 for each spouse
Pensions received by residents	Total amount received

Business Deductions. In general, all expenses incurred in producing taxable income are deductible, with the exception of expenses of a capital, private or domestic nature. Depreciation of fixed assets used in the production of taxable income is allowed at rates set by the tax authorities.

Rates. Employment income (excluding redundancy payments), and self-employment and business income are taxed at the following rates for residents.

Taxable Income Exceeding F$	Taxable Income Not Exceeding F$	Tax on Lower Amount F$	Rate on Excess %
0	8,840	0	0
8,840	10,000	0	15
10,000	20,000	174	25
20,000	—	2,674	31

The first F$15,000 of a redundancy payment is tax-exempt; amounts in excess of F$15,000 are subject to tax at a rate of 15%.

Nonresidents are taxed on Fiji-source income at the following rates.

Taxable Income		Tax on Lower	Rate on
Exceeding F$	Not Exceeding F$	Amount F$	Excess %
0	8,840	0	20
8,840	10,000	1,768	25
10,000	20,000	2,058	30
20,000	—	5,058	31

Dividends, interest, royalties and know-how fees paid to nonresidents are subject to final withholding taxes as described in *Investment Income*.

Relief for Losses. Losses incurred in any trade or business may be offset against an individual's taxable income from other sources in the same year. To the extent it is not fully offset, a loss may be carried forward for the next eight years if no substantial change occurs in the ownership or nature of the individual's business. Losses incurred in agricultural pursuits may be carried forward indefinitely. No monetary limits are imposed on the amount of losses for carryforward or offset purposes.

B. Other Taxes

Fiji does not impose tax on property, net worth, inheritances or gifts.

C. Social Security

Although Fiji imposes no social security taxes, all employers must contribute an amount equal to at least 8% of the gross earnings of all regular employees to the National Provident Fund. Total contributions must equal a minimum of 16% (theoretically, an equal contribution of 8% each from an employer and an employee), but an employee need not contribute or may contribute a smaller amount if an employer contributes the difference on his or her behalf. Contributions of up to 30% are allowed; however, amounts in excess of 16% are taxable to the employee.

On retirement, the fund provides either a lump-sum payment equal to total contributions made plus accrued interest or a pension based on the amount of total contributions made plus accrued interest.

D. Tax Filing and Payment Procedures

The tax year in Fiji is the calendar year, and returns must be filed by 31 March. Extensions to June normally are granted on request.

Married women may elect to be taxed separately only on employment income or on income derived from personal activities unrelated to a spouse's assets or business. Married women who do not elect separate taxation with respect to these types of income are taxed jointly on all types of income.

For employees, compulsory tax deductions are made by employers under the Pay-As-You-Earn (PAYE) system in accordance with tables to ensure that an employee's liability is fully covered.

For self-employed individuals, provisional tax based on the liability for the preceding year must be paid in three installments in April, August and November. An assessment is made when the return is filed, and a final payment or refund is made.

E. Double Tax Relief and Tax Treaties

Income derived by Fiji residents from treaty and nontreaty countries is subject to tax in Fiji. However, a credit is allowed for tax paid in the source country, to the extent that Fiji tax applies to the same income.

Expatriate employees who are resident in Fiji as a result of employment under a service contract of up to three years in duration are taxed only on income earned in Fiji.

F. Visitor Visas

A visitor's visa, which is usually issued for one month but may be extended to six months, is normally granted to tourists or to individuals wishing to investigate business opportunities in Fiji.

Foreign nationals from most developed countries may obtain visitors' visas at the port of entry if they have valid passports, return or onward tickets, and sufficient funds for living expenses. All other persons must obtain visas before entering Fiji.

G. Work Permits and Self-Employment

The right to work in Fiji is restricted, but the Fiji government recognizes the need to admit individuals with special commercial, professional or technical skills to improve Fiji's economic development. Therefore, permits to reside and work in Fiji are granted to foreign investors and expatriate employees under qualifying circumstances.

Permits to reside and work in Fiji are granted to fill positions that cannot be filled adequately by local Fiji citizens. In these cases, the Fiji Immigration Department requires foreign nationals to be employed under a contract of employment, and the prospective employer must show evidence that the position cannot be adequately filled locally. In most cases, the prospective employer is required to advertise the position locally and to submit all applications received to the Immigration Department for review.

Permits are usually granted for an initial period of three years and are renewable only if the continued presence of the permit holder is considered to be to Fiji's economic advantage and essential to the employer's operations.

Applications for all categories of visas and permits except for visitor visas must be made in Fiji. The application must be accompanied by health and police clearance certificates from the applicant's home country. Processing permit applications normally takes four to six weeks. Applicants are not permitted to work until the permits are issued, and changing employers is allowed only in special circumstances.

Foreign nationals with investment in approved business ventures in Fiji are granted permits that allow them to increase and manage their investments. These permits are usually valid for a three-year period, and extensions are virtually assured as long as the capital remains invested in Fiji.

Foreign investors, regardless of nationality, wanting to establish a business in Fiji must have the prior approval of the Fiji Islands Trade and Investment Bureau (FTIB). To obtain this approval, a separate application describing all pertinent information relating to the proposed project must be filed with the FTIB.

No set guidelines are used to evaluate or approve business ventures involving foreign investors. Fiji welcomes investment in virtually all sectors, particularly in tourism, mining, manufacturing and high-technology industries. In general, proposed projects meeting the following criteria are well received:
• Substantial capital outlay;
• New technology;
• High employment-generating potential; and
• High local equity participation.

H. Residence Permits

As a matter of policy, Fiji is not open to immigration. However, individuals who wish to live or retire in Fiji and are able to demonstrate that they have sufficient funds from overseas sources to live in Fiji may obtain renewable three-year permits. In these instances, the Immigration Department considers the age of the applicant and the source and amount of funds available from abroad.

Alternatively, any person who has been in Fiji on a valid permit for five years or more may apply for citizenship, which is normally granted, unless the person is proved to be undesirable in the eyes of the law.

I. Family and Personal Considerations

Family Members. The spouse and dependent children of a work permit holder are granted permits to reside in Fiji upon application. These permit holders are not permitted to engage in any form of employment.

Drivers' Permits. A holder of a valid driving license from most developed countries may drive legally in Fiji. However, a Fiji driver's license should be obtained no later than three months after arriving in Fiji. Generally, a Fiji driver's license is issued on presentation of a valid driver's license from most countries. If the expatriate does not have a valid foreign driving license, to obtain a local driver's license, one must take written and verbal tests on road codes, as well as a fairly simple practical driving test.

FINLAND

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A. Income Tax

Who Is Liable. Individuals resident in Finland are taxed on their worldwide income. However, salary earned abroad is exempt from tax in Finland if a Finnish resident works abroad continuously for at least six months and satisfies certain other requirements. Non-resident individuals are subject to income tax on income from Finnish sources only.

Domestic law treats an individual as resident if his or her permanent home is in Finland or if the stay in Finland exceeds six continuous months. After a Finnish citizen's residency has been established elsewhere, he or she is still considered to be resident in Finland until three years have passed from the end of the year when the individual left the country, unless he or she can establish that no essential connections with Finland have been maintained.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income is calculated separately for earned income and capital income (see *Capital Income*). Business income is divided between earned and capital income (see *Self-Employment and Business Income*).

Earned income is subject to national income tax, municipal income tax and church tax. Taxable earned income is generally computed in the same manner for each of these taxes, although the deductions and credits allowed for each tax differ slightly.

Earned income consists of salaries, wages, directors' fees and benefits in kind. Fringe benefits, including a company car, housing and lunch vouchers, are taxed on values set forth in an official table that are lower than the actual costs incurred. Scholarships from private institutions are exempt, up to €14,841.72 (2005 tax year).

Education allowances provided by employers to their local or expatriate employees' children 18 years of age and younger are taxable for income tax and social security purposes.

Under a special expatriate tax regime, qualifying expatriates may elect to be taxed on their salary income at a rate of 35% for a period of up to 24 months, instead of at the normal income tax rates.

Self-Employment and Business Income. Self-employment income of residents is considered as business income. Taxable business income is apportioned between capital income and earned income. The amount of capital income is determined using a 10% or 20% rate of return on investment and is taxed at the 28% rate applicable to capital income (see *Capital Income*). The remainder of taxable business income is taxed as earned income according to the progressive income tax scale (see *Rates*).

Taxable business income consists of profits shown in the statutory accounts required for self-employed individuals. Accounting profit and taxable profit are, in principle, the same, although the tax law prescribes a number of adjustments.

Investment Income. The imputation system for dividends has been abolished. For Finnish individuals, the taxation of dividend income depends on several factors. If the distributing company is a listed company, 70% of the dividend is taxable capital income. The balance is exempt from tax. Dividends from unlisted companies may be exempt from tax, taxed as capital income or taxed as earned income (similar to salary), depending on the net assets of the distributing company.

For residents, interest income on bank deposits and bonds is subject to a 28% final withholding tax in 2006. Certain government bonds are exempt from this tax.

Interest on housing loans, student loans and loans related to the deriving of taxable income is fully deductible from capital income. In general, 28% of the excess of interest expense over capital income is deductible from income taxes on earned income. However, this credit is limited to €1,400 for a single person and €2,800 for a couple. The maximum amount deductible is increased by €400 for one child and by €800 for two or more children.

For nonresidents, dividends and royalties are subject to a 28% final withholding tax, unless a tax treaty provides otherwise. In most cases, interest paid to nonresidents is tax exempt.

Taxation of Employer-Provided Stock Options. Stock options provided by an employer are not taxed at the time of grant. At the date of exercise, the difference between the fair market value of the stock and the exercise price of the option is treated as taxable employment income. Employee social security contributions are not payable on the benefits except for the health insurance contribution of 1.33%. Stock options are not subject to employer's social security contributions. The base for the employee contribution is generally the amount subject to withholding tax, which is the difference between the market value at exercise and the exercise price.

Any gain derived from the subsequent sale of the stock is taxed as a capital gain under the rules described in *Capital Gains and Losses*.

Capital Gains and Losses. Capital gains on shares and real estate are taxed as capital income at a rate of 28%. A taxable capital gain is computed by deducting from the disposal proceeds the greater of the acquisition cost plus the sales cost, or 20% of the proceeds (40% for property owned for at least 10 years before disposal). The value used for property received by gift or inheritance is generally the value used for purposes of the gift and inheritance tax (see *Other Taxes*). However, certain exceptions may apply.

A capital gain resulting from the sale of an apartment or house that the seller used as a primary residence for at least two years during the time of ownership is exempt from tax.

Capital losses are deductible only from capital gains derived in the year of the loss or in the three following years.

Deductions

Deductible Expenses. In general, a taxpayer may deduct all expenses directly incurred in generating or maintaining taxable income. However, separate deductions apply for earned income and capital income. See *Investment Income* for deductions applicable to capital income.

The following are the primary deductions applicable to earned income for 2006:
- Travel expenses that exceed €500 incurred between home and office, up to a maximum of €4,700;
- Payments to labor unions;
- A deduction from salary income, up to a maximum of €620;
- Expenses incurred in connection with earning income, to the extent they exceed €620; and
- Employee contributions for health insurance per diem, unemployment insurance and pension.

The rules regarding the deductibility of contributions paid by individuals to voluntary pension insurance were changed, effective from 1 January 2005. Under the new rules, contributions to voluntary pension insurance are generally deductible up to certain maximum limits from capital income.

Business Deductions. Expenses incurred to create or maintain business income are generally deductible. Exceptions apply to salaries paid to entrepreneurs, their spouses and their children under 14 years of age who work for their business, as well as to 50% of entertainment expenses.

Interest expenses relating to business or farming activities are deductible for business or farming income purposes in determining taxable income from these activities.

Rates. Income tax consists of national tax, municipal tax and church tax (payable if the individual is a member of a Finnish congregation).

National Income Tax. For 2006, national income tax is imposed on individual residents at the following progressive rates.

Taxable Income		Tax on Lower	Rate on
Exceeding €	Not Exceeding €	Amount €	Excess %
0	12,200	0	0
12,200	17,000	8	9
17,000	20,000	440	14
20,000	32,800	860	19.5
32,800	58,200	3,356	25
58,200	—	9,706	32.5

For a sample tax calculation, see Appendix 2.

Municipal Tax. For 2006, municipal tax is levied at a flat rate that ranges from 16% to 21% of taxable income, depending on the municipality.

Church Tax. For 2006, church tax is payable by members of certain churches at rates ranging from 1% to 2.25%.

Nonresidents. The rules regarding the taxation of nonresidents' income are changed, effective from 1 January 2006. Under the new rules, nonresidents' pension income is taxed in a similar manner to pension income received by residents; that is, they are subject to tax at the progressive rates.

Salaries, including directors' fees received by nonresidents are subject to final withholding tax at a rate of 35%, unless a tax treaty provides otherwise. Nonresidents may deduct €510 per month (or €17 per day) from salary. This standard deduction applies only if a Finnish tax at source card has been applied. The deduction does not apply to the directors' fees. In addition, if a nonresident resides in the European Economic Area (EEA) and if his or her earned income from Finland is at least 75% of his or her total worldwide earned income, he or she can apply for progressive taxation. If a nonresident is entitled to progressive taxation, his or her income is taxed under the Act on Assessment Procedure and he or she is entitled to claim all deductions provided in the Income Tax Act.

Remuneration paid to a nonresident artist or athlete for a personal performance is subject to withholding tax at a rate of 15%, unless a tax treaty provides otherwise. If artists and athletes are subject to the 15% tax, they may not claim the standard deduction of €510. However, they can apply for progressive taxation if the above mentioned conditions are satisfied.

Relief for Losses. A business loss is deductible from capital income. Any excess loss from a business may be carried forward for 10 years and offset against business income. Any loss from earned income may be carried forward for 10 years and offset against income from the same category.

B. Other Taxes

Net Wealth Tax. Net wealth tax is abolished, effective from 1 January 2006.

Inheritance and Gift Taxes. Inheritance and gift taxes are levied on inheritances, testamentary dispositions and gifts. All property owned by a person resident in Finland or received by a person resident in Finland is taxable. A tax credit is allowed for any estate tax paid abroad on the same inheritance or gift if the recipient is resident in Finland.

Beneficiaries are divided into the following categories:
- Spouses, children, grandchildren, parents and grandparents;
- Siblings and their children; and
- Other related and unrelated individuals.

Tax is levied on the taxable shares of beneficiaries in the first category above at the following rates for 2006.

Taxable Amount		Tax on Lower	Rate on
Exceeding €	Not Exceeding €	Amount €	Excess %
0	3,400	0	0
3,400	17,000	85	10
17,000	50,000	1,445	13
50,000	—	5,735	16

For individuals included in the second category, the tax imposed is twice the tax computed at the above rates. For other relatives and nonrelatives, the applicable tax is three times the tax computed at the above rates.

Inheritance and gifts from one person to the same beneficiary during a three-year period are aggregated to determine the amount of the tax due.

Finland has entered into an inheritance and gift tax treaty with Denmark, Iceland, Norway and Sweden, and inheritance tax treaties with France, the Netherlands, Switzerland and the United States.

C. Social Security

The rules regarding a social security tax are changed, effective from 1 January 2006. The social security tax is imposed on employers, employees and self-employed individuals. For employees and self-employed individuals in 2006, the social security contributions consist of a health insurance per diem premium and a health insurance premium. The per diem premium is 0.77 % of salary income (excluding certain items, such as employee stock options), and the health insurance premium is 1.33% of municipal taxable income. Pensioners pay an increased health care premium at a rate of 1.5%. In addition, for employees, a 4.3% compulsory pension insurance premium and a 0.58% unemployment insurance premium apply to earned income subject to withholding tax. The compulsory pension insurance premium is 5.4% for employees over 53 years of age.

For employers, social security taxes are levied as a percentage of gross wages and salaries subject to withholding tax. No ceiling applies to the amount of wages subject to social security taxes. The average total percentage of all contributions for private-sector employers in 2006 is approximately 21.5%, which consists of 2.958% to 6.058% for national pension and sickness premiums, 0.081% for group life insurance premiums, pension premiums that average 16.7%, 1% for average accident insurance premiums and 0.75% for unemployment insurance premiums (2.95% for salaries exceeding €840,940).

To provide relief from double social security taxes and to assure benefit coverage, Finland has entered into totalization agreements with the European Union (EU) countries, EEA countries, Canada, Israel, Quebec and the United States.

D. Tax Filing and Payment Procedures

Major changes are introduced to the tax filing procedure, effective from 1 January 2006.

The tax year in Finland is the calendar year. Married persons are taxed separately on all types of income. Pre-filled tax returns are sent to all individuals in April of the year following the tax year. The individuals must review the pre-filled tax return and submit any corrections to the tax authorities within the specified time limit.

The final tax is usually assessed at the end of October in the year after the tax year. If an insufficient amount is withheld, a supplementary advance tax payment can be made by the end of January to avoid interest on residual tax. If no action is taken, additional payments must be made in December of the year following the tax year and in February of the following year. Refunds of overpayments are made in December of the year following the tax year.

An employer must withhold tax from an employee's salary for national, municipal and church tax purposes. In addition, an employer must withhold social security contributions (see Section C). Self-employed individuals must make monthly tax payments, which are calculated and levied separately by the tax authorities.

Self-employed individuals receive their pre-filled tax returns in March of the year following the tax year, and they must submit their corrections to the tax authorities within the specified time limit. The tax authorities assess final tax at the end of October of the year following the tax year.

Nonresidents who are subject only to final withholding taxes do not need to file tax returns. However, if the nonresidents want to apply for progressive taxation, they must file a tax return (see Section A).

E. Double Tax Relief and Tax Treaties

Domestic legislation on residence is overridden by tax treaties. Most of Finland's treaties are based on the Organization for Economic Cooperation and Development (OECD) model. Most tax treaties eliminate double taxation using the credit method, but some use the exemption method. If no treaty is in force, Finnish law provides, under certain conditions, relief for foreign taxes paid, but only for purposes of national income taxes.

Finland has entered into double tax treaties with the following countries.

Argentina	Israel	Russian Federation
Australia	Italy	Singapore
Austria	Japan	Slovak Republic
Barbados	Korea	Slovenia
Belgium	Kyrgyzstan	South Africa
Brazil	Latvia	Spain
Bulgaria	Lithuania	Sri Lanka
Canada	Luxembourg	Sweden
China	Macedonia	Switzerland
Czech Republic	Malaysia	Tanzania
Denmark	Malta	Thailand
Egypt	Mexico	Turkey
Estonia	Morocco	Ukraine
France	Netherlands	United Arab Emirates
Germany	New Zealand	United Kingdom
Greece	Norway	United States
Hungary	Pakistan	Uzbekistan
Iceland	Philippines	Vietnam
India	Poland	Yugoslavia*
Indonesia	Portugal	Zambia
Ireland	Romania	

* Finland applies the Yugoslavia treaty with respect to Bosnia-Herzegovina, Croatia and Serbia and Montenegro.

F. Temporary Visas

EU and EEA Nationals. EU and EEA nationals may stay and work in Finland for up to three months without applying for residence permits.

Non-EU and non-EEA Nationals. Citizens from non-EU and non-EEA countries usually need a Schengen visa in order to enter Finland. However, under the Schengen treaty, nationals of approximately 50 countries do not need a Schengen visa to enter and stay in the Schengen zone for a combined maximum period of three months if they have a valid passport or other approved travel document, as well as sufficient funds for living and a return trip. The Schengen zone consists of the following countries: Austria; Belgium; Denmark; Finland; France; Germany; Greece; Iceland; Italy; Luxembourg; Netherlands; Norway; Portugal; Spain and Sweden.

G. Employee's Residence Permits and Self-Employment

Employee's Residence Permits. Under the Aliens' Act, an individual coming to work in Finland usually needs either a so-called employee's residence permit or an ordinary residence permit. Exceptions to this requirement may be granted based either on the employee's nationality or on the type of work performed in Finland.

EU and EEA nationals do not need employee's residence permits.

Under a temporary law, which is effective for two years beginning on 1 May 2004, Finland restricts the free movement of workers from the new EU member states, excluding Cyprus and Malta. However, the procedure for such workers is simplified and can be initiated after arrival in Finland. Nationals from the new EU member states do not need an employee's residence permit if, during the two-year transition period, they have a valid residence permit, which was originally granted for 12 months or more. In addition, the law does not restrict the free movement of services. Employee's residence permits are not required for nationals from new EU member states who are assigned to perform temporary contracting or subcontracting in Finland. It is expected that the transition period ending on 30 April 2006 will not be extended.

Non-EU and non-EEA nationals need either an employee's residence permit or an ordinary residence permit in order to work in Finland. Usually, an employee's residence permit is needed. The obtaining of the permit is a two-step process, which includes an opinion from the employment office before the Directorate of Immigration's final decision. If an employee performs, for example, expert duties in the middle or top management of the company or duties requiring special expertise, an employee needs only an ordinary residence permit. As a result, the employment office's opinion is not required.

The application must usually be submitted to the Finnish consulate or embassy in the applicant's home country before arrival in Finland. The first permit is generally granted for one year, but for no longer than the duration of the employment. Renewal of a residence permit may be obtained at the local police station in Finland.

Self-Employment. Private entrepreneurs who are nationals of non-EU and non-EEA countries must apply for a self-employed person's residence permit, following the same procedures as an employee. Self-employed persons must prove that they are entrepreneurs through a trade register excerpt or other proof of professional status.

Students. Students who are non-EU or non-EEA nationals are usually allowed to work part-time (up to a maximum of 20 hours per week) without employee's residence permits.

H. Ordinary Residence Permits

Nordic Country Nationals. Nationals from other Nordic countries do not need residence permits. If they want to take up residence in Finland, they must register with the population register.

EU and EEA Nationals. Nationals from EU and EEA countries do not need residence permits. However, EU and EEA nationals who stay in Finland for longer than three months must register their right to reside in Finland at the local police office.

Non-EU and Non-EEA Nationals. A non-EU and non-EEA national must apply for a residence permit at the Finnish embassy or consulate in the area where he or she was last domiciled or in his or her country of citizenship. The first residence permit is usually valid for one year and may be renewed by the local police on request. After a person has stayed in Finland for four years, he or she may apply for a permanent residence permit.

Students may usually obtain residence permits to study in Finland if the program is arranged by the Ministry of Foreign Affairs, the Ministry of Education or the university itself. An applicant must have grants, student loans or other financial aid.

I. Family and Personal Considerations

Family Members. Family members of residence permit holders, including children who are dependents or who are under 21 years of age and parents who are dependents of the primary applicant, may apply for residence permits as family members of the primary applicant. To apply, they must present passports or identity cards and certificates of the family relationship. The authorities may also require evidence of social security coverage and means of living.

Drivers' Permits. EU and EEA nationals may drive legally in Finland with their home country drivers' licenses as long as these licenses are valid in the home country. Finland has driver's license reciprocity with certain other European countries and with the United States. Nationals of these countries may use their home country drivers' licenses in Finland for the first 12 months of their residence.

A foreign national may apply for a local Finnish driver's license after residing in the country for a period of six months. The Finnish driver's license is then given without a test.

If foreign nationals do not apply within the first 18 months of their stays, the Finnish driver's license is not given automatically. After that time, they must take the Finnish driving test, which consists of written and physical tests and is considered quite demanding.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	—	X	—
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(a)
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(a)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	(b)
Capital gain from sale of stock in home country	X	—	(c)

(a) The value of housing, meals, and utilities provided by an employer is determined under a standard formula that results in a lesser taxable amount than the actual cost to the employer.
(b) Gain derived from the sale of a principal residence is not taxable to the individual if the property has been the individual's principal residence for at least two years during the period of ownership of the individual.
(c) Capital gains are taxed at a rate of 28%.

APPENDIX 2: SAMPLE TAX CALCULATION FOR 2006

A sample tax calculation for 2006 is set forth below. It is based on the following assumptions:

- The individual is under 53 years of age;
- The individual is married and has two children;
- The individual's annual income is €120,000;
- The municipal (Helsinki) tax rate is 17.5%;
- The individual has notified the tax authorities that he does not belong to a Finnish church; and
- The assignment will last three years.

The following is the tax calculation.

	€	€
Calculation of Taxable Income		
Taxable income		120,000
Salary deduction		(620)
Unemployment insurance premium		(696)
Pension insurance premium		(5,160)
Per diem premium		(924)
Taxable income		112,600

Calculation of Tax

National tax:		
Tax on €58,200	9,706	
Tax on €54,400 at 32.5%	17,680	27,386
€112,600		
Municipal tax at 17.5%		19,705
Sickness insurance premium at 1.33%		1,497.58
Per diem premium at 0.77%		924
Total tax		49,512.58

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A. Income Tax

Who Is Liable. Individual income taxation is based on residence. Taxpayers are categorized as residents or nonresidents. Treaty rules on tax residence override domestic rules.

Residents. Persons of French or foreign nationality are considered residents for tax purposes if their home, principal place of abode, professional activity or center of economic interest is located in France. As a resident, an individual is taxed on worldwide income, subject to applicable treaty exemptions.

Nonresidents. Persons not considered resident as defined above are taxed on French-source income only. Individuals resident outside France are taxed either on French-source income or at three times the rental value of real property in France available for their use, whichever is higher. Treaty provisions may eliminate the taxation on the rental value of real property owned by nonresidents.

New Expatriate Tax Law. A favorable new expatriate tax law, known as the Huyghe Reform, applies to employees seconded to France after 1 January 2004. The Huyghr Reform provides that under certain conditions, expatriates seconded to France after 1 January 2004 may not be taxed on compensation items relating to the assignment in France, such as a cost-of-living allowance, housing cost reimbursement and tax equalization payments. In addition, 20% of the compensation is excluded if the expatriate performs services outside of France for the French company. The exemptions are available until 31 December of the fifth year following the year of transfer to France. Administrative regulations on the new law, which were released in 2005, provide that the exemptions in the new law may not be combined with the benefits under the French headquarters rules (see *Expatriate French Headquarters and Distribution Center Employees*).

Expatriate French Headquarters and Distribution Center Employees. A foreign expatriate assigned to the French headquarters (HQ) of a multinational company may be eligible under a HQ ruling for tax relief for up to six years from the assignment date. The principal advantage of a HQ ruling is the elimination of tax-on-tax if the employer reimburses an expatriate for his or her excess foreign tax liability. This tax reimbursement is taxed only at the corporate rates and is not grossed up. With careful planning, exemption from personal income tax on many benefits and allowances may be obtained. The new Huyghe Reform (see *New Expatriate Tax Law*) is generally more favorable than the HQ rules and an election must be made as to which of the two regimes applies to the expatriates of a HQ.

See Appendix 1 for a table outlining the taxability of income items for local employees and expatriates under the general rules, the new Huyghe Reform and the HQ rules.

Taxable Income. Taxable income consists of annual disposable income from all sources. Income is identified based on its origin, and then allowances, deductions and treaty provisions are applied in calculating net taxable income subject to progressive tax rates.

Under the French tax code, income from investments or from the performance of a professional activity in France, as well as certain income paid by a French resident, is considered French-source income and is subject to the terms of an applicable tax treaty. The taxation of each category of income may be modified by an applicable treaty provision. For example, U.S. citizens are not taxed on U.S.-source passive income (however, see *Effective Rate Rule*).

Taxable Salary Income. The total of all compensation paid by an employer is considered taxable salary income and includes such items as the private-use portion of a company automobile, employer-paid meals and employer-paid education expenses for employees and their dependent children. Taxable compensation does not include the following items paid by employers: certain pension contributions, certain medical insurance premiums and, for resident foreigners and nonresidents, home-leave expenses, moving expenses and temporary housing expenses.

Self-Employment and Business Income. Self-employment income is divided into the following three categories, depending on the nature of the activities: commercial (includes trades), professional and agricultural.

Taxable income realized from each category is subject to the progressive tax rates that apply to resident individuals (see *Rates*). In addition, a self-employed individual is subject to a flat social tax (see *Flat Social Tax*).

Self-employed individuals involved in commercial activities are required to use the accrual method of accounting and must include in taxable income all receipts, advances, expense reimbursements and interest directly related to the activities. Long-term capital gains from disposals of a company's assets benefit from a special provision that provides for gains to be taxed at a rate of 16%, and at additional increased rates that now total 11% for the flat social tax, including a 2.3% tax surcharge, on passive income and capital gains.

Taxable income for professional activities is equal to the difference between receipts and expenses actually received or paid in the calendar year. This use of the cash-basis method of accounting (though optional) constitutes the principal difference between the taxation of commercial and professional activities. Detailed daily records must be maintained by self-employed persons. Long-term capital gains from disposals of assets used in professional activities are taxable at a rate of 16%, and at additional increased rates that now total 11% for the flat social tax.

Profits derived from agricultural cultivation and breeding constitute taxable income, which is determined by using the cash method of accounting. Because of the variability of farm income, special tax rules apply. In general, long-term gains from disposals of assets used in agricultural activities are taxable at a rate of 16%, and at additional increased rates that now total 11% for the flat social tax. However, specific rules apply in certain cases.

Directors' Fees. Under French internal law, directors' fees are treated as dividend income, but they do not benefit from the tax credit available on distributed income. Similarly, because directors' fees are not considered salary, the 10% and 20% standard deductions do not apply.

For French social security purposes only, directors' fees are subject to social security taxes and the flat social tax contributions (see *Social Tax*) if the recipient is either a president or both a general manager and a board member, and if the person holds an employment contract pertaining to this activity or is an appointed representative of the company.

Directors' fees paid to a nonresident are subject to a flat 25% withholding tax, unless a tax treaty provision reduces or eliminates the tax.

Investment Income. Interest and dividends are taxed at ordinary income rates. For a married couple, the first €3,050 of total French dividend income is exempt. The exempt amount is €1,525 for single individuals.

Net income derived from the rental of real estate and from royalty income (other than for industrial property) is taxed as ordinary income. Royalties from industrial property are taxed at a 16% rate plus the 11% flat social tax for a total of 27%.

Exempt Income. Exempt income includes the following:
• Certain profits from the sale of securities;
• Family allowance and health care reimbursements;
• Interest from qualified savings accounts and interest on which an optional tax has been paid, usually at a rate of 27%, 36% or 46%, depending on the type of interest; and
• Payments received pursuant to life insurance contracts (under certain conditions).

All income earned by a French resident working in foreign countries for an employer established in France is exempt if any of the following conditions are met:
• Under the Huyghe Reform (see *New Expatriate Tax Law*), if for more than 120 days during a 12-month period, the employee is engaged outside France in prospecting for new clients for the French company;
• The employee establishes that his or her salary is subject to a foreign income tax equal to at least two-thirds of the equivalent French tax; or
• For more than 183 days in a 12-month period, the employee is engaged in a foreign operation for the construction, engineering, or exploration or extraction of a natural resource.

Supplemental amounts, contractual bonuses or per diem earned for foreign duty by such residents may be exempt from tax under certain conditions, depending on the number of foreign workdays. This exemption is limited to 40% of the remuneration. Special exemptions and rules apply for small businesses engaged in commercial, professional and agricultural activities and in certain other circumstances.

Taxation of Employer-Provided Stock Options. The spread on stock options from nonqualified plans or on sales that occur outside the required holding period for qualified plans is subject to full ordinary income tax, flat social tax, and employee and employer social security contributions.

Stock option plans that qualify under French corporate law benefit from a favorable tax regime. Foreign plans may be amended to qualify under the French rules.

No taxes or social security contributions are levied at the time the option is granted. At the time of exercise, taxes and social security contributions are not levied unless the option exercise price is less than 95% of the average stock price over the 20 trading days preceding the grant date.

Gains derived from the sale of stock are not subject to tax in France, unless the gross proceeds from sales of stock during the calendar year exceed €15,000 for the 2005 tax year.

When stock acquired under a qualified plan is sold, the gains benefit from favorable tax treatment if both of the following requirements are met:

- The shares are kept in nominative form; and
- The employee holds the stock for at least five years after the grant date (four years for options granted on or after 27 April 2000).

If these requirements are met, the entire gain (that is, the sale price less the strike price) derived from the sale of stock acquired under options granted before 20 September 1995 is taxed at a flat rate of 27%, including the flat social tax (see *Flat Social Tax*). If the amount of the sale exceeds €15,000, gains derived from the sale of stock acquired under options granted after 20 September 1995 and before 27 April 2000 are taxed in accordance with the following rules:

- The difference between the fair market value of the stock at the exercise date and the strike price is subject to tax at a rate of 41% (including the flat social tax). However, the employee may elect to have this amount taxed as employment income if this treatment is more advantageous.
- The difference between the sale price of the stock and the fair market value of the stock at the date the option was exercised is taxed as a capital gain at a rate of 27% (including the flat social tax).

If the amount of the sale exceeds €15,000 (for 2005), gains derived from the sale of stock acquired under options granted after 20 September 1995 and on or after 27 April 2000 are taxed in accordance with the following rules:

- If the four-year holding period is met but the stock has not been held for at least two additional years, the spread (the difference between the fair market value of the stock at exercise and the strike price) is subject to tax at a 41% flat rate (including the flat social tax) on the amount of the spread up to €152,500, and at a 51% flat rate (including the flat social tax) on the excess; and
- If the four-year holding period and the additional two-year holding period is met (that is, at least six years have passed between

the grant date of the options and date of sale of the relating stock, including a stock holding period of at least two years), the spread is subject to tax at a 27% flat rate (including the flat social tax) on the amount of the spread up to €152,500, and at a 41% flat rate (including the flat social tax) on the excess.

To benefit from this treatment, the company and the employee must observe certain reporting formalities with respect to the exercise of the options and the sale of the stock.

If the stock is sold before the end of the applicable holding period, the difference between the fair market value of the stock at the date of the exercise and the strike price is taxable as employment income at progressive rates and is subject to the flat social tax. In addition, social security contributions are due on options exercised after 1 January 1997 except in specified situations.

Taxation of Restricted Stock Awards. Restricted stock awards are now subject to favorable tax and social security treatment. To qualify, the company's plan must meet specific rules. In addition, the law requires a minimum vesting period of two years from the date of grant plus an additional minimum holding period of two years for the shares received. If the vesting and holding period conditions are satisfied, income taxation is deferred until the date of the sale of the shares and no social security tax is imposed other than the flat social tax.

Taxable income equals the fair market value of the shares at the date of vesting and is subject to tax only at the date of sale at 41% (which includes income tax at a rate of 30% rate and the flat social tax at a rate of 11%). Alternatively, if more favorable, taxation consisting of the regular progressive rates and the flat social tax can be elected. Any additional capital gain resulting from the difference between the sale price and the fair market value at vesting is taxed at a rate of 27%, as is the case for stock options.

Capital Gains. Capital gains derived from the disposal of shareholdings and real estate are subject to tax in France.

Investments. Capital gains realized by a taxable household on the sale of listed or unlisted shares, bonds or related funds are taxed at a rate of 16%, and are subject to the flat social tax contributions (see *Flat Social Tax*), for a combined total tax rate of 27%, if the total proceeds during the year exceed €15,000.

If total proceeds do not exceed the threshold amount, the total gain is exempt from tax.

Special favorable rules and rates apply to stock option plans that qualify under French rules (see *Taxation of Employer-Provided Stock Options*) if the options are held for at least five years (or four years for options granted on or after 27 April 2000). If the holding period is not met, the stock options may be subject to ordinary income tax and to employer and employee social taxes. For gains derived from options granted before 20 September 1995, the combined capital gains tax and flat social tax rate is 27%. For gains derived from options granted after 20 September 1995, the combined tax rate is 27%, 41% or 51%. Special favorable rates also apply to restricted stock awards (see *Taxation of Restricted Stock Awards*).

Capital gains derived from sales of interests in money market and bond capitalization funds (a type of mutual fund) are taxable at a rate of 16%, and are subject to the flat social tax and the special social surtax, for a total tax rate of 27%.

Real Property and Shares in Real Estate Companies. Gains derived from the sale of real property are taxable at a rate of 16%, and are subject to the flat social tax and the special social surtax, for a total tax rate of 27%. Gains are reduced by 10% for each year exceeding five years that the property is held. The purchase price is increased to take into account purchase expenses and repairs.

A standard deduction of €1,000 applies to total taxable capital gains in computing the applicable tax.

Exemptions. Individuals may benefit from a total exemption for gains derived from the sale of a principal private residence.

Deductions and Credits

Deductible Expenses. Expenses incurred in earning or realizing income are generally deductible from that income, and credits may also be available. The following deductions and credits are specifically allowed:
- Taxpayers may either deduct 10% of net income limited to €13,093, plus 20% of the balance up to €24,020 for 2005 earnings, as an allowance for unreimbursed business expenses, without providing proof of expenditure, or elect to deduct actual expenses and provide a detailed listing (this 20% deduction for 2006 income is eliminated and integrated into the new rate tables (see *Rates*);
- Tax credits are granted for investment in specified historical or classified real estate, for investment incurred for rental purposes and for domestic employee expenses up to €5,000;
- Tax credits are granted, within certain limits, for charitable donations and for child-care expenses for children under seven years of age if both parents work or pursue studies at the university level;
- Amounts paid for alimony and child support (limited for children over 18 years of age) and for limited dependent parent support are deductible; and
- A tax credit is available for investments in the motion picture and fishing industries and for certain other investments.

Numerous other allowances and deductions may also be available.

Personal Deductions and Allowances. The family coefficient rules discussed in *Rates* are used in calculating tax at progressive rates and take into account the size and taxpaying capacity of the household.

Business Deductions. In general, deductible expenses for commercial, professional and agricultural activities are similar. They include the following items:
- The cost of materials and stock;
- General expenses of a business nature, including personnel expenses, certain taxes, rental and leasing expenses, finance charges and self-employed persons' social security taxes;
- Depreciation expenses (two methods are applicable, straight-line and declining-balance, over the normal life of the asset); and

- Provisions for losses and expenses if the accrual method of accounting is used.

Rates. French individual income tax is levied at progressive rates, with a maximum rate of 48.09% for the 2005 tax year, plus the flat social tax. This maximum income tax rate is reduced to 40% for 2006 income (but the flat social tax continues to be added to this rate except for qualifying expatriates). Family coefficient rules are used to combine the progressive tax rate with the tax-paying capacity of the household.

Family Coefficient System. Under the family coefficient system, the income brackets to which the tax rates apply are determined by dividing taxable income by the number of allowances available to an individual. The final tax liability is then calculated by multiplying the tax computed for one allowance by the number of allowances claimed. Available allowances are shown in the following table.

Family Composition	Allowances
Single individual	1
Married couple	
No children	2
1 child	2.5
2 children	3
Each additional dependent child	1

Limits are imposed on the tax savings resulting from the application of the family coefficient system. For example, for a married couple, for the 2005 tax year, the tax savings may not exceed €2,770 for each additional half allowance claimed.

The progressive tax rates take into account the family coefficient.

The tables below present the 2005 and 2006 income tax brackets and rates for individuals.

The following are the 2005 income tax rates.

Annual Taxable Income Exceeding €	Annual Taxable Income Not Exceeding €	Tax Rate %
0	4,412	0
4,412	8,677	6.83
8,677	15,274	19.14
15,274	24,731	28.26
24,731	40,241	37.38
40,241	49,624	42.62
49,624	—	48.09

The following are the 2006 income tax rates.

Annual Taxable Income Exceeding €	Annual Taxable Income Not Exceeding €	Tax Rate %
0	5,515	0
5,515	11,000	5.5
11,000	24,432	14
24,432	65,500	30
65,500	—	40

For a sample 2005 tax calculation, see Appendix 2.

Flat Social Tax. A flat social tax at a rate of 8% is imposed on 97% of gross salary, including benefits in kind and bonuses, passive income and capital gains. The flat social tax on passive income and capital gains is increased by a surcharge for a total rate of 11% and applies to all individuals. The tax administration characterizes the flat social tax as an income tax for domestic purposes. However, for totalization agreement purposes, it characterizes the tax as a social tax, which is not payable on compensation income for qualifying expatriates.

This flat social tax comprises a social contribution (CSG), a deficit-reduction tax (CRDS) and a surcharge for passive income. CSG and CRDS are imposed on all tax residents and are in addition to the social security taxes described in Section C. Only 5.1% of the CSG contribution on gross salary is deductible for French income tax purposes.

European Union (EU) individuals seconded to France who remain under their home country social security rules (under the provisions of European regulation 1408/71) are no longer subject to CSG or CRDS on their compensation income. The French tax authorities have extended this decision to non-EU expatriates covered by totalization agreements entered into by France with the countries of the expatriates, as required by treaty rules and as a result of a European Court of Justice decision. This flat social tax exemption on compensation income does not apply to taxable passive income, including taxable capital gains.

Nonresidents. Nonresidents are subject to a withholding tax on French-source compensation, after the deduction of social tax and the 10% standard deduction.

Withholding rates applicable to net French-source compensation received by nonresidents in 2006 are set forth in the following table.

Annual Taxable Income Exceeding €	Annual Taxable Income Not Exceeding €	Withholding Rate %
0	13,170*	0
13,170	38,214*	12
38,214	—	20

* Tax brackets are prorated according to the time actually worked in France.

If a taxpayer is a national of a country with which France has concluded a double tax treaty, the withholding tax discharges the individual's tax liability to the extent that the taxable amount does not exceed the 12% income bracket. Excess taxable income subject to the 20% bracket must be reported on the annual nonresident tax return and is subject to progressive tax rates. The 20% withholding then constitutes a tax credit against the tax liability. The excess tax credit is not refundable.

A nonresident's tax liability may not be less than 20% of net taxable income. However, if a nonresident can prove that the effective rate of tax computed on worldwide income according to French tax rules is less than 20%, the progressive income tax rates apply without limitation.

Effective Rate Rule (Exemption with Progression). If an individual has income exempt from tax under treaty provisions, the effective rate rule generally applies. Under this rule, hypothetical tax is calculated on worldwide income using the progressive rates and other French tax rules. Total income tax is then divided by worldwide income to yield the effective percentage rate, which is then applied to income taxable in France to determine total tax payable in France.

Relief for Losses. French taxable income is determined for each category of revenue. Expenses incurred in creating income are deductible from the income produced. The following are deductible losses:

- Certain rental losses not due to interest payments, up to €10,700 per family; and
- Certain professional losses.

The general principle is that losses from one category of income may offset profit from other categories and may be carried forward for five years. However, this principle is subject to limitations. Certain losses may be offset only against income from the same category. These include capital losses on quoted stocks and bonds.

Capital losses from the disposal of real estate are final losses and may not be carried forward to offset future capital gains from real estate.

B. Other Taxes

Wealth Tax. A wealth tax is levied on individuals with total net wealth exceeding €750,000. The rates for 2006 are set forth in the following table.

Taxable Wealth		
Exceeding €	Not Exceeding €	Rate %
0	750,000	0.00
750,000	1,200,000	0.55
1,200,000	2,380,000	0.75
2,380,000	3,730,000	1.00
3,730,000	7,140,000	1.30
7,140,000	15,530,000	1.65
15,530,000	—	1.80

Under certain conditions, taxable wealth does not include business assets and works of art. Certain tax treaties, including the treaties with Canada and the United States, may exempt expatriates from the wealth tax for a limited number of years.

For taxes paid after 1 January 2006, to limit the maximum taxes payable by an individual, the combined amount of income tax, net wealth tax, property tax and dwelling tax may not exceed 60% of income for the preceding year.

Inheritance and Gift Taxes. If a decedent or donor was resident in France, tax is payable on gifts and inheritances of worldwide net assets, unless otherwise provided by an applicable tax treaty. For nonresident decedents or donors, only gifts and inheritances of French assets are taxable, provided the beneficiary is also a nonresident of France.

The applicable inheritance tax rates vary, depending on the recipient's relationship to the deceased or donor. A general allowance of €50,000 applies to inheritances received by the spouse and the children, by the ascendants and the spouse or by the spouse only. Spouses benefit from a personal allowance of €76,000. The allowance for parents and children is €50,000. The excess is taxed at rates ranging from 5% to 40%. Surviving brothers and sisters may each claim a personal allowance of €57,000 if specific conditions are met, and are taxed at a rate of 35% on inheritances of up to €23,000 and at a rate of 45% on the excess. Other close relatives are taxed at a rate of 55% on the excess over €1,500, and other persons at a rate of 60% on the excess over €1,500. The rates of gift taxes are generally the same as those for inheritance taxes. However, a 50% tax reduction may apply to gifts under certain conditions, and a split of ownership may result in substantial inheritance tax savings.

The following items are exempt from inheritance tax:
- Works of art if offered to the state.
- Life insurance contracted by the deceased (subject to certain age conditions). This exemption is limited to €152,500 for each designated beneficiary.
- Assets passing to a surviving spouse under the terms of "the universal community" (see Section H).

To provide relief from double inheritance taxes, France has entered into estate tax treaties with the following countries.

Algeria	Guinea	St. Pierre and Miquelon
Austria	Italy	Saudi Arabia
Bahrain	Kuwait	Senegal
Belgium	Lebanon	Spain
Benin	Mali	Sweden
Burkina Faso	Mauritania	Switzerland
Cameroon	Mayotte	Togo
Central African Republic	Monaco	Tunisia
Congo	Morocco	United Arab Emirates
Côte d'Ivoire	New Caledonia	United Kingdom
Finland	Niger	United States
Gabon	Oman	
	Qatar	

C. Social Security

Contributions. An individual's social security taxes are withheld monthly by the employer. French social security tax contributions are due on compensation, including bonuses and benefits in kind, earned from performing an activity in France even if paid from a foreign country. However, this rule may be modified by a social security totalization agreement. The total charge for 2006 is approximately 15% to 18% (depending on retirement fund contributions) of gross salary for employees, and 35% to 45% for employers.

Some of the contributions are levied on wages, up to ceilings of €2,589, €10,356 or €20,712 per month. However, the sickness contribution (employee's share, 0.75%; employer's share, 13.1%), the pension contribution (employee's share, 0.1%; employer's share, 1.6%) and the family allowance contribution (employer's share, 5.4%), and the housing aid, old-age, work accident and transportation contributions (employer's share, approximately, 6%) are levied on the employees' total remuneration.

Social security taxes are independent from CSG and CRDS contributions (see *Section A*).

Benefits. The following benefits are available to an individual subject to the French social security system:
• Daily compensation in the event of interruption of professional activity;
• Full retirement pension;
• Family allowance (exempt from income tax);
• Full professional accident coverage; and
• Partial or total medical expense reimbursement.

Totalization Agreements. The provisions of the French social tax code apply if work is performed on a regular basis in France, regardless of an employer's place of residence or the source of payment. Nationality often determines if social security contributions are required, particularly for citizens of EU countries. A French citizen or resident on foreign assignment may continue to contribute to the French social security system for a limited period under certain conditions.

To provide relief from double social security taxes and to assure benefit coverage, France has entered into totalization agreements with the jurisdictions listed below. Agreements with EU countries usually apply for one year and are renewable only once. Agreements with other countries apply for one to five years and may be renewable.

EU countries	Guernsey	Quebec
Algeria	Isle of Man	Romania
Andorra	Israel	St. Martin
Benin	Jersey	Senegal
Cameroon	Madagascar	Switzerland
Canada	Mali	Togo
Cape Verde	Mauritania	Tunisia
Chile	Monaco	Turkey
Congo	Morocco	United States
Côte d'Ivoire	Niger	Yugoslavia (former)*
French Polynesia	Philippines	
Gabon		

* Applicable to Bosnia-Herzegovina, Croatia, Macedonia and Slovenia.

Totalization agreements with Japan and South Korea have been signed but are not yet effective. They are awaiting the completion of the parliamentary ratification process and are expected to take effect in 2006. Negotiations for treaties with Australia are being completed, and negotiations are beginning for treaties with China and India.

D. Tax Filing and Payment Procedures

Filing. French residents are required to file general income tax returns (Form 2042) by 31 May 2006 (for the 2005 fiscal year), declaring their net income and charges incurred during the preceding calendar year. The official deadline for filing is the end of February following the close of the calendar year, but this deadline is normally extended to different dates each year depending on the circumstances. A married couple must file a joint return for all types of income and report their dependent children's income, if any.

Details of certain income items, such as capital gains, real estate income and income received abroad that is taxable in France, are reported on separate returns attached to Form 2042.

Payment. Tax liability is deferred up to 21 months (unless withholding is elected) and is calculated by the tax administration based on the information shown on the tax return filed in the year following the year of earning of the income. A taxpayer must make partial tax payments equal to one-third of the previous year's liability on 15 February and 15 May. The balance of the liability assessed is generally payable by 15 September. A taxpayer may elect to make monthly payments equal to one-tenth of the income tax of the preceding year, with the balance payable at the end of the year.

A penalty of 10% of tax due is imposed for either a failure to file or a failure to pay by the due date. Other interest and penalties may also be assessed, generally at an annual rate of 4.8%, or at a monthly rate of 0.4%.

Nonresidents. The filing date for the annual nonresident tax return is between 30 April and 30 June, depending on the individual's country of residence and extensions, which are sometimes granted.

A nonresident with income taxable in France is not required to report that portion subject to final withholding tax on a nonresident tax return. This includes salary income taxed at a 0% or 15% rate, dividends and interest. Dividends are subject to a 25% withholding tax, and interest is taxed at rates ranging from 0% to 35%. Tax treaties may modify these rates. Rental income and the portion of salary taxed at a 25% rate must be included on a nonresident return. Few deductions are allowed in calculating a nonresident's taxable income. The tax on the taxable income shown on the return is then calculated using the progressive rates and the family coefficient system. The tax payable is reduced by withholding prepayments, including the 20% withholding on salary.

E. Double Tax Relief and Tax Treaties

If a double tax treaty does not apply, residents are generally allowed to deduct foreign taxes paid as an expense.

France has signed numerous double tax treaties. In general, a foreign tax credit is not available, except for taxes withheld on dividends, interest and royalties covered by any tax treaty. Other income earned by a resident that is taxable in a treaty country is exempt from French tax, but is included in determining the effective tax rate (see Section A).

France has entered into double tax treaties with the following countries.

Albania
Algeria
Argentina
Armenia
Australia
Austria
Azerbaijan
Bahrain
Bangladesh
Belgium
Benin
Bolivia
Botswana
Brazil
Bulgaria
Burkina Faso
Cameroon
Canada
Central African Republic
China
Commonwealth of Independent States (CIS)
Comores
Congo
Côte d'Ivoire
Croatia
Cyprus
Czech Republic
Denmark
Ecuador
Egypt
Estonia
Finland
French Polynesia
Gabon
Germany
Ghana
Greece
Guinea
Hungary
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kazakhstan
Korea (South)
Kuwait
Latvia
Lebanon
Lithuania
Luxembourg
Madagascar
Malawi
Malaysia
Mali
Malta
Mauritania
Mauritius
Mayotte
Mexico
Monaco
Mongolia
Morocco
Namibia
Netherlands
New Caledonia
New Zealand
Niger
Nigeria
Norway
Oman
Pakistan
Philippines
Poland
Portugal
Qatar
Quebec
Romania
Russian Federation
St. Pierre and Miquelon
Saudi Arabia
Senegal
Singapore
Slovak Republic
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Thailand
Togo
Trinidad and Tobago
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Venezuela
Vietnam
Yugoslavia*
Zambia
Zimbabwe

* France honors the Yugoslavia treaty with respect to Bosnia-Herzegovina, Macedonia and Slovenia, but not with respect to the Union of Serbia and Montenegro.

F. Work Permits

EU Nationals. Nationals of the EU, European Economic Area (EEA) and Switzerland are not required to hold work or residence permits. However, for individuals who want to engage in an economic activity in France, a residence permit is issued on written request to the competent police authorities. Nationals of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia must hold work and residence permits during a transition period of five to seven years.

Non-EU Nationals. French labor law regarding the employment of non-EU nationals requires the following of formal procedures. The French authorities closely monitor the issuance of work permits.

***Détaché* Status.** Individuals sent to France by companies located outside France may obtain *détaché* status. This status is available to those assigned to France for a limited time period (maximum 18 months) by their non-French employer in order to perform an activity under its reporting line, such as the providing of technical assistance or the performing of reporting functions. The individuals may not participate in the activity of a French company and must remain on the payroll of their non-French employer.

Citizens of countries that have signed totalization agreements with France (see Section C) may continue to be affiliated with the social security scheme of their home country for as long as the totalization agreement applies, for example, up to five years under the agreement between France and the United States.

Employees with *détaché* status receive a temporary work permit (*autorisation provisoire de travail*), which is valid for nine months and a temporary residence permit (*carte de séjour temporaire*), which is valid for the same period. Both may be renewed.

Permanent Status. Foreign nationals may be hired by French companies under the classification of executive (*cadre supérieur*). To qualify for this status, an individual must possess specialized knowledge that justifies the hiring of a non-French national for the position and must receive a minimum monthly salary of €3,900 (adjusted annually for inflation). The foreign national must be shown on the payroll of the French company for the issuance of French pay slips and is subject to French labor law, unless modified by the employment agreement under certain circumstances. The French company must prove it has researched the French employment market and was not in a position to hire a French national for the given position. The rules are relaxed for senior executives transferring within international companies and paid a minimum monthly salary of €5,000.

The temporary residence permit held by these individuals is marked *salarié*; consequently, it also serves as a work permit. The *carte de séjour* is valid for one year and is renewable for additional one-year periods.

Before a non-EU national employee's arrival in France, the work permit application is processed by the French Immigration and Labor Departments.

After the application is approved, the employee is notified by the French consulate nearest his or her residence abroad, where the employee may obtain a long-term visa with multiple-entry rights. On arrival in France, the employee undergoes a simplified medical examination and delivers certain required documentation to the prefecture in the employee's residential area for issuance of the residence permit.

The normal time for processing work permit applications is six to eight weeks from the date when all required documents are completed and filed with the administrative authorities. The processing time is one month for senior executives transferring within international companies.

Self-Employment and Top Managers of Companies. Since March 2004, the procedure for foreign nationals who want to be appointed chief-executive officers or general managers of French companies or engage in a commercial activity has been simplified. The requirement under the prior rules to obtain a Foreign Trader Identity Card has been replaced by the need to obtain a preliminary prefectoral authorization. The normal time for processing preliminary prefectoral authorizations is currently 2 to 3 months.

The following categories of individuals are not required to obtain a preliminary prefectoral authorization:
- Holders of a resident card;
- Nationals of the EU and EEA; and
- Nationals of other member states of the Organization for Economic Cooperation and Development (OECD), which are Australia, Canada, Japan, Korea, Mexico, New Zealand, Switzerland, Turkey and the United States.

Regardless of whether a preliminary prefectoral authorization must be obtained, individuals who wish to reside in France must complete formalities to obtain a long-term visa and a Trader residence permit, which allow them to be registered on the Companies and Businesses Registry.

G. Permanent Residence Permits

After five consecutive years of residence in France and of payment of French income tax and social security contributions, the holder of a residence permit may apply for a permanent resident card (*carte de résident*), which is valid for 10 years and is renewable. The competent police authorities have substantial discretion with respect to the approval of a permanent resident card, which allows individuals to work for any employer in France and exempts them from the preliminary prefectoral authorization requirements (see Section F).

H. Family and Personal Considerations

Family Members. Non-EU national spouses and dependent children over the age of 18 who accompany EU nationals to France may obtain *cartes de séjour union européenne*. They are granted the same right to work as the EU national.

Non-EU national spouses and dependent children over the age of 18 who accompany non-EU nationals to France must obtain a residence permit relating to their personal status (visitor or student).

Marital Property Regime. In the absence of a marriage contract, the default marital property regime in France is community property. For spouses married in France without a specific contract, all property is community property (including income derived from separately acquired property, but excluding gifts and inheritances and assets owned before the marriage). Spouses may elect a different marital regime (for example, separate ownership) by prenuptial agreement or, during the marriage, by a court-approved notarial deed.

A specific regime called "the universal community" may result in substantial inheritance tax savings, because any transfer to the surviving spouse can be exempted from tax.

Forced Heirship. A person may not give away a certain portion (called the *réserve*) of his or her property by either *inter vivos* or testamentary transfer. The reserved portion is one-half of the property for a person with one child and a spouse, two-thirds of the property for a person with two children and a spouse, and three-fourths of the property for a person with three or more children and a spouse. This measure may apply to nonresidents who own property located in France.

Drivers' Permits. Holders of foreign drivers' licenses must apply to exchange them for French drivers' licenses before the end of the first year of permanent residence in France. An exchange is authorized automatically for licenses issued by certain countries or certain states in a country. For example, with respect to the United States, automatic exchange is authorized for the following states: Connecticut; Colorado; Delaware; Florida; Illinois; Kansas; Kentucky; Michigan; New Hampshire; Ohio; Pennsylvania; South Carolina; and Virginia.

Individuals with drivers' licenses from other states must take the French drivers' license test, which consists of a written examination and a practical driving test.

Since July 1997, holders of drivers' licenses from EU member states are not required to exchange them for French licenses.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	General Rules Taxable		Huyghe Reform (h) Taxable		HQ Rules (h) Taxable	
	Yes*	**No**	**Yes***	**No**	**Yes***	**No**
Compensation						
Base pay	X	—	X	—	X	—
Employee contributions to home country benefit plan	—	(a)	—	(a)	—	(a)
Retained hypothetical tax	(X)	—	(X)	—	(X)	—
International service premium	X	(b)	—	X	—	(b)
Cost-of-living allowance	X	—	—	X	X	—
Contributions to profit-sharing plan	—	(c)	—	(c)	—	(c)
Salary allowances and bonuses	X	—	X	—	X	—
Relocation bonus	X	—	—	X	X	—
Production bonus	X	(d)	X	(d)	X	(d)
Employee income tax reimbursement	X	—	—	X	—	(e)
Employee social security tax reimbursement	X	—	—	X	—	(e)
Employee other tax reimbursements	X	—	—	X	X	—

	General Rules Taxable		Huyghe Reform (h) Taxable		HQ Rules (h) Taxable	
	Yes*	No	Yes*	No	Yes*	No
Contributions to retirement plan	—	(a)	—	(a)	—	(a)
Company-paid FICA taxes, medical insurance and other insurance	—	(a)	—	(a)	—	(a)
Business expenses for travel, hotels and restaurants	—	X	—	X	—	X
Expenses for travel and hotel for house-hunting when transferring	—	X	—	X	—	X
Per-diem allowance paid on arrival or departure	—	X	—	X	—	X
Housing reimbursement	X	(f)	—	X	—	(e)
Housing contribution	(X)	—	(X)	—	(X)	—
Hotel paid on arrival or departure (short period)	—	(g)	—	X	—	X
Justified temporary living expenses (actual cost)	—	X	—	X	—	X
Moving costs of household goods	—	(g)	—	X	—	X
Moving cost of family	—	(g)	—	X	—	X
Relocation allowance	X	—	—	X	X	—
Travel prior to moving	—	X	—	X	—	X
Home leaving and vacation travel reimbursement per year	—	X	—	X	—	(e)
Vacation salary paid	X	—	X	—	X	—
Education for expatriate (professional)	—	X	—	X	—	X
Reimbursement for education of family dependants (school fees)	—	X	—	X	—	(e)

	General Rules Taxable		Huyghe Reform (h) Taxable		HQ Rules (h) Taxable	
	Yes*	No	Yes*	No	Yes*	No
Language lessons for expatriate (professional)	—	X	—	X	—	X
Language lessons for spouse	—	X	—	X	—	X
Furniture paid or provided	X	—	—	X	X	—
Storage of furniture paid or reimbursed	—	X	—	X	—	X
House protection reimbursement	X	—	—	X	X	—
Car leased or reimbursed for business	—	X	—	X	—	X
Personal automobile provided	X	—	—	X	X	—
Reimbursement for loss from sale of car	X	—	—	X	X	—
Car expenses reimbursement	X	—	—	X	X	—
Sundry fees reimbursements	X	—	—	X	X	—
Payments in kind	X	—	X	—	X	—

* Bracketed amounts reduce taxable income.

(a) All compulsory contributions paid by U.S. employers to retirement plans and company-paid FICA taxes, medical insurance and other insurance (for example, life and disability) qualified under the U.S. Internal Revenue Code are nontaxable.

(b) If properly structured, this amount can be exempt from tax under French domestic law.

(c) U.S. employee contributions paid by the employer to profit-sharing plans qualified under the U.S. Internal Revenue Code (IRC) can be taxable to the employee if, and to the extent that, the payments are considered taxable income under the IRC.

(d) A bonus paid in France to a U.S. citizen for an activity previously performed in the United States is generally not taxable in France.

(e) Reimbursements for home leave, education, housing costs and excess tax are not taxable to the expatriate. However, an employer with HQ status must pay corporate tax on such amounts. This eliminates any individual tax-on-tax effect of such reimbursements.

(f) If housing is provided by the employer in kind (either leased or owned by the employer), the amount taxable is calculated at a lower amount based upon the cadastral value used for dwelling tax. However, this tax-planning alternative does not apply to general managers and directors.

(g) Reimbursements for moving expenses, such as payments for the removal of furniture and hotel expenses, on arrival and departure, are not taxable if the expenses are incurred for the purposes of the job and not for personal reasons. Payment of a fixed amount, such as one month's salary, to cover moving expenses of a personal nature is taxable.

(h) Under the Huyghe Reform, for expatriates seconded to France on or after 1 January 2004, the amounts related to the assignment may be exempt from income tax for the year of assignment to France and the following five years, if certain conditions are satisfied. Regulations on this new law state that the exemptions under the Huyghe Reform may not be combined with the benefits under the rules applicable to expatriates of a HQ. However, the Huyghe Reform can be elected to apply and is generally more favorable than the HQ rules. For details regarding the Huyghe Reform and the rules applicable to expatriates of a HQ, see Section A.

APPENDIX 2: SAMPLE 2005 INCOME TAX CALCULATION

The following is a sample tax calculation for a local employee living in France during 2005, who is married with two children.

	€
Salary	120,000
Deductible French social security contribution	(24,000)
Adjusted gross income	96,000
Standard deduction (96,000 x 10%)	(9,600)
Second standard deduction (86,400 x 20%)	(17,280)
Taxable income	69,120
Income tax	11,483*

* To obtain the net income tax, the following adjustments must be made:
- Tax credits, if any, must be deducted;
- Tax on capital gains taxable at a flat rate, if any, must be added; and
- The flat social tax must be added.

In this example, the effective income tax rate is 9.6%.

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A. Income Tax

Who Is Liable. Residents are taxed on worldwide income. Nonresidents are taxed on Georgian-source income only.

For tax purposes, individuals are considered resident if they are present in Georgia for more than 183 cumulative days for any period of 12 consecutive months ending in the calendar year. The status of resident or nonresident is determined for each tax year. Days that were taken into account in determining that an individual was resident in Georgia in the preceding tax year are not taken into account in determining residency in the current year.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income from employment consists of all compensation, whether received in cash or in kind, subject to certain minor exceptions.

Self-Employment and Business Income. Tax is levied on an individual entrepreneur's annual income, which consists of gross income less expenses incurred in earning the income.

Directors' Fees. Director's fees are included in taxable income.

Investment Income. Dividends and interest are included in taxable income if they were not taxed at source in Georgia.

Other Income. Inheritances and gifts received are generally included in taxable income. However, certain exceptions apply (see *Exempt Income*).

Exempt Income. The following types of income derived by individuals are exempt from income tax:
- Income derived by nonresidents from employment with diplomatic or equalized organizations (equalized organizations are international organizations approved by the Ministry of Finance that are entitled to special benefits under international agreements) located in Georgia;
- Grants, state pensions; cumulative and repayable pensions from non-state pension schemes, state scholarships and educational assistance and other specified government payments, such as prizes for athletes and their trainers representing Georgia in certain international events;
- Alimony and property received as the result of a divorce;
- Capital gains derived from the sale of tangible assets that were held for more than two years, with the exception of capital

gains derived from the sale of assets used for an individual's entrepreneurial activity;
- Property received a I or II level legatee by gift or by inheritance (the number of the level of legatee increases as the relationship becomes more distant; for example, children, a spouse and parents are I level legatees, while uncles and aunts are IV level legatees);
- Property received by a III and IV level legatee, up to GEL 150,000, by gift or by inheritance during a tax year;
- Gifts up to GEL 1,000 during a tax year;
- Amounts paid to a donor for food as compensation for his or her blood; and
- Income of entrepreneurs who do not use hired labor and independently carry out certain activities listed in the Classifier of the Economic Activities of the European Union (NACE).

Taxation of Employer-Provided Stock Options. Employer-provided stock options are a taxable benefit.

Capital Gains and Losses. In general, capital gains derived from the sale of tangible assets held for more than two years are exempt from tax in Georgia. However, gains derived from the sale of assets used for entrepreneurial activities are taxable.

Capital losses on assets that are not subject to group depreciation under the Tax Code and that are used in entrepreneurial activities may be carried forward up to five years and offset against gains on sales of such assets. These assets include buildings, land, fine art and certain other assets.

Deductions

Personal Deductions and Allowances. The new Tax Code does not allow deductions from gross salary.

Business Deductions. Deductible business expenses include the following: expenditure for materials; depreciation deductions; lease payments; wages; state social security tax; payments of interest; and expenses for repairs of capital production assets, to the extent that the repair expenses do not exceed 5% of the balance value of the asset group at the end of the year.

An individual may claim a deduction for doubtful debts related to goods, work and services, the income from which was previously included in gross income from entrepreneurial activities.

Insurance premiums paid by insured parties under insurance agreements are deductible, with the exception of premiums for insurance of a cumulative and repayable nature.

Expenditure on tangible and intangible assets may be depreciated or amortized at the rates specified in the Tax Code.

Representative expenses and charitable contributions up to a certain limit may be deducted.

Expenses of capital nature, as well as expenses not related to an economic activity may not be deducted.

Rates. Personal income tax is imposed at a flat rate of 12%.

For a sample tax calculation, see Appendix 2.

Credits. A foreign tax credit may be claimed (see Section E).

Relief for Losses. Individual entrepreneurs may carry forward operating losses for up to five years.

B. Other Taxes

Inheritance and Gift Taxes. The inheritance and gift taxes were abolished when the new Tax Code took effect. As mentioned in Section A, inheritances and gifts are generally included in taxable income.

Wealth Tax. Georgia does not impose wealth tax or net worth tax.

Property Tax. Georgia imposes an annual property tax on immovable property (buildings and structures or their parts), land and motor vehicles. The rate is 1% for immovable property and vehicles used for economic purposes. The property tax rates for assets not used for economic activities are described below.

The property tax rates for immovable property not used for economic activities, except for land, vary according to the revenues earned during the tax year by the family owning the property. The rates are applied to the market value of the property. The following are the rates:

Annual Revenues		Property Tax
Exceeding GEL	Not Exceeding GEL	Rate %
40,000	60,000	0.05 to 0.2
60,000	100,000	0.2 to 0.4
100,000	—	0.4 to 0.8

The property tax rates for agricultural land vary according to the administrative unit and the land quality. The maximum rate for nonagricultural land is GEL 0.24 per square meter.

The property tax amounts for passenger cars registered in Georgia in accordance with the established procedures vary according to the engine capacity and age of the car. The rates range from GEL 5 to GEL 300. The GEL 300 tax applies to passenger automobiles that are less than 1 year old and have an engine capacity of more than 3,000 cubic centimeters.

The property tax amounts for motor boats, planes and helicopters range from GEL 2 to GEL 7. The amounts vary according to the type of vehicle and the engine capacity.

C. Social Insurance

Contributions. Employers, including individual entrepreneurs, must pay social insurance taxes at a rate of 20% of employees' gross salary.

Totalization Agreements. Georgia is not party to any international agreements regarding contributions to social funds.

D. Tax Filing and Payment Procedures

The tax year in Georgia is the calendar year.

Employers in Georgia (Georgian entities, joint ventures and foreign representative offices) must withhold tax from the salaries of resident and nonresident employees paid in Georgia. Withholding is required regardless of whether payments are made in Georgian lari or in foreign currency.

The following individuals must file tax returns by 1 April of the year following the tax year:

- Resident and nonresident individuals who derived Georgian-source income that was not taxed at the source of payment;
- Resident individuals who hold monetary resources in accounts with foreign banks; and
- Resident individuals whose revenues during the calendar year exceeded GEL 35,000.

Individuals engaged in economic activities in Georgia must pay estimated tax payments during the tax year. Each estimated tax payment is equal to 25% of the tax liability for the preceding tax year. The payments are due on 15 May, 15 July, 15 September and 15 December of the current tax year.

The final tax due for the year is determined from the annual tax return after it is filed with the tax authorities.

Individuals must file a final tax return within 30 days following the cessation of activities in Georgia.

E. Double Tax Relief and Tax Treaties

Foreign taxes may be credited against Georgian tax, but the credit may not exceed the amount of Georgian tax payable on the same income. To obtain relief, the taxpayer must present the appropriate form from the tax authorities of the foreign state verifying that tax has been paid in that country.

Georgia has entered into tax treaties with Armenia, Azerbaijan, Belgium, Bulgaria, France, Germany, Greece, Iran, Italy, Kazakhstan, the Netherlands, Poland, Romania, Russian Federation, Turkmenistan, Ukraine, Uzbekistan and the United Kingdom.

Most of Georgia's tax treaties exempt individuals from taxation in Georgia if all of the following conditions are satisfied:

- The individual is present in Georgia for less than 183 days in any period of 12 consecutive months;
- The income is paid to the individual by or on behalf of an employer who is not a resident of Georgia; and
- The cost of the income is not borne by a permanent establishment of the employer in Georgia.

F. Temporary Visas

Citizens of countries that are not members of the Commonwealth of Independent States (CIS), except Bulgaria, must have Georgian visas to enter and leave Georgia. Visas are also required for Russian nationals.

A single-entry visa valid for a maximum period of two weeks may be obtained by a visitor on arrival at Tbilisi Airport. A visa applicant must present a valid passport, two passport-size photographs, a completed application (form available at the visa department at the airport) and the applicable consulate fee. A foreign national who obtains a visa at the airport and wishes to have it extended or to obtain a multiple-entry visa must apply to the Consulate Department of the Ministry of Foreign Affairs of Georgia.

Foreign nationals of countries where Georgia has consulates may also obtain their visas from these consulates. For a single-entry visa, applicants must present a letter of invitation, a completed application (available at the consulate), two passport-size photographs, a passport and the applicable fee. For a multiple-entry visa, applicants may be requested to present additional documents including the registration documents of their employer and their employment contract.

G. Work Permits

Work permits are not currently required for foreign nationals employed in Georgia. However, the Ministry of Labor is in the process of drafting new legislation governing the employment of foreign nationals in Georgia.

H. Residence Permits

Foreign nationals who reside in Georgia for more than three months must register their foreign passports with the relevant local body carrying out state registration under the Ministry of Justice of Georgia within two weeks after their arrival in Georgia.

The current rules regarding the issuance of residence permits are ambiguous and are subject to change and the introduction of new normative acts.

I. Family and Personal Considerations

Vaccinations. Foreign nationals living in Georgia are required to take an AIDS test and have various vaccinations within one month after their arrival in Georgia.

Drivers' Permits. A foreign national with an international driver's license may drive legally using this license if it is translated into Georgian and certified by a notary. A foreign national who wishes to drive in Georgia but does not have an international driver's license must legalize his or her home-country license in the country where the license was issued and have it translated into Georgian.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	—	—	(a)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Employer-provided housing	X	—	(b)
Housing contribution	X	—	(b)
Education reimbursement	X	—	(c)
Use of employer's automobile	X	—	(d)
Receipt of low-interest or interest-free loans	X	—	(e)
Payment of a debt or obligation by employer on behalf of employee	X	—	(f)

	Taxable	Not Taxable	Comments
Insurance premiums	X	—	(g)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	—	(h)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	—	X	(i)
Reimbursement of per diems	—	X	(j)
Reimbursement of representation expenses	—	X	—
Other Items			
Foreign-source personal ordinary income (dividends and interest)	X	—	(k)
Capital gain from sale of personal residence in home country	X	—	(l)
Capital gain from sale of shares in home country	X	—	(l)

(a) This concept does not exist in Georgia.
(b) Housing provided with respect to a business trip is not taxable. Amounts received for housing are taxable only if the housing relates to private purposes.
(c) Reimbursements of expenses incurred for the education of family members is taxable. Reimbursements of expenses incurred for the education of the employee are taxable if the education is not related to business purposes (that is, the education is for personal purposes rather than for training or professional development).
(d) Receipt of an automobile for private use is taxable at a rate of 0.1% of the book value of this automobile at the beginning of the tax year for each day of the tax year the automobile is at the disposal of the employee for private use.
(e) A low-interest rate is a rate below the market rate. The amount taxable is the difference between interest payable at the low rate and interest payable at the market rate.
(f) The amount taxable is the amount of the debt or obligation.
(g) The amount taxable is the total amount of the premiums paid by the employer.
(h) Reimbursements of moving expenses incurred for business purposes are not taxable, while reimbursements of moving expenses incurred for private purposes are taxable.
(i) Reimbursements of hotel expenses incurred on business trips are not taxable if proper primary documentation is maintained, such as a hotel invoice.
(j) Reimbursements of per diems (daily allowances) during a business trip within the norms specified by the Georgia Ministry of Finance are not taxable. The amount of the daily allowance varies according to the country and the duration of the business trip.
(k) The Tax Code of Georgia (TCG) does not explicitly address whether dividends and interest received by a resident individual in his or her home country is taxable in Georgia. Under the TCG, dividends and interest received by a resident individual that are taxed at the source of payment are not included in the gross income of the recipient and are not subject to further taxation. It is unclear whether this measure refers only to dividends and interest subject to withholding tax in Georgia or whether it also applies to income subject to withholding tax in the individual's home country. The Georgia tax authorities may

take the position that dividends and interest received abroad by a resident must be included in taxable income and that withholding tax paid abroad can be claimed as a tax credit.

(l) In general, gains derived by individuals from the sale of tangible assets that were owned by the individual for more than two years are exempt from tax. However, these gains are taxable if the assets were used in a business activity. Tax paid in the home country on gains subject to tax in Georgia may be claimed as a tax credit.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for an expatriate who is a resident of Georgia for all of 2005 and is married with two dependent children under 18 years old. During 2005, the expatriate received a base salary of GEL 120,000, GEL 100, 000 of which was paid in Georgia and the balance deposited in a home country bank account and not remitted to Georgia. The expatriate's employer also provided housing at a cost of company of GEL 30,000 and reimbursed the expatriate GEL 5,000 for the cost of the education of one of the expatriate's children. The expatriate earned GEL 20,000 of interest from a deposit in a home-country bank account. The expatriate also received dividends in the amount of GEL 4,000 from a home-country investment.

	GEL
Calculation of Taxable Income	
Salary	120,000
Benefits (housing, and education reimbursement)	35,000
Dividends and interest	24,000
Taxable income	179,000
Calculation of Tax	
Tax on GEL 179,000 at 12%	21,480*

* If the expatriate in the example paid taxes in the expatriate's home country on the dividends and interest received, on presenting documents verifying such payments, the expatriate may claim a credit for the foreign tax against the tax payable in Georgia. However the amount of the credit may not exceed the amount of tax assessed in Georgia on the dividends and interest in accordance with the rules and rates in force (12% rate for both dividend and interest income).

GERMANY

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A. Income Tax

Who Is Liable. Individuals are subject to tax on their worldwide income if they have a domicile in Germany for their personal use or if they have a "customary place of abode" in Germany, that is, they are present in Germany for an uninterrupted period of six months that may fall in two calendar years. The citizenship of a taxpayer usually is not a consideration in determining residency. However, under the provisions of certain tax treaties entered into by Germany, citizenship may be one of the factors to consider if a taxpayer qualifies as a resident under the domestic laws of both Germany and the other treaty country. Individuals not resident in Germany are subject to tax on income derived from German sources only.

Nonresidents may elect to be treated as residents if either their income subject to German taxation amounts to 90% of their worldwide income or their income not subject to German taxation does not exceed €6,136 per calendar year. This provision allows nonresidents to file German income tax returns and to claim all deductions and allowances normally granted to residents. In addition, under this provision, nonresidents may annualize employment income.

Income Subject to Tax. German income tax law distinguishes among several categories of income, including income from employment, self-employment, business and real estate. Income from each of the categories is combined, and taxable income is then determined by subtracting special deductions.

For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employed persons are subject to income tax on remuneration received from employment. An individual is treated as an employee if he or she is obliged to follow an employer's directions and is integrated into the organization as a dependent member.

Employment income includes the following:
- Salaries, wages, bonuses, profit participations, and other remuneration and benefits granted for services rendered in a public office or in private employment; and
- Pensions and other benefits received by a former employee, his or her surviving spouse, or descendants in consideration of services performed in the past.

Under certain conditions, employment income does not include employer-paid moving expenses, education expenses for employees or contributions to a government pension plan.

Allowances paid to foreign employees working in Germany, including foreign-service allowances, income tax equalization allowances and housing allowances, are considered employment income and do not receive preferential tax treatment.

Education allowances generally provided by employers to their employees' children are taxable for income tax and social security purposes. Under specified circumstances, 30% of school fees are deductible as special expenses.

Self-Employment and Business Income. Individuals acting independently in their own name and at their own risk are subject to income tax on income derived from self-employment or business activities.

Business income includes income from activities performed through a commercial entity or partnership, while self-employment income includes primarily income from professional services rendered (for example, as doctors, dentists, attorneys, architects, journalists and tax consultants).

In general, all income attributable to self-employment or business, including gains from the sale of property used in a business or profession, is subject to income tax.

General or limited partnerships are not taxed as entities. The profit share of each partner is subject to tax separately. Furthermore, the compensation a partner receives from a partnership for services rendered, for loans made or for assets loaned to the partnership is included in the partner's income from self-employment or business activities.

If a nonresident carries on a business through a permanent establishment in Germany, taxable income is computed in the same manner as for a resident individual and is taxed at the same rates.

Directors' Fees. Remuneration received as a supervisory board member of a corporation is treated as income from self-employment. A member of a supervisory board is regarded as an entrepreneur and is subject to value-added tax at a rate of 16% on fees received.

Investment Income. Dividends, interest income, royalties and real estate rental income are subject to regular income tax. If the recipient of the investment income bears the withholding tax, the withholding tax rate is 20% for dividends. If the payer of the investment income bears the withholding tax, the withholding tax rate is 25% for dividends. A 30% withholding tax is levied on interest paid to residents. The amounts withheld may be credited against general income tax.

For interest and dividend income, single taxpayers may exclude €1,370 a year from taxable income, and married taxpayers filing jointly may exclude €2,740. In addition, a fixed allowance of €51 (€102 for married couples filing a joint return) may be deducted from gross investment income, unless higher actual expenses are claimed. In general, only 50% of dividends received is included in taxable income.

Ordinarily, the withholding tax on a nonresident's income from dividends, interest and royalties is a final tax. If the recipient of the investment income bears the withholding tax, the withholding tax rate is 20% for dividends. If the payer of the investment income bears the withholding tax, the withholding tax rate is 25% for dividends. Tax treaties may provide lower withholding tax rates for nonresident recipients that entitle them to refunds of all or part of the German tax withheld.

Income from rentals and leases of real property located in Germany is taxed by assessment rather than withholding.

Taxation of Employer-Provided Stock Options. For employer-provided stock options, the acceptable tax-filing position is taxation at the date of exercise. German law does not differentiate between qualified and nonqualified stock option plans.

In general, at exercise, an employee includes in employment income an amount equal to the difference between the fair market value of the stock at the date of exercise and the exercise price. This amount is subject to tax at the ordinary progressive rates and may qualify for treaty relief.

For the capital gains treatment of shares acquired due to the exercise of options, see *Capital Gains*. To determine the amount of speculative gain for stock option income, the acquisition price is deemed to be the fair market value at the date the option is exercised.

Capital Gains

Real Estate. Gains from the disposal of real estate held less than 10 years are included in taxable income and taxed at the ordinary rates, unless the property was exclusively used by the taxpayer in the year of sale and the two preceding years.

Sales of Securities. If the shares are held for more then 12 months and if the taxpayer holds less than 1% of the entire share capital of the company, any gain realized on the disposal of such shares is exempt from tax. If the shares are held for less than 12 months, the gain is taxed as "speculative gain" at the ordinary rates. If a transfer of shares does not meet the requirements for tax-exempt treatment, generally 50% of the capital gain is subject to tax. Speculative gains that total less than €512 in a calendar year are not taxed.

Deductions

Deductible Expenses. Expenditure incurred by an employee to create, protect or preserve income from employment generally is deductible.

Income-related deductible expenses include the following:
• Cost of travel between home and workplace;
• Expenses connected with maintaining two households;
• Professional books and periodicals; and
• Membership dues paid to professional organizations, labor unions and similar bodies.

A standard deduction of €920 for business-related expenses is granted, unless an employee proves that expenses actually paid are higher.

For retirees, the standard deduction is €102.

Amounts paid for life, health, nursing care, unemployment, accident and liability insurance are deductible, within certain limits.

Instead of itemizing insurance expenses, a standard deduction up to €1,500 for an unmarried individual or up to €3,000 for a married couple is available.

Amounts paid for mandatory old age insurance and for certified life annuity insurance are also deductible. The method of calculation is complicated, but the deductible amount should normally amount to €1,217 for mandatory old age insurance and up to €4,699 for certified life annuity insurance, if the employee receives income exceeding the social security contribution ceiling, which is €63,000 for 2006.

Other items that may be claimed as deductions include church tax and donations. Instead of itemizing these other items, a standard deduction of €36 (€72 for married couples) is granted.

Personal Deductions and Allowances. The following tax benefits are granted to individuals:

- A basic tax-free allowance of €7,664 is available for single individuals (€15,328 for married couples filing a joint return).
- The income tax on compensation received in one year for services performed over a period of several years (for example, a bonus or termination pay) is calculated by reference to a special formula. Under this formula, tax is calculated both for income less the one-time payment and for income less the one-time payment plus one-fifth of the one-time payment. The difference between the two results is multiplied by five. The resulting benefit generally is not of great significance.
- Private use of a company car is generally subject to income tax. However, it benefits from preferential tax treatment.
- Income from business days spent in foreign countries may be tax-exempt in Germany under tax treaty provisions.
- Taxpayers with children receive an allowance for each child under 18 years of age; under 21 years of age if the child is jobless; or under 27 years of age if the child is attending school, college, university or vocational training. This allowance equals €152 for each child for each month of eligibility. Parents filing a joint return receive an allowance of €304 per child per month, as do single parents if one spouse dies before the beginning of the calendar year or if one parent lives outside Germany during the entire calendar year. A monthly child-care allowance of €90 (€180 under the circumstances listed in the previous sentence) is also granted for each eligible child. Taxpayers who are entitled to claim child subsidy payments may choose between deducting the child-related deductions or receiving monthly child subsidy payments. When the income tax return is filed, the tax authorities determine which alternative is more favorable to the taxpayer. The child-related deductions are not considered for tax withholding purposes.

Business Deductions. In general, all business expenses are deductible from gross income. Living or personal expenses are not deductible unless they are incurred for business reasons and the amount is considered reasonable.

Rates. Individual tax rates for 2006 gradually increase from an effective rate of 15% to a top marginal rate of 42%. The following tables present the tax on selected amounts of taxable income in 2006.

Single Taxpayers and Married Taxpayers Filing Separately

Taxable Income €	Amount of Tax* €	Effective Tax Rate %	Marginal Tax Rate %
30,000	5,807	19.4	31.9
40,000	9,223	23.1	36.4
50,000	13,096	26.2	41.0
60,000	17,286	28.8	42.0
70,000	21,486	30.7	42.0
80,000	25,686	32.1	42.0
100,000	34,086	34.1	42.0
120,000	42,486	35.4	42.0

Married Taxpayers Filing Jointly

Taxable Income €	Amount of Tax* €	Effective Tax Rate %	Marginal Tax Rate %
30,000	3,084	10.3	25.0
40,000	5,700	14.3	27.3
50,000	8,542	17.1	29.6
60,000	11,614	19.4	31.9
70,000	14,916	21.3	34.2
80,000	18,446	23.1	36.4
100,000	26,192	26.2	41.0
120,000	34,572	28.8	42.0

* Excluding solidarity surcharge and church tax.

Certain income that is not taxable is taken into account in determining the tax rate on German taxable income. This inclusion rule is known as the exemption with progression rule. For example, individuals who transfer to or leave Germany within the calendar year must take into account foreign income earned either before becoming a German resident or after leaving Germany in determining the tax rate on their German taxable income.

To help finance the costs related to German unification, a 5.5% income tax surcharge is imposed on the income tax liability of all taxpayers. If a taxpayer is a member of a church entitled to impose church tax, church tax is assessed on income tax liability at a rate of 8% or 9%.

Business income is subject both to income tax and to trade tax. Trade tax rates vary, from 9% to 20%, depending on location. Trade tax is not levied on income from self-employment or professional services.

Salaries of nonresidents are subject to withholding tax at the rates that apply to residents who have single taxpayer filing status. The withholding tax is generally the final income tax liability. The withholding tax on directors' fees is 30%. A nonresident is subject to a minimum income tax at a rate of 25% on income other than employment income.

For sample tax calculations, see Appendix 2.

Relief for Losses. Tax losses up to €1 million (married taxpayers €2 million) may be carried forward indefinitely. For income and trade tax purposes, the loss carryforward is restricted to a maximum of 60% of taxable income. For income tax purposes (but not trade tax purposes), losses may be carried back for one year, subject to certain limitations that ensure minimum taxation. The overall maximum loss carryback amount is €511,500 (married taxpayers €1,023,000) annually. A taxpayer has a limited right to choose whether a loss is carried back or carried forward to the following year.

B. Inheritance and Gift Taxes

A tax is imposed on transfers of property at death or by gift. Decedents and donors are considered transferors, and beneficiaries and donees are considered transferees.

Transfers of worldwide net property are taxable if either the transferor or the transferee is resident in Germany at the time of the decedent's death or at the date of the gift. If neither the transferor nor the transferee is resident in Germany, the tax applies only to transfers of property located in Germany. Depending on the family relationship between the transferor and transferee, personal exemptions ranging from €5,200 (no familial relationship) to €307,000 (spouse of transferor) are granted. The tax rates are graduated, depending on the family relationship and on the value of taxable property transferred. For example, in 2006, the rates for the spouse and children of the transferor range up to 30%; for parents and grandchildren, up to 40%; and if no family relationship exists, up to 50%.

To prevent double taxation, Germany has entered into estate tax treaties with Austria, Greece, Sweden, Switzerland and the United States.

C. Social Security

Coverage. Social security taxes comprise the following five elements: old-age pension; unemployment insurance; health insurance; nursing care insurance; and accident insurance. Old-age insurance, unemployment insurance, health insurance and nursing care insurance contributions are required for all employees, unless they are otherwise exempt under European Union (EU) regulations or a social security treaty. The same rule applies to accident insurance contributions, which are required to be paid by the employer only.

Contributions. Compulsory old-age pension and unemployment insurance coverage exists for all employees working in Germany, regardless of how much they earn. For 2005, contributions amount to 26% (19.5% for old-age pension and 6.5% for unemployment insurance) of employment income, up to €63,000 a year. Income exceeding €63,000 is not subject to these contributions. One-half of the contributions must be paid by an employer. Employees' portions must be withheld by employers from their monthly compensation.

Health insurance coverage is compulsory only if an individual's annual employment income does not exceed 75% of the old-age pension or unemployment insurance ceiling. In general, if compensation exceeds €47,250 for 2006, contributions are no longer compulsory. The rate of contributions is fixed by the local state health insurance agencies. For 2006, an average rate of 13.4% applies. Health insurance contributions must be paid on employment income up to €42,750 for 2006. One-half of the contribution must be paid by an employer. Individuals who earn more than €3,937.50 a month and contribute to a private health insurance plan must pay the full premium and may then claim a refund from their employer for half the premium, up to the average amount they would receive under the compulsory scheme.

Every employee is asked to contribute to nursing care insurance. If an employee's income is less than €47,250 in 2006, coverage is compulsory. If an employee has private health insurance, the employee must still contribute to private nursing care insurance. Nursing care insurance contributions are levied at a rate of 1.7% and are shared equally by employer and employee. Contributions of childless employees are increased at a rate of 0.25%. The increase is borne solely by the employee.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Germany has entered into totalization agreements that usually apply for a maximum period of two to five years with the following countries.

EU countries	Israel	Slovenia
Bulgaria	Japan	Switzerland
Canada	Korea	Tunisia
Chile	Macedonia	Turkey
China	Morocco	United States
Croatia	Poland	Yugoslavia*

* Germany honors the totalization agreement with Yugoslavia with respect to the successor countries except for Croatia, Macedonia and Slovenia.

The special EU regulations on social security also apply, in general, to non-EU citizens residing in the EU and to citizens of European Free Trade Agreement (EFTA) countries (Iceland, Liechtenstein and Norway). In addition, special rules apply with respect to Switzerland under the Sectorial Treaty. The EU regulations for EFTA countries apply to EU/EFTA citizens only. For non-EU citizens under certain conditions, the former totalization agreements concluded with each EU/EFTA country continue to apply.

D. Tax Filing and Payment Procedures

The tax year in Germany is the calendar year.

In general, annual tax returns must be filed by 31 May following the tax year. However, extensions for filing are granted automatically until 30 September if the return is prepared with the assistance of a tax adviser.

Married persons are taxed either separately or jointly, at their election, on all types of income. The election to file a joint return is restricted to married persons who are both residents of Germany and who are not permanently separated at the beginning of the tax year. A special provision applies to EU citizens and citizens of EFTA countries. On application, married EU and EFTA citizens who are German residents may file joint returns, even though their spouses are not German residents, but are living in an EU or EFTA country. The election may be made if both spouses' income subject to German taxation is at least 90% of their worldwide income or if their income not subject to taxation in Germany does not exceed €12,272. If they qualify, the favorable rates for married persons filing jointly apply (see *Rates*). Nonresidents generally are not allowed to file joint income tax returns.

Employers must withhold income tax and social security contributions on wages. For income that is not subject to withholding tax, nonresidents must file income tax returns.

Income tax is assessed based on the tax return filed, and any additional amount due is charged by means of an assessment notice. The balance due generally must be paid within one month of receipt of the notice. Refunds are paid immediately after the issuance of the assessment.

Quarterly tax prepayments are levied by the tax authorities based on the last assessed taxable income if the withholding is not sufficient to cover the annual income tax assessed.

E. Double Tax Relief and Tax Treaties

German income tax law provides that foreign taxes, up to the amount of German income tax payable on foreign-source income taxable in Germany, may be credited against German income tax (foreign tax credit). This unilateral relief applies primarily to income from those countries with which Germany has not entered into a tax treaty.

Tax treaty provisions override German income tax law, usually by excluding certain foreign-source income from German taxation. This includes income from real estate, business income from a foreign permanent establishment and income from personal services performed in a foreign country if certain requirements are fulfilled. A new measure called the "national subject-to-tax-clause," took effect in Germany in 2004. Under this measure, Germany excludes foreign-source income only if the taxpayer proves that he or she paid foreign taxes on this income. Foreign-source income excluded from German taxation may be considered for purposes of determining the effective tax rate on other taxable income (see Section A for an explanation of the exemption with progression rule).

Germany has entered into double tax treaties with the following countries.

Argentina	Israel	Romania
Australia	Italy	Russian Federation
Austria	Jamaica	Singapore
Bangladesh	Japan	South Africa
Belgium	Kazakhstan	Spain
Bolivia	Kenya	Sri Lanka
Brazil (e)	Korea	Sweden
Bulgaria	Kuwait	Switzerland
Canada	Latvia	Tajikistan
China (d)	Liberia	Thailand
Côte d'Ivoire	Lithuania	Trinidad and Tobago
Cyprus	Luxembourg	Tunisia
Czechoslovakia (a)	Malaysia	Turkey
Denmark	Malta	Ukraine
Ecuador	Mauritius	USSR (b)
Egypt	Mexico	United Arab Emirates
Estonia	Mongolia	United Kingdom
Finland	Morocco	United States
France	Namibia	Uruguay
Greece	Netherlands	Uzbekistan

Hungary
Iceland
India
Indonesia
Iran
Ireland
New Zealand
Norway
Pakistan
Philippines
Poland
Portugal
Venezuela
Vietnam
Yugoslavia (c)
Zambia
Zimbabwe

(a) Germany honors the Czechoslovakia treaty with respect to the Czech Republic and the Slovak Republic.
(b) The following countries have agreed to honor the USSR treaty: Armenia; Azerbaijan; Belarus; Georgia; Kyrgyzstan; Moldova; Turkmenistan; and Uzbekistan.
(c) Germany honors the Yugoslavia treaty with respect to Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro, and Slovenia.
(d) The China treaty does not cover Hong Kong and Macau.
(e) Germany terminated this agreement, as of 31 December 2005.

F. Entry into Germany

EU Nationals from Old Member States and Certain Other States. EU nationals from the old member states (Austria, Belgium, Denmark, Finland, France, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Sweden, Spain and the United Kingdom) as well as from Malta and Cyprus (new member states since 1 May 2004) face no restrictions from an immigration point of view when entering, staying permanently and working in Germany. These EU nationals are protected by the right of free movement in full scope. Therefore, they do not need visas to enter Germany. However, for permanent stays, they must register with the German Registration Office after entry to Germany. In addition, they must register with the German Foreigner's Office within three months after entry for notification of their residence in Germany if the stay will exceed a period of three months (see Section G). After notification, the Foreigner's Office automatically issues a certificate of residence for EU nationals. The Foreigner's Office has no power of discretion with respect to the issuance of the certificate and does not charge any issuing fees.

For the first three months following arrival in Germany, an EU national of an old member state, as well as of Cyprus and Malta, is exempt from all visa and residence-title requirements (including Labour Office requirements), even if he arrives intending to accept or look for employment and wants to stay for work purposes. In other words, these EU nationals may search for employment in Germany without residence title and a visa. However, they must report their arrival to the Registration Office and the Foreigner's Office if the employment search is expected to exceed three months.

The same regulations regarding the notification procedure for the certificate of residence also apply to nationals of Iceland, Liechtenstein and Norway (members of the European Economic Area) who intend to stay permanently and work in Germany. A visa and residence title is not required, and approval of the Labour Office is not necessary. For a stay up to three months, a notification certificate issued by the Foreigner's Office must be obtained (see Section G).

Swiss citizens are also protected by the right of free movement within the EU in full scope and are allowed to enter Germany without a German visa. For a permanent stay (longer than 3 months), they must register with the Registration Office. In addition, they must apply for a German residence title with the responsible Foreigner's Office (see Section G).

Under the Schengen treaty, nationals of Austria, Belgium, Denmark, France, Germany, Greece, Italy, Iceland, Luxembourg, the Netherlands, Norway, Portugal, Sweden and Spain may cross national borders with only their identification cards and not required to show valid passports, because these states joined the Schengen treaty.

EU Nationals from New Member States. EU nationals from the other new member states (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia) may enter Germany for tourist or business trips without a visa, but still face some restrictions when entering Germany for work purposes.

Nationals of these states need a valid identity card or a valid passport for entering Germany but are not required to apply for a German visa or residence title before entry. In general, the passport or identity card must remain valid throughout the entire length of stay. After entry into Germany, nationals of a new EU member state (excluding Cyprus and Malta) must apply for a German residence title if a stay longer than three months is intended (see section G).

Nationals of Preferred Countries. In addition to EU nationals, citizens of more than 30 countries, including major Western countries, may enter and stay in Germany for up to three months without German visas or residence titles under a measure in the German immigration law. This exception applies only if these nationals do not work in Germany. For example, the exception applies to individuals traveling for tourist purposes or staying in Germany for business activities exclusively. Individuals staying for a period of longer than three months or for regular work purposes must apply for a German residence title. In all cases, a valid passport is required when entering Germany.

In addition, relief is possible for trainees or for persons who intend to start scientific activities in Germany if the stay does not exceed three months and if the approval of the Labour Office is not required (see Section G).

Nationals of Nonpreferred Countries. Citizens from nonpreferred countries need a valid passport and a German visa before entering Germany.

G. Visas, Residence Titles, Notification of Residence and Registration

Visas. All nationals who are not from EU or similarly treated countries (see Section F), must apply for a residence visa for work purposes (work visa) before beginning to work regularly in Germany. A visa is represented by a stamp on the passport that allows entry to Germany. The visa must include the intended purposes of the stay in Germany. The following are the types of German visas:

- Schengen visa that allows a stay in Germany for specific purposes (for example, business activities) up to 3 months per half year. A Schengen visa is issued by national authorities of the member states of the Schengen treaty, which are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland,

Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain and Sweden.
- National visa, which allows a stay exceeding a period of three months or a stay for beginning employment in Germany.
- Dual visa, which allows stays in Germany and short stays in other Schengen member states, with multiple entry into Germany.

Citizens from most preferred countries (Australia, Canada, Israel, Japan, New Zealand, South Korea and the United States) may apply for a visa in Germany with the Foreigner's Office. Citizens from the other countries must apply for a German visa at the German embassy or the German consulate general in their country of residence for a German visa before entering Germany.

Application forms for visas may be obtained at German embassies and consulate generals throughout the world.

Visas constitute preliminary residence titles.

Permanent Residence Titles. After entry to Germany, a foreigner must apply with the Foreigner's Office for a permanent residence title. Effective from 1 January 2005, the German immigration law has been amended to establish a "one-stop government" procedure. Under this procedure, the residence title granted by the Foreigner's Office includes a work permit. The work permit is no longer the subject of a separate procedure or a separate document. The foreign national who intends to stay in Germany for working purposes is now required to apply only with the Foreigner's Office. He or she no longer needs to make a separate application to the Labour Office. The Foreigner's Office will automatically involve the Labour Office in the application procedure. Under the new rules, the permanent residence title shows a note specifying the allowed purpose of stay, the kind of work allowed and the name of the employer.

Under the German immigration law, two types of residence titles are available.

A limited residence title, known as a residence visa (*Aufenthaltserlaubnis*) is granted primarily in connection with stays for working and education purposes, for family reasons and for humanitarian and political reasons. The residence visa for working purposes requires, in general, the approval of the Labour Office. The approval of the German Labour Office is ensured by the participation of the Foreigner's Office, which reviews requests for residence titles.

The second residence title is the settlement visa (*Niederlassungserlaubnis*). The settlement visa is an unlimited residence title, which includes an unlimited working permit with respect to the duration and the type of work. Approval by the German Labour Office is necessary for the granting of this visa. The settlement visa is generally granted if a foreigner holds a valid residence visa for more than five years and fulfills other conditions. The settlement visa is also granted from the beginning of the work in Germany to certain individuals with special qualifications, including scientists, professors other professionals, if the individual's salary exceeds a special limit, which is currently approximately €93,600).

Registration. Nationals from the old EU member states, as well as from Cyprus and Malta, who enter Germany for a period of more than three months must register with the Registration Office as well as with the Foreigner's Office to obtain a confirmation of residence. In contrast to nationals of non-EU countries, they are not required to meet special requirements to obtain this confirmation. The German Foreigner's Office has no discretion regarding the granting of this confirmation and, accordingly, the document has declarative character only.

In general, the same regulations apply to nationals from the new EU member states (excluding Cyprus and Malta). However, these nationals must apply for an approval of the Labour Office before beginning to work in Germany. The authorities have discretion regarding the issuance of confirmation of residence to such individuals. Nevertheless, the nationals from such countries enjoy better treatment than citizens from non-EU countries (see Section H).

The registration procedure for every foreigner who intends to reside in Germany (regardless of nationality) begins with registration at special Registration Offices (Einwohnermeldeamt). Registration must take place within one week after establishing residence in Germany, and all subsequent changes in residence must be reported to the Registration Office within one week after the change. Failure to register properly with the appropriate authorities may result in fines.

The second step in the registration process is the registration with the Foreigner's Office. Nationals of old EU member states, as well as of Cyprus and Malta, must complete a special form to obtain the confirmation. Forms are available at the Foreigner's Offices or on the official homepage for the Foreigner's Office. The relevant Foreigner's Office is determined based on the individual's intended place of residence. Nationals of the new EU member states (excluding Cyprus and Malta), as well as of non-EU countries must complete an application form for a residence permit.

The required documents (valid passport, copies of German visa, proof of health insurance and documents for the approval of the Labour Office; see section H) should be confirmed in advance, because the local Foreigner's Office may change these requirements on short notice.

Nationals of Old EU Member States Already Holding a Residence Title. Nationals of old member states, who entered Germany before 1 January 2005 and hold a residence title with a permit to work, may apply for the new style EU residence permit. For these nationals, the same rules apply as those for the nationals of old EU member states.

H. Approval of the Labour Office and Self-Employment

General. As discussed in Section G, a separate work permit in Germany no longer exists. The approval of the Labour Office is included when the Foreigner's Office grants the residence title for working purposes.

Exclusions. Foreign employees may not need to obtain the approval of the Labour Office in certain circumstances. For example, the approval is not required in the following circumstances:

- The residence titles are granted as a result of international treaties;
- The individuals have special professional qualifications, such as scientists employed at universities, artists, athletes and models;

- The individuals are legal representatives of German corporations, partners of private or commercial partnerships in Germany, representatives of German liaison offices of foreign companies or leading employees with the general power of attorney to represent the employer; and
- The individuals are journalists and correspondents, members of airplane and ship crews or truck drivers engaged in cross-border traffic.

The approval of the Labour Office is not necessary for several activities of foreign employees in Germany, which do not exceed 3 months within a period of 12 months. These activities include construction of machines sold by the employer, implementation of respective software for the machines, and repair and maintenance services for machines sold by the employer in Germany.

Approval of the Labour Office is not required for the rendering of specified services of foreign employees who are assigned by an employer resident in an EU member state if the respective employee is on the permanent staff of the company.

Approval of the Labour Office is also not required for business trips and for stays seeking employment. Foreign nationals conducting business negotiations on behalf of a foreign company as well as business executives may be exempt from the Labour Office approval requirement if they stay in Germany for three months or less per year.

Students holding a German residence title for study purposes in Germany are entitled to work without approval of the Labour Office if the work period is limited to 90 days per year or 180 half-days per year or if the student is employed part-time at a university (without time limit).

Before beginning work in Germany, a detailed review of the individual's intended activities should be undertaken to determine if any of the above exceptions apply

EU Nationals. Nationals of old EU member states, as well as of Cyprus and Malta, do not need to obtain the approval of the Labour Office when registering with the Foreigner's Office as they are protected by the EU right of free movement. Also, Swiss citizens do not need the approval of the Labour Office.

The right of free movement does not yet fully apply to nationals of new EU member states. During a transition period of up to seven years, the legal status of these EU nationals will be gradually adjusted until it conforms to the status of the nationals of old EU member states. The legal rules will not be modified until 30 April 2006. Subsequently, Germany must decide if the new rules will apply or if the situation will remain the same for an additional three years. The transition process must be finalized by 2011, at the latest. During the transition period, the nationals of the new EU member states (excluding Cyprus and Malta) are required to apply to the German Labour Office for an EU work permit. The EU work permit is, in general, limited to one year and renewable each year.

Non-EU Nationals. Except for the exempt categories discussed above, all non-EU employees who want to work in Germany must obtain the approval of the Labour Office when applying for a German residence title with the Foreigner's Office.

Specific conditions need to be fulfilled to obtain the work permit. In particular, a so-called "public interest" must be demonstrated. In general, the new German immigration law facilitates the entry to the German labor market of qualified professionals. As a result, an information technology (IT) specialist, a high-level professional and a leading employee should receive a positive decision. An individual can also receive approval if he or she participates in an international assignment project. Nationals of Andorra, Australia, Canada, Israel, Japan, Monaco, New Zealand, San Marino and the United States may receive the approval without the demonstration of other reasons. In all cases, the Labour Office may exercise discretion when reviewing the request.

In general, the approval of the Labour Office is granted only if the employment of a foreign national is deemed necessary. Supply and demand in the German labor market is taken into account; approval is not granted if the employment of a foreign national may adversely affect the availability of jobs for qualified German nationals or foreign employees with exempt status (particularly EU nationals). In practice, most of the local Labour Offices require the employer to prove that efforts were undertaken to find German or exempt foreign national employees for the job. Even if German candidates are not available, the foreign national may be precluded from receiving a work permit for other reasons. Approval is easier to obtain for transfers of experienced employees with university degrees within an international operating company (that is, transfers from the parent company, which must be located in the employee's home country, to the German subsidiary).

Procedure for Obtaining the Approval of the Labour Office. The application of non EU nationals must be accompanied by specified documents together with the application documents for the residence title for working purposes. In general, a detailed job description, a letter of invitation and a signed and dated labor contract are required. The employer may act as proxy on behalf of the employee and submit the job description and the letter of invitation. The documents are filed with the local Foreigner's Office which automatically involves the Labor Office responsible for the area of the location of the employer.

Normally, a regular residence title for working purposes is initially valid for one year, and generally extended for an additional year. The employment of individuals without valid residence titles is punishable under German law with severe fines.

Many uncertainties may arise in the initial planning stages of an expatriate's assignment. The procedure for obtaining residence titles for working purposes is particularly difficult. Also, language barriers and time limitations may present obstacles. Therefore, it is highly recommended that the expatriation process begin early and include assistance from qualified professionals in the areas of visas, residence titles for working purposes, and tax and social security matters.

Self-Employment. In general, self-employed foreign non-EU nationals must have a residence title to enter and stay in Germany if they intend to remain longer than three months. However, exceptions may apply in certain circumstances. Before a residence title is issued, the local Foreigner's Office consults the appropriate local Commerce Office (Gewerbeamt) and business and professional associations.

Self-employed persons are not required to obtain the approval of the Labour Office when applying for a residence title because they are not considered employees under the legal definition.

Any person wishing to begin a trade or business in Germany is required to report his or her intention to the local Commercial Office (Gewerbeamt). This local authority then provides a certificate confirming that the trade or business is duly registered, while simultaneously informing the German tax authorities. Certain trades also require special permits.

Individuals intending to begin a specialized trade or business subject to legal restrictions must show particular qualifications and personal reliability. In certain circumstances, even if the applicant is unable to produce proof of sufficient knowledge of the subject, a certificate may be granted if he has passed an examination conducted by an appropriate German board.

Provisional Rules Regarding Existing Work Permits. Under provisional rules, a national of a new EU member state is generally entitled to request an unlimited EU work permit if he or she already holds a German work permit valid for longer than 12 months. This rule does not apply to foreign employees who have been assigned to Germany by an employer resident in a foreign country.

A work permit (*Arbeitsgenehmigung*) issued before the introduction of the new immigration law remains valid. If the work permit will expire within a year, it is recommended that the individual apply for extension with the Foreigner's Office under the new procedure as soon as possible. The old work permit is viewed as unlimited approval of the Labour Office with respect to the situation in the German labour market, as well to as the type of work and the employer.

I. Family and Personal Considerations

Family Members. Spouses and children younger than 18 years of EU nationals employed in Germany are entitled to stay permanently in Germany after registration of residence with the Foreigner's Office even if they are non-EU nationals. For example, a U.S. national married to an Italian national does not need to apply for a residence title for working purposes if the Italian national is employed or self-employed in Germany. The U.S. national need only register with the Registration Office and report his or her residence to the Foreigner's Office to obtain the certificate of residence.

The spouse and dependants of a non-EU national must apply for their own residence titles separately and, in the case of intended work in Germany, for a residence title for work purposes. If the spouse decides to accept a job offer after arrival in Germany, an application for a residence title for work purposes may be filed later. However, the waiting period may be one year. Therefore, it is recommended that a spouse decide in advance whether he or she wants to work in Germany.

In general, residence titles for the spouse and children younger than 18 years are granted if the foreign national holds a residence title and if sufficient income and housing for all family members is ensured. Other dependents may receive residence titles if unreasonable hardship would otherwise exist.

The authorization for work of family members granted with their residence title depends on the residence title of the foreign national. In general, family members are entitled to work to the extent that a foreign national is entitled to work. In the most important case, if the foreign national holds a settlement permit for an unlimited period of time, the spouse will receive a limited residence permit and is also automatically entitled to work in Germany. In addition, the spouse may regularly obtain extensions of the residence title for working purposes after application.

Under certain circumstances, the dependents' ability to obtain an extended residence title for working purposes is facilitated by law. In particular, this applies to a spouse who is living in a marital status with a foreign national in Germany for two years in accordance with the German immigration law. The conditions for obtaining a settlement permit are deemed to be fulfilled for a child who has held a German residence title for five years as of his or her 16th birthday. In addition, a spouse who lives in marital status in Germany may obtain a settlement permit if the foreign national holds a settlement permit.

Marital Property Regime. In general, German marital property laws apply only to persons whose domicile is in Germany, not to expatriates residing in Germany on temporary assignment. However, under certain circumstances, foreign nationals residing in Germany may elect to be covered under German community property laws.

Under the German community property regime, during a marriage, each spouse independently owns property owned prior to the marriage. Any additional wealth (except gifts and bequests) acquired during the marriage with the income of one spouse is nominally considered to be owned during the marriage by that spouse. However, upon termination of the marriage, each spouse is solely entitled to the property he or she brought to the marriage and to one-half of any wealth accumulated during the marriage, including income earned on separate property.

A married couple may elect out of marital property laws by a written agreement, signed by both parties and notarized.

Forced Heirship. German inheritance law provides that direct lineal relatives (parents and children) and spouses have the right to inherit 50% of their deceased relative's estate, regardless of the provisions of any will or testament to the contrary.

Drivers' Permits. Citizens of the following countries may use their home country drivers' licenses during the entire length of their stays in Germany without applying for German licenses: EU-member countries; Andorra; Hungary; Iceland; Japan; Liechtenstein; Malta; Norway; San Marino; Switzerland; and U.S. citizens holding Utah state drivers' licenses.

In general, other foreign nationals on assignment in Germany may drive for a maximum of six months if they have valid foreign drivers' licenses. A German license must be applied for with the Public Affairs Office (Ordnungsamt) within three years after the date of entry into Germany. However, even if an individual applies for a German driver's license within three years, he or she may not drive in Germany with his or her home country driver's license after the six-month grace period.

The following documents are necessary to obtain a driver's license:

- Valid passport and residence permit;
- One photograph;
- Translation of the foreign driver's license by a qualified sworn translator or by one of the major German automobile clubs;
- Proof of eye examination;
- Original and photocopy of the foreign driver's license;
- Training certificate in first aid procedures; and
- Name of the German driving school the foreign national wishes to attend to prepare for the practical and theoretical exam.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	X	—	(a)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	(b)
Capital gain from sale of stock in home country	—	X	(c)

* Bracketed amounts reduce taxable income.

(a) Reimbursements for expenses incurred for maintaining or improving the employee's skills needed in the employee's profession, such as language course tuition fees, are not taxable. This contrasts with educational allowances paid for family members, which are included in taxable income.

(b) The gain is not taxable if the residence is sold after more than 10 years.

(c) The gain is not taxable if the shares were held for more than 12 months.

APPENDIX 2: SAMPLE INCOME TAX CALCULATIONS

Sample general tax calculations for 2006 are provided below for individuals who are married with two children under the age of 16 and are claiming the deduction of the children allowance for the full year. It is assumed that the only income to be reported on the annual return is compensation.

	€	€	€
Calculation of Taxable Income (a)			
Income from employment	75,000	150,000	300,000
Deductions:			
Employee's lump-sum deduction	(920)	(920)	(920)
Special expenses:			
Insurance premiums	(3,000)	(3,000)	(3,000)
Old age premiums	(1,474)	(1,474)	(1,474)
Standard deduction	(72)	(72)	(72)
Child care allowance	(4,320)	(4,320)	(4,320)
Children allowance	(7,296)	(7,296)	(7,296)
Taxable income	57,918	132,918	282,918
Calculation of Tax			
Income tax (income-splitting tax table)	10,924	39,954	102,954
Solidarity surcharge	601	2,197	5,662
Compulsory social security taxes (employee's contribution):			
Old age and disability insurance	6,143	6,143	6,143
Unemployment insurance	2,048	2,048	2,048
Health insurance (b)	2,865	2,865	2,865
Nursing care insurance (b)	364	364	364
Total	34,872	79,246	162,781

(a) The church tax is deductible in computing income tax. For purposes of the sample tax calculations presented in this appendix, the church tax is not taken into consideration. In addition, the effect of child subsidy payments from the German (or any other) government is ignored.

(b) The health and nursing care contributions are calculated based on the voluntary contributions to the state system. An average health insurance rate of 14.3% is assumed.

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A. Income Tax

Who Is Liable. Residents are subject to tax on chargeable income accruing in, derived from, brought into or received in Ghana. Nonresidents are subject to tax only on chargeable income accruing in or derived from Ghana.

Individuals are considered resident in Ghana if they meet any of the following conditions:
- A citizen of Ghana other than a citizen who has a permanent home outside Ghana for the whole tax year;
- An individual who is present in Ghana for an aggregate of at least 183 days in a 12-month period that begins or ends during the year of assessment;
- An employee or official of the government of Ghana posted abroad during the year of assessment; or
- A citizen with a permanent home in Ghana temporarily out of Ghana for no longer than 365 successive days.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employees, including directors of companies, are subject to tax on gains or profits from any employment, including allowances or benefits paid in cash or in kind to or on behalf of an employee.

Taxable income of employees consists of total income, excluding the following amounts:
- Reimbursement of medical, dental or health insurance expenses if all full-time employees are entitled to the same benefit;
- Passage to and from Ghana for a nonresident individual appointed outside Ghana whose presence in Ghana is solely for the purpose of serving the employer;
- Employer-provided accommodation at the field site of timber, mining, building, construction or farming operations;
- Reimbursement for expenditure incurred by the employee that serves the proper business purposes of the employer;
- Severance pay; and
- Night-duty allowances paid to a night-shift employee if the amount involved does not exceed 50% of the employee's monthly basic salary.

Self-Employment and Business Income. Self-employed persons include traders, businesspersons, professionals or individuals carrying on any vocation, partners in partnerships and sole proprietors. Taxable business income consists of net profit plus expenses that are not deductible for tax purposes, less capital (depreciation) allowances and personal deductions and allowances.

Investment Income. Investment income includes dividends paid by resident and nonresident corporate entities, interest income, annuities, royalties and rents.

The dividend tax rate is 10%.

Interest paid to individuals by resident financial institutions or the government is exempt from tax.

Capital Gains. Capital gains are taxed at a rate of 10%. Capital losses are not taken into account.

Capital gains tax is generally assessed on gains realized on the disposal of the following taxable assets:
- Buildings in Ghana;
- Businesses and business assets, including goodwill but excluding trading stock and certain classes of assets located in Ghana;
- Land, other than agricultural land in Ghana; and
- Shares of a resident company other than securities traded on the Ghana Stock Exchange.

A gain is computed by deducting from the amount realized the cost base of the chargeable asset.

Capital gains are exempt from tax if the sum realized on the disposal of a chargeable asset is used to acquire a similar asset within one year of realization.

Capital gains are exempt from tax if they accrue to a company from a merger, amalgamation or reorganization with continuity of ownership of at least 25%.

Deductions

All expenses wholly, exclusively and necessarily incurred in the production of income from employment, business or investment are deductible.

Individuals may deduct the following annual personal allowances:
- Children's education allowance: ¢240,000 per child or ward, up to a maximum of three children;
- Dependent elder relative allowance: ¢200,000 per dependant, up to a maximum of two dependants;
- Marriage/responsibility relief: ¢300,000;
- Disability allowance: 25% of assessable income from business or employment;
- Life insurance premium allowance: up to a maximum of 10% of the sum insured;
- Old age relief: up to ¢300,000 each year; and
- Professional/vocational training allowance: up to a maximum of ¢500,000.

Rates. The table below presents the progressive rates of income tax applicable to resident individuals. Nonresidents are subject to income tax at a flat rate of 20%.

Chargeable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
¢	¢	¢	%
0	2,400,000	0	0
2,400,000	4,800,000	0	5
4,800,000	16,800,000	120,000	10
16,800,000	96,000,000	1,320,000	17.5
96,000,000	—	15,180,000	25

Management fees and technical service fees paid to nonresidents are subject to a 20% final withholding tax.

For a sample tax calculation, see Appendix 2.

Relief for Losses. An entity carrying on a mining, farming or manufacturing business may carry forward losses for five years. For this purpose, “manufacturing” is defined as a business that manufactures primarily for export.

B. Other Taxes

Net Worth Tax. Ghana does not impose a net worth tax.

Estate and Gift Taxes. Ghana does not impose estate or inheritance tax.

Gifts that exceed ¢500,000 in value are taxed at a rate of 10% unless they are received in one of the following ways:
- Under a will or through intestacy;
- From a spouse, child, parent, brother, sister, aunt, uncle, nephew or niece;
- By a religious body for the public benefit; or
- For charitable or educational purposes.

Gifts of the following assets are subject to gift tax:
- Land;
- Buildings;
- Stocks, shares, bonds and other securities;
- Money, including foreign currency;
- Businesses and business assets;
- Any means of transport; and
- Goods or chattels not included in the categories listed above.

C. Social Security

Ghana imposes social security tax at a rate of 17.5%. Employers must pay social security tax at a rate of 12.5% of the employees’ pay, and must withhold an additional 5% from each employee’s pay. Employers remit the employer and employee contributions to the Social Security and National Insurance Trust. Self-employed persons must contribute 17.5% of their monthly income to the trust.

D. Tax Filing and Payment Procedures

The tax year is the calendar year. Individuals, including employees, must file their returns within four months after the end of the tax year. Payment of tax by self-employed individuals must be made on a quarterly basis. Employees are subject to withholding from their salaries under the Pay-As-You-Earn (PAYE) system.

E. Double Tax Relief and Tax Treaties

If a double tax treaty applies, foreign tax paid may be credited against the total tax payable on the same income in Ghana.

Ghana has entered into double tax treaties with Denmark, France, Gambia, Nigeria, Sierra Leone, South Africa, Sweden and the United Kingdom.

F. Temporary Permits

Ghana requires visitors to obtain entry visas, except visitors from countries that have visa abolition treaties with Ghana. Nationals of British Commonwealth countries in East Africa, notably Botswana, Kenya, Malawi, Tanzania, Uganda, Zambia and Zimbabwe, nationals of the 16 member countries of the Economic Community of West African States (ECOWAS) and nationals of Malaysia, Singapore and Thailand do not need entry visas.

Visas and permits are used interchangeably. British Commonwealth citizens need entry permits, while all other foreign nationals require visas. The following permits or visas are issued by the government of Ghana: transit visas, visitors' visas, work permits and residence permits.

To obtain an entry visa, individuals must prove that they can sustain themselves financially while in Ghana, except foreign nationals who own assets in Ghana.

Emergency entry visas may be obtained on arrival in Ghana through direct application to the Director of Immigration. This facility is primarily for foreign nationals who come from countries where Ghana has no mission or consulate. Application for emergency entry visas should be made to the director at least seven days prior to the date of arrival.

Transit visas are issued to travelers who wish to pass through Ghana.

Visitors' visas valid for 60 days are issued on arrival to visitors who have acquired entry permits or visas (either single- or multiple-entry). Visitors' visas may be extended by submitting an application to the Immigration Service at Accra or to regional headquarters.

G. Work Permits and Self-Employment

Work permits are generally granted by the Ministry of the Interior to dependants of expatriate employees or to individuals who have already been issued residence permits, to enable them to take up specified employment for remuneration. Work permits may also be granted to foreign nationals engaged on a short-term basis for certain specific services and, in these cases, are not counted against a company's immigrant quota (see Section H).

Other than reciprocity, when reviewing applications, the government considers whether the activity in which the foreign national is engaged is functional, whether the applicant honors his or her tax obligations, and whether the applicant has evidence of satisfactory financial support.

An applicant may not work in Ghana while his or her work application and other papers are being processed. If possible, approval must be obtained from the nearest Ghana's consulate before an expatriate employee travels to Ghana. However, such protocol can be received in Ghana.

It is an offense for a foreign national to change employers after he or she receives a work permit. If it is necessary to change employers, the Immigration Service should be notified within one week after the applicant knows he or she is changing jobs.

Work permits must be renewed annually; however, long-term (two or more years) work permits are issued if the applicant has worked consistently in Ghana for at least three years.

A foreign national may invest or start a business in Ghana by registering the company with the Registrar of Companies and then by applying to the Ghana Investment Promotion Centre, indicating his or her field of investments.

Foreign nationals may manage subsidiary companies in Ghana.

H. Residence Permits

Residence permits are issued by the Director of Immigration to foreign nationals wishing to reside in Ghana. The initial residence permit is valid for up to four years. Applications for renewals may be submitted to the Director within one month before the other permit expires. Subsequent renewals may be valid for up to eight years, at the Director's discretion. Applicants must normally be sponsored by established entities in Ghana or by universities or international organizations.

Residence permits are granted by the Ghana Immigration service to expatriate personnel employed by companies or individuals under the immigrant quota system. The immigrant quota specifies the number of foreign nationals a person or firm is permitted to employ in Ghana in a particular occupation. A foreign national on a company's quota automatically receives a residence permit.

New investors who wish to take up residence in Ghana are granted residence permits only after satisfying investment requirements with the Ghana Investment and Promotion Centre (GIPC). Investors qualifying under the Free Zone Act have an open immigrant quota.

I. Family and Personal Considerations

Family Members. Residence permits may be issued to a spouse and other dependents of a principal residence permit holder. Issuance is subject to the condition that the dependents may not undertake remunerated employment without authorization.

Drivers' Permits. In general, it is illegal for foreign nationals to drive in Ghana without Ghana drivers' licenses. However, an international driver's license may be used for a brief period. Foreign nationals must take a road test to obtain a Ghana driver's license.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	X	—	—
Cost-of-living allowance	X	—	—

	Taxable	Not Taxable	Comments
Housing allowance	X	—	—
Employer-provided housing (accommodation)	X	—	(a)
Employer-provided vehicle (private use)	X	—	(b)
Housing contribution	X	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	(c)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(d)
Capital gain from sale of personal residence in home country	—	X	(d)
Capital gains from sale of stock in home country	—	X	(d)

(a) The following are the amounts included in taxable income for employer-provided housing.

Item Provided	Amount Included in Taxable Income
Accommodation with furnishing	15% of the person's total cash emoluments
Accommodation only	10% of the person's total cash emoluments
Furnishing only	5% of the person's total cash emoluments
Shared accommodation	5% of the person's total cash emoluments.

(b) The following are the amounts included in taxable income for employer-provided vehicles.

Item Provided	Amount Included in Taxable Income
Vehicle with fuel	15% of the person's total cash emoluments, up to a maximum of ¢300,000 per month
Vehicle only	7.5% of the person's total cash emoluments, up to a maximum of ¢150,000 per month
Fuel only	7.5% of the person's total cash emoluments, up to a maximum of ¢150,000 per month.

(c) This item is not taxable if the employee is in transit. It is taxable as described in footnote (a) if the employer has provided the employee housing in the hotel.

(d) Income derived outside Ghana is taxable only if it is received or brought into Ghana when the employee is resident in Ghana.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2006 tax year is provided below for an expatriate who is a resident in Ghana for 2006 and is married with two dependent children under 18 years old. During 2006, the expatriate receives salary of ¢324,000,000, of which ¢84,000,000 was paid in Ghana. The balance was deposited in a home-country bank account and not remitted to Ghana. The individual's employer also provided housing with furnishings at a cost to the company of ¢6,000,000. The expatriate earned dividends from home-country investments of ¢12,000,000, ¢6,000,000 of which were remitted to Ghana. The following is the tax calculation using 2006 rates.

	¢	¢
Calculation of Taxable Income*		
Income:		
Salary	324,000,000	
Taxable value of accommodation with furnishing (15% of total emoluments of ¢324,000,000)	48,600,000	
Total income		372,600,000
Personal deduction:		
Married	(300,000)	
Total deductions		(300,000)
Taxable income		372,300,000
Calculation of Tax		
Tax on ¢2,400,000		0
Tax on ¢2,400,000 at 5%		120,000
Tax on ¢12,000,000 at 10%		1,200,000
Tax on ¢79,200,000 at 17.5%		13,860,000
Tax on ¢276,300,000 at 25%		69,075,000
¢372,300,000		
Income tax payable		84,255,000

* The dividend received is presumed to have suffered tax at a rate of 10% in the home country. No dividend tax is payable on this income because Ghana's dividend tax rate is 10%.

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A. Income Tax

Who Is Liable. Individuals resident in Greece are taxed on their worldwide income. Nonresidents are taxed on their Greek-source income only.

Residence is not specifically defined in the tax law. However, in general, the following two elements should be examined to determine whether an individual is resident in Greece for tax purposes:
• Physical presence in Greece; and
• The person's intention of making Greece the center of his or her activities.

Both the individuals and the tax authorities may use any facts to prove that the individual does not have the intention to make Greece the center of his or her activities.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of various income items, see Appendix 1.

Employment Income. Employees are subject to income tax on income derived from employment, which includes income from salaries, wages, allowances, pensions, other payments periodically made for services rendered and certain other income.

To calculate taxable income, income derived from all sources is accumulated. All deductible expenses (see *Deductions*) are subtracted, and the tax due is calculated at the graduated rates set forth in *Rates*. Certain tax credits may be claimed (see *Tax Credits*).

Under court decisions, expatriates working in Greece may take the position that certain benefits do not constitute taxable income. Although the tax authorities have sometimes disputed this position, they have generally accepted the position in recent years. However, the acceptance of the position by the authorities should not be assumed, and the issue should be examined on a case-by-case basis. Benefits for which this favorable position can be taken include the following:
• Home-leave reimbursement; and
• Moving expenses.

Expatriates must be reimbursed for the actual amount of costs incurred rather than be paid lump-sum allowances, such as "home leave allowances."

Other payments usually made to employees on international assignment are taxable, including the following:
• International service premiums;
• Cost-of-living allowances;
• Housing and education benefits;
• Relocation bonuses;
• Performance bonuses;

• Employee tax reimbursements; and
• Other allowances paid periodically and regularly.

Self-Employment and Business Income. Individuals are subject to income tax on business income, which is defined as income derived from any commercial, industrial or other activity undertaken for profit, as well as from a profession. In addition, self-employed individuals engaged in commercial activities must use the accrual method of accounting and must include in taxable income various items, including all receipts, expense reimbursements and interest payments directly related to the commercial activities.

Income derived from the activities described above is subject to income tax at the rates set forth in *Rates* or at the corporate rate, depending on the structure of the enterprise.

Investment Income. In Greece, dividends are paid out of after-tax profits. Shareholders are not taxed on dividend income from Greek shares.

Interest paid by banks operating in Greece on all types of deposits denominated in euros is subject to a 10% final withholding tax. Deposits denominated in currencies other than euros in Greek banks are exempt from tax if the depositor is a nonresident. Foreign interest is subject to a 20% withholding tax, which is not a final tax.

Rental income and royalties are aggregated with income from other sources and taxed at the rates in *Rates*. For nonresidents, the withholding tax rate for royalties is 20% unless otherwise provided by a relevant double tax treaty.

Directors' Fees. Directors' fees are subject to a final withholding tax at a rate of 29% for 2006 and 25% for 2007. Certain exemptions apply, and no further tax is imposed.

Deemed Income. The amount of declared income is compared with the amount of deemed income, determined based on evidence relating to amounts spent on the acquisition of assets and on living expenses.

In general, amounts spent for the acquisition of assets are considered evidence of income to the extent that such amounts cannot be justified by the following:
• Tax-exempt income or income that has been taxed under special rules, such as bank interest;
• Capital that has been accumulated out of taxed or tax-exempt income of prior years or from the sale of assets;
• The importation of foreign exchange into Greece (restrictions apply to the importation of foreign exchange by Greek tax residents to cover deemed income);
• Contracted loans; and
• Gifts received or gains from lotteries.

The list of items that can be used as evidence for the determination of an individual's deemed income is changed from time to time. Currently, the list contains the following items:
• Motor cars, pleasure boats, aircraft, and chattels of great value.
• Buildings, with the exception of buildings constructed or purchased for use as a first residence, provided the area of such

residential buildings does not exceed 120 square meters. If the area exceeds 120 square meters, it is prorated.
- Swimming pools constructed.
- Annual donations in excess of €300, except donations made to the state and municipal governments and other government bodies.
- Loans and gifts from parents to children in excess of €300.
- Annual expenditure for the payment of interest and principal with respect to loans or credit.
- Purchases of valuable articles over €5,000.
- Loans granted except for loans to companies, joint ventures or societies from partners or shareholders.

Detailed rules are provided for the calculation of deemed income.

Taxation of Employer-Provided Stock Options. Greek tax law does not specifically address the taxation of employer-provided stock options. However, under an interpretive circular issued by the Ministry of Finance, employees are not taxed on shares distributed under a capital increase that is effected on the implementation of a stock option plan, unless a chargeback is made to the local Greek company (that is, the foreign company charges the Greek company with a cost associated with the option).

Capital Gains. Capital gains derived by individuals are generally not subject to tax.

Gains derived from the transfer of a right connected with an enterprise, including a sublease, patent or trademark, are subject to a final tax at a rate of 20%. Gains derived from the transfer of an entire enterprise or its goodwill, as well as from the transfer of a participation in a limited liability company or partnership, are also subject to a final tax at a rate of 20%. Sales proceeds derived from the transfer of unlisted shares are subject to tax at a rate of 5%.

For individuals, no further tax is imposed on the gains described in the preceding paragraph.

Deductions

Personal Deductions. The following expenses are deductible in determining an individual's tax base:
- Obligatory social security contributions.
- Life and accident insurance premiums for individuals and their dependants up to €100.
- Donations to charity funds, public entities, certain nonprofit organizations and the Greek state under certain conditions.
- Voluntary contributions paid to pension funds that have been established by law.
- 100% of interest expense on loans used to acquire a primary residence in Greece of up to 120 square meters if the loans were obtained before 31 December 2002.
- Rent expenses of an individual who relocates outside of Athens or Thessaloniki for the first 5 years at his or her or new location or of an individual who relocates to his or her place of work and rents out his prior residence. In both cases, the maximum deduction is €300 per month.
- 20% of mutual fund purchases, up to a maximum deduction of €3,000. The deduction is allowed on the third anniversary of the mutual fund purchase.

- 20% for the installation of natural gas or a replacement for natural gas, up to a maximum deduction of €500.
- Automatic dependent disability (over 67%) deduction.

Personal Allowances. The first tax-free income tax band of €11,000 is increased by the following amounts:
- €1,000 if the individual has one dependent child;
- €2,000 if the individual has two dependent children;
- €10,000 if the individual has three dependent children; and
- €1,000 for each child in excess of three children.

Nonresidents, who earn income from Greek sources may not claim any of the above deductions and are taxed at a rate of 5% on the first tax-free band of €11,000. Consequently, a €550 tax applies to the first bracket for nonresidents.

Business Deductions. Certain business expenses that are deductible are specifically mentioned in the tax law. These include, among others, the following:
- Donations to approved organizations;
- Interest, except interest and penalties on overdue tax payments;
- Taxes, except from income tax and property taxes;
- Provisions for employees' termination indemnities, to the extent the provision refers to employees expected to retire within the following year; and
- Repair and maintenance costs incurred on leasehold property in the financial year.

Rates. The following table presents the 2005 income tax rates.

Taxable Income Exceeding €	Taxable Income Not Exceeding €	Tax on Lower Amount €	Rate on Excess %
0	11,000	0	0*
11,000	13,000	0	15
13,000	23,000	300	30
23,000	—	3,300	40

* Nonresidents are taxed at a rate of 5% on income in this bracket, unless they are EU residents who earn at least 90% of their total income in Greece.

An additional tax of 1.5% is levied on gross income from leasing land and buildings, which is increased to 3% if the area of the real estate exceeds 300 square meters and if the real estate is used for residential purposes. The additional tax cannot exceed the amount of tax that corresponds to the overall net income of the individual.

Credits. Individuals may subtract from the tax computed on their taxable income certain credits. All claims regarding expenses must be supported by documentation. The tax credits include the following:
- 20% of medical and hospital expenses for individuals and dependent family members, up to a maximum credit of €6,000.
- 20% of rent payments for the individual's principal residence, up to a maximum credit of €220. This deduction does not apply if the individual has been granted housing allowances.
- The amount spent by the individual for educational lessons with a private tutor or language lessons for the individual and the individual's children, up to a maximum credit of €220 per taxpayer per child.

- Tax credit for a mortgage loan used to purchase a primary residence. The credit is equal to 20% of interest expense related to a loan used to acquire a primary residence as of 1 January 2003. However, the interest expense is calculated for loans up to €200,000. For a loan in excess of €200,000, the interest is prorated. The interest is fully credited on homes up to 120 square meters. If the home is larger than 120 square meters, the interest is prorated.
- 20% of alimony payments made by either spouse. The maximum amount of alimony payments per year to which the 20% rate can be applied is €3,000.

Nonresidents who earn income from Greek sources are not entitled to any of the above credits, unless they are EU residents who earn at least 90% of their total income in Greece.

Residents are entitled to a credit for foreign taxes paid, up to the amount of Greek tax attributable to the foreign-source income.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses incurred by any enterprise may be offset against income derived from other sources in the same year. The balance of unused losses may be carried forward to offset profits in the five following years.

B. Other Taxes

Inheritance and Gift Taxes. All property located in Greece, regardless of ownership, and any movable property located abroad that belongs to a Greek citizen or to any other person domiciled in Greece are subject to inheritance tax. All property located in Greece and any movable property located abroad that is donated by a Greek citizen or by a foreigner to a person domiciled in Greece are subject to gift tax.

The inheritance and gift tax rates are unified. The four categories of rates depend on the relationship of the beneficiary to the deceased or donor. The rates are higher for more distant relatives and unrelated persons. The following table illustrates the increase in the tax rate for categories of persons less closely related to the deceased or donor.

Category	Tax on €220,000 €	Tax Rate on Amount Exceeding €220,000 %
A	13,000	20
B	36,500	30
C	59,000	40

Greece entered into estate tax treaties with Germany, Italy, Spain and the United States to prevent double estate taxation.

Real Estate Taxes. Effective from 1 January 2006, purchases of new real estate are subject to value-added tax (VAT) at a rate of 19% under certain circumstances. An exemption from VAT can be obtained for the purchase of a primary residence.

Sales of used real estate that was acquired on or after 1 January 2006 are subject to tax on the difference between the sale price and the acquisition price. The rate of the tax decreases as the number of years of ownership increases. The highest rate of the tax is 20% for real estate owned for 5 years or less, and the rate is 0% for real estate owned more than 25 years.

In addition, a 1% tax is also imposed on the price of real estate that is obtained on or after 1 January 2006 and subsequently transferred.

A real estate wealth tax is in force in Greece. For unmarried individuals without children, the tax is calculated by the objective value of real estate holdings in excess of the tax exempt amount of €243,600 at rates ranging from 0.3% to 0.8%.

C. Social Security

Coverage. Several organizations administer the state social security system in Greece. In general, employed persons must participate in the Social Insurance Institute (IKA), which is financed by employer and employee contributions. Its benefits include pensions, medical expenses and long-term disability payments. Several other insurance organizations cover self-employed persons, depending on their trade or profession.

Contributions. Social security contributions are made by employers and employees based on a percentage of the employee's monthly salary.

The maximum monthly salary subject to social security contributions is currently €2,140.50 for employees insured with the social security system in Greece before 1 January 1993 and for employees insured in an EU country or in a country with which Greece has entered into a social security totalization agreement. For other employees, the maximum monthly salary subject to social security contributions is currently €4,881.26.

Salaries in Greece are paid on a 14-month basis, and, accordingly, 14 monthly contributions are made.

The following are the most common percentages applicable to occupations other than dangerous occupations:

- Employers: 28.06% of monthly salary; and
- Employees: 16% of monthly salary.

The percentages for monthly contributions and the ceiling on overall contributions are revised from time to time (usually annually).

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Greece has entered into totalization agreements with the countries listed below.

Argentina	Iceland	Romania
Austria	Ireland	Serbia and Montenegro
Belgium	Italy	Spain
Brazil	Libya	Sweden
Canada	Liechtenstein	Switzerland
Cyprus	Luxembourg	United Kingdom
Denmark	Netherlands	United States
Egypt	New Zealand	Uruguay
Finland	Norway	Venezuela
France	Poland	
Germany	Portugal	

D. Tax Filing and Payment Procedures

The normal due date for the filing of income tax returns for a calendar year is 1 March of the following year. The due date is extended to 17 April if the income declared includes income from an individual commercial enterprise or profession with a financial year-end in November or December that is required to maintain a full set of double-entry books. The due date is further extended to 3 May if the income declared includes income from employment, pensions, foreign sources, Greek sources in the case of a nonresident, remuneration of an officer or crew member of a merchant ship or participation in a partnership.

Although married persons must file joint tax returns, they are taxed separately, not jointly, on all types of income.

Tax liability is determined by deducting from the computed amount of tax any previous advance payments of income tax, any taxes withheld at source and any creditable amounts of foreign taxes paid.

In addition, if the individual receives income from real estate or a business or if he or she is a freelancer, 55% of the amount of a current year's income tax must be paid as an advance payment of the following year's tax liability. The amount of the advance tax payment reduces the following year's tax liability.

Income tax is usually paid in three equal bimonthly installments. A discount at a rate of 1.5% is granted if the tax is paid in a lump sum by the due date for the first installment.

E. Double Tax Relief and Tax Treaties

Greek residents are entitled to a credit for foreign taxes paid, not to exceed the amount of Greek tax payable on the foreign-source income.

Greece has entered into double tax treaties with the following countries.

Albania	Hungary	Poland
Armenia	India	Portugal
Austria	Ireland	Romania
Belgium	Israel	Slovak Republic
Bulgaria	Italy	Slovenia
China	Korea	South Africa
Croatia	Kuwait	Spain
Cyprus	Latvia	Sweden
Czech Republic	Lithuania	Switzerland
Denmark	Luxembourg	Turkey
Finland	Mexico	Ukraine
France	Moldova	United Kingdom
Georgia	Netherlands	United States
Germany	Norway	Uzbekistan

F. Temporary Visas

An entry visa, which may be obtained from any Greek embassy or consulate, is usually required for visiting Greece. However, a visa is not required for citizens of EU-member countries, for citizens of the United States or for citizens of countries that have signed reciprocity treaties with Greece. Temporary visas may be issued for educational purposes. Non-EU nationals working for companies in other EU-member countries who are seconded to affiliate companies or subsidiaries in Greece are entitled to a special entrance visa.

G. Permits for Work and Self-Employment

EU nationals do not need permits to work in Greece. However, non-EU nationals must obtain residence permits to live and work in Greece.

Individuals who have adequate means to support their activities and who are engaged in activities that make a positive contribution to the national economy, may be self-employed (freelancers) in Greece if they obtain an entrance visa and file an application for a residence permit.

H. Residence Permits

EU nationals who wish to stay in Greece longer than three months must apply for residence permits. These permits, which may not be denied to EU nationals, are granted for periods of one to five years by the appropriate Police Department (Alien Bureau) and are renewable indefinitely.

Non-EU nationals are granted residence permits by the relevant municipality or the Ministry of Internal Affairs. Residence permits are usually valid for one year and are renewable.

I. Family and Personal Considerations

Family Members. Residence permits are granted to an EU citizen's non-EU family members. Residence permits are granted to a non-EU expatriate's family members only after two years of employment in Greece. However, family members must file separate applications if they wish to work.

Marital Property Regime. Spouses (heterosexual couples) in Greece may choose the marital property regime they prefer. If they do not make an election, a regime of separate property applies. Spouses under a separate property regime may nonetheless acquire common property.

Before or during the marriage, the spouses may modify the default regime of separate property by entering into a marital contract adopting a community of property regime. The contract must be notarized and recorded in the public registry. The community property claims purport to survive a permanent move to a non-community property country.

The property relationship of the spouses is subject, in order of priority, to the law of their last common nationality if one of them retains it, to the law of their common marital residence or to the law of the country to which they are most closely connected. These rules are fixed permanently at the time the marriage is solemnized.

Forced Heirship. The Greek rules on forced heirship protect the closest relatives of the decedent, who may not disinherit them. Forced heirs are always entitled to a certain percentage of the estate, and they have all the rights and duties of other heirs. Forced heirs in general are the descendents, the parents and the surviving spouse of the decedent. If descendents survive, the parents are excluded, and the surviving spouse's portion is one-eighth of the estate.

Forced heirs are entitled to one-half of their intestate share of the decedent's estate. The forced heir's right may be inherited and devolves under the rules of the intestate succession.

Any testamentary dispositions to the prejudice of the forced heir or any restrictions imposed on his or her share by the will are void. *Inter vivos* donations of the testator to the detriment of the estate and, consequently, to the legitimate portion are canceled if the estate at death is insufficient to provide the forced heirs their portions.

Under the provisions of Greek law, distribution of all property, movable and immovable, is governed by the law of the decedent's country of nationality at death.

Drivers' Permits. An expatriate may drive legally in Greece on his or her home country driver's license. EU citizens are provided with EU drivers' licenses, which they may use for up to one year. Non-EU citizens are provided with international drivers' licenses.

No examination is required to obtain a Greek driver's license for holders of European or international drivers' licenses.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(a)
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	(b)

* Bracketed amounts reduce taxable income.
(a) Interest and dividends arising abroad are taxable in Greece only if the individual entitled to the income is resident for tax purposes in Greece.
(b) The proceeds from the sale of shares listed on a foreign stock exchange are taxable in Greece only if the individual entitled to the income is resident for tax purposes in Greece.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample 2005 tax calculation for a married taxpayer with two dependent children.

Calculation of Taxable Income	**€**
Salary: €2,000 per month x 14 months (a)	28,000
Deduct:	
Social insurance contributions (maximum monthly salary of €2,000 x 16% x 14 months) (b)	(4,480)
	23,520

Calculation of Tax	
Tax on €13,000 at 0%	0
Tax on €10,000 at 30%	3,000
Tax on €520 at 40%	208
€23,520	
Income tax payable	3,208

(a) Salaries in Greece are paid on a 14-month basis.
(b) For employees insured before 1 January 1993 in Greece, in a European Union (EU) country or in a country with which Greece has entered into a social security totalization agreement, the social security contributions are capped at a maximum monthly salary of €2,140.50. For other employees, the maximum monthly salary subject to social security contributions is €4,881.26.

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A. Income Tax

Who Is Liable. Guam residents are subject to tax on all income, regardless of source. An individual who is not a citizen or permanent resident of the United States or a resident of Guam is subject to tax on Guam-source income only.

A nonresident alien is subject to Guam tax on income that is effectively connected with a Guam trade or business and on Guam-source fixed or determinable, annual or periodical gains, profits and income (generally investment income, including dividends, interest and rental income).

Foreign nationals who are not lawful U.S. permanent residents (that is, who do not hold green cards) are considered Guam residents if they meet both of the following requirements:
- Present in Guam for at least 31 days during the current year; and
- Deemed present for at least 183 days during a test period of three consecutive years, including the current year, using a formula weighted according to the following percentages:

Current year	100.00%
1st preceding year	33.33%
2nd preceding year	16.67%

Among the exceptions to the test outlined above are the following conditions:
- An individual may claim to be a nonresident of Guam in the year of departure from Guam by having a closer connection to a foreign country.
- Under certain circumstances, it may be beneficial for an individual to be considered a resident of Guam for income tax purposes. If certain conditions are met, an individual may, for tax purposes, elect to be a resident in the year of arrival (first-year election).

Because Guam is a U.S. territory, U.S. citizens and permanent residents with Guam income are taxed somewhat differently from nonresidents. At present, Guam is using the U.S. Internal Revenue Code in "mirror-image" fashion, with the word "Guam" substituted for "United States" wherever it appears. Citizens and permanent residents of the United States who are bona fide residents of Guam must file their individual tax returns with the government of Guam instead of with the U.S. Internal Revenue Service.

For tax years ending after 22 October 2004, citizens or permanent residents of the United States are considered bona fide residents of Guam if they satisfy both of the following conditions:
- They are physically present in Guam for 183 days or more during the tax year; and
- They do not have a tax home outside Guam during the tax year and do not have a closer connection to the United States or a foreign country.

Income Subject to Tax

Employment Income. Gross income and deductions in Guam are determined under the same rules as those in the United States. Taxable income from personal services includes all cash wages, salaries, commissions and fees paid for services performed in Guam, regardless of where the payments are made. In addition, taxable income includes the value of an employee's expenses paid by the employer and the fair-market value of noncash goods and services provided by the employer, including housing and vehicles.

A nonresident alien who performs personal services as an employee in Guam at any time during the tax year is considered to be engaged in a Guam trade or business. A limited exception to this rule applies to a nonresident alien performing services in Guam if the services are performed for a foreign employer, if the employee is present in Guam for no longer than 90 days during the year and if compensation for the services does not exceed $3,000.

Compensation is considered to be from a Guam source if it is paid for services performed in Guam, regardless of where the income is paid or received. If income is paid for services rendered partly in Guam and partly in a foreign country and if the amount of income attributable to services performed in Guam cannot be accurately determined, the Guam portion is determined based on a workday ratio. A Guam or foreign employer is responsible for withholding Guam income tax from payments made to nonresident alien employees.

Educational allowances provided by employers to their local or expatriate employees' children 18 years of age and younger are taxable for income tax and social security tax purposes.

Self-Employment and Business Income. Every Guam resident who operates a business is taxable on the worldwide income of the business. Nonresidents are taxable on business income from Guam sources only. The rules for the computation of an individual's taxable income from a business are similar to the U.S. rules. A 4% gross receipts tax applies on all income earned by an individual in connection with a business in Guam, with certain exceptions, including income from wholesale sales, real property sales and export sales.

Investment Income. In general, dividend and interest income of residents is taxed at the ordinary rates (outlined in *Rates*). Nonresident alien individuals are subject to special rules.

Dividends received by individuals from domestic corporations and "qualified foreign corporations" are treated as net capital gains for purposes of applying the capital gain tax rates for both the regular tax and alternative minimum tax. Consequently, dividends are taxed at a 15% rate (5% for taxpayers with income in the lower brackets). To qualify for the 15% rate, the shareholder must hold a share of stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date.

Guam-source investment income received by nonresidents is ordinarily taxed on a gross basis at a flat 30% rate, which may be withheld by the payer.

Portfolio interest received by nonresidents is exempt from the 30% tax rate. An election to tax rental income on a net basis is available.

Directors' Fees. In general, directors' fees are considered to be earnings from self-employment. A 4% gross receipts tax applies to directors' fees earned in Guam.

Taxation of Employer-Provided Stock Options. The taxation of employer-provided stock options depends on whether the stock option plan is qualified (meets certain restrictions) or nonqualified. Options received under a qualified plan are not taxed at the time of grant or at the time of exercise. Gains derived from the sale of stock acquired under a qualified plan are subject to tax as a capital gain. An employee who receives a nonqualified stock option is subject to tax at the time of the grant on the difference between the fair market value of the option and the amount paid, if any, for the option. If the nonqualified stock option does not have a readily ascertainable fair market value, then the employee recognizes compensation income at the time of exercise of the option.

Capital Gains. Net capital gains are taxed at ordinary rates, except that the maximum marginal rate of tax on long-term gains is 15%. Net capital gains equal the difference between net long-term capital gains and short-term capital losses. Long-term refers to assets held for longer than 12 months. Short-term capital gains are taxed as ordinary income at the rates set forth in *Rates*.

In general, capital gains received by nonresidents from the sale of stock in a Guam company is exempt from the 30% tax rate described in *Investment Income*. Gains received by nonresidents from sales of Guam real property interests are generally considered to be effectively connected income, and special complex rules apply.

Deductions. Deductions and personal exemptions are allowed under the same rules that apply in the United States.

In general, business expenses that are considered ordinary and necessary expenses of carrying on a trade or business may be deducted from gross income. Capital expenditure may not be deducted, but generally may be depreciated over a specified life.

Rates. The applicable Guam tax rates, like the U.S. rates, depend on whether an individual is married and, if married, whether the individual elects to file a joint return with his or her spouse. Certain individuals also qualify to file as head of household. The graduated tax rates listed below apply in Guam for 2006.

Married Filing Joint Return

Taxable Income Exceeding $	Taxable Income Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
0	15,100	0.00	10
15,100	61,300	1,510.00	15
61,300	123,700	8,440.00	25
123,700	188,450	24,040.00	28
188,450	336,550	42,170.00	33
336,550	—	91,043.00	35

Single Individual

Taxable Income Exceeding $	Taxable Income Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
0	7,550	0.00	10
7,550	30,650	755.00	15
30,650	74,200	4,220.00	25
74,200	154,800	15,107.50	28
154,800	336,550	37,675.50	33
336,550	—	97,653.00	35

Head of Household

Taxable Income Exceeding $	Taxable Income Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
0	10,750	0.00	10
10,750	41,050	1,075.00	15
41,050	106,000	5,620.00	25
106,000	171,650	21,857.50	28
171,650	336,550	40,239.50	33
336,550	—	94,656.50	35

Married Filing Separate Return

Taxable Income Exceeding $	Taxable Income Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
0	7,550	0.00	10
7,550	30,650	755.00	15
30,650	61,850	4,220.00	25
61,850	94,225	12,020.00	28
94,225	168,275	21,085.00	33
168,275	—	45,521.50	35

The indicated ranges of taxable income are indexed annually for inflation. These rates are used to compute an individual's regular federal tax liability.

Guam also imposes an alternative minimum tax (AMT) at graduated rates on alternative minimum taxable income. For alternative minimum taxable income of up to $175,000 (after deducting the exemption amount), the applicable AMT rate is 26%. For amounts exceeding $175,000, the AMT rate is 28%.The primary purpose of the AMT is to prevent individuals with substantial economic income from using preferential tax deductions, exclusions and credits to substantially reduce or eliminate their tax liability. After an individual computes both the regular tax and AMT liabilities, the higher of the two is the final liability.

Nonresidents are taxed on income effectively connected with a Guam trade or business after related deductions at the graduated rates of tax set forth above.

Relief for Losses. Business losses not utilized in the year incurred may be deducted from taxable income earned in the 2 years preceding the year of loss or in the following 20 years.

Capital losses are fully deductible against capital gains. However, net capital losses are deductible against other income, up to an annual limit of $3,000. Unused capital losses may be carried forward indefinitely.

Passive losses, including those generated from limited partnership investments or rental real estate, may be offset only against passive income. Limited relief is available for individuals who actively participate in rental real estate activities. Losses from these activities may offset up to $25,000 of other income. This offset is phased out for taxpayers with adjusted gross income between $100,000 and $150,000, and special rules apply to married individuals filing separate tax returns. Disallowed losses may be carried forward indefinitely and used to offset net passive income in future years. Any remaining loss may be used in full when a taxpayer sells the investment.

B. Estate and Gift Taxes

Guam does not impose estate or gift tax. Non-U.S. citizens and U.S. citizens who obtained their citizenship by birth or naturalization in Guam are subject to U.S. estate and gift tax only on assets located in the United States, not on those located in Guam. U.S. citizens other than those who received their citizenship by birth or naturalization in Guam are subject to U.S. estate and gift taxes on all of their assets, including those located in Guam.

C. Social Security

Guam is covered under the U.S. social security system. For 2006, the old-age, survivor and disability insurance component (6.2%) of the social security tax applies to only the first $94,200 of an employee's wages. The health insurance component (1.45%) applies to all wages. For additional details, see the Social Security section of the U.S. chapter in this book.

Social Security tax is imposed on compensation for services performed in Guam, regardless of the citizenship or residence of an employee or employer. A Guam or foreign employer is responsible for withholding social security taxes from compensation paid to nonresident alien employees.

D. Tax Filing and Payment Procedures

Guam income tax returns are filed under the same rules, and using the same forms, applicable in the United States, but they are filed with the government of Guam instead of with the U.S. Internal Revenue Service. Residents of Guam must report their U.S. income on their Guam return, and residents of the United States must report their Guam income on their U.S. return. Income taxes withheld on Guam wages offset Guam income reported on a U.S. return, and vice versa. Estimated tax payments are filed with Guam or the United States, depending on where a taxpayer resides on the date the payment is due. Self-employment taxes are paid to the U.S. Internal Revenue Service.

If a nonresident alien is not engaged in a Guam trade or business and if all of the tax owed on Guam-source income is withheld, the nonresident alien is not required to file a tax return.

Nonresidents must file tax returns if they are engaged in a trade or business in Guam, even if they report no income from the business. Individuals not engaged in a Guam trade or business must file returns if they have any Guam-source income on which all of the tax due is not withheld. Nonresident employees subject to Guam income tax withholding must file tax returns by 15 April. Other nonresidents must file returns by 15 June.

E. Double Tax Relief and Tax Treaties

Foreign tax credits offset taxes on Guam income in the same manner as in the United States. Under the Guam Investment Equity Act, Guam may apply the Guam withholding tax at the applicable U.S. income tax treaty rates.

F. Nonimmigrant and Immigrant Visas

The immigration procedures in Guam are the same as those for the United States. For details, see the chapter on the United States.

G. Marital Property Regime

Guam is a community property jurisdiction. Any person who establishes residency or domicile in Guam is subject to Guam's community property laws. For these purposes, continuous physical presence in Guam for at least 90 days normally gives rise to a conclusive presumption of residence in Guam. During divorce proceedings, the community property laws apply to all property acquired during the marriage, whether located within or outside Guam.

Under Guam law, community property is any property acquired by either spouse during the marriage that is not separate property. Separate property is property acquired by either spouse before the marriage and property designated as separate property in a written agreement between the spouses. Income derived from separate property is separate property.

Guam's community property laws apply only to married couples. The laws of Guam do not prescribe any particular form for the ceremony of marriage. However, the law requires that the parties to the marriage declare in the presence of the person solemnizing the marriage that they take each other as husband and wife, implying that marriage under the laws of Guam is valid only between a man and a woman.

GUATEMALA

Country Code 502

Please direct all inquiries regarding Guatemala to the persons listed below in the San José, Costa Rica office of Ernst & Young. All engagements are coordinated by the San José, Costa Rica office.

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A. Income Tax

Who Is Liable. Domiciled and nondomiciled individuals are taxed on Guatemalan-source income only.

For tax purposes, domiciled individuals are Guatemalan citizens and foreign individuals registered with the tax authorities as domiciled individuals. If a foreign individual does not register with the tax authorities, the individual is deemed to be domiciled in Guatemala if he or she lives in Guatemala for more than 12 consecutive months and if he or she is legally authorized to work in Guatemala.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items see Appendix 1.

Employment Income. All income from employment, including benefits in kind, is taxable.

Self-Employment and Business Income. Both domiciled and nondomiciled individuals are subject to tax on Guatemalan-source self-employment and business income.

Self-employed individuals may elect to be subject to a 5% withholding tax on their gross income (the 5% Withholding Tax Regime) or to a 31% tax on their net taxable income, which equals total earnings less deductible expenses (the 31% Tax Regime).

Investment Income. Dividends paid to domiciled or nondomiciled individuals are exempt from income tax if the distributing entity has paid the corresponding income tax at the corporate level.

Interest paid to domiciled and nondomiciled individuals is subject to a final 10% withholding tax and is considered to be a nondeductible expense to the payer.

Nondomiciled individuals are subject to a withholding tax at a rate of 10% on interest related to loan proceeds that have not entered the country through the local banking system. For royalties and other compensation received by nondomiciled individuals, the applicable withholding tax rate is 31%.

Directors' Fees. Directors' fees paid to nondomiciled individuals are subject to a final withholding tax at a rate of 31%. Domiciled individuals must include director fees in their taxable income.

Capital Gains and Losses. Capital gains are taxed at a rate of 10% for individuals operating under the 5% Withholding Tax Regime. For individuals operating under the 31% Regime, capital gains are taxed at a 31% rate. Capital losses may be carried forward for five years to offset future capital gains.

Deductions. Deductible personal expenses consist of the following items:

- Personal deduction of Q 36,000;
- Life insurance premiums;
- Social security contributions;
- Retirement plan payments;
- Alimony expenses;
- Charitable contributions (up to 5% of the net income); and

• Medical expenses (expenses incurred on medications do not qualify as medical expenses).

Rates. For the 2006 tax year, income tax is levied on employment income received by domiciled individuals at the rates set forth in the following table.

Taxable Income		Tax on Lower	Rate on
Exceeding Q	Not Exceeding Q	Amount Q	Excess %
0	65,000	0	15
65,000	180,000	9,750	20
180,000	295,000	32,750	25
295,000	—	61,500	31

Nondomiciled individuals are subject to withholding tax at a rate of 10% on salaries, fees, commissions and allowances.

Nondomiciled individuals with income subject to tax at a fixed withholding rate are not subject to further taxation.

For a sample tax calculation, see Appendix 2.

Credits. An employee may credit the value-added tax (VAT) paid during the year against the income tax liability. The credit is limited to 12% of the employee's gross income.

Relief for Losses. Self-employed individuals may not carry forward losses to offset future income from self-employment.

B. Inheritance and Gift Taxes

A separate tax law governs inherited property and gifts resulting from death. The tax rates range from 0% to 6% for bequests or gifts resulting from death to spouses or children. Rates up to 14% apply to other relatives. For unrelated parties, rates range from 12% to 25%. Value-added tax (VAT) at a rate of 12% applies to *inter vivos* gifts.

C. Social Security

Social security contributions are levied on salaries. The contribution rates are 12.67% for employer contributions and 4.83% for employee contributions. No limits are imposed on the amount of earnings subject to social security contributions.

D. Tax Filing and Payment Procedures

Employers are responsible for withholding income tax and social security contributions from the employee's salary on a monthly basis. Employed and self-employed individuals are not required to file annual income tax returns if their income tax liability has been satisfied through withholding.

The ordinary fiscal year runs from 1 January to 31 December. Returns must be filed, and any tax liabilities due must be paid within three months after the end of the tax year (31 March). Interest and penalty charges are imposed on late payments.

Nondomiciled individuals with income subject to tax at a fixed withholding rate are not subject to further taxation and are not required to file an annual income tax return.

E. Double Tax Relief and Tax Treaties

Guatemala has not entered into a tax treaty with another country.

F. Residence Permits

An application for a temporary residence permit for a foreign person in Guatemala must include the following items:

- A form filled out with the personal data of the applicant and the members of the applicant's family who wish to live in Guatemala;
- A recent photograph;
- Passport and a legalized photocopy of the passport;
- Certification stating the passport's validity and term (in Spanish or in the original language translated into Spanish) issued by the embassy or consulate in the applicant's country or a birth certificate for persons from countries with which Guatemala does not have diplomatic relations;
- Proof stating that the applicant does not have a criminal record in the country or countries where he or she has lived during the last five years (or, for countries that do not issue these certificates, a certificate stating the country's refusal); and
- Proof of a Guatemalan guarantor, whether an individual or an entity.

When the temporary residence permit is granted, the applicant's passport is sealed. A temporary residence permit is valid for up to two years.

G. Work Permits

Before obtaining a work permit in Guatemala, an applicant must request a temporary residence permit (see Section F). An application for a work permit is filed with the Ministry of Work and Social Security and must include the following documents:

- Proof that a temporary residence permit has been granted or applied for;
- Criminal record; and
- Accounting certification stating the number of Guatemalan and foreign employees employed by the entity.

H. Family and Personal Considerations

Marital Property Regime. The following marital property regimes apply under the Guatemalan Civil Code:

- Absolute community: All assets brought into the marriage by the spouses or assets acquired during the marriage belong to the conjugal estate and are divided in half if the marriage is annulled.
- Absolute separation: Each spouse keeps the ownership, management and income of his or her own assets. Each spouse owns the salaries, wages, emoluments and profits obtained by his or her own personal services.
- Community property: The husband and wife each keep the ownership of assets they had before the marriage and certain assets acquired during the marriage. If the marriage is annulled, they each own half of the following assets:
  - The profits of the assets owned by each of the spouses, from which the production, repair, conservation expenses and tax and municipal burden of the corresponding assets are deducted;
  - Assets purchased with such profits, even if the acquisition is made in the name of only one of the spouses; and
  - Assets acquired by each one of the spouses through his or her work, employment, profession or industry.

A marital property regime that was adopted outside Guatemala is valid in Guatemala if such regime is expressly provided by the

Guatemalan Civil Code (absolute community, absolute separation and community property) and if the regime does not infringe on the public order.

Drivers' Permits. To obtain a driver's license in Guatemala, a foreign person must present the following documents:
• A valid driver's license from the applicant's country;
• Two identity card-size photographs; and
• Complete photocopy of the passport.

A driver's license is granted for one year and may be extended on request.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement	X	—	—
Value of meals provided	X	—	—
Value of lodging provided	X	—	—
Pension from retirement	X	—	(a)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gains from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* The bracketed amount reduces taxable income.

(a) Although Guatemala has a territorial income tax system, recent amendments to the "Exempt Income Tax" provisions in the tax law repealed the section that expressly provided that retirement pensions originated abroad but received by individuals domiciled in Guatemala are exempt from tax. Consequently, the tax authorities may take the position that pensions originated abroad and received by individuals domiciled in Guatemala must be included in taxable income.

APPENDIX 2: SAMPLE TAX CALCULATION

In the example below, a foreign individual works as an employee in Guatemala. The employee earns an annual salary of Q 240,000 and a Christmas bonus and annual bonus, which are each Q 20,000.

The annual bonus and the Christmas bonus are exempt from income tax.

A foreign individual who works as an employee in Guatemala and receives salaries and other remuneration from Guatemalan sources is required to file a declaration of projected income tax with the employer at the beginning of the tax year (January). Based on the declaration, the employer calculates the annual income tax and determines the monthly amount to be withheld from the employee's salary.

The projected income tax return filed at the beginning of the tax year includes an estimate of VAT to be paid during the tax year. This estimate equals 6% of the gross salary. At the end of the tax year, the employee files with the tax authorities a value-added tax (VAT) return reporting the VAT paid during the tax year. The employee may credit the VAT paid against the income tax liability for the year, subject to a maximum limitation of 12% of the employee's gross income.

Within the first ten business days of January of the tax year, the employee presents a declaration to the employer that includes the following information.

	Q	Q
Net annual income from salaries		240,000
Total net income		240,000
Deductions:		
Personal deductions	(36,000)	
Social security and unemployment insurance tax	(11,592)	
Life insurance premiums	(5,000)	
Accident and medical insurance premiums	(4,500)	
Total deductions		(57,092)
Taxable income		182,908

On the basis of the above declaration, the employer makes the following tax calculation.

	Q	Q
Tax payable:		
On Q 180,000	32,750	
On Q 2,908 at 25%	727	33,477
Less credit estimated for VAT: 6% of Q 280,000		(16,800)
Annual tax subject to withholding		16,677
Monthly withholding tax: Q 16,677 ÷ 12		1,390

At the end of the tax year (31 December), the employer acting as a withholding agent determines the amount of income tax of each employee on the basis of salaries and compensation effectively paid during the year. At the end of February, employers must charge to employees any balance of income tax due or refund to employees any excess income tax withheld. The employer must file a withholding income tax return with the tax authorities by 31 March of each year. Employees are not required to file an annual tax return with the tax authorities. The following is a calculation of the final tax liability for the employee.

	Q
Annual tax calculated	33,477
Less: 100%VAT credit, based on the VAT return filed	(28,800)
Definitive annual tax	4,677
Less withholdings made during the period	(16,677)
Excess amount withheld	(12,000)

GUERNSEY, CHANNEL ISLANDS

Country Code 44

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A. Income Tax

Who Is Liable. An individual who is solely resident or principally resident in Guernsey is subject to Guernsey income tax on worldwide income. An individual who is resident but not principally or solely resident in Guernsey is subject to tax on Guernsey-source income and on remittances of income to Guernsey.

An individual is considered resident in Guernsey in any fiscal year, which is the calendar year, if he or she satisfies either of the following conditions:

- He or she spends more than 91 days in Guernsey in that year; or
- He or she spends more than 35 days in Guernsey in that year and has spent 365 days or more in Guernsey in the preceding four years.

An individual is treated as solely resident if in a fiscal year he or she is resident in Guernsey and not resident elsewhere. A person is considered resident elsewhere if he or she spends 91 or more days in that place.

An individual is considered principally resident in Guernsey if any of the following conditions are satisfied:

- In a fiscal year, he or she spends 182 days or more in Guernsey;
- In a fiscal year, he or she spends 91 days in Guernsey, and during the four preceding years he or she spent more than 730 days in Guernsey; or
- Guernsey is considered one's permanent home.

Almost any Guernsey resident making an income payment to a person resident outside Guernsey is regarded as the agent of the nonresident. The agent may be assessed in place of the nonresident, and therefore the agent has the right to withhold income tax at a rate of 20% from the payment and to remit it to the tax authorities. However, this rule does not apply if the recipient is resident in Jersey or the United Kingdom, receives the payment as business income and does not have a permanent establishment in Guernsey.

Income Subject to Tax

Employment Income. Taxable employment income includes salaries, wages, bonuses, gratuities, benefits in kind, directors' fees and pensions.

Wages and salaries paid by Guernsey resident companies to employees whose duties are carried on outside Guernsey are exempt from Guernsey income tax.

Self-Employment and Business Income. All self-employed persons carrying on a trade, business or profession in Guernsey or partly in Guernsey are subject to income tax.

Taxable income consists of accounting profits subject to certain adjustments.

Investment Income. Dividends, interest, royalties and income from the rental of real property are included in taxable income and taxed at a rate of 20%.

Interest payable by Guernsey banks to nonresidents is exempt from Guernsey income tax.

Taxation of Employer-Provided Stock Options. New tax rules apply to stock options granted after 1 January 2004. Options granted before this date are taxed under the old rules, which provide that an individual who sells shares acquired under an employer-provided stock option plan realizes taxable income equal to the amount of the difference between the fair market value of the underlying shares at the time of grant and the strike price. Any tax payable is deferred until the shares are sold.

Effective from 1 January 2004, any discount on market value at grant is taxable in full in the year of the grant, regardless of whether the stock option is ever exercised. If it is demonstrated that the option will never be exercised (for example, if the employee waives the option or the option lapses), the tax paid in the year of grant is refunded.

Capital Gains. Guernsey does not impose a capital gains tax.

Deductions

Personal Deductions and Allowances. Guernsey operates a system of personal allowances and deductions similar to that in force in the United Kingdom. (For further details, see the United Kingdom chapter in this book.) However, all interest paid is tax-deductible, regardless of the underlying instrument and without any restriction on amount.

Deductible Expenses. To be deductible, expenses must be incurred wholly and exclusively for the purposes of the business. Depreciation is not deductible, but capital allowances are available on the cost of plant and machinery. The rate of capital allowances generally is 20% of the declining balance. Allowances are also granted for buildings.

Rates. Income is taxable at a flat rate of 20%.

Relief for Losses. Business losses may be carried back one year and carried forward indefinitely if the business continues to operate.

B. Other Taxes

No significant taxes other than income tax are levied on individuals in Guernsey.

C. Social Security

Employers, employees and unemployed persons whose net worth exceeds certain thresholds must contribute to Guernsey's social insurance system. For 2006, the maximum wage base is £346,036, and the maximum annual contribution for each employee is £2,162 for employers and £1,982 for employees.

D. Tax Filing and Payment Procedures

Income tax is withheld from the remuneration of employees under the Employees Tax Installment Scheme (ETI).

Married persons are taxed jointly, not separately, on all types of income. Married persons may elect separate assessment, but separate assessment merely apportions the joint income tax liability according to the income of each spouse.

All income, except business income, is assessed on a current year basis.

The period of assessment for business income is generally the calendar year preceding the tax year. Non-Guernsey sources of income are assessed on an actual basis (that is, income is taxed in the current year). If taxable income includes non-Guernsey investment income, then investment income from Guernsey sources (excluding property income) is assessed on an actual basis.

Under a proposal, effective from 1 January 2006, business income will be assessed on a calendar-year basis. Transitional rules will apply for accounting periods ending in 2004 and 2005.

Income tax is levied by assessment and is normally payable in two equal installments on 30 June and 31 December of the tax year.

E. Double Tax Relief and Tax Treaties

Guernsey grants limited unilateral relief for double taxation.

Guernsey has entered into double tax treaties with Jersey and the United Kingdom.

F. Entry Visas

Entry visas are not required of foreign nationals entering Guernsey directly from the United Kingdom.

G. Work Permits and Self-Employment

Work permits are required for foreign nationals who wish to work in Guernsey. Application is made by the potential employer, and permission is granted by the Board of Administration.

An individual may not be employed in Guernsey unless he or she has a right to work document. A right to work document is issued by the government housing department showing that the department is satisfied that the individual is legally residing in Guernsey (see Section H for details concerning accommodation in Guernsey).

In addition, foreign nationals who require permission to settle in Guernsey may be employed only if their employers obtain permission from the Board of Administration.

No permission is required for a foreign national to establish a business in Guernsey.

H. Residence Permits

Persons who have the right to settle in the United Kingdom do not need a permit to reside in Guernsey. All other foreign nationals must apply to a British embassy or consulate for residence permits. After a foreign national obtains a residence permit, he or she must apply to Guernsey's Board of Administration for a work permit. No specific documentation is required.

Guernsey recently extended its entry clearance to include a category for wealthy foreign investors who wish to make Guernsey their primary home. To qualify for this category, an individual must own and have at his or her disposal at all times a minimum of £1 million, £750,000 of which must be invested in active trading companies in Guernsey or in the United Kingdom.

Housing is restricted in Guernsey. Housing is divided into what is known as local market (LM) and open market (OM). There are approximately 18,000 dwellings in LM and 2,000 in OM.

Anyone may occupy an OM dwelling, but with the relatively short supply, the price of an OM dwelling is usually higher than that of a comparable LM dwelling.

Occupation of LM property is restricted to locals and to persons granted licenses by the government. Licenses are difficult to obtain for foreign nationals and generally are granted to essentially employed persons, whose necessary skill and experience cannot be found locally.

I. Family and Personal Considerations

Family Members. If an individual is legally living in LM accommodation, a spouse and any dependants may live with the individual.

Marital Property Regime. Guernsey has a marital property regime under which all property acquired before or after marriage is considered to be the joint property of the spouses.

The joint property regime is mandatory and applies only to married couples who solemnize their marriage in Guernsey. Homosexual couples may not be legally married in Guernsey. The court also has jurisdiction to act if either of the spouses is domiciled in Guernsey, providing the marriage is recognized under Guernsey law and no other courts are involved. Marital domicile is not a recognized concept under Guernsey law.

On divorce, nullity or legal separation of a married couple, the court has the power to adjust the property rights. This intervention is not possible in the case of unmarried cohabitants whose rights are determined instead by reference to general property law.

Forced Heirship. Guernsey law provides that certain family members of a deceased person are entitled to an interest in real property included in the estate of the deceased, regardless of the provisions of any will. If a married couple jointly buys Guernsey real property as joint tenants with right of survivorship, then on the first death of either spouse, the property vests solely in the survivor. In all other circumstances, on the death of any person owning real property in Guernsey, the surviving spouse has an unassailable right to one-half of the property, until death or remarriage. The other half may be willed to certain classes of close relatives. Married couples may renounce their inheritance rights to each other's property in a premarital contract.

Drivers' Permits. Foreign nationals may not drive legally in Guernsey using their home country drivers' licenses.

Guernsey has driver's license reciprocity with European Union (EU) and European Economic Area (EEA) countries for all categories of permits. Other countries that have interchangeable car and motorcycle permits include Australia, Canada, Hong Kong, Japan, New Zealand, South Africa and Switzerland.

To obtain a Guernsey driver's license, an applicant must take a physical exam and a practical exam on highway codes.

GUINEA

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A. Income Tax

Who Is Liable. Individuals resident in Guinea are subject to tax on worldwide income. Nonresidents are subject to tax on Guinea-source income only.

Individuals are considered resident if they meet either of the following conditions:

- They maintain a home in Guinea or stay there for more than six months in a year; or
- They are engaged in employment or self-employment activities in Guinea, unless they prove that these activities are incidental to activities performed abroad.

Income Subject to Tax

Employment Income. Taxable income generally includes all remuneration received; however, indemnities paid as reimbursement of professional expenses are not taxable.

Self-Employment and Business Income. In general, self-employed residents are subject to general income tax on their worldwide income from professional and commercial activities. Self-employed nonresidents are subject to general income tax on income derived from activities performed in Guinea.

Taxable income consists of total net income from all categories.

Taxable income from commercial activities includes all receipts, advances, interest and gains directly related to the activities. Generally, taxable income is calculated on an accrual basis; however, taxpayers may elect to calculate taxable income using a deemed-profits system if gross revenue does not exceed a certain amount.

Taxable income from professional activities is determined on a cash basis, meaning the difference between receipts and expenses paid during the calendar year, including gains or losses from the sale of professional assets.

A loss incurred in one category of income may not offset income from other categories. However, the loss may be carried forward for three years to offset income in the same category.

Investment Income. Dividends and interest income from investments in Guinea are subject to a 15% withholding tax at source, which constitutes a prepayment of the general income tax (see *Rates*). Under certain conditions, this withholding tax is a final tax.

Directors' fees are treated as investment income and are subject to general income tax.

If the payer is a resident of Guinea and if the nonresident recipient does not have a business establishment in Guinea, the payer must withhold the final 10% general income tax on amounts paid to nonresidents for copyrights and for the use of intangible assets.

Capital Gains. No tax is levied on gains from the transfer of shares.

Capital gains related to self-employment activities generally are included with other self-employment income and taxed as described in *Self-Employment Income* and *Rates*. However, capital gains from sales of fixed assets may be exempt from tax if reinvested.

Deductions

Deductible Expenses. The following expenses are deductible:

- Social security contributions;
- Amounts withheld by an employer for a legal pension plan; and
- Professional expenses of up to 10% of employment income after the deduction of social contributions and withholdings if these expenses are not reimbursed through specific indemnities.

Personal Deductions and Allowances. No personal deductions or allowances apply if an employee receives only employment income and does not elect joint taxation of the combined income of all household members. If joint taxation of the household is elected, individuals may take a personal deduction of FG 30,000 for each member of the household, up to a maximum of six persons.

Business Deductions. The following expenses are deductible for commercial, professional and agricultural activities:
- Expenses necessary to carry on the activities, including personnel and rental expenses;
- Depreciation; and
- Provisions for losses and expenses if the accrual method of accounting is used.

Rates

Employment Income Tax. The following table presents the progressive tax rates on employment income.

Taxable Income Exceeding FG	Taxable Income Not Exceeding FG	Tax Rate %
0	30,000	0
30,000	100,000	10
100,000	150,000	15
150,000	300,000	20
300,000	1,000,000	25
1,000,000	2,500,000	28
2,500,000	5,000,000	30

An additional 5% tax is imposed on annual employment income exceeding FG 5 million.

Tax withheld by an employer during the year is a final tax if an employee receives employment income only. However, if an employee receives other types of income, the withholding is a prepayment toward the general income tax (see *General Income Tax*).

General Income Tax. General income tax is levied on taxable income. A withholding tax is levied separately on taxable income from commercial, professional and agricultural activities. The applicable rates are 35% for commercial activities, 30% for professional activities and 15% for agricultural activities. This withholding tax is a final, fixed rate general income tax for self-employed persons who do not elect the taxation of all household members and who have only one source of income that is taxed under a deemed-profits system. For self-employed persons with more than one source of income or for self-employed persons who are taxed on actual profits rather than deemed profits, the withholding tax is a prepayment that offsets the general income tax.

General income tax is levied at the following progressive rates.

Taxable Income Exceeding FG	Taxable Income Not Exceeding FG	Tax Rate %
0	100,000	0
100,000	1,000,000	10
1,000,000	1,500,000	15
1,500,000	3,000,000	20
3,000,000	6,000,000	25

Taxable Income		Tax
Exceeding FG	Not Exceeding FG	Rate %
6,000,000	10,000,000	30
10,000,000	20,000,000	35
20,000,000	—	40

Nonresidents. Nonresident self-employed taxpayers are subject to a 10% final withholding tax, which is a fixed rate of general income tax. If a payer is a resident of Guinea and if the nonresident recipient does not have a business establishment in Guinea, the payer must withhold the final 10% general income tax on the following gross amounts:

- Amounts paid for independent professional services;
- Amounts paid to inventors; and
- Amounts paid for services, regardless of their nature, materially rendered in Guinea.

Nonresidents who perform incidental activities for employers established in Guinea are subject to withholding on their wages related to Guinean activities at the rates that apply to employment income. This withholding tax constitutes only a prepayment of tax. Nonresident employees receiving wages from nonestablished employers for incidental Guinean activities are subject to general income tax instead of withholding.

B. Inheritance and Gift Taxes

Inheritances and gifts are subject to tax at progressive rates ranging from 1% to 3%, depending on the net value of the inheritance or the gift and on the beneficiary's relationship to the deceased or donor.

C. Social Security

The following social security contributions are required.

	Rate (%)
Paid by employers	
Family allowances	6
Industrial accidents	4
Medical expenses and disability	4
Old age pensions and death benefits	4
Paid by employees	
Medical expenses and disability	2.5
Old age pensions and death benefits	2.5

Contributions are levied on total remuneration paid, up to a monthly ceiling of FG 8,400,000. Employees' contributions are withheld monthly by employers.

D. Tax Filing and Payment Procedures

The tax year for individuals is the calendar year.

General income tax returns must be filed by 30 April following the close of the tax year. A self-employed individual subject to general income tax must file an income tax return by 30 April.

General income tax computed is payable on receipt of a tax assessment.

E. Tax Treaties

Guinea has entered into a double tax treaty with France.

F. Entry Visas and Permits

Foreign nationals, even those classified as residents, must obtain visas to enter Guinea. Visas may be obtained from Guinean consulates and embassies abroad.

Nationals of member countries of the West African Economic Community (CEAO) and nationals from certain countries that have concluded special agreements with Guinea do not need visas to enter the country.

A short-term permit is issued for initial entry into Guinea and is valid for a period ranging from one day to a maximum of three months.

G. Work Permits and Self-Employment

No visa authorizes an individual to work. A work permit authorized by the national employment and labor office (AGUIPE) must be obtained. A long-term residence permit automatically accompanies a work permit.

The request for an initial work permit is made by a letter from a prospective employer explaining the reasons why the applicant is being hired. It should be accompanied by hotel reservations or an invitation letter, as well as a return flight ticket.

When reviewing work and residence permit applications, the government of Guinea considers the benefit of an individual's presence in the country and his or her anticipated compliance with the laws and regulations of Guinea.

Applicants may work in Guinea while the application and other papers are being processed. It is possible to change employers after the applicant receives a permit.

Foreign nationals may establish businesses in Guinea. In addition, foreign companies may set up subsidiaries headed by foreign nationals.

H. Residence Permits

Long-term residence permits are issued to foreign nationals intending to stay in Guinea for periods exceeding three months. These permits must be renewed annually. Permanent residence permits are not available in Guinea.

Residents themselves must take the necessary steps to obtain long-term residence permits and multiple-entry permits.

Embassies or consulates abroad provide applicants with the documentation that must be filled out. An international vaccination certificate for yellow fever must be presented to the embassy or consulate abroad, or at the port of entry in Guinea. Reasons for refusal are indicated by the embassies.

The costs of short-term and long-term permits vary. The prices are published by the Ministry of Economy and Finance (MEF). Both types of permit must be renewed every year.

I. Family and Personal Considerations

Family Members. The spouse of a permit holder automatically receives a residence permit to live in Guinea. If the spouse wishes to work, he or she must apply for a work permit independently of the principal permit holder.

Drivers' Permits. Foreign nationals may not drive legally in Guinea using their home country drivers' licenses. However, they may drive legally with an international driver's license for the duration of the license. On expiration of his or her international driver's license, a foreign national has three options: to renew the international driver's license, to request a Guinean driving authorization or to request a Guinean driver's license. To obtain a Guinean driver's license, individuals must take a written exam similar to the one given in France.

HONDURAS

Country Code 504

Please direct all inquiries regarding Honduras to the persons listed below in the San José, Costa Rica office of Ernst & Young. All engagements are coordinated by the San José, Costa Rica office.

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A. Income Tax

Who Is Liable. Resident and nonresident individuals, regardless of their nationality, are subject to tax on their worldwide income.

Individuals are considered resident if they live in Honduras for more than three consecutive months during a tax year.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income includes salary, pensions, bonuses, premiums, commissions and allowances (for example, housing and educational allowances). Payments made to board members, other executives and counselors not included in the payroll are subject to a 12.5% withholding tax.

Self-Employment and Business Income. Income derived from self-employment or from a trade or business is subject to tax.

Investment Income. Dividends paid or credited by local companies to resident and nonresident individuals are not subject to withholding tax. Royalties from franchises are subject to a 25% withholding tax. Technical advice and similar payments are subject to a withholding tax at rates ranging from 20% to 35%.

Directors' Fees. Directors' fees paid to nonresident individuals are subject to a 35% withholding tax. Directors' fees paid to resident directors are taxed at the ordinary individual income tax rates (see *Rates*).

Capital Gains. Capital gains are subject to a tax at a flat rate of 10%.

Capital losses are deductible only if derived from the sale of depreciable assets or from the sale of nondepreciable assets sold in the ordinary course of a trade or business. Occasional (nonhabitual) sales of nondepreciable assets are not subject to tax.

Deductions

Personal Deductions and Allowances. Annual deductions for medical and educational expenses are allowed up to a maximum of L 20,000.

Business Deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. For the 2006 calendar year, employment and self-employment income are taxable at the following rates.

Annual Taxable Income		Tax on Lower	Rate on
Exceeding L	Not Exceeding L	Amount L	Excess %
0	70,000	0	0
70,000	100,000	0	10
100,000	200,000	3,000	15
200,000	500,000	18,000	20
500,000	—	78,000	25

The above tax rates are subject to change by the government.

Withholding tax is imposed on nonresidents at a rate of 35% on salaries, commissions and other similar compensation items.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Self-employed individuals may not carry their losses forward or back.

B. Estate and Gift Taxes

Honduras does not impose estate or gift taxes. However, estates may be taxed as ordinary taxpayers if they derive income before distributions of assets are made to the beneficiaries.

C. Social Security

Social security contributions are imposed on salaries at a rate of 7% for employers and 3.5% for employees.

D. Tax Filing and Payment Procedures

Employers are responsible for withholding income taxes and social security contributions from employees' salaries on a monthly basis. Employees are not required to file an annual income tax return if their only source of income is employment compensation. Nonresidents are not required to file an annual income tax return if their income tax liability has been satisfied through withholding at source.

The ordinary tax year runs from 1 January to 31 December. Returns must be filed and any tax liabilities due must be paid by 30 April of the year following the tax year. However, in certain specified circumstances, taxpayers may elect a special tax year. Self-employed individuals and individuals with a trade or business must make advance income tax payments.

E. Double Tax Relief and Tax Treaties

Honduras has not entered into tax treaty with any country. However, Honduras has entered into a tax information and exchange agreement with the United States.

F. Work Permits

To work in Honduras, foreigners must apply for a work permit. After the required documents are filed with the immigration authorities, it takes approximately three months to obtain this permit. Work permits are valid for three years and are renewable for similar periods of time.

G. Migratory Status

Immigration and visa requirements generally are amended constantly in Honduras. Consequently, foreigners wishing to come to Honduras should seek legal advice before entering the country. Foreigners may apply for local residency with the General Direction of Migration and Foreigners (Dirección General de Migración y Extranjería) if certain requirements are met. A Special Permanence Permit is granted for a renewable period of one to five years.

H. Family and Personal Considerations

Family Members. Spouses of foreigners who are granted work permits in Honduras do not automatically receive the same treatment as the original permit holders and must apply for an independent visa or work permit.

Children of expatriates must have student visas to attend schools in Honduras.

Drivers' Permits. Foreigners may drive legally in Honduras using their home country drivers' licenses for up to three months. After the three-month period expires, individuals applying for Honduras drivers' licenses must take written and physical exams.

Honduras does not have driver's license reciprocity agreements with any other country.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—

	Taxable*	Not Taxable	Comments
Employer-provided housing	X	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement	X	—	—
Value of meals provided	X	—	(a)
Value of lodging provided	X	—	(a)
Pension from retirement	—	X	—
Other Items			
Foreign-source personal ordinary income			
Dividends	—	X	—
Interest	X	—	—
Capital gains from sale of personal residence in home country	X	—	—
Capital gains from sale of stock in home country	X	—	—

* The bracketed amount reduces taxable income.

(a) Meals and lodgings received by an employee are considered nontaxable if the employee receives the meals and lodging in order to perform his or her regular activities and would otherwise be unable to obtain meals or lodging on his or her own (this applies to activities performed in remote locations).

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample tax computation for a married individual who has children.

	L	L
Calculation of Taxable Income		
Cash salary		500,000
Salary in kind:		
Housing allowance	125,000	
Car allowance	125,000	
Home maintenance allowance	125,000	
Other allowances	125,000	
Total salary in kind		500,000
Total salary		1,000,000
Deductions:		
Social security	(2,016)	
Medical and educational expenses:	(20,000)	
Total deductions		(22,016)
Taxable income		977,984
Calculation of Income Tax Payable		
Tax on L 500,000		78,000
Tax on L 477,984 at 25%		119,496
L 977,984		197,496

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A. Income Tax

Who Is Liable. Individuals earning income that arises in or is derived from a Hong Kong office or Hong Kong employment, or from services rendered in Hong Kong during visits of more than 60 days in any tax year, are subject to salaries tax.

Hong Kong observes a territorial basis of taxation; therefore, the concept of tax residency has no significance in determining tax liability, except in limited circumstances.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income consists of all cash emoluments, including bonuses and gratuities. Benefits in kind are largely nontaxable, unless they are convertible into cash or specifically relate to holiday travel or school fees. The provision of accommodation by an employer creates a taxable benefit equal to an amount ranging from 4% to 10% of the employee's other taxable income, depending on the type of accommodation.

An employee (not including a director) is subject to salaries tax if his or her employment income is sourced in Hong Kong, even if he or she is not ordinarily resident in the territory. However, a specific statutory exemption applies if an employee (not including a director) renders all services outside Hong Kong or if an employee's visits to the territory do not exceed 60 days in the year of assessment. Conversely, if a nonresident with non-Hong Kong employment renders services in Hong Kong during visits totaling more than 60 days, he or she is taxed on a pro rata basis.

Self-Employment and Business Income. Anyone carrying on a profession, trade or business in Hong Kong is subject to profits tax on income arising in or derived from Hong Kong from that profession, trade or business. A person not carrying on a profession, trade or business in Hong Kong is not subject to profits tax on income derived from sources in Hong Kong. Under certain provisions in the tax law, however, specified types of income derived from Hong Kong are deemed to arise from a Hong Kong business. For example, royalties paid to a nonresident for the use of intellectual property rights in Hong Kong are subject to profits tax on a notional 30% net profit, resulting in an effective tax rate of 4.8% if the property has never been owned by a person carrying on a profession, trade or business in Hong Kong.

Taxable income is determined in accordance with generally accepted accounting principles, as modified by the Inland Revenue Ordinance and principles derived from case law.

If an individual receives rental income but the rental activities do not constitute a business, the income is subject to property tax rather than profits tax (see *Rates*). Property tax is charged on 80% of rent received from real estate located in Hong Kong at a rate of 16%, resulting in an effective rate of 12.8%.

Profits tax, salaries tax and property tax are assessed separately. If beneficial, a permanent or temporary resident individual with business profits or property income may elect to be assessed on the aggregate of his or her income from all sources. This election entitles the individual to deductions and various allowances and to have the balance taxed at the progressive rates of the salaries tax.

Hong Kong-source interest (excluding interest on bank deposits) received by a company carrying on business in Hong Kong is subject to profits tax. Although withholding tax does not apply to interest, strict disallowance provisions apply under profits tax for a business that pays interest to a nonresident other than a nonresident bank.

Profits tax is levied on the income of both residents and nonresidents if the statutory criteria are met.

Investment Income. Interest income not derived from investing the funds of a business and all dividend income are exempt from taxation. Royalties paid to a related person or related company may be taxed at a rate of 16% in certain circumstances.

No withholding taxes are levied on dividends or interest paid to nonresidents. However, royalties paid to a person not carrying on a business in Hong Kong are subject to an effective 4.8% withholding tax, which is assessed on the payer as agent for the recipient. A rate of 16% applies to royalties paid to a nonresident if the recipient is related to the payer and if the property subject to the royalties was previously owned by any person carrying on a profession, trade or business in Hong Kong.

Directors' Fees. Directors' fees are subject to salaries tax if the company maintains its central management and control in Hong Kong. Otherwise, directors' fees are not taxable.

Taxation of Employer-Provided Stock Options. Employer-provided stock options are generally taxable at the time of exercise. However, for an individual who is not employed in Hong Kong and who is taxed on a pro rata basis by reference to his or her services in Hong Kong, part or all of the option gain may be excluded from taxable income. The amount to be excluded depends on whether the option is granted on or before the individual begins services in Hong Kong, whether the option is granted conditionally or unconditionally, and, if granted conditionally, the length of the vesting period.

Capital Gains. Hong Kong does not tax capital gains.

Deductions

Deductible Expenses. To be deductible for purposes of salaries tax, expenses must be incurred wholly, exclusively and necessarily in the production of the taxpayer's assessable income. Depreciation allowances (capital allowances) may be claimed on plant and machinery used in the production of assessable income. Certain education expenses paid to specified institutions are deductible up to HK$40,000 per year. Approved charitable donations are deductible up to 25% of assessable income. Home mortgage interest is deductible, up to HK$100,000 per year for a maximum of seven years. Contributions to "recognized retirement schemes," as defined, are deductible up to HK$12,000 per year.

Personal Deductions and Allowances. Personal allowances below the "break-even" point (that is, the point where the standard rate of 16% applies, see *Rates*) are deductible. The following are the personal allowances.

Personal Allowances	HK$
Prescribed allowances	
Single (a)	100,000
Married (b)	200,000
Child allowance for	
1st child to 9th child (each)	40,000
Dependent parent/grandparent allowance (each)	
Aged 60 and above	
Residing with taxpayer	60,000
Not residing with taxpayer	30,000
Aged 55 to 59	
Residing with taxpayer	30,000
Not residing with taxpayer	15,000
Elderly residential care expenses (c)	Up to 60,000
Disabled dependent allowance	60,000
Dependent sibling allowance	30,000
Single-parent allowance	100,000

(a) Granted to a single person or a married person who has not elected joint assessment.
(b) Granted to a married person whose spouse does not have assessable income or to a person who, together with his or her spouse, has elected to be jointly assessed.
(c) Those claiming this deduction are not eligible for an additional allowance for the same dependant.

Business Deductions and Capital Allowances. To be deductible, expenses must be incurred in the production of taxable profits. Certain specified expenses are not deductible, including domestic and private expenses, expenditure of a capital nature or any loss or withdrawal of capital, the cost of improvements and tax paid or payable. The deductibility of interest is determined in accordance with detailed rules.

Capital expenditure for the acquisition of computer hardware or software and of plant and machinery used for manufacturing qualifies for an immediate 100% deduction. Capital expenditure for most other plant and machinery qualifies for an initial 60% allowance and an annual allowance on the reduced balance at a rate of 10%, 20% or 30%, depending on the class of the asset. A five-year straight-line deduction is allowed for refurbishment of a building or structure other than a domestic building or structure incurred by all businesses.

An initial allowance of 20% is granted for new industrial buildings, as well as an annual allowance of 4% of the cost of construction. No initial allowance is granted on buildings that are already in use. Capital allowances may be subject to recapture if the assets are sold for amounts in excess of their tax-depreciated value.

An annual allowance of 4% of the cost of construction is available on commercial buildings.

Rates. Three separate income taxes are levied in Hong Kong instead of a single unified income tax. The following are the taxes and rates for the year ending 31 March 2006:

- Profits tax, levied on professional, business and trade income at a flat rate of 16%;
- Property tax, levied at a flat rate of 16% on rental income, less a standard deduction of 20%; and
- Salaries tax, levied at progressive rates ranging from 2% to 20% after deduction of allowances or at a flat rate (maximum rate) of 16% on gross salary, whichever produces the lower tax liability.

The following are the progressive rates for salaries tax for the year ending 31 March 2006.

Taxable Income		Tax on Lower	Rate on
Exceeding HK$	Not Exceeding HK$	Amount HK$	Excess %
0	30,000	0	2
30,000	60,000	600	8
60,000	90,000	2,400	14
90,000	—	7,200	20

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses are calculated in the same manner as profits and may be carried forward indefinitely against future income. Losses may also offset income from other sources. Losses may not be carried back.

B. Estate Tax

Estate duty is abolished, effective from 11 February 2006. Estates of persons who pass away on or after 11 February 2006 are not subject to estate duty. The estate duty chargeable with respect to estates of persons dying on or after 15 July 2005 and before 11 February 2006 with a principal value exceeding HK$7.5 million is reduced to a nominal amount of HK$100.

C. Social Security

Hong Kong does not impose any social security taxes. Employers and employees are each required to contribute the lower of 5% of the employees' salaries or HK$1,000 per month to approved mandatory provident fund schemes.

D. Tax Filing and Payment Procedures

The tax year in Hong Kong runs from 1 April to 31 March. Penalties apply for breaches of time limits in filing returns. Individual taxpayers are usually issued composite tax returns and are required to report all income from the various sources subject to profits tax, salaries tax or property tax. Salaries tax is automatically levied separately on the employment income of married couples and is paid separately by each spouse. However, a married couple not wishing to be assessed separately may elect joint assessment on their salaries or on all sources of income if beneficial.

No payroll or withholding tax requirements apply for purposes of salaries tax. Profits, property and salaries tax all operate under a system of prepaid tax, known as provisional tax. The provisional assessment is an estimate, normally based on the previous year's assessment, and is payable in two installments: one equal to 75% of the previous year's tax liability, usually payable in the final quarter of the year of assessment, and the remaining 25% payable three months later, usually just after the end of the assessment year. When the actual income for a year is determined, a final tax assessment is issued, giving credit for provisional tax already paid. The final tax assessment is combined with a provisional tax assessment for the following year. The final tax is payable at the same time as the 75% installment of provisional tax for the following year.

E. Double Tax Relief and Tax Treaties

An employee of a Hong Kong establishment is exempt from salaries tax on income derived from services performed outside Hong Kong provided that the income is subject to tax in the foreign jurisdiction and that foreign tax has been paid on the income.

With few exceptions, no credit is given for foreign taxes paid, but in certain circumstances, foreign taxes may be deductible for profits tax purposes. One of the notable exceptions is the foreign tax credit available to Hong Kong residents under the tax arrangement between the Hong Kong Special Administrative Region and the Chinese Mainland with respect to Chinese taxes paid on income that is also taxable in Hong Kong.

F. Visitor Status

Most people may easily enter Hong Kong for visiting purposes with their passports. The length of time one is permitted to stay in Hong Kong under visitor status depends on the country that issued the passport. For example, a U.S. passport holder is allowed to stay in Hong Kong as a visitor for three months. However, for passport holders of some Asian countries, the period may be as short as one week. Visitor status does not permit the passport holder to undertake employment in Hong Kong.

G. Work and Self-Employment Visas

To work in Hong Kong, a foreign national must obtain an employment visa.

Because of the change of sovereignty on 1 July 1997, the immigration policies relating to British subjects have been revised. Under the new law, British subjects may obtain six-month visitor visas for first-time entry into Hong Kong, and must obtain employment visas to work in Hong Kong. The procedures for obtaining visas are the same for British subjects as for other foreign nationals.

Work Visas. The Immigration Department recommends that foreign nationals apply for work visas in their home countries or where they reside prior to their arrival in Hong Kong. The entire process takes six to eight weeks. However, an employee urgently needed by his or her employer in Hong Kong may enter Hong Kong with a visitor visa, then apply for a change of status from visitor visa to work visa while in Hong Kong. This method is not encouraged by the Hong Kong Immigration Department. If the applicant is applying for a work visa in Hong Kong while still holding a visitor visa, he or she must extend the visitor visa periodically until his or her work visa is granted.

Work visas are granted for a particular job with a particular employer. Generally, the employer must demonstrate that the applicant has recognized professional qualifications, has relevant work experience, and is uniquely qualified for the job.

A work visa is valid for one year initially and may be renewed. The first extension is granted for two years, followed by a second extension of two years, followed by a final extension of three years.

After seven years of employment in Hong Kong, an individual may apply for permanent residence. This enables him or her to work in Hong Kong without a work visa.

Applying in the Home Country. A prospective employee should complete application Forms I.D.(E) 936A, 936E, 936F and 936L, and send them, with a photograph attached, to the local sponsor in Hong Kong or directly to the Hong Kong Immigration Department, together with the following documents:
- Photocopies of the applicant's travel document containing its date of issue, date of expiration and details of the re-entry visa (if applicable).
- One additional identical photograph of the applicant.
- The name, contact address and telephone number of the applicant's local sponsor in Hong Kong.
- An up-to-date résumé of the applicant's qualifications and work experience. This must be accompanied by certification of the applicant's academic qualifications by a university, as well as by proof of the applicant's previous working experience.
- A copy of the applicant's service contract or letter of appointment with a detailed description of the position, salary and benefits.
- A letter, with supporting proof from the applicant's employer (if possible), stating the reason why the post cannot be filled locally.
- The most recent financial statements of the employer.
- Duly completed and signed Forms ID (E) 936B and 936G.
- A copy of the local sponsor company's business registration certificate.
- Copies of the marriage certificate and birth certificates of the children, if dependent visas are sought.

Application forms and sponsorship forms may be obtained from the Hong Kong Immigration Department.

If an application is approved, an entry visa is issued to the local sponsor who is asked to send it to the applicant. The applicant must present this visa together with his or her passport or travel document to the immigration officer on arrival in Hong Kong. At the port of entry in Hong Kong, the official work visa is endorsed on the applicant's passport or travel document with the effective period of one year. Extensions of the visa may be obtained subsequently if applied for before the expiration date.

Applying in Hong Kong. The following completed documents are submitted to the Immigration Department if an employee enters Hong Kong initially with a visitor visa and then applies for a change of status from visitor visa to work visa in Hong Kong:

- Forms I.D. 428B and 428A (if a dependent visa is needed), I.D. 520, and two sets of I.D. 91 from the Hong Kong Immigration Department. The applicant must indicate the Hong Kong employer as his or her local sponsor. An applicant applying for dependent visas for his or her family must indicate himself or herself as the family's sponsor.
- Original of certification from the applicant's employer regarding the terms of his or her employment.
- The applicant's résumé detailing qualifications and work experience.
- A company staff list of the local sponsor (optional).
- Copies of the applicant's academic qualifications, for example, a university diploma.
- Photocopies of the applicant's and the dependants' passports, if applicable (personal particulars page and page with entry visa stamp).
- The applicant's detailed job description from his or her employer.
- The most recent annual financial statement of the employer's parent company.
- A copy of the business registration certificate from the applicant's local sponsor.
- Original of the marriage certificate and the birth certificates of the children if dependent visas are sought.
- The local sponsor's company ordinances listing the directors and the shares of allotment (optional).
- A copy of the local sponsor's office lease (optional).

The applicant must submit the above documents together with his or her passport and the dependants' passports to the Hong Kong Immigration Department's entry visa section. The original passports and certificates are required and are returned to the applicant within one or two days. After the Immigration Department approves the work visa and dependent visas, the applicant is notified for endorsement.

Extensions. A month before the expiration date of the work visa, the applicant must obtain an employment letter from his or her employer certifying that the applicant's employment with that employer will extend beyond the expiration date. The letter, together with Forms I.D. 91, 481A and 481B (if dependent visa extension required), and the applicant's and the dependants' passports, must be submitted to the Immigration Department's extension section at least two weeks before the expiration date. The Immigration Department then issues an appointment letter, which indicates the date and time for the applicant to endorse his or her work visa and dependent visas. On the appointment date, the applicant must bring his or her passport and the dependants' passports, if applicable, together with the appointment letter to the extension section of the Immigration Department for endorsement. This extension usually is valid for an additional two years. If the work visa holder receives an extension, all dependants are also granted extensions.

Self-Employment Visas. A foreign national wishing to invest in or start a business in Hong Kong must apply for an employment (investment) visa. To obtain this type of visa, the applicant must demonstrate that the business that he or she proposes to invest in and carry on will benefit the Hong Kong economy. Because the application procedure for the employment (investment) visa is more complicated than for other visas, it generally requires from 8 to 10 weeks to process.

H. Residence Visas

In addition to work visas, other visas permitting residence in Hong Kong include the following:

- Trainee visas: Issued to foreign nationals coming to Hong Kong for training purposes. This visa is granted for the period of training or for 12 months, whichever is shorter.
- Student visas: Issued to foreign nationals coming to Hong Kong to study. It is granted for the academic year or for 6 to 12 months, whichever is shorter. The visa does not allow its holder to take up employment in Hong Kong.
- Dependent visas: See Section I.

Residence visas and the procedures for obtaining visas are the same for British subjects as for other foreign nationals.

I. Family and Personal Considerations

Family Members. If an applicant wants to bring his or her family to Hong Kong, the family members may apply together with the applicant as his or her dependants for dependent visa status. Dependent visas are granted for the same period of time as the work visa. The applicant's spouse and dependent children younger than 18 years of age who are granted dependent visas after 1 July 2003 are prohibited from working in Hong Kong. Dependent visas may be granted to other close relatives who are fully supported by the applicant or who are handicapped.

Work visas allow the applicant to work and stay in Hong Kong for one year, and dependent visas issued after 1 July 2003 allow the applicant's family to stay in Hong Kong for one year. Within one month after the issuance of the work visa and dependent visas, the applicant and his or her family may apply for Hong Kong identity cards from the Immigration Department. All Hong Kong residents are required by law to carry with them at all times identity cards or their passports for identification purposes.

Marital Property Regime. No community property or other marital property regime applies in Hong Kong.

Forced Heirship. Hong Kong law does not provide for forced heirship.

Drivers' Permits. A foreign national may drive legally in Hong Kong using his or her home country driver's license for up to one year or until the approval of his or her Hong Kong work visa, if the individual holds a visitor visa and if his or her home country is one of the following.

Australia	Ireland	Norway
Austria	Israel	Pakistan
Bangladesh	Italy	Portugal
Belgium	Japan	Singapore
Canada	Korea	South Africa
China	Luxembourg	Spain
Denmark	Macau	Sweden
Finland	Malaysia	Switzerland
France	Netherlands	Taiwan
Germany	New Zealand	United Kingdom
India	Nigeria	United States

After a foreign national obtains a work visa from the Immigration Department, his or her home country driver's license becomes invalid in Hong Kong; therefore, he or she must obtain a Hong Kong driver's license immediately.

A person is eligible for the direct issuance of a Hong Kong driver's license if he or she satisfies all of the following conditions:
- Possession of a driver's license issued by one of the above countries (not an international driving permit) during the past three years;
- The driver is applying for driving privileges comparable to those authorized by the issuing country;
- The license was obtained by passing the relevant driving tests in the issuing country;
- The license was issued originally to him or her during a period of continuous residence of no less than six months in the country of issue; and
- The license was issued to him or her no less than five years prior to the application, or he or she holds a passport or equivalent travel document from the country where the license was issued.

The following documents (both copies and originals) are necessary for the direct issuance of a Hong Kong driver's license:
- The applicant's Hong Kong identity card.
- The applicant's passport.
- The applicant's home country driver's license (an officially certified translation is essential if the license is in a language other than English or Chinese).
- Application fee of HK$900 for 10 years for applicants between 18 and 60 years of age. The application fee is HK$90 for one year for applicants older than 60 years of age (The full driving license issued is valid for a period ending the day before the applicant reaches age 70 or for a 3-year period, whichever is the longer.)
- A duly completed and signed Form TD-63A (7/2004).
- If the applicant is 70 years of age or older, a Transport Department medical examination report Form TD-256, duly completed by a registered medical practitioner to prove that he or she is medically fit to drive.

The applicant must submit the above documents in person or through authorized personnel to the Transport Department's Hong Kong Licensing Office. The entire process takes about one to two weeks.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(a)
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(b)
Tax reimbursement: (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.
(a) A cash allowance is taxable if the employer has no control over its use. If the employer pays the rent directly or if the employee is reimbursed for the rent based on receipts, the employee is not taxed on the actual rent. The benefit is imputed to be 4% to 10% of the employee's other assessable income, depending on the type of accommodation.
(b) Reimbursements and allowances in excess of actual expenses are taxable.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2005-06 year is provided below for a single individual who resides in Hong Kong for the entire year. The individual works entirely within Hong Kong and is paid an annual salary and bonus of HK$600,000. The employer provides the person an apartment that is rent-free to the employee. The cost to the employer for the apartment is HK$250,000 per year. The following is the tax calculation.

	HK$
Calculation of Assessable Income	
Salary and bonus	600,000
Rental value of housing (10% of salary and bonus)	60,000
Total compensation	660,000
Less allowances for the taxpayer	(100,000)
Net assessable income	560,000
Calculation of Income Tax	
Tax Computed at Progressive Rates	
Tax on first HK$90,000	7,200
Tax on HK$470,000 at 20%	94,000
Total	101,200
Tax Computed at Standard Rate	
Total compensation of HK$660,000 at a rate of 16%	105,600
Tax Payable	
Tax (lesser of the tax computed under the progressive rates or the standard rate)	101,200

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A. Income Tax

Who Is Liable. Residents are subject to income tax on worldwide income, regardless of whether the funds are transferred into Hungary. Nonresidents are taxed on income from Hungarian sources only. However, tax treaty provisions may alter or override the domestic rule.

Hungarian citizens are generally considered residents unless they have a second citizenship or do not have a permanent home or a habitual abode in Hungary.

Foreign individuals with a permanent residence permit are considered tax residents. Foreign individuals who are domiciled in Hungary only are also considered tax residents.

In cases of dual or non-domiciles, individuals are deemed resident if their center of vital interests is located in the country. Individuals present in Hungary for at least 183 days in a calendar year are deemed to maintain their usual place of abode in Hungary. Consequently, they are regarded as residents even if they are domiciled in two countries or nowhere, and the sole center of their vital interests cannot be determined.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Gross employment income includes all compensation and most allowances, employer contributions to an employee's pension fund and most insurance policy premiums paid by an employer for an employee. In general, benefits in kind and the personal use of a company car are taxed at the company level.

Rent and other housing allowances provided to an expatriate who has an employment relationship with a non-Hungarian employer and receives housing as a result of this relationship are not considered to be income to the expatriate, regardless of which company (Hungarian or foreign) pays the amounts, and regardless of the method of payment (paid by the expatriate and reimbursed to him or her based on an invoice or paid directly to the landlord).

Education and health care benefits from the Hungarian state system, as well as ordinary and necessary employee business expenses borne by the employer, are not considered income for income tax purposes.

Benefits in kind (for example, housing payments or school fees paid directly to the landlord or to the school by the Hungarian employer) may be taxable to employers at a rate of 44% (attracting also a 29% social security contribution or 11% healthcare tax) if the benefit is listed in the Hungarian tax law as an in-kind benefit (except housing for expatriates seconded to Hungary, which is not taxed, see above). Otherwise, the relationship between the provider and the recipient determines the legal title of the income. If an employment relationship exists and if the in-kind benefit is not listed in the law, the benefit is considered employment income and taxed accordingly. Benefits provided by foreign employers abroad are generally considered taxable income to the employee.

Expatriates who work in Hungary are generally subject to personal income tax on 100% of their income.

Foreign individuals are generally taxed on their wages, salaries and other remuneration for services performed in Hungary.

Income from Independent Activities. All activities that are not included in employment (dependent) activities and for which an individual receives income are considered to be independent activities (for example, the activities of private entrepreneurs, agricultural producers and appointed auditors).

Investment Income. Withholding tax is not levied on interest income. However, certain limits apply to interest paid by corporations to individuals.

Tax on dividend income from Hungarian sources is subject to final withholding tax at rates ranging from 25% to 35%.

Hungarian residents are subject to 25% tax on foreign-source dividends. However, tax treaties may provide relief from double taxation.

Rental income is generally taxable at a flat rate of 25%. However, the taxpayer may elect independent activities treatment for rental income derived from real property. Under this election, the income is taxed at the normal progressive personal income tax rates (see *Rates*).

Royalty income is included in ordinary taxable income, and is taxed at the normal progressive rates after the deduction of expenses.

Nonresidents are subject to final withholding taxes on dividends and interest at the rates that apply to residents.

Directors' Fees. Directors' fees are generally subject to tax at the same rates as compensation, although only 90% of directors' fees is included in taxable income if the director does not have an employment contract with the company (in this case, the fees are considered to be income from an independent activity). Directors' fees are sourced in the country in which the payer absorbs the cost. Tax treaty provisions covering directors' fees generally state that if a resident of one treaty country receives a director's fee from a company resident in the other treaty country, the fee may be taxable in the other country.

Other Income. Other income includes certain types of income listed in the Hungarian tax law, such as amounts paid by a voluntary or a private pension fund as a benefit (excluding pension payments), taxable insurance premiums paid by a payer that is not the employer, liabilities assumed or debts cancelled by a payer and student wages.

Taxation of Employer-Provided Stock Options. Employer-provided stock options are taxed at the time of exercise. The taxation of the option income is determined by the relationship of the provider and the recipient and the circumstances of the acquisition. If the employee receives his or her other employment income directly from abroad, the employee is subject to tax at regular income tax rates on the market value of the stock at the date of exercise, less the strike price and the acquisition cost, if any. If the employee's income is paid through a local Hungarian company, the local company must withhold tax and pay an 11% health care contribution.

For foreign-source stock option income, special social security rules may apply.

Capital Gains. Capital gains are taxed at a flat rate of 25%. In determining taxable capital gains, substantiated transaction expenses paid to a Hungarian securities broker may be deducted. Capital gains derived from transactions concluded on the Hungarian Stock Exchange or stock exchanges of other accredited European Union

(EU) member states are considered to be interest income and, consequently, subject to a 0% rate.

Deductions

Personal Tax Credits and Deductions. The most important personal tax credits (expressed as a percentage of the applicable amount) for 2006 are outlined below.

Type of Tax Credit	Amount of Tax Credit (a)
Wage income	18%, subject to limitations (b)
Service payments for private pension funds	30% of the tax calculated, up to a maximum of HUF 100,000
Employee's contributions to mutual insurance (pension or health) funds	30%, up to a combined maximum of HUF 120,000 (c)
Income from intellectual activities (d)	25%, up to a maximum of HUF 50,000
Charitable contributions to foundations (d)	30%, up to a maximum of HUF 50,000
Life and pension insurance premiums (d)	20%, up to a maximum of HUF 100,000
Repayment of mortgage	30%, up to a maximum of HUF 120,000 (e)
Family credit (per child per month)	
up to 2 children	None
3 children	HUF 4,000 (f)

(a) The total tax credit claimed may not exceed the tax payable (in other words, credits are not refundable).
(b) The percentage is 18% for income received in 2006, up to a maximum of HUF 9,000 per month, if total annual taxable income does not exceed HUF 1,500,000; for income between HUF 1,500,000 and HUF 2,100,000, the tax credit is reduced by 18% of the excess over HUF 1,500,000.
(c) The credit limit for the contribution paid only to a pension or a health fund is HUF 100,000. The HUF 120,000 limit applies only if both pension and health fund contributions are paid.
(d) These three credits may not exceed HUF 100,000 in total. If the annual income of the individual exceeds HUF 6,500,000, he or she is not entitled the three tax credits.
(e) If total annual income exceeds HUF 5,000,000, this credit does not apply.
(f) For example, the total annual credit for three children equals HUF 144,000 if the number of dependants any day of the year equals 3. If the annual income of the taxpayer exceeds HUF 6,000,000, the amount of the family tax credit is decreased.

Business Deductions. An individual may deduct from independent activities income a 10% standard deduction or the actual and substantiated deductible expenses recognized by the income tax law.

Income derived from activities in Hungary based on an employment contract concluded abroad is also considered employment income for Hungarian tax purposes. Consequently, the 10% standard deduction or the actual and substantiated deductible expenses are no longer allowed for a foreign national working under an employment contract with a non-Hungarian employer.

Rates. Hungarian residents and foreign individuals, except self-employed persons, are taxed at the following rates for 2006.

Taxable Income Exceeding HUF	Taxable Income Not Exceeding HUF	Tax on Lower Amount HUF	Rate on Excess %
0	1,550,000	0	18
1,550,000	—	279,000	36

Nonresidents are subject to tax on income derived from Hungarian sources at the rates that apply to residents.

For a sample tax calculation, see Appendix 2.

B. Inheritance and Gift Taxes

Resident foreigners and non-residents are subject to inheritance and gift tax on assets located in Hungary at rates of up to 21% for inheritances, and of up to 30% for gifts.

C. Social Security

As a result of Hungary's accession to the EU on 1 May 2004, new social security rules apply to citizens of the EU and expatriates from outside the EU, effective from that date. These rules reflect the EU's social security coordination regulations.

Coverage. In Hungary, social security contributions cover health and pension insurance. Participation in the Hungarian social security system is mandatory for all Hungarian nationals who work in Hungary under an employment contract and for all foreign nationals who work for companies wholly owned by Hungarians. A third-country national (non-Hungarian, non-EU and non-totalization agreement country national) employed in Hungary by a foreign employer not registered in Hungary is not required to participate in the social security system.

Contributions. For 2006, employers must contribute at a rate of 33.5% (29% social security contribution, 3% unemployment fund contribution, 1.5% training fund contribution) of gross salary plus an itemized health fund contribution of HUF 1,950 per month per employee until 31 October 2006. Effective from 1 November 2006, no itemized health fund contribution will be required. In most cases, the social security tax base equals the personal income tax base. No ceiling applies to the amount of income subject to social security contributions by the employer.

For 2006, each employee is subject to a 12.5% social security contribution on wages from his or her principal employment. For employees, income in excess of HUF 6,325,450 is exempt from the pension component (8.5%) of the social security contribution.

In 2006, in addition to the above contributions, a 4% health care tax is payable on capital gains, income from securities borrowing, dividends, interim dividends and income from real estate rentals exceeding HUF 1,000,000. If the amount of the total of the annual Hungarian employer health care contribution (11%) and the 4% health care tax paid during the tax year exceeds HUF 400,000, the 4% health care tax is not payable.

Employers and employees must make contributions to the Unemployment Solidarity Fund. Employers must contribute an amount equal to 3% of employees' total wages. Employees must contribute 1% of wages from principal employment.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Hungary has entered into totalization agreements, which usually apply for an unlimited period of time, with Austria, Bulgaria, Canada, the Commonwealth of Independent States (CIS), Croatia, the Czech Republic, Germany, Poland, Romania, the Slovak Republic and Switzerland. However, the EU social security rules, which are effective from 1 May 2004, generally override the totalization agreements that had been entered into with the new EU member states.

D. Tax Filing and Payment Procedures

Hungary has essentially a self-assessment tax system but, effective from 2004, an individual may request that the tax authorities compute personal income tax on the basis of submitted information. Residents must declare their worldwide income, compute their tax, file tax returns and pay the tax. Married persons are taxed separately, not jointly.

Employers must withhold the appropriate amount of income tax by taking into account employee allowances and other items that reduce employees' total income.

Expatriates who receive income from foreign employers must make quarterly advance tax payments by the 12th day of the month following the end of the quarter.

The tax year is the calendar year. Tax returns are due by 20 May of the year following the end of the tax year.

E. Double Tax Relief and Tax Treaties

Most of Hungary's treaties follow the Organization for Economic Cooperation and Development (OECD) model convention. Hungary has entered into double tax treaties with the following countries.

Albania	Indonesia	Poland
Australia	Ireland	Portugal
Austria	Israel	Romania
Belarus	Italy	Russian Federation
Belgium	Japan	Singapore
Brazil	Kazakhstan	Slovak Republic
Bulgaria	Korea	Slovenia
Canada	Kuwait	South Africa
China	Latvia	Spain
Croatia	Lithuania	Sweden
Cyprus	Luxembourg	Switzerland
Czech Republic	Malaysia	Thailand
Denmark	Malta	Tunisia
Egypt	Moldova	Turkey
Estonia	Mongolia	Ukraine
Finland	Morocco	United Kingdom
France	Netherlands	United States
Germany	Norway	Uruguay
Greece	Pakistan	Vietnam
Iceland	Philippines	Yugoslavia
India		

A double tax treaty with Bosnia-Herzegovina has been negotiated, but is not yet in force. Hungary is currently negotiating double tax treaties with Mexico and Paraguay. In addition, negotiations are expected with Barbados and Saudi Arabia.

Hungarian residents with foreign-source income from nontreaty countries are entitled to a credit for foreign taxes paid on the income, up to the amount of Hungarian tax imposed on the foreign-source income.

F. Entry Visas

Foreign nationals entering Hungary must have valid passports and, in certain cases, visas. Citizens of European Economic Area (EEA) countries may enter Hungary without visas. Based on international treaties, citizens of non-EEA countries may enter Hungary without visas.

Visas may be obtained for official, private or immigration purposes for either short-term (up to 90 days) or long-term (longer than 90 days) periods.

Hungary issues the following types of temporary visas:
- Airport transit visa: for entering the international areas of the airport and remaining there until the departure of the flight to the destination country;
- Transit visa: for single or multiple entry, with a maximum stay of 5 days;
- Short-term entry visa: for a maximum stay of 90 days in Hungary; and
- Extended-stay visa: for a stay of longer than 90 days.

G. Work Permits and Visas

As a result of Hungary's accession to the EU on 1 May 2004, new rules regarding work permits and visas entered into force.

Work Permits. The government of Hungary decided to open the Hungarian labor market only for the citizens of the United Kingdom, Ireland, Sweden and the new EU countries. All other EEA member states imposing restrictive measures against free movement of labor face equal reciprocal measures in Hungary. The work permit requirement will continue to apply to nationals from these countries.

As an exception to the above rule, EEA nationals legally employed in Hungary for at least one year on or after 1 May 2004 do not need work permits if they continue to work for the same employer. However, this rule applies only to those who are employed in accordance with the measures in the Hungarian Labor Code or Civil Code. It does not apply to seconded employees.

Hungary also reserves the right to introduce a transitional period if such period is needed to protect its labor market. Consequently, employees from the new EU countries (with the exception of Malta and Cyprus) must be registered with the labor office when they begin to work in Hungary.

Citizens of non-EEA countries may work in Hungary only with work permits issued by one of the provincial or municipal labor bureaus. The labor bureau grants a work permit to a foreign citizen under the following conditions:
- A Hungarian citizen with appropriate skills and credentials cannot be found to fill the position;

- The foreign citizen's qualifications are appropriate for the requirements of the position; and
- The type of work does not fall under the exceptions set out by the Ministry of Labor.

In general, a work permit is issued in about two to three months and is valid for a maximum of one year. In certain cases, a permit may not be necessary (see *Exempt Categories*).

Work permits must be requested by a local employer. The applicant must attach a notarized copy of his or her qualifications. All applicants must provide a medical certificate stipulating that the employee's health is adequate to meet the demands of the position.

Work Visas. Citizens of non-EEA countries who wish to work in Hungary may enter only if they have visas issued for this purpose.

After an employer obtains a work permit, the applicant must take the work permit to a Hungarian embassy or consulate in the country of his or her permanent residence. The embassy or consulate then issues a work visa. Individuals exempt from the work permit requirements (see *Exempt Categories*) must present an assignment letter and certain company documentation to the embassy or consulate to receive a work visa.

The time period for obtaining a work visa after receiving all appropriate documents from an expatriate, including the work permit, is usually one to three months; however, in some countries, the procedure may take longer.

Exempt Categories. Work permits are not required in the following cases:

- Provisions in treaties that Hungary has concluded with other countries stipulate that a work permit is not required;
- The foreign national is a member of a diplomatic corps or an employee of an entity created by international or interstate agreements;
- The foreign national is pursuing activities connected with the starting up of an operation or the servicing of equipment under a contract concluded with a foreign supplier, including related services (allowed for no longer than 15 working days at a time);
- The foreign national is a senior official or member of the board of a Hungarian company that is wholly or partially owned by foreigners or is in association with foreign nationals; and
- The foreign national is invited by a Hungarian institution of higher education, scientific research or public education to pursue internationally recognized educational, scientific or artistic activities (allowed for no more than five working days in a calendar year).

Self-Employment. Citizens of EU-member countries may be self-employed in Hungary.

H. Residence Visas and Permits

Residence Visas. For citizens of Non-EEA countries the residence visa requirement remains in effect.

After the employer obtains a work permit, the foreign national may apply in person for a residence visa at the Hungarian embassy or consulate in the country of his or her permanent residence. If the applicant meets all requirements, the embassy may issue a residence visa within 60 days. In exceptional cases, if a work permit is not required (see Section G) a Letter of Assignment and/or employment contract, and the company's documentation regarding court registration must be submitted to the embassy.

The applicant must submit the following documentation to obtain a visa:

- A valid passport, which is valid for at least another 12 or 18 months;
- Necessary permissions to work in Hungary;
- A property rental agreement or proof of ownership of property in Hungary; and
- Proof of financial means to live in Hungary.

Residence Permits. For non-EEA nationals, residence permits are issued by the Hungarian Immigration Office if the individual stays in Hungary for more than one year. Applications must be filed 15 days prior to the end of the first year of the individual's stay in Hungary. In certain cases, a residence permit may be valid for a term of two years.

An applicant must submit the following documents with the application:

- A valid passport;
- Two photographs of the applicant;
- A completed questionnaire;
- Original work permit;
- Employment contract or a Letter of Assignment;
- Certification of the applicant's financial means;
- Certification of the applicant's housing arrangements in Hungary;
- A medical certificate stating that the applicant is free from certain communicable diseases; and
- Certain company documentation, if a work permit is not required.

An application for a residence permit takes from 15 to 30 days to process. An application for the renewal of a residence permit of a non-EEA national must be filed with the relevant authority at least 30 days before the expiration date of the permit.

EEA nationals and their family members may stay in Hungary for 90 days without any permission. If they intend to stay longer, they must request EEA residence cards at the Immigration Office before the 75th day of their stay in Hungary.

EEA nationals must support their residence card application with the following:

- A valid passport;
- A photo;
- Documents confirming the purpose of their stay in Hungary;
- Certification of the applicant's financial means; and
- A property rental agreement or proof of ownership of a property in Hungary.

In addition to the above, family members may also need to prove their family relations.

An application for a residence permit takes from 15 to 30 days to process. An application for the renewal of a residence permit of an EEA national must be filed with the relevant authority at least 15 days before the expiration date of the permit.

I. Family and Personal Considerations

Family Members. The spouse or children of an expatriate may obtain the same visas and permits as the expatriate.

Expatriates working in Hungary and their family members may import a car and their personal belongings without paying import duties and value-added tax (VAT). These belongings must be registered with the Customs Office.

Drivers' Permits. Foreign nationals may drive legally in Hungary with a license issued by an EU country for as long as it is valid or with their non-EU home country drivers' licenses for up to one year. After one year, a local driver's license must be obtained. It is useful to have an international driver's license for the one-year period.

To obtain a Hungarian driver's license, citizens of countries that have not signed the Vienna Convention on Public Vehicular Traffic must take exams on traffic rules, technical knowledge and first aid.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Employer-provided housing	X	—	(b)
Housing contribution	(X)	—	(b)
Housing allowance	X	—	(b)
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowances	X	—	—
Home-leave allowances	X	—	—
Medical/hospital expenses	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement:			
Current gross-up	X	—	—
One-year rollover	X	—	—
Deferred compensation	—	X	(c)
Value of meals provided	—	X	(d)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	(e)
Capital gain from sale of stock in home country	—	X	(f)

* Bracketed amounts reduce taxable income.
(a) Employee contributions are not deductible from compensation.
(b) These items, including payments for utilities, are taxable only if the employer is Hungarian. They are not taxable to individuals employed by non-Hungarian-registered entities who are assigned or seconded to work in Hungary.
(c) Deferred compensation is not taxable until it is paid. However, amounts that are vested before payment can be taxable at the earlier date. In general, deferred compensation requires careful tax planning.
(d) The value of meals is not taxable if it is provided in the form of meal vouchers up to HUF 4,500 per month. If a hot meal is provided to the employee during the break time of the workday, the exempt amount is HUF 9,000 per month.
(e) The gain is not taxable if it is protected by treaty or if the residence is located outside Hungary.
(f) The gain is not taxable if it is not protected by a treaty or if the seller is not resident in Hungary at the time of the sale. However, capital gains derived from transactions carried out on the Hungarian or other accredited EU member state's stock exchange are considered to be interest income taxed at 0%. All other capital gains are taxable at a rate of 25% if the criteria mentioned in the first sentence of this footnote are not met.

APPENDIX 2: SAMPLE TAX CALCULATION

The sample tax calculation below is for an expatriate who is a foreign citizen who worked the entire year in Hungary for a Hungarian company with foreign participation. The expatriate receives part of his remuneration from a Hungarian employer and part from a foreign employer.

	HUF
Remuneration	
Income paid by the Hungarian employer on the basis of an employment contract under the Hungarian labor law	2,000,000
Income paid by the foreign employer	3,000,000
Gross taxable employment income	5,000,000
Calculation of Income Tax	
Tax on HUF 1,550,000 at 18%	279,000
Tax on HUF 3,450,000 at 36%	1,242,000
HUF 5,000,000	
Total tax liability	1,521,000

ICELAND

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A. Income Tax

Who Is Liable. Residents of Iceland are subject to tax on their worldwide income. Nonresidents are subject to tax on their Iceland-source income only.

Individuals are considered residents if they permanently reside in Iceland. An individual is deemed to permanently reside where he or she is located, stays during his or her spare time, and maintains a home.

Income Subject to Tax. Icelandic income tax law distinguishes among several categories of income, including income from employment, self-employment, and a trade or business.

The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Resident and nonresident employees are subject to income tax on remuneration received from employment. Employment income includes wages, salaries, bonuses, pensions and all other compensation for services rendered.

Self-Employment and Business Income. All individuals, whether resident or nonresident, who act independently in their own name and at their own risk are taxed on income derived from self-employment or business activities.

In general, taxable income includes all income and capital gains attributable to self-employment or business activities.

If a nonresident conducts business through a permanent establishment located in Iceland, taxable income is computed in the same manner as for resident individuals.

Investment Income. Dividend income received by a resident from a resident or nonresident company is generally subject to personal financial income tax at the applicable tax rate of 10%. Interest income, royalties and income from the rental of real property are also subject to personal financial income tax.

Nonresidents are subject to final withholding tax at a rate of 10% for dividends and rental income. Nonresidents are not subject to withholding tax on interest income.

Directors' Fees. Payments to managing directors for day-to-day management are considered employment income and are taxed at the rates set forth in *Rates*.

If a nonresident is a member of the board of directors of an Icelandic company and bears the tax for his or her fees, the fees are subject to a withholding tax of 15% at source.

Taxation of Employer-Provided Stock Options. Stock options are generally taxed on the date of exercise (not on the date of grant) on the difference between the strike price and the fair market value of the shares on the date of exercise. The taxable benefit is subject to income tax and to social security contributions from both the employer and the employee. A special regime is available under limited circumstances, which taxes the difference between the strike price and the fair market value at the personal net wealth income tax rate of 10%.

Capital Gains. In general, a capital gains withholding tax at a rate of 10% is levied on all capital gains realized by nonresidents.

The taxable gain on shares is the difference between the shares' purchase price and selling price.

Capital Gains from Real Estate. Capital gains on sales of privately owned buildings and land realized by nonresidents is subject to 10% withholding tax. Gains derived from the sale of a principal residence are tax-exempt. Nonresident taxpayers are taxed on capital gains from real estate in the same manner as residents.

Capital Gains from Personal Property. Capital gains derived from transfers of personal property not used in a business, including stamps, jewelry or automobiles, are exempt from tax, unless such sales are considered business activities.

Capital Gains Realized by a Business Enterprise. Capital gains derived from investments and from the disposal of real estate that forms part of the net asset value of an enterprise are taxable.

Deductions

Deductible Expenses. Expenses incurred by an employee are generally not deductible. However, pension payments are deductible.

Business Deductions. Generally, all expenses for business or professional activities are deductible, including the following:
- Costs of material and stock;
- Personnel expenses, certain taxes, rental and leasing expenses, finance charges, self-employment social security contributions, and all general and administrative expenses;
- Depreciation of fixed assets; and
- Provisions for identified losses and expenses.

Rates

Employment Income Tax. Tax is computed by adding a municipal tax rate to the general rate, plus an additional high income tax rate. The income tax rates for 2006 are a municipal rate of 12.97%, and a general rate of 23.75%, resulting in an effective tax rate of 36.72%.

Business Profits Tax. Net business profits are subject to both income tax and municipal business tax. The income tax rates on net business profits are the same as those that apply to employment income. Municipal business tax is levied on profits as computed for income tax purposes. For 2006, the rate of municipal business tax is 12.97%.

Nonresidents who carry on business through a permanent establishment in Iceland are taxed at the same rates as residents.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Business losses may be carried forward for 10 years if accounts are kept in accordance with generally accepted accounting principles. Losses may not be carried back and may not be deducted by a successor. Investment losses may be offset against capital gains in the year incurred, but may not be carried forward.

B. Other Taxes

Net Worth Tax. The net worth tax was abolished, effective from 31 December 2005.

Inheritance and Gift Taxes. The rate of inheritance tax is 5% of the market value of assets at the time of payment, exceeding ISK 1,000,000.

Gifts and donations are subject to income tax. Resident donees pay gift tax.

C. Social Security

Contributions. Social security contributions apply to wages and salaries and must be withheld by the employer. These contributions cover health insurance, unemployment insurance, birth leave insurance and bankruptcy insurance. Social security contributions are imposed at a flat rate of 5.79%.

Self-employed individuals must register for social security purposes, and are subject to the same social security contribution rate.

Totalization Agreements. In accordance with the principle of free movement of workers, Iceland has adopted the European Union's (EU) multilateral social security regulations for nonresident workers. These regulations also apply to European Free Trade Association (EFTA) countries, except Switzerland.

D. Tax Filing and Payment Procedures

Icelandic tax residents must file annual income tax returns for the preceding calendar year by the end of March. Employers withhold taxes for salaried individuals.

Nonresident taxpayers earning Icelandic-source salaries and pensions must file tax returns with the local tax authorities where the salaries and pensions are earned.

Self-employed individuals must make estimated monthly payments of tax on deemed salaries.

Married persons are taxed separately on all types of income. However, married persons are jointly liable for their spouse's tax payments.

E. Double Tax Relief and Tax Treaties

Iceland has entered into double tax treaties with 22 countries, in addition to a multilateral treaty with the other five Nordic countries. Residents with income from nontreaty countries include the foreign-source income in their taxable income and may apply for a credit for foreign taxes paid, up to the amount of tax imposed by Iceland on the foreign-source income.

Iceland has entered into double tax treaties with the following countries.

Belgium	Germany	Portugal
Canada	Greenland	Russian Federation
China	Ireland	Slovak Republic
Czech Republic	Latvia	Spain
Denmark	Lithuania	Sweden
Estonia	Luxembourg	Switzerland

Faroe Islands	Netherlands	United Kingdom
Finland	Norway	United States
France	Poland	Vietnam

F. Temporary Visas

In general, foreigners from most countries do not need temporary visas when traveling to Iceland. However, Iceland offers temporary short-stay visas. A short-stay visa is valid for employed or self-employed persons staying in Iceland for less than three months who do not derive income in Iceland, for example, tourists, students enrolled in training courses in Iceland for less than three months and business people on business trips.

In general, renewals are not granted for a longer stay. However a license to stay for longer than three months without seeking work may be obtained.

G. Work and Residence Permits and Self-Employment

Icelandic legislation regulates the right of foreign nationals to enter, reside and work in Iceland. To take up paid employment in Iceland, a foreign national must satisfy conditions entitling him or her to enter and reside in Iceland and must hold a work permit.

For purposes of entry, residence and work in Iceland, foreign nationals are divided into different categories of workers, depending on whether they are EU nationals, EFTA nationals, or nationals of other countries.

Work Permits. Non-EU citizens and non-EFTA citizens must obtain work permits. An application for a work permit must be filed prior to the commencement of work.

Icelandic legislation provides for the following six categories of work permits. Each type of work permit may be revoked if the activities of the permit holder become inconsistent with the prerequisites of the permit.

Work Permit 1. Work Permit 1 is granted to salaried individuals applying for a work permit in Iceland for the first time. This type of work permit is valid for up to one year, but may be extended for additional two-year periods, in one profession and with one employer. This type of work permit may also apply if the permit holder has several employers in the same profession. However, at a minimum, the terms of the permit holder's employment agreement must meet normal employment agreements and working conditions under Icelandic regulations.

Work Permit 2. Work Permit 2 is valid indefinitely for any profession and any employer. This work permit is granted to salaried individuals who have previously been granted a Work Permit 1 and have a license to reside indefinitely in Iceland. This permit is valid while the individual maintains continuous residence in Iceland.

Work Permit 3. Work Permit 3 is granted to persons who wish to maintain their own business. This work permit is valid for a specific type of business and may not be granted for longer than an initial period of three years, after which it may be extended indefinitely.

Work Permit 4. Work Permit 4 is granted to individuals who study in Icelandic schools. This work permit is limited to jobs connected to the student's studies or jobs during school holidays. This work permit may only be granted for one year at a time.

Work Permit 5. Work Permit 5 is granted to individuals who perform domestic services in Icelandic homes. The terms for the individual performing the services must be presented for the permit to be granted. The work permit only applies to persons between 17 and 30 years of age.

Work Permit 6. Work Permit 6 is granted to Icelandic employers. This permit allows an employer to hire foreign individuals who have permits to enter Iceland.

Exceptions. The following nonresident individuals do not need work permits to work for up to four weeks per year in Iceland:
- Scientists and lecturers who teach;
- Artists, except musicians performing in restaurants;
- Athletic coaches;
- Representatives of companies that do not maintain a permanent establishment in Iceland;
- Drivers of public transport vehicles registered in a foreign country that are used to transport foreign tourists;
- Foreign media reporters working for companies that do not maintain a permanent establishment in Iceland; and
- Specialized employees, consultants and advisors working on the assembly, setup, inspection or repair of equipment.

Steps for Obtaining Work Permits. Employers must notify the Foreign Nationals Administration (Útlendingaeftirlitið, or FNA) to hire foreign individuals who are not from EU or EFTA countries. An employee must obtain a visa at the Danish embassy in his or her home country.

Once an employer decides to hire an individual, the following administrative procedures must be followed and necessary permits must be obtained, depending on the citizenship of the prospective employee.

To apply for temporary work and residence permits, an employer must complete an application form and request comments from the relevant union. The union must recommend or deny the application within 14 days. If recommended by the union, the employer files an application with the FNA. If the FNA agrees to a residence permit, it sends the application to the Labor Administration, (Vinnumálastofnun, or LA). If the LA agrees to a work permit, it notifies the employer and foreign individual, and sends a copy of its approval to the FNA. The FNA then issues a certificate for the foreigner as proof of the granted residence and work permits. The employer receives the certificate from the FNA.

To apply for student work and residence permits, a foreign student must file an application with the relevant union, along with the school's verification of the student's studies. The union must recommend or deny the application within 14 days. If recommended by the union, the student files the application with the FNA. If the FNA agrees to a residence permit, the FNA forwards the application to the LA. If the LA agrees to a work permit, it notifies the student and the FNA. The FNA then issues a certificate for the student as proof of the granted residence and work permits. The student then receives the certificate from the FNA.

To apply for unrestricted residence and work permits, the foreigner files an application with the FNA. If the FNA agrees to a residence permit, the FNA forwards the application to the LA. If the LA agrees to a work permit, it notifies the foreigner and the FNA, and requests that the foreigner send two photographs to the FNA. The FNA issues a certificate as proof of the unrestricted residence and work permits. The foreign individual then receives the certificate from the FNA.

To apply for a license to operate a business, a foreign individual must file an application with the FNA. If the business requires an administrative license, such a license must be obtained and filed with the application. If the FNA agrees to a residence permit, it forwards the application to the LA, who then requests comments from the relevant unions. The unions must provide their comments within 14 days. If the unions recommend a permit, the LA issues a permit to operate a business, notifies the foreign individual, and sends a copy of the approval to the FNA. The foreign individual then brings the approval to the relevant administrative office to receive the permit for the business.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	—	X	(a)
Value of hotel provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	(b)
Capital gains from sale of stock in home country	X	—	—

* Bracketed amounts reduce taxable income.
(a) Tax reimbursements are not taxable. However interest relating to tax reimbursements is taxable.
(b) Capital gains derived from the sale of a personal residence are not taxable if the period of ownership exceeded two years.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2006 is provided below for an expatriate, who is a resident in Iceland for all of 2006 and is married with two dependent children under 7 years old. The expatriate's wife is not employed. During 2006, the expatriate received compensation of ISK 6,000,000. The individual was also provided housing by the employer. The expatriate earned dividends from home-country investments of ISK 100,000. The following is the tax calculation.

	ISK	ISK
Calculation of Taxable Income		
Income:		
Salary	6,000,000	
Taxable value of housing (5% of ISK 18,000,000)	900,000 (a)	
Total income		6,900,000
Deductions:		
Pension payments	(480,000) (b)	
Total deductions		(480,000)
Taxable income		6,420,000
Calculation of Tax		
Income tax at 36.72%		2,357,424
Children benefit		(93,494)
Personal tax credits:		
Taxpayer	(348,343)	
Wife	(348,343)	
Total personal tax credits		(696,686)
Income tax payable		1,567,244
Finance tax on dividend at 10%		10,000

(a) If an employer provides an employee with a house or other dwelling, and if the employee has the dwelling at his or her disposal free of charge, the employee is deemed to receive income. For 2006, the amount of the income is determined by applying a rate ranging from 3.5% to 5% of the assessment value of the house. The rate varies according to the location of the house. The rate is 5% for the Reykjavik area and 3.5% to 4% for other areas of Iceland.
(b) Payments to pension funds for private pension insurance are deductible up to 8% of total employment income. Otherwise, no significant deductions are allowed from employment income.

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A. Income Tax

Who Is Liable. Residents are subject to tax on their worldwide income. Persons who are resident but not ordinarily resident are taxed only on Indian-source income, income deemed to accrue or arise in India, income received in India or income received outside India arising from either a business controlled, or a profession established, in India. Nonresidents are taxed only on Indian-source income and on income received, accruing or arising in India. Nonresidents may also be taxed on income deemed to accrue or arise in India through a business connection, through or from any asset or source of income in India, or through the transfer of a capital asset situated in India (including a share in a company incorporated in India).

Individuals are considered resident if they meet either of the following criteria:
- Residence in India for 182 days or more during the tax year (that is, the year in which income is earned; in India the tax year runs from 1 April to 31 March); or
- Residence in India for 60 days or more during the tax year and residence in India for at least 365 days in aggregate during the preceding four tax years.

Individuals who do not meet the above criteria are considered to be nonresidents.

Individuals are considered "not ordinarily resident" if, in addition to meeting one of the above tests, they satisfy either of the following conditions:
- Nonresident in India in 9 out of the preceding 10 tax years; or
- Present in India for 729 days or less during the previous 7 tax years.

All employees are subject to tax, unless they are exempt under the Income Tax Act, 1961 or applicable tax treaties.

Income Subject to Tax. In general, all income received or accrued in India is subject to tax.

The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Ordinarily resident employees are taxed on salary income, regardless of where it is earned.

All salary income relating to services rendered in India is deemed to accrue or arise in India regardless of where it is received or the residence status of the recipient.

Nonresidents compute income in the same manner as residents.

Employees of foreign enterprises who are citizens of foreign jurisdictions are not subject to tax if all of the following conditions are satisfied:
• The enterprise is not engaged in a trade or business in India;
• The employee does not stay in India for more than 90 days in the tax year; and
• The compensation paid is not claimed by the employer as a deduction from taxable income in India.

Similar exemptions are available under tax treaties if the stay is less than 183 days, but conditions vary. Nonresident foreign citizens employed on foreign ships who stay in India no longer than 90 days in a tax year are also exempt from tax on their earnings.

In general, most elements of compensation are taxable in India. However, certain benefits, including company-provided housing may receive preferential tax treatment, subject to certain requirements. Certain employer-provided benefits are taxed in the following manner:
• Company-provided housing: The benefit of company-provided housing is taxed at the lower of 20% of salary (15% of salary in cities having a population of less than 400,000) or the rent paid, reduced by any amount recovered from the employee. Furniture and appliances provided by the employer are taxed at a rate of 10% of the cost if the employer owns the items, or the rent paid if the employer hires the items.
• Hotel accommodation: If an employee is provided with hotel accommodation, tax is imposed on the lower of hotel charges paid by the employer or 24% of salary, reduced by any amount recovered from the employee, unless such accommodation is provided for up to 15 days on relocation.
• Interest-free or low-interest loans: The benefit of interest-free loans or low-interest loans exceeding Rs. 20,000 to an employee or a member of an employee's household is taxable based on the purpose of the loan.
• Employer-paid taxes on nonmonetary benefits: In general, the amount of tax paid by an employer on behalf of an employee is grossed up and taxed in the hands of the employee. The employer may pay taxes on "nonmonetary" benefits without the gross-up, but the term "nonmonetary" has not been defined and is open to interpretation. However, the employer cannot deduct such taxes paid in computing its taxable income.

The following employer-paid items are not included in an employee's taxable compensation to the extent that they do not exceed specified limits: reimbursed medical expenses; traveling allowances; and contributions to Indian retirement benefit funds, including provident, gratuity and superannuating funds.

Certain allowances, including house rent allowances and leave travel allowances, are either tax-exempt or included in taxable income at a lower value, subject to certain conditions. A bonus paid at the beginning or ending of employment is included in taxable salary income.

An education allowance provided by the employer to an employee to meet the cost of education of the employee's children is exempt up to Rs. 100 per month per child for up to two children. An allowance granted to an employee to meet the hostel expenditure (boarding and lodging expenses in residential schools and colleges) of the employee's children is exempt up to Rs. 300 per month per child for up to two children.

Self-Employment and Business Income. All individuals who are self-employed or in business in India are subject to tax. All income received or deemed to be received, or accrued or deemed to be accrued, in India is subject to tax.

A resident's worldwide income is taxable. Persons who are "not ordinarily resident" and nonresident are taxed only on Indian-source income, income received in India or income received outside India arising from either a business controlled or a profession established in India.

Investment Income. Dividends are taxed in the following manner:

- Domestic companies are required to pay dividend distribution tax on profits distributed as dividends after 31 March 2003 at a rate of 12.5% plus applicable surcharge and education cess; and
- Amounts declared, distributed or paid as dividends after 31 March 2003 are not taxable in the hands of the shareholders.

Nonresidents are taxed on interest earned on loans made, or earnings from technical services rendered, in India, including the supply of know-how used in a business or profession carried on in India. Nonresident Indian nationals (including persons of Indian origin) may exercise an option to be taxed at a flat rate of 20% on gross investment income (without any deductions) arising from foreign-currency assets acquired in India through remittances in convertible foreign exchange. The tax must be withheld at source. This withholding tax is not a final tax.

Interest earned on nonresident external (NRE) accounts of individuals and interest payable by scheduled banks to nonresidents or persons who are not ordinarily resident on approved foreign-currency deposits are exempt from tax.

Directors' Fees. Directors' fees are taxable with other income at the rates described in *Rates*. Expenses incurred wholly and exclusively for earning fees are allowed as deductions.

Sums Received Above Rs. 25,000. Any sum of money in excess of Rs. 25,000 received by an individual on or after 1 September 2004 without consideration is taxable in the hands of the recipient. However, certain exclusions to the rule exist, such as the following amounts: amounts received by an individual from a relative; amounts received on the occasion of the marriage of the individual; or amounts received under a will, by way of an inheritance or in contemplation of death of the payer.

Taxation of Employer-Provided Stock Options. The government has issued guidelines permitting single-point taxation at sale for any gains arising from a stock-based incentive scheme if the scheme meets certain requirements. For an Indian company issuing stock, the guidelines require that in addition to the tax guidelines providing for advantageous tax treatment, the company must meet the guidelines set forth by the Securities Exchange Board of India. Taxation is imposed at the time of the sale of shares under a "qualified" plan (a plan that meets the guideline requirements), and the employer is not required to report any income or withhold tax. For "nonqualified" plans, taxation is imposed at the time of exercise (on the difference between the exercise price and the fair market value at the date of exercise) and also on the sale of shares acquired by the exercise (on the difference between the sale price and the fair market value at the date of exercise). Employers are required to report and withhold tax on any income earned by the employee under nonqualified plans at the time of exercise.

Capital Gains and Losses. Capital gains derived from the transfer of short-term assets are taxed at normal rates.

Capital gains derived from transfers of long-term capital assets (shares, securities listed on a recognized Indian stock exchange, units of Unit Trust of India, specified mutual funds held longer than one year and other assets held longer than three years) are taxed separately at flat rates. Long-term capital gains are exempt from tax if the gains are reinvested within six months in specified long-term assets. If, within three years after purchase, the new assets are sold or, in certain cases, used as a security for a loan or an advance, the capital gains derived from the sale of the original asset are subject to tax in the year the new assets are sold or used as a security.

In calculating long-term capital gains, residents may adjust the cost of assets for inflation. For gains derived from listed securities held longer than one year, the taxpayer may elect to be taxed at a rate of 10% (plus applicable surcharge and education cess) on the difference between the sale price and the cost of acquisition and improvement, or at a rate of 20% (plus applicable surcharge and education cess) on the difference between the sale price and the indexed cost of acquisition and improvement. For assets held on or before 1 April 1981, the market value on 1 April 1981 may be substituted for cost in calculating gains; for residents, the market value is also adjusted for inflation.

Long-term capital gains derived from the transfer of equity shares in a company listed on a recognized stock exchange in India are exempt from tax if the shares are purchased on or after 1 March 2003 but before 1 March 2004.

The Securities Transaction Tax (STT) is effective from 1 October 2004. Long-term capital gains derived from the transfer of equity shares or units of an equity-oriented fund on a recognized stock exchange in India on or after 1 October 2004 is exempt from tax if the Securities Transaction Tax (STT) is payable on such transaction. The purchase or sale of such shares (or units of an equity-oriented fund) is subject to STT at prescribed rates, payable on the value of the transaction. Different rates apply based on the nature of the transaction. STT is paid by the purchaser or seller of the shares or units or by both the purchaser and the seller, depending upon the type of transaction. For example, in the case of delivery-based transactions in equity shares or units of equity oriented funds, STT is payable by both the purchaser and seller, while in the case of nondelivery-based transactions, STT is payable only by the seller.

Short-term capital gains derived from the transfer of equity shares or units of equity-oriented funds on a recognized stock exchange in India is taxable at a reduced rate of 10% if the transaction is entered into on or after 1 October 2004 and if the STT is payable on such transaction.

Capital gains on depreciable assets generally are not taxable, but the sales proceeds of any asset must be applied to reduce the declining-balance value of the class of assets (including additions during the year) to which the asset belongs. If the sales proceeds exceed the declining-balance value of a relevant class of assets, the excess is treated as a short-term capital gain and is taxed as ordinary income.

Exemptions are available for long-term gains derived from the sale of a residential house and other capital assets if the gains are used to acquire a residential house or specified bonds within the prescribed time.

If a taxpayer or a taxpayer's parents use land for agricultural purposes for at least two years immediately preceding the date of transfer, capital gains arising from the transfer of the land is exempt from tax if the taxpayer uses the gains to purchase other land for agricultural purposes within two years after the date of the transfer. If gains from the sale of agricultural land are not reinvested, they are taxed as short-term gains if the agricultural land is held for less than three years, and as long-term gains if the agricultural land is held for more than three years.

Short-term and long-term capital losses may not offset other income. Short-term capital losses arising during the tax year can be set off against short-term capital gains or long-term capital gains. The balance of short-term losses may be carried forward to the following eight tax years and offset short-term or long-term capital gains arising in those years.

Long-term capital losses arising during the tax year can be set off only against long-term capital gains and not against any other income. The balance of long-term losses may be carried forward to the following eight tax years and offset long-term capital gains arising in those years.

Nonresident Indian nationals may be subject to 10% withholding on long-term capital gains on specified foreign-exchange assets. Withholding taxes are not final taxes. At the time of assessment, credit is given for taxes withheld. The Income Tax Act, 1961 contains special measures for nonresident Indian nationals, which may be applied at the option of such individuals, with respect to long-term capital gains and investment income derived from foreign-exchange assets.

Nonresidents are protected from fluctuations in the value of the Indian rupee on sales of shares or debentures of an Indian company because the capital gains are computed in the currency used to acquire the shares or debentures. After being computed, the capital gains are converted into Indian rupees. Inflation adjustments are not permitted for this computation.

Deductions

Deductible Expenses. For individuals, a deduction of up to Rs. 100,000 from gross total income may be claimed for prescribed contributions to savings instruments, pension funds and schemes and certain other recipients. In addition, interest paid on loans obtained for pursuing higher education is fully deductible. However, no deduction is available for repayment of the principal amount.

Medical insurance premiums for recognized policies in India may be deducted, up to a maximum of Rs. 10,000 (Rs. 15,000 for taxpayers over 65 years of age) against aggregate income from all sources.

Business Deductions and Tax Concessions. Taxpayers may generally deduct from gross income all business-related expenses. Personal expenses and capital expenditure other than expenditure for scientific research are not deductible. Allowable depreciation must be claimed, up to the available limit.

Rates. The following tax rates are proposed to apply to resident and nonresident individual taxpayers for the year ending 31 March 2006.

Taxable Income		
Exceeding Rs.	Not Exceeding Rs.	Rate* %
0	100,000	0
100,000	150,000	10
150,000	250,000	20
250,000	—	30

* If the net taxable income exceeds Rs. 1,000,000, a surcharge is levied at a rate of 10%. The surcharge rate applies to total tax payable. In addition, an education cess of 2% is also levied on the tax and surcharge payable. The maximum marginal rate of tax on annual income in excess of Rs. 1,000,000 is effectively 33.66% (30% + 10% surcharge + 2% education cess).

Resident individuals with income up to Rs. 100,000 do not pay the income tax and education cess. The exemption limit is increased to Rs. 135,000 for resident women younger than 65 years of age and to Rs. 185,000 for resident individuals who are 65 years of age or older.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Business losses may be carried forward for eight years if the income tax return for the year of loss is filed on time. Unabsorbed losses from speculative transactions may be carried forward for only four years. Effective from 1 April 2004, business losses cannot be set off against salary income. Unabsorbed depreciation may be carried forward indefinitely.

B. Other Taxes

Net Wealth Tax. Indian wealth tax is payable at a rate of 1% if the taxable value of net wealth exceeds Rs. 1.5 million. Assets subject to tax include residential houses, cars, yachts, boats, aircraft, urban land, jewelry, bullion, precious metals, cash in excess of Rs. 50,000, any amount not recorded in the books of account and commercial property not used as business, office or factory premises. However, a residential house and houses owned by an employer and provided to employees earning less than Rs. 500,000 a year are exempt from tax. The above assets, other than urban land, are exempt from tax if they are owned as stock-in-trade or are used for hire. Productive assets, including shares, debentures and bank deposits, are not subject to wealth tax. A deduction is allowed for debts owed that are incurred in relation to the taxable assets. The tax is levied on net wealth as of 31 March preceding the year of assessment.

Estate and Gift Taxes. India does not impose tax on estates, inheritances or gifts. However, any sum of money received by an individual in excess of Rs. 25,000 on or after 1 September 2004 without consideration is taxable in the hands of recipient, subject to certain exceptions.

C. Social Security

No social security taxes are levied in India.

D. Tax Filing and Payment Procedures

Income Tax Filing and Payment. All income is taxed using a fiscal tax year from 1 April to 31 March. All taxpayers, including nonresidents, must file returns if their taxable income exceeds the exempt amount, which is Rs. 1,000,000 for the 2005-06 tax year. Residents must file a return regardless of the amount of their income if they met one of the following conditions during the preceding year:

- Occupied real property exceeding a specified size;
- Owned or leased a motor vehicle;
- Incurred expense on foreign travel;
- Held a credit card that was not an add-on card (an add-on card is a credit card given as a gift by a spouse or parent, who holds the credit card in his or her individual capacity and has principal liability for the charges on the credit card);
- Held a club membership with a paid entrance fee of Rs. 25,000 or more; or
- Incurred expenditure of Rs. 50,000 with respect to the consumption of electricity in the preceding year.

Income tax returns for salary income must be filed by 31 July; returns for self-employment or business income must also be filed by 31 July or, if accounts are subject to a tax audit, by 31 October. Wealth tax returns for individuals must be filed by 31 July.

India does not have a concept of joint filing. As a result, married persons are taxed separately. If an individual directly or indirectly transfers an asset to his or her spouse for inadequate consideration, income derived from the asset is deemed to be income of the transferor spouse. If an individual has a substantial interest in a business, remuneration paid by the business to the individual's spouse is taxed to the individual, unless the remuneration is attributable solely to the application of the spouse's technical or professional knowledge and experience. Passive income of minor children is aggregated with the income of the parent with the higher income.

Taxpayers with employment income pay tax through tax withheld by employers' from monthly salaries each pay period. Taxpayers with tax liability exceeding Rs. 5,000 must make advance payments, after deducting credit for tax withheld, in three installments on 15 September, 15 December and 15 March. Advance tax is also payable in installments on capital gains.

Nonresidents generally are subject to the same filing requirements as residents. However, nonresident citizens (including persons of Indian origin) who have only investment income or long-term capital gains need not file returns if the required tax is withheld at source. Nonresidents are subject to assessment procedures in the same manner as residents.

Before leaving the country, any individual not domiciled in India is required to furnish an undertaking to the prescribed authority and obtain a No Objection Certificate if he or she is in India for business, professional or employment activities. Such undertaking must be obtained from the individual's employer or the payer of the income, and the undertaking must state that the employer or the payer of income will pay the tax payable by the individual. An exemption from obtaining the No Objection Certificate is granted to foreign tourists or individuals visiting India for purposes other than business or employment, regardless of the number of days spent by them in India. At the time of departure of an individual domiciled in India, the individual must provide his or her permanent account number, the purpose of the visit outside India and the estimated time period for the stay outside India to the prescribed authority. However, a person domiciled in India may be required to obtain a Tax Clearance Certificate in certain specified circumstances.

Quarterly Statement of Tax Withheld at Source. An entity withholding tax on or after 1 April 2005 is required to file quarterly statements of tax withheld in a prescribed format with the prescribed authority, as well as an annual return of tax withheld at source. The prescribed format and the due dates for filing the quarterly statement of tax withheld have been notified.

Annual Information Return. Under a new scheme, specified persons or entities must file an annual information return (AIR) with respect to "specified financial transactions" registered, recorded or entered into on or after 1 April 2004, if the aggregate value of such transactions during the year is Rs. 50,000 or more. "Specified financial transactions" cover a wide variety of transactions, including sales or exchanges of goods or property or rights or interests in property, the rendering of services and loan transactions.

E. Double Tax Relief and Tax Treaties

If no applicable double tax treaty exists, resident taxpayers may claim a tax credit on foreign-source income equal to the lower of the tax imposed by the foreign country or the tax imposed by India on the foreign income.

Tax treaties provide varying relief for tax on income derived from personal services in specified circumstances. In certain circumstances, the treaties also provide tax relief for business income if no permanent establishment exists in India. India has entered into double tax treaties with the following countries.

Afghanistan
Armenia
Australia
Austria
Bangladesh
Belarus
Belgium
Brazil
Bulgaria
Canada
China
Cyprus
Czechoslovakia
Czech Republic
Denmark
Egypt
Ethiopia
Finland
France
Germany
Greece
Hungary
Indonesia
Iran
Ireland
Israel
Italy
Japan
Jordan
Kazakhstan
Kenya
Korea
Kuwait
Kyrgyzstan
Lebanon
Libya
Malaysia
Malta
Mauritius
Mongolia
Morocco
Namibia
Nepal
Netherlands
New Zealand
Norway
Oman
Pakistan
Philippines
Poland
Portugal
Qatar
Romania
Russian Federation*
Saudi Arabia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Syria
Tanzania
Thailand
Trinidad and Tobago
Turkey
Turkmenistan
Uganda
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Vietnam
Yemen
Zambia

* Cargo, merchant shipping and other treaties.

F. Tourist Visas

Visitors to India need visas to enter the country unless they are Indian citizens. Nonresident Indians holding citizenship of another country are also required to obtain visas before arriving in India unless they hold a Person of Indian Origin (PIO) card (see Section J) issued by the Indian government. Visas should be obtained from the Indian embassy or consulate in the applicant's home country. Special permits are required for visiting the Andaman and Nicobar Islands, Bhutan, Lakshadweep, remote northeastern states and Sikkim.

Tourist visas are valid for one to six months, usually beginning on the date the visa was issued and not on the date of entry into India. Tourist visas are usually multiple-entry visas; however, this option should be specifically requested at the time of application.

G. Business and Employment Visas and Self-Employment

Business Visas. Multiple-entry business visas for short-term stays are issued to those visiting India on business for periods not exceeding six months.

Multiple-entry business visas for long-term stays are issued to individuals visiting India on business for extended periods. This type of visa enables foreign nationals to travel in and out of the country without having to reapply for visas every six months.

Employment Visas. Employment visas are issued to individuals entering India for the purpose of employment. These multiple-entry visas are valid from one to five years. An employment visa may be obtained more rapidly in the home country than in India, where the visa application process may take longer than two months.

Self-Employment. Foreign nationals wishing to practice their professions or carry out occupations, trades or businesses in India must register with the Reserve Bank of India (RBI).

H. Residence Permits

All foreign nationals are required to register with the police authorities at the local registration office within two weeks after their date of arrival if their visas are valid for longer than six months. A foreign national holding a visa valid for six months or less who wishes to stay in India beyond the period of validity must register within two weeks after 180 days from the time of arrival in India. A PIO card holder (see Section J) whose continuous stay in India exceeds 180 days is required to register within 30 days after 180 days from the time of arrival in India. To register with the local registration office, the following documents must be presented:

- Arrival report;
- Application form;
- Application for residential permit;
- Copy of the employment contract, if applicable;
- Letter of application stating the purpose of the expatriate's visit to India;
- Notarized documents submitted to the President of India by a guarantor willing to reimburse the government if the individual continues to reside in India, or if he or she is being supported by the government;
- Ten recent passport-size photos; and
- Photocopies of the passport, including visa page.

The original passport and visa are also required at the time of filing for verification by authorities.

Registration is valid for the term of the visa and may be extended upon application. Failure to register may result in the immigration authority's refusal to allow the foreign national to leave the country.

I. Family and Personal Considerations

Family Members. Entry visas are issued to accompanying family members of individuals visiting India on business or for employment.

Spouses or dependents of working expatriates must obtain separate work permits to be employed in India.

Family members intending to reside with a working expatriate must register separately at the local registration office (see Section H). Children of working expatriates must obtain student visas to attend Indian schools.

Drivers' Permits. Foreign nationals are not permitted to drive in India using their home country drivers' licenses. Foreign nationals should obtain international drivers' licenses in their home countries. International drivers' licenses are normally valid for six months.

To obtain an Indian driver's license, individuals should apply to the Regional Transport Authority, which issues learners' permits.

This enables the individual to drive when accompanied by an adult who has a valid Indian driver's license. One month after the learner's permit is issued, a driving test and a verbal examination of the local driving laws must be taken. On successful completion of the examinations, the Regional Transport Authority issues a driver's license.

J. Other Matters

Exchange Controls. Under the prevailing foreign-exchange rules, salaries earned locally may be repatriated only by individuals holding employment visas (see Section G). Foreign nationals who are not permanent residents of India, but who are regularly employed with Indian firms or companies on a monthly salary, are permitted to remit their salaries (net of retirement plan contributions and Indian taxes) to their home countries for maintenance of close relatives abroad. The definition of residential status of individuals under the exchange control law differs from the definition under the Income Tax Act, 1961.

An expatriate worker who is employed by a foreign company, but who is either resident (or resident but not permanently resident) in India or a citizen of India employed by a foreign company outside India, may open and maintain a foreign-currency account with a foreign bank while assigned to a corporate entity of the foreign company in India. The salary received for services performed in India may be paid into that account by the foreign company if the following conditions are satisfied:

- The amount paid into the foreign bank account may not exceed 75% of the salary. This implies that 25% of the salary must be received in India. An employee who wishes to receive more than 75% outside India must file a request for approval to do so with the Reserve Bank of India (RBI).
- The remainder of the salary must be paid in rupees in India.
- Indian income tax must be paid on the entire salary amount, regardless of the bank account into which the salary is paid.

India regulates the holding, transferring, borrowing, or lending of foreign exchange, and the acquisition of foreign security or immovable property located outside India by persons resident in India. However, a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or an immovable property located outside India if the person acquired, held or owned such currency, security, or property when he or she was resident outside India or such person inherited the currency, security or property from a person who was resident outside India.

Under a liberalized remittance scheme for resident individuals, which has been notified, total remittances of up to US$25,000 per calendar year are allowed for current-account and capital-account transactions. The scheme allows individuals to acquire and hold immovable property or shares, maintain foreign-currency accounts or other assets outside India without RBI approval, subject to the fulfillment of specified conditions.

Person of Indian Origin Card. A Person of Indian Origin (PIO) card can be obtained by any individual who satisfies any of the following conditions:

- The individual has held at any time an Indian passport.
- The individual or any of his or her parents, grandparents or great-grandparents were born in and permanently resident in India.

- The individual's spouse is a citizen of India or a person of Indian origin. This implies that even a foreign spouse of a citizen of India or of a person of Indian origin may apply for a PIO card.

PIO card holders are granted certain benefits such as the following:
- The waiver of the requirement for obtaining a visa for visiting India;
- Exemption from the requirement of registration if the individual's stay in India does not exceed 180 days;
- The acquisition, holding, transfer and disposal of immovable properties in India; and
- Facilities for obtaining admission to educational institutions in India.

Dual Citizenship. In December 2003, the Indian parliament passed a bill to allow persons of Indian origin who are also citizens of one of the listed countries (16 countries have been listed) to acquire "Overseas Citizenship" of India without surrendering the citizenship of the other country. The benefit of dual citizenship was recently extended to all persons of Indian origin who migrated from India after 26 January 1950. Overseas Citizens of India will be entitled to certain rights and benefits, which will be prescribed by the central government.

Fringe Benefit Tax. Fringe Benefit Tax (FBT) is payable by employers. FBT is imposed at a rate of 30% (plus applicable surcharge and cess) on specified percentages of the following:
- Fringe benefits provided; and
- Deemed fringe benefits.

Typically, deemed fringe benefits include business expenses that may result in personal benefits to employees. However, perquisites that are taxed in the employee's hands are not subject to FBT.

The specified percentages of fringe benefits and deemed fringe benefits subject to FBT are 5%, 20%, 50% and 100%. These rates vary among various categories of fringe benefits and deemed fringe benefits. The 100% rate applies to the following: free or concessional tickets provided by employers for private journeys undertaken by employees or their family members; and employers' contributions to approved superannuation funds.

The Central Board of Direct Taxes has also issued a circular that is intended to assist in the interpretation of the law relating to FBT. The circular is organized in a frequently-asked-questions format (with 107 questions and answers).

Among other clarifications, the circular indicates that foreign companies with employees "based in India" are subject to FBT. In addition the circular clarifies the allocation of expenses subject to FBT with respect to international operations.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	(a)
Bonus	X	—	—
Cost-of-living allowance	X	—	—

	Taxable	Not Taxable	Comments
Tax perquisite (that is, tax paid by employer)	X	—	(b)
Rent-free housing	X	—	(c)
Utilities	X	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Entertainment allowance	X	—	—
Other allowance	X	—	—
Moving expenses	—	X	(d)
Medical reimbursement	—	X	(e)
Value of meals provided during working hours	—	X	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(f)
Capital gain from sale of personal residence in home country	—	X	(f)
Capital gains from sale of other assets in home country (stocks and shares)	—	X	(f)

(a) Compensation paid for services performed in India is taxable in India, regardless of where the compensation is paid. Remuneration includes any salary payable to the employee for a rest or leave period, which is preceded or followed by the performance of services in India and is provided for in the employment contract.
(b) Tax paid by the employer is a taxable perquisite in the hands of the employee. However, tax paid on nonmonetary benefits provided to an employee is not treated as income in the hands of the employee, subject to the satisfaction of certain conditions.
(c) The taxable value of a perquisite with respect to rent-free housing is calculated using a formula (see Appendix 2).
(d) Relocation expenses incurred at the time of transfer are not taxable to the employee, subject to the satisfaction of certain conditions.
(e) Medical expenditures or reimbursements are exempt, subject to certain conditions and limits.
(f) This item is nontaxable for individuals who are considered resident and not ordinarily resident or who are considered nonresident.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a tax calculation for an expatriate who was sent to India on 1 April 2003 for a period of two years.

	US$	US$
Calculation of Taxable Income		
Basic salary	120,000	
Bonus	12,000	
Employer pension contribution to home-country plan	8,400 (a)	
Children education allowance	12,000 (b)	
Cost-of-living allowance	24,000	
Foreign-service premium	30,000	
Housing utilities	1,200	

Calculation of Taxable Income	US$	US$
Total of salary, bonus and taxable allowances		207,600
Perquisite (c):		
Rent paid by employer for unfurnished housing (lower of amount paid of US$36,000 or 20% of salary, bonus and taxable allowances, which equals US$39,600 [20% of US$198,000])	36,000	
Rent recovered	(12,000)	
Taxable perquisite		24,000
Taxable income		231,600
Taxable income in Indian currency (Rs. 231,600 x 45) (d)		10,422,000

Calculation of Tax Payable	Rs.
Income tax	3,076,600
Surcharge at 10%	307,660
Education cess at 2%	67,685
Total tax payable	3,451,945

(a) Employer contributions to a home-country plan may be claimed as nontaxable based on judicial pronouncements.
(b) The children education allowance is exempt up to approximately US$26 per year per child, up to a maximum of two children. This exemption is not reflected in this example.
(c) Car hire and maintenance charges are not taxable in the hands of the employee because these charges are now subject to FBT payable by the employer.
(d) For purposes of the example, the conversion rate is US$1 = Rs. 45.

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A. Income Tax

Who Is Liable. Indonesian-resident taxpayers are subject to tax on worldwide income. Nonresidents are subject to tax on Indonesian-source income only. Diplomats and representatives of certain international organizations are excluded from Indonesian tax if the countries they represent provide reciprocal exemptions.

Individuals are considered resident if they are present in Indonesia for more than 183 days within a 12-month period or if, within the calendar tax year, they reside in Indonesia with the intent to stay or meet the time requirements of an applicable tax treaty.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income of an employee includes wages, salary, commissions, bonuses, pensions, directors' fees and other compensation for work performed. Compensation in kind for work or services is not taxable income for the employee and is not a deductible expense for the employer. However, this treatment does not apply to employees of the following: oil and gas companies under contracts entered into under pre-1984 law; representative offices, which are not subject to Indonesian Corporate Income Tax; various international organizations and embassies; employers who are taxed based on a "deemed profit" basis; and employers who are subject to final tax. Although fringe benefits provided to employees, including employer-provided housing and automobiles, are not included in an employee's taxable income, they are allowable deductions for the employer if the employee works in a remote area. Benefits received in the form of cash allowances are taxable.

Self-Employment and Business Income. Members of partnerships, firms and associations, as well as other individuals, may be subject to tax on self-employment or business income.

Taxable income includes trading profits, profits from the sale of property connected with a business, annuities and waivers of debts (except waivers of debts for a small entrepreneur of up to Rp 5 million).

Self-employment and business income is combined with other income and taxed at the rates set forth in *Rates*.

Directors' Fees. Directors' fees are included in taxable employment income.

Investment Income. Dividends paid to individuals, rents, royalties and certain interest are subject to withholding tax at various rates. These types of investment income generally are combined with other income and taxed at the rates set forth in *Rates*. However, the 20% withholding tax on interest derived from the following investments is a final withholding tax: time deposits, including time deposits placed abroad through a bank established in Indonesia or through a branch of a foreign bank; certificates of deposit; and savings accounts.

Taxation of Employer-Provided Stock Options. Employer-provided stock options are not taxable to an individual at the time of grant or exercise. Income tax at the individual's marginal tax rate is imposed at the time of sale on the difference between the sale price of the shares and the strike price. Sales of stock on the Indonesian stock exchange are also subject to a final withholding tax at a rate of 0.1% on the gross sale value of the stock.

Capital Gains and Losses. Capital gains are taxed at the same rates as business income and income from employment (see *Rates*). Capital gains are added to income from other sources to arrive at total taxable income.

The transfer of shares listed on the stock exchange is subject to withholding tax at a rate of 0.1% of the gross value of the transfer if the transferred shares are ordinary shares, and to an additional 0.5% of the gross value of the transfer if the transferred shares are founding shares. Both withholding taxes are final. If the founders do not elect to be taxed at 0.5% on listing, the capital gains that arise from the transfer of founding shares are taxed at the same rates as ordinary income.

The base cost of property used in carrying on a business may be depreciated for tax purposes. For normal disposals, the depreciation base is deducted from proceeds. Any gain or loss relating to extraordinary disposals, for example, closing down a significant part of a business, should be separately identified.

Costs of property not used for business purposes may be indexed for inflation in calculating the amount of taxable gain.

Deductions

Deductible Expenses. To determine the taxable income of regular employees, gross income is reduced by the following amounts:
- Standard deduction at a rate of 5% of gross income, up to a maximum of Rp 1,296,000 a year; and
- Contributions to a pension fund approved by the Minister of Finance and to TASPEN (Pension Insurance Saving Agency), as well as old-age savings or old-age allowance contributions to TASPEN and to the Employees' Social Guarantee Program (Jaminan Sosial Tenaga Kerja, or JAMSOSTEK), paid by employees.

To determine the taxable income of a pensioner, the gross pension is reduced by a deduction of 5% of the gross pension, up to a maximum of Rp 432,000 a year.

Personal Allowances. The following annual allowances are deductible from taxable income.

Type of Allowance	Amount of Allowance Rp
Personal allowance	13,200,000
Married persons' additional allowance	1,200,000
Wife's additional allowance if receiving income not related to husband's or other family member's income	13,200,000
Additional allowance for each dependent family member in direct blood line and for adopted children, up to a maximum of three individuals	1,200,000

Business Deductions. A self-employed business person may deduct from gross income ordinary expenses connected with earning income, including costs of materials, employee remuneration, bad debts, insurance premiums and administrative costs. Taxes other than income tax are deductible. If employee income taxes are borne by an employer, a grossing-up calculation must be made to claim the expense as a deduction from gross profit.

A business may also deduct the following expenses:
- Depreciation and amortization, in accordance with specified rates;
- Contributions to approved pension funds;
- Losses from the sale of property or rights used in a business;
- Foreign-exchange losses;
- Costs of research and development performed in Indonesia;
- Scholarship, apprenticeship and training costs;
- Fifty percent of the cost of automobiles provided to employees; and
- Office refreshments provided to all employees.

The following expenses may not be deducted:
- Provisions or reserves, with exceptions for certain industries;
- Premiums for employees' life and health insurance, unless paid by the employers and treated as income taxable to the employees;
- Benefits in kind provided to employees, including housing;
- Gifts, support and donations;
- Personal expenses;
- Salary paid to a member of an association, partnership or a limited partnership whose capital is not divided into shares; and
- Income tax and administrative sanctions in the form of interest, fines and surcharges, and criminal sanctions in the form of fines in connection with provisions of the tax laws.

Rates. The following rates apply to individuals.

Taxable Income Exceeding Rp	Taxable Income Not Exceeding Rp	Tax on Lower Amount Rp	Rate on Excess %
0	25,000,000	0	5
25,000,000	50,000,000	1,250,000	10
50,000,000	100,000,000	3,750,000	15
100,000,000	200,000,000	11,250,000	25
200,000,000	—	36,250,000	35

Nonresident taxpayers are subject to tax at a flat rate of 20% on all Indonesian-source income.

For a sample tax calculation, see Appendix 2.

Credits. If nonemployment income is also taxed in the country in which it arises, a foreign tax credit is allowed in computing the Indonesian tax. The credit equals the lesser of the foreign tax or the Indonesian tax applicable to that income.

Relief for Losses. In general, losses may be carried forward for up to five years.

A spouse's business losses may be offset against the business profits of the other spouse.

B. Land and Buildings Tax

Land and buildings tax is levied on the sales value of the property at a rate of 0.1% if the taxable sales value is Rp 1 billion or less and at a rate of 0.2% if the taxable sales value is greater than Rp 1 billion. The Minister of Finance determines the taxable sales value. Property valued at Rp 60 million or less is exempt from land and buildings tax.

C. Social Security

No social security taxes are imposed other than for worker's accident insurance and the provident fund, called JAMSOSTEK. Contributions paid by employees for accident insurance and life insurance are not deductible from taxable income. However, employees' contributions for old-age pensions are deductible from taxable income, up to a maximum of 2% of income. Employers must contribute at least 3.7% of wages.

JAMSOSTEK is mandatory only for companies with more than 10 employees or a payroll exceeding Rp 1 million per month. Contributions are also mandatory for expatriates, unless the expatriates already receive similar benefits and protection under a policy in their home country. To take advantage of this exemption, original insurance policies are required to prove that the expatriate is protected.

The following JAMSOSTEK contribution percentages of monthly salary are required of employers and employees. No ceiling applies to the amount of wages subject to contributions, except as noted below.

	Contribution Amount	
Program	**Employer %**	**Employee %**
Occupational accident benefit	0.24 to 1.74	0
Death benefits	0.3	0
Old-age pension	3.7	2
Health care benefits (a)		
Worker who is not married (b)	3.0	0
Worker who is married (c)	6.0	0

(a) Contributions for health care benefits are not compulsory if an employer provides a better health insurance program.
(b) Up to a maximum of Rp 30,000 per month.
(c) Up to a maximum contribution of Rp 60,000 per month.

D. Tax Filing and Payment Procedures

The tax year in Indonesia is the calendar year.

Married persons are taxed separately on employment income and jointly on all other income. Married persons may submit individual income tax returns separately if they entered into a prenuptial agreement to separate their assets.

Employee taxes are withheld by the employer. An employer must file a tax return based on the calendar year for all employees no later than the following 31 March. The employer must also file a monthly return by the 20th day of the following month.

Individuals are required to file individual income tax returns by 31 March following the end of the tax year. Individuals earning income only from employment are not required to file monthly tax returns.

Withholding tax is levied on a variety of payments to residents. A self-employed professional, including an accountant, lawyer, architect or consultant, has tax withheld at source on the settlement of invoices. The rate of withholding tax is 7.5% of the gross amount. Withholding tax is an advance payment of income tax.

Self-employed individuals must make monthly advance tax payments. The monthly payment amount is based on the previous year's tax liability, reduced by tax withheld at source during the preceding year. The payment is due on the 15th day of the month following the income month.

Nonresident foreign taxpayers are not required to file tax returns in Indonesia, unless they conduct business or activities in Indonesia through permanent establishments.

E. Double Tax Relief and Tax Treaties

A taxpayer who has income derived outside Indonesia that is subject to taxation abroad is entitled to a credit, not to exceed the Indonesian tax payable on the foreign income.

Indonesia has entered into double tax treaties with the following countries.

Algeria	Korea (North)	South Africa
Australia	Korea (South)	Spain
Austria	Kuwait	Sri Lanka
Belgium	Luxembourg	Sudan
Brunei Darussalam	Malaysia	Sweden
Bulgaria	Mexico	Switzerland
Canada	Mongolia	Syria
China	Netherlands	Taiwan
Czech Republic	New Zealand	Thailand
Denmark	Norway	Tunisia
Egypt	Pakistan	Turkey
Finland	Philippines	Ukraine
France	Poland	United Arab Emirates
Germany	Portugal*	United Kingdom
Hungary	Romania	United States
India	Russian Federation	Uzbekistan
Italy	Seychelles	Venezuela
Japan	Singapore	Vietnam
Jordan	Slovak Republic	

* This treaty is not yet effective.

The tax treaties generally provide for the elimination of double taxation of personal income and include specific provisions pertaining to artists, athletes, teachers, students and those engaged in employment and independent personal services.

F. Temporary Visas

A visa is required for a visit to Indonesia of any duration. However, governmental visitors and tourists, as well as social, cultural and business visitors from the following countries, can obtain free visas on arrival for visits not exceeding 30 days.

Brunei Darussalam	Malaysia	Singapore
Chile	Morocco	Thailand
Hong Kong	Peru	Turkey
Macau	Philippines	

The 30-day free visas described above may not be extended or changed into any other type of visa.

Visitors from 36 jurisdictions are required to obtain a 30-day visa on arrival and pay a visa-on-arrival fee. The following are the jurisdictions whose nationals may obtain a visa on arrival.

Argentina	India	Qatar
Australia	Ireland	Russian Federation
Austria	Italy	Saudi Arabia
Belgium	Japan	South Africa
Brazil	Korea (South)	Spain
Canada	Kuwait	Switzerland
China	Luxembourg	Taiwan
Denmark	Maldives	United Arab Emirates
Egypt	New Zealand	United Kingdom
Finland	Norway	United States
France	Oman	
Germany	Poland	
Hungary	Portugal	

Visitors from other countries must apply for a 30-day temporary visa at an Indonesian embassy or consulate abroad.

On application, a social visit visa, which is issued for a maximum period of 60 days, is available from an Indonesian embassy or consulate abroad. This visa is required for visiting family members or social organizations. It is also required for nationals of countries not eligible for a visa on arrival.

Business travelers wishing to engage in commercial transactions or perform professional or technical services must obtain a single entry business visa (Visa Kunjungan Usaha, or VKU) from an Indonesian embassy or consulate abroad. Application must be made by a sponsor to an office of the Directorate General of Immigration in Indonesia. The immigration office informs the overseas embassy or consulate via a telex confirmation when the visa application is approved. The embassy or consulate then issues the visa. VKUs are issued for visits of up to 60 days. During the 60-day period, an application may be made for an initial two-month temporary work permit. The company or sponsor must provide a valid reason for requesting the permit, which may be renewed for additional one-month periods for up to a maximum of six months. This visa becomes invalid on exit from Indonesia, and another similar visa is required for any subsequent similar visits.

A multiple-entry visa (Visa Kunjungan Beberapa Kali, or VKUBP), which is valid for 12 months are available on application to an Indonesian embassy or consulate abroad. Under this type of visa, each visit may not exceed 60 days. A multiple-entry visa is recommended for people who regularly visit Indonesia to conduct business meetings and who do not establish residency in Indonesia. A holder of this visa is not eligible for a temporary work permit.

Before submitting a visa application to an Indonesian embassy, the applicant must obtain telex confirmation from the Directorate General of Immigration Jakarta.

G. Work Permits and Self-Employment

The Indonesian government prefers that expatriates be employed in Indonesia only in positions that cannot currently be filled by Indonesian nationals. Companies that wish to hire expatriates must provide the necessary education and training programs for Indonesians who will replace the expatriates within a reasonable time period.

Employers must require their expatriate employees to obtain work permits. Obtaining the necessary visas and work permits in Indonesia can be a protracted and complex process. It is strongly recommended that a prospective employer work with a local agent to obtain the permits and visas necessary to employ expatriates. Work permits are usually issued for 12-month periods and may be extended, subject to approval from the government.

Application Procedure. First, an employer or sponsor must submit a Utilization of Foreign Manpower Plan (Rencana Penggunaan Tenaga Kerja Asing, or RPTKA) to the Department of Manpower and Transmigration (Departemen Tenaga Kerja dan Transmigrasi, or Depnakertrans) or to the Investment Coordinating Board (Badan Koordinasi Penanaman Modal, or BKPM). The Depnakertrans or BKPM contacts the other government departments responsible for the industry in which the employer is engaged. The manpower plan should include job titles for the expatriate applicants, a description of the job requirements, the number of individuals required, the timeframe planned for each function, the number of Indonesians to be trained to replace the expatriates, and the educational and training programs planned for the Indonesian employees. With respect to the training of Indonesians to replace expatriates, the employer must train at least three Indonesian counterparts for every expatriate employed. A manpower plan must be approved before the submission of a work permit application.

The work permit application is then submitted to the Director of Manpower Education, Training and Placement or to the BKPM. The application for each foreign national must include the following items:

- Copies of all pages of the expatriate passport (including blank pages). Family members wishing to reside with the expatriate must also submit passport copies.
- Color photos with red background of the expatriate and family members.
- Résumé, including education and work experience.
- Copy of the most recent certificate of education or diploma.
- Letter of appointment for the expatriate.
- Copy of the company's deed of establishment or, if the expatriate is appointed as a director, the minutes of the meeting confirming the appointment of new directors.
- Copy of the employment agreement between the company and expatriate (for expatriates employed at the manager level).

On approval of the application, the Depnakertrans or BKPM issues a recommendation letter (TA01) to the Directorate General of Immigration to arrange for a limited stay visa (Visa Izin Tinggal Terbatas, or VITAS).

The expatriate must identify an Indonesian embassy or consulate abroad where the VITAS may be collected. The Indonesian embassy in Singapore is commonly used for this purpose. The Directorate General of Immigration informs the overseas embassy by telex when clearance is given for the issuance of the VITAS. It is recommended that the expatriate bring a copy of the telex to the embassy with the request for the VITAS.

Within seven days after entering Indonesia, the holder of the VITAS and all family members must report personally to the District Immigration Office of the district where the applicant resides to obtain limited stay permit cards (Kartu Izin Tinggal Terbatas, or KITAS; see Section H). Fingerprinting is required.

The expatriate must also apply to the District Immigration Office for a Foreigner Registration (Pendaftaran Orang Asing, or POA). The District Immigration Office then issues an immigration control book (a blue book). The KITAS holder is granted a multiple re-entry permit which is valid for six months and may be extended up to a maximum of one week before the KITAS expires.

Copies of all required documentation for a work permit application are forwarded to the Depnakertrans or BKPM. For each new application and renewal, the employer must pay an annual Skill Development Fund levy of US$1,200 (US$100 a month) before the work permit (Ijin Kerja Tenaga Asing, or IKTA) can be approved. Depnakertrans or BKPM then issues the work permit. The work permit is valid for one year. The work permit expires when the KITAS card expires, which is one year from the date of issuance.

The expatriate and all of his or her family members must register with police headquarters after the KITAS card and work permit are issued.

On the expiration of the work permit and the final exit from Indonesia, a final exit permit (EPO) is required.

Self-Employment. Only Indonesian citizens may conduct business in Indonesia as self-employed persons. Citizens of other countries must obtain the sponsorship of employers in Indonesia.

H. Residence Visas

A limited stay visa (Visa Izin Tinggal Terbatas, or VITAS; see Section G) is valid for a period of six months to one year and is issued exclusively to expatriates who are working in accordance with the prevailing government regulations. Expatriates working in Indonesia on full-year work permits must obtain residence cards, called limited stay permit cards (Kartu Izin Tinggal Terbatas, or KITAS).

A residence visa is renewable up to five times. Each extension is valid for one year.

I. Family and Personal Considerations

Family Members. A foreign national possessing a KITAS and IKTA may apply for his or her spouse and children to reside in Indonesia if they fulfill the necessary requirements. A copy of the marriage certificate and a complete copy of the passport are required for the spouse, and birth certificates and complete copies of the passports are required for the children. In addition, the spouse and children must register at the local immigration office for KITAS cards, POAs and blue books (see Sections G and H). The entire family must also register with the police.

The spouse of a foreign national who wishes to work in Indonesia must obtain a separate work permit.

Drivers' Permits. Foreign nationals may not drive legally in Indonesia using their home country drivers' licenses. International drivers' licenses are acceptable. Indonesia provides no driver's license reciprocity with other countries.

To obtain an Indonesian driver's license, foreign nationals must take a written and a physical exam. Photocopies of the passport and KITAS card must be attached to the driver's license application.

In view of the driving conditions and commuting time, it is recommended that foreign nationals hire Indonesian drivers. Drivers' base salaries are about US$125 per month.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	—
Education allowance	X	—	(a)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(a)
Other compensation income	X	—	(a)
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	—	X	(b)
Value of meals provided	—	X	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	—
Capital gain from sale of stock in home country	X	—	—

* Bracketed amounts reduce taxable income.

(a) The item is not taxable if paid directly by the employer rather than as an allowance or reimbursement to the employee. However, it is nondeductible to the employer.

(b) An employer can elect to make tax payments subject to individual tax on a gross-up basis in order to claim a corporate tax deduction.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation is provided below for an expatriate with four dependent children who resides and works in Indonesia for all of 2005. During 2005, the expatriate receives the following salary and benefits.

	Rp
Salary and Benefits	
Base salary	450,000,000
Bonus	30,000,000
Cost-of-living allowance	20,000,000
Education	56,500,000
Housing	160,000,000
Home leave	24,000,000
Indonesian income tax	134,496,400
Total	874,996,400

It is assumed that the payments of the education, housing, home leave and Indonesian tax are not made directly to the employee. As a result, these amounts are not taxable as benefits-in-kind.

In addition, the expatriate received interest and dividends from sources in his home country in a total amount of Rp 20,000,000. The expatriate paid home country income tax of Rp 5,000,000 on such income.

The following is the tax computation.

	RP
Employer's Return	
Taxable compensation (salary, bonus and COLA)	500,000,000
Less:	
Occupational allowance	(1,296,000)
Personal allowance	(13,200,000)
Married person's allowance	(1,200,000)
Dependant's allowance (limited to maximum of three)	(3,600,000)
Taxable income	480,704,000
Tax withheld by employer	134,496,400
Employee's Return	
Taxable employment income (salary, bonus and COLA)	480,704,000
Add: Investment income	20,000,000
Taxable income	500,704,000
Tax	141,496,400
Less: Foreign tax credit	(5,000,000)
Net tax liability	136,496,400
Less: Withholding from employer's return	(134,496,400)
Balance of tax due	2,000,000

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A. Income Tax

Who Is Liable. Income tax liability in Ireland depends on an individual's tax residence and domicile.

For the 2006 tax year, an individual is regarded as an Irish tax resident if he or she meets any of the following conditions:

- Spends 183 or more nights in Ireland during the period from 1 January 2006 to 31 December 2006;
- Spends an aggregate of 280 or more nights in Ireland during the two-tax-year period from 1 January 2005 to 31 December 2006, with more than 30 nights in Ireland in each tax year; or

- Elects to become tax resident for the tax year in which he or she comes to Ireland with the intention to be resident in the following tax year, and is tax resident under one of the tests listed above in the following tax year.

Tax concessions apply to the year when an individual becomes, or ceases to be, an Irish resident.

Domicile in Ireland is not defined in tax law but is a legal concept based on the location of an individual's permanent home. Irish law treats domicile as acquired at birth (usually it is the domicile of the father) and retained until an individual takes positive steps to change to another domicile.

Individuals who are tax resident in Ireland are normally subject to tax on worldwide income, including employment income, regardless of whether the employment is carried on in Ireland or abroad. However, exceptions apply to the following individuals:

- Individuals who live in border areas and work in Northern Ireland; and
- Seafarers, subject to special conditions.

Until 31 December 2005, certain individuals could benefit from the remittance basis of assessment. The remittance basis permitted returning Irish nationals who had been out of Ireland for more than three years and foreign executives coming to work in Ireland to limit their Irish income tax liability to income brought into Ireland if the employer and the paypoint were located outside Ireland and the United Kingdom. Effective from 1 January 2006, the remittance basis is withdrawn with respect to employment earnings (including benefits) relating to the exercise of duties in Ireland. However, the favorable tax treatment continues to apply to investment income and the portion of employment earnings relating to duties performed outside Ireland and all other income sourced outside Ireland and the United Kingdom.

If the individual is on Irish payroll, Pay As You Earn (PAYE) withholding must be accounted for on all employment earnings, including benefits. If an individual who previously availed of the remittance basis remains on a payroll outside Ireland and the United Kingdom, PAYE withholding is required on the amount of employment earnings (including benefits) attributable to duties performed in Ireland.

Advance approval may be granted by the Irish Revenue on the proportion of the earnings to which PAYE should be applied if the proportion is unclear and if only a portion of earnings is likely to be assessable in Ireland.

Nonresidents generally are subject to Irish tax on income arising in Ireland, unless they are protected by the provisions of a double tax treaty.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Most payments made by an employer, including salary, bonuses, benefits in kind and expense allowances, are subject to income tax, unless a prior agreement is made with the tax authorities.

In general, noncash benefits are taxable and are valued at the cost incurred by an employer in providing the benefits. However, special measures govern the valuation of the following taxable benefits:

- Car—up to 30% of the original market value of the car. The taxable benefit is reduced if the employee makes a financial contribution to the employer or if a high percentage of the car's use is for business purposes.
- Loans—11% of the amount of the loan, with a reduction for interest paid by the employee. The rate is 3.5% for a home loan.
- Housing—8% of the market value of the property or rent paid, plus utilities paid by the company, and 5% for the use of assets and furnishings provided by the employer.
- Any employee benefits that are not expended wholly, exclusively and necessarily in the performance of employment duties, including private travel and entertainment.

Education allowances provided by employers to their employees' children 18 years of age and under are taxable for income tax and social security tax purposes.

Employers must withhold Pay Related Social Insurance (PRSI; see Section C) and apply the Pay-As-You-Earn System (PAYE; see Section D) with respect to the value of benefits in kind provided to employees during the tax year. Employers' PRSI at a rate of 10.75% also applies to any benefits granted to employees.

In general, nonresidents are subject to income tax on employment income, regardless of their domicile, if their duties are carried on and if their salary is paid in Ireland.

Self-Employment and Business Income. Individuals resident in Ireland are subject to tax on income from trades and professions carried on in Ireland and abroad. Nonresidents are taxed on income from trades and professions carried on in Ireland only.

Taxable profits normally consist of net business profits as disclosed in the financial accounts and adjusted to account for deductions not allowed or restricted by legislation.

Except for years when a business begins or terminates, taxable profits generally are those for the tax year ending 31 December or for the 12-month accounting period ending in that year.

Investment Income. An individual resident and domiciled in Ireland is taxed on worldwide income from dividends and interest. If resident but not domiciled, an individual is taxed on all investment income arising in Ireland and the United Kingdom and on income remitted to Ireland from other countries. A credit for foreign taxes paid is generally available if a double tax treaty applies. A nonresident is taxed on Irish-source income only.

Dividends received by individuals from Irish tax-resident companies are taxed in full. Dividends may be subject to withholding tax at a rate of 20%, which is creditable against a resident individual's income tax liability.

Interest on Irish government securities is subject to income tax and is generally not taxed at source, but may not be taxable if received by nonresident persons.

Interest on most bank and building society deposits is taxed at source at a rate of 20%, except if paid or credited to nonresidents. A credit is given for any tax withheld if the person is taxed on the interest. The final income tax on deposit interest taxed at source is 20%.

Losses from Irish rental properties may be offset against other Irish-source rental income or may be carried forward indefinitely and offset against rental income in future years.

Nonresidents are subject to a 20% withholding tax on nonexempt interest, royalties and rental income.

Directors' Fees. Directors' fees paid by companies incorporated in Ireland are taxable in Ireland, regardless of the tax residence of the director or the place where duties are performed. Directors' fees paid by non-Irish companies to Irish residents are taxable in Ireland. Nondomiciled individuals do not pay tax on directors' fees from foreign (excluding U.K.) companies, unless that income is remitted to Ireland.

Directors are regarded as employed for tax purposes and as either self-employed or employed for social insurance purposes, depending on the circumstances. Tax is withheld under the Pay-As-You-Earn (PAYE system, see Section D) on the basis of income earned during the tax year. Directors must submit personal tax returns by 31 October following the tax year to avoid a surcharge liability (see Section D).

Exempt Income. Income from the following sources is exempt from income tax:

- For tax-resident individuals only, income derived from writing, composing music, painting and sculpting;
- Income from patents developed in Ireland if the individual was involved in developing the process or product that is the subject of the patent;
- Shares provided to an employee under an Approved Profit Sharing Scheme, up to a value of €12,700 in a tax year;
- Profits or gains from forestry activities; and
- Profits or gains from the sale of breeding stallions and greyhounds kept in Ireland.

Effective from 1 January 2007, an individual may use the first two reliefs mentioned above to reduce the tax liability on only 50% of his or her total income if the total income exceeds €250,000. A tapering relief will apply for income between €250,000 and €500,000. The last relief mentioned above will be eliminated on 31 July 2008.

Taxation of Employer-Provided Stock Options. Employer-provided share options not approved by the tax authorities are subject to income tax at the date of exercise on the market value of the shares at the date of exercise, less the sum of the option and exercise prices. When the shares are disposed of, capital gains tax is charged on the difference between the market value of the shares at the date of exercise and the market value at the date of disposal. If the option is capable of being exercised in a period exceeding seven years after the date of grant, income tax may be charged at the date of grant in addition to a charge at the date of exercise.

Employer-provided share options approved by the tax authorities are not subject to income tax. For these options, capital gains tax is charged on the difference between the option price and the market value of the shares at the date of disposal. The exercise of options granted with respect to foreign employment when the employee was not resident may not be subject to Irish income tax. If an element of nonresidence exists, the income tax charge on certain options may be abated.

Capital Gains and Losses. Individuals resident in Ireland generally are subject to tax on worldwide capital gains. Nondomiciled individuals are not taxed on gains arising outside Ireland and the United Kingdom, unless the proceeds are remitted to Ireland. Capital gains are taxed at a rate of 20%.

Nonresidents are taxable on capital gains derived from the following assets situated in Ireland:
- Land and buildings;
- Mineral rights;
- Exploration or exploitation rights on the Continental Shelf;
- Assets used by a trade carried on in Ireland through a branch or agency; and
- Shares that derive the greater part of their value from the first three items listed above.

Gains are calculated by deducting from the proceeds the greater of the cost of the asset or, if the asset was owned by the seller on 6 April 1974, its value on that date. Cost (or the 1974 value) is increased by an index factor to adjust for inflation up to 31 December 2002. If the asset is purchased on or after 1 January 2003, the value of the asset cannot be increased for inflation. Indexation relief is also restricted on land situated in Ireland that is held for development and on shares that derive the greater part of their value from such land.

Exemptions are available for the following capital gains:
- The first €1,270 of taxable gains derived during the 2006 tax year;
- Capital gains derived from the taxpayer's principal residence;
- Assets transferred on death; and
- Wasting chattels (that is, tangible movable property with a useful life of less than 50 years).

The following are other forms of available relief:
- Retirement relief;
- Rollover relief, if business assets are sold and the proceeds are reinvested in qualifying assets (but see next paragraph); and
- Rollover relief, if the proceeds from the disposal of certain types of shares are reinvested in the shares of certain types of companies (but see next paragraph).

Rollover relief was abolished with respect to disposals on or after 4 December 2002, but it can apply to the disposal of certain assets subject to certain conditions.

Capital losses may be offset against capital gains derived in the same year or carried forward to offset capital gains in future years.

Income Tax Deductions

Deductible Expenses. Few deductions are allowed for employees. To claim a deduction, an employee first must show that the expense was incurred wholly, exclusively and necessarily in the performance of employment. Tax deductions for expenses incurred by employees are granted only for exceptional items, including purchases of protective clothing.

Personal Credits and Allowances. The principal credits for the 2006 tax year are listed in the table below. Credits are deducted from the individual's income tax liability.

Credits	Amount (€)
Married persons jointly assessed	3,260
Single person	1,630
Widowed person	2,130
Widowed person in year of bereavement	3,260
Pay-As-You-Earn (PAYE) allowance (if salary is subject to tax at source)	1,490
Mortgage interest on new or existing mortgages (varies)*	
Maximum relief (single person)	800
Maximum relief (married couple)	1,600
Medical and dental insurance	20% of the gross premium*

* The tax relief is granted at source.

The principal allowances for the 2006 tax year are listed in the table below. Allowances reduce the amount of income of the individual that is taxable at the top income tax rate.

Allowance at Top Rate	Amount
Pension contributions to approved schemes*	Varies from 15% to 40% of earnings, depending on age of individual
Investments in Business Expansion Schemes	€31,750
Investment in qualifying film production companies	80% of investment, up to €31,750
Relief for seed capital investments	€31,750 plus a carryback of €190,500 against any of previous six years
Employee share subscription	Up to €6,350
Employee Approved Share Scheme	€12,700

* The maximum allowable pension fund on retirement for tax purposes is €5 million or, if higher, the value of the fund on 7 December 2005. If the fund exceeds this limit, the excess amount in the fund will be liable to a once-off income tax charge at 42% when it is drawn down.

In general, a nonresident is not entitled to tax credits or personal allowances, but exceptions may apply under Irish income tax law or the provisions of a double tax treaty.

Business Deductions and Capital Allowances. Expenses incurred wholly and exclusively for the purposes of a trade or profession generally are deductible. Entertainment expenses are not deductible. Deductions for automobile expenses are restricted.

Capital expenditures and financial depreciation amounts are not deductible, but annual capital allowances ranging from 4% to 15% may be granted. The basic annual straight-line rates are 4% for industrial buildings and 12.5% for plant and machinery. The original cost of motor vehicles, including used cars, for depreciation purposes is restricted to €23,000. Rates in excess of the basic rates are permitted for certain assets.

Rates. The following table presents the 2005 income tax rates for single or widowed individuals.

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
€	€	€	%
0	32,000	0	20
32,000	—	6,400	42

The following are the 2006 income tax rates for a married couple jointly assessed.

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
€	€	€	%
0	41,000*	0	20
41,000	—	8,200	42

* If both spouses have income, married couples are entitled to have more of their income taxed at the 20% rate. The income bracket is increased by €1 for every €1 received by the second spouse, up to a maximum additional €23,000. Consequently, for a married couple, the maximum amount of taxable income potentially subject to the 20% rate is €64,000.

Nonresidents are taxed at the same rates as residents.

For sample tax calculations, see Appendix 2.

Relief for Losses. A loss arising from a trade or profession, as calculated for income tax purposes, may be offset against all income for the tax year in which the loss is incurred, or may be carried forward indefinitely and offset against income from the same trade or profession in future years; however, the loss must be used as early as possible in the years when a profit arises. A loss incurred in the final 12 months of a trade or profession may be carried back and offset against profits from the same trade or profession for the three tax years prior to the year of cessation.

B. Inheritance and Gift Tax

Capital Acquisitions Tax (CAT) includes both gift and inheritance tax and is primarily payable by the beneficiary of a gift or an inheritance.

CAT is payable if any of the following conditions are met:
- The donor or decedent is resident or ordinarily resident in Ireland;
- The beneficiary is resident or ordinarily resident in Ireland; or
- The gift or inheritance consists of Irish property.

If the donor or decedent or beneficiary is not domiciled in Ireland, he or she is not regarded as resident or ordinarily resident for CAT purposes unless he or she has been resident for five consecutive years immediately preceding the year of the gift or inheritance.

CAT at a rate of 20% is payable on the amount exceeding the relevant tax-free threshold. Three tax-free thresholds exist. The thresholds vary depending on the relationship between the donor or decedent, and the beneficiary. For 2004, the following are the relevant thresholds (the 2005 thresholds are not yet available).

Group	Threshold (€)	When Applicable
A	478,155	If the beneficiary is a child (including certain foster children), or minor child of a deceased child of the disponer; parents also fall within this threshold if they receive an inheritance from a child
B	47,815	If the beneficiary is a brother, sister, niece, nephew or lineal ancestor or lineal descendent of the decedent
C	23,908	All other cases

Any benefit received since 5 December 1991 within the same group threshold is aggregated for the purposes of determining whether any CAT is payable on the current benefit.

An exemption from CAT applies to gifts or inheritances received by a spouse. Gifts of €3,000 or less are also exempt. Relief from CAT is available on gifts or inheritances of agricultural property and business property.

Ireland has entered into inheritance tax treaties with the United Kingdom and the United States.

C. Social Security

Ireland imposes payroll taxes for Pay Related Social Insurance (PRSI) and for health contributions on all employment income, including most benefits. The rates of social security contributions for the year beginning 1 January 2006 are listed in the following table.

Social Security Taxes	Contribution Rate (a)
Pay Related Social Insurance (PRSI); paid by	
Employee	4%, up to a maximum income of €46,600 (b)
Employer	10.75% on gross income (no maximum income)
Self-employed	3% on gross income (no maximum income)
Health contributions	2% on gross income (no maximum income)

(a) Lower rates apply for low-paid workers.
(b) An allowance of €127 per week, noncumulative, is available in calculating the employees' liability.

Social Insurance. Employed individuals are generally subject to PRSI on income from employment, including benefits in kind, up to the contribution ceiling. A contribution based on each employee's salary and benefits is payable by employers. Self-employed persons are subject to social insurance contributions on total income, including investment income and rental income.

The payment of PRSI contributions may secure the following benefits:
• Contributory old-age pension (for employees and self-employed persons);
• Unemployment benefits (for employees only);
• Sickness benefits (for employees only);
• Limited dental benefits (for employees only); and

- Limited medical benefits (for employees and self-employed persons).

Social insurance is payable by individuals employed in Ireland. However, non-European Economic Area (EEA; the EEA countries consist of the European Union [EU] countries and Iceland, Liechtenstein and Norway) nationals, other than individuals from Australia, Canada, New Zealand, Switzerland and the United States, are exempt for the first 52 weeks of their assignment in Ireland if the assignment is temporary and if the employer's principal place of business is outside Ireland, the United Kingdom and the Isle of Man. EEA nationals, Americans, Australians, Canadians and New Zealanders may remain covered by their home-country social insurance systems for a specified time period.

Some individuals leaving Ireland on short-term assignments may remain covered under the Irish system for a limited period, subject to approval of social welfare authorities.

Health Contributions. Both employees and self-employed individuals are liable on their total income, including investment income, for health contributions.

D. Tax Filing and Payment Procedures

Filing. The tax year for individuals runs from 1 January to 31 December. Individuals who are subject to income tax for the tax year must file tax returns for earned and investment income and capital gains under the self-assessment rules. To avoid a surcharge penalty, taxpayers must file their returns by 31 October following the end of the tax year. If a return is filed between 1 November and 31 December, the surcharge is 5%. If a return is filed after 31 December, the surcharge is 10%.

Capital gains are included in the tax return or in a separate form for individuals not subject to income tax. The tax filing requirements also apply to the separate form.

Nondomiciled individuals are not required to provide details of worldwide investment income or capital gains. However, they must file tax returns and supply information concerning the following: details of employment earnings subject to Irish income tax; and remittances of investment income and capital gains to Ireland during the year. Nondomiciled individuals are subject to the filing dates mentioned above.

Married persons are taxed jointly or separately, at the taxpayers' election.

Payment. Tax on salaries and benefits normally is collected through the Pay-As-You-Earn (PAYE) system.

Income tax self-assessment applies to self-employed individuals. These individuals include persons receiving rental income and investment income. Ninety percent of the tax due or an amount equal to 100% of the final liability of the preceding year must be paid by 31 October in the tax year to avoid an interest charge. Alternatively, income tax may be paid in 12 equal monthly installments throughout the tax year. The aggregate of these installments must equal 105% of the second preceding year's liability, and must be paid by direct debit mandate (under this system, tax payments are deducted monthly from an individual's bank account) if the individual had income tax liability in the second preceding year. A tax return must be filed and any balance of tax due must be paid by 31 October following the end of the tax year. A limited number of cases are selected for subsequent in-depth examination by the Revenue Commissioners.

The payment date for capital gains tax has changed with respect to disposals made on or after 1 January 2003. Capital gains tax on gains arising on disposals during the period from 1 January to 30 September must be paid by 31 October in that tax year, and the tax on gains arising on disposals from 1 October to 31 December must be paid by the following 31 January.

The following table presents important tax administration dates for the year ending 31 December 2006.

	Due Date
Pay balance of 2005 income tax liability	31 October 2006
File 2005 income tax return	31 October 2006
Pay 2006 preliminary tax equal to 90% of the actual income tax liability or 100% of the previous year's final income tax liability	31 October 2006
File 2006 tax return	31 October 2007
Balance of 2006 tax due	31 October 2007
Capital gains tax due	
For period of 1 January 2006 through 30 September 2006	31 October 2006
For period of 1 October 2006 through 31 December 2006	31 January 2007

E. Double Tax Relief and Tax Treaties

Ireland has entered into several double tax treaties to avoid double taxation and to establish a right of taxation between Ireland and those countries. In general, the treaties provide for a credit for foreign taxes paid against the individual's Irish income tax liabilities. Some treaties provide rules to determine the country where the individual is considered to be resident for tax purposes.

Ireland has entered into double tax treaties with the following countries.

Australia	Hungary	Pakistan
Austria	Iceland	Poland
Belgium	India	Portugal
Bulgaria	Israel	Romania
Canada	Italy	Russian Federation
China	Japan	Slovak Republic
Croatia	Korea	Slovenia
Cyprus	Latvia	South Africa
Czech Republic	Lithuania	Spain
Denmark	Luxembourg	Sweden
Estonia	Malaysia	Switzerland
Finland	Mexico	United Kingdom
France	Netherlands	United States
Germany	New Zealand	Zambia
Greece	Norway	

If double tax treaty relief is not available, foreign income tax and foreign capital gains tax are deductible from the foreign-source income or capital gain for purposes of computing Irish taxable income.

F. Entry Visas

EU nationals are exempt from all visa requirements regardless of the purpose of their visits to Ireland.

In addition, nationals of the following countries do not need a visa.

EEA countries	Hong Kong	San Marino
Andorra	Hungary	Seychelles
Antigua and Barbuda	Iceland	Singapore
Argentina	Israel	Slovak Republic
Australia	Japan	Slovenia
Bahamas	Kiribati	Solomon Islands
Barbados	Korea (South)	South Africa
Belize	Latvia	St. Kitts and Nevis
Bolivia	Lesotho	St. Lucia
Botswana	Liechtenstein	St. Vincent and the Grenadines
Brazil	Lithuania	Swaziland
Brunei	Macau	Switzerland
Canada	Malawi	Tonga
Chile	Malaysia	Trinidad and Tobago
Costa Rica	Maldives	United Kingdom and colonies
Croatia	Malta	United States
Cyprus	Mauritius	Uruguay
Czech Republic	Mexico	Vanuatu
Dominica	Monaco	Vatican City
Estonia	Nauru	Venezuela
Fiji	New Zealand	
Grenada	Nicaragua	
Guatemala	Panama	
Guyana	Poland	
Honduras	Samoa (Western)	

Nationals of countries not mentioned above must apply for visas before their arrival in Ireland at any Irish consular office or embassy abroad, or to the Department of Foreign Affairs in Dublin.

Non-EU nationals may require work permits if they intend to take up employment in Ireland. If a work permit is required, non-EU nationals must have work permits in their possession at the point of entry to Ireland.

G. Work Permits and Self-Employment

Work Permit Requirements. In general, EU nationals are not required to have work permits to live and work in Ireland. Work permits are issued by the Department of Enterprise and Employment. (For details on exemptions, see *Work Permit Exemptions*.) An employer wishing to hire a nonexempt non-Irish or non-EU national is required to apply for a work permit on behalf of the applicant. In addition to work permits, depending on their country of origin, non-EU nationals may also need entry visas (see Section F).

To ensure that a work permit is granted, the employer must be able to demonstrate that no suitably qualified Irish or EU national can fulfill the requirements of the job. The employer must register the job vacancy on the Irish employment and training agency's (FAS) website. If the employer is not able to fill the vacancy with an EU national within six weeks after the job posting, the employer may apply for a work permit on behalf of a non-EU national. Documentary proof that the employer made an effort to find such a person must be presented with the application form.

In addition, the employer must supply two passport-size photos of the foreign national and pay an administrative fee (currently €500 for a 12-month permit).

Immigration authorities must be informed of the permit application. The completed application form may take from 8 to 10 weeks to process, allowing adequate time for representative bodies, professional organizations and immigration authorities to prepare any objections.

Certain professions are given preferences, depending on skill shortages in Ireland.

Work permits are issued on a month-to-month basis, up to a maximum period of 12 months. The permit may be extended, but applications must be made well in advance of the expiration of the existing permit. The process of applying for permit renewal is the same as for a new permit.

Work Permit Exemptions. Certain categories of non-EU nationals are not required to obtain work permits to take up employment in Ireland. The relevant categories of individuals are described below.

Intracompany Transfers (Secondments). Individuals posted for a maximum of four years to an establishment or undertaking in Ireland owned by a company or group with operations in more than one state are not required to obtain work permits. Immigration officers must seek evidence proving that the individuals fall within this category. Appropriate evidence is a letter from the headquarters of the company or group containing the name of the person and a statement that he or she has been posted to the Irish-based operation for a particular purpose and period of time not exceeding four years. The letter should refer to the work permit exemption rules and mention that the company understands that a work permit is not required. The original letter must be surrendered to the immigration officer. The foreign individual should retain a copy of the letter for future reference.

Concessions for intracompany transfers are currently granted only with respect to senior staff on a case-by-case basis. Otherwise, they are suspended.

A person seconded to Ireland for longer than four years or for an indefinite period continues to require a work permit.

Other Individuals Exempt from the Work Permit Requirement. The following individuals are not required to obtain work permits to take up employment in Ireland:

- Individuals with permission to reside in Ireland because they are married to an Irish national;
- Individuals with permission to reside in Ireland because they are the parent of an Irish citizen; and
- Individuals who have been given temporary leave to remain in Ireland on humanitarian grounds as part of the asylum process.

Self-Employment. A non-Irish or non-EU national who enters Ireland intending to establish a business or to engage in self-employment activities must first apply to the Department of Justice to obtain business permission. Business permission—the right to carry out business in Ireland—is required in addition to relevant work permits.

To obtain this permission from the Department of Justice, an applicant must complete the following requirements:

- Apply for permission in writing;
- Present a full description of the business venture and business plan;
- Produce evidence of financing for the business venture (currently a minimum of €300,000, subject to change); and
- Provide details of the number of staff to be employed and their nationalities.

Individuals qualifying for one of the exempt work-permit categories described in *Work Permit Exemptions* may engage in business or in a profession without seeking permission from the Department of Justice.

H. Residence Permits and Naturalization

Residence Permits. In general, EU nationals are not required to have residence permits to live and work in Ireland. Non-EU nationals who intend to remain longer than 90 days in the Dublin area must register their residency with the Aliens Registration Office at police headquarters in Dublin. In areas outside Dublin, registration is obtained at the local police station.

In cases of intracompany transfers (secondments) and trainees, application for a residence permit must be made with the evidence described in Section G, *Work Permit Exemptions*. An individual temporarily residing in Ireland who is covered by a work permit while engaged in an intracompany transfer or training may be granted permission to remain in the country without extending the work permit if he or she produces the evidence described in Section G, *Work Permit Exemptions*.

Naturalization. The procedure allowing a non-Irish national to take up Irish citizenship is governed by the Irish Nationality and Citizenship Acts of 1956 and 1986. In general, an application for naturalization must fulfill several requirements, including five years of continuous residence in Ireland within a nine-year period (excluding absence for holidays and business reasons). All work permits and registration of residence should be kept up-to-date, especially during the period of application.

The completed application for citizenship should be addressed to the Department of Justice.

I. Family and Personal Considerations

Family Members. If the spouse or dependants of a working expatriate intend to work, they must apply independently for work permits. Dependants of working expatriates do not need student visas to attend schools in Ireland.

Drivers' Permits. Foreign nationals may drive legally in Ireland using their home country drivers' licenses without restriction for one year.

Ireland has driver's license reciprocity with all EU-member countries.

To obtain an Irish driver's license, an individual must take written, verbal, practical and vision tests.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	(a)
Employee contributions to home country benefit plan	(X)	—	(b)
Bonus	X	—	(a)
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(a)
Housing allowance	X	—	(a)
Employer-provided housing	X	—	(c)
Housing contribution	(X)	—	—
Education allowance	X	—	(a)
Home leave	—	X	—
Hardship allowance	X	—	(a)
Other allowance	X	—	(a)
Premium allowance	X	—	(a)
Home-leave allowance	X	—	(a)(d)
Home-leave flights	—	X	(e)
Other compensation income	X	—	(a)
Moving expense reimbursement	—	X	(f)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(g)
Company pension contributions	X	—	(b)
Private use of an automobile	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(a)
Capital gain from sale of personal residence in home country	—	X	(h)
Capital gain from sale of stock in home country	—	X	(a)

* Bracketed amounts reduce taxable income.

(a) These items are taxable if they are derived from Irish or U.K. sources. Individuals who are not tax resident in Ireland or the United Kingdom are taxable on the proportion of their salary and benefits attributable to duties performed in Ireland and on investment income and capital gains that are remitted into Ireland.

(b) Employer contributions to pension schemes that have not been approved by the Irish Revenue result in a taxable benefit. If pension scheme provisions broadly fall within the requirements of Irish law, approval may be granted for the scheme. Effective from 1 January 2005, EU nationals resident in Ireland can claim tax relief for contributions made to qualifying overseas pension plans in other EU member states, subject to certain conditions.

(c) The taxable benefit arising from housing provided by an employer to an employee is computed as the actual amount paid by the company in providing the accommodation or, if the property is owned by the company, the fair market rent that the property could be expected to generate on the open market.

(d) These are generally taxable but, in some cases, the Irish Revenue has agreed that some home-leave expenses may be tax-free.

(e) Subject to concessional treatment, the Irish Revenue may exempt the cost of one return flight per year for an expatriate and his or her family.
(f) Certain reasonable relocation expenses can be paid tax-free if employees need to move from one location to another. Assignments would normally come within these arrangements.
(g) The value of meals provided is not taxable if they are provided in a staff restaurant that is open to all staff members.
(h) The pro rata portion of the gain may be taxable if the property has not been the sole or principal residence throughout the period of residence.

APPENDIX 2: SAMPLE TAX CALCULATIONS

The following are sample 2006 tax calculations for a single individual and a married couple with only one spouse earning income.

Single Individual	**€**
Calculation of Income Tax	
Salary	20,000
Benefits	15,000
Total income	35,000
Tax on €32,000 at 20%	6,400
Tax on €3,000 at 42%	1,260
€35,000	7,660
Less personal tax credit	(1,630)
Less PAYE tax credit	(1,490)
Net tax payable	4,540
Calculation of Social Taxes	
Employee's PRSI:	
€35,000* at 4%	1,400
Health levies:	
€35,000 at 2%	700
Total	2,100
Employer's PRSI	
€35,000 at 10.75%	3,763

Married Couple with One Income Earner	**€**
Calculation of Income Tax	
Salary	35,000
Benefits	8,000
Total income	43,000
Tax on €41,000 at 20%	8,200
Tax on €2,000 at 42%	840
€43,000	9,040
Less personal tax credit	(3,260)
Less PAYE tax credit	(1,490)
Net tax payable	4,290
Calculation of Social Taxes	
Employee's PRSI:	
€43,000* at 4%	1,720
Health levies:	
€43,000 at 2%	860
Total	2,580
Employer's PRSI	
€43,000 at 10.75%	4,622.50

* This ignores the €127 weekly deduction.

ISLE OF MAN

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A. Income Tax

Who Is Liable. Residents are subject to tax on worldwide income. Nonresidents are subject to tax on income from Isle of Man sources only.

Individuals are considered resident in Isle of Man if any of the following conditions applies:

- They are present for six months or more during the tax year.
- They have accommodation available for their use and are physically present at some time during the tax year.
- They are present for less than six months during a tax year, but the length of physical presence and their specific circumstances are sufficient to make them resident. The Assessor of Income Tax considers several factors to determine residence status in these cases.

However, under the Short-Term Residence Concession, an individual who qualifies for residence under the "available accommodation" rule can elect to be taxed on his or her Isle of Man-source income only if the individual is present in the Isle of Man for less than four months in any two-year period. However, the individual is still regarded as resident in the Isle of Man.

Certificates of residence can be provided if the Assessor of Income Tax is satisfied that the conditions of residence are fulfilled.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. An employee is taxed on remuneration and benefits received during a tax year (ending on 5 April). Taxable benefits include directors' fees, company cars and accommodation.

Education allowances provided by the employer to its employees' children 18 years of age and under are taxable for income tax and social security purposes. However, payments under Educational Deeds of Covenants of up to £5,000 a year are deductible from taxable income. An Educational Deed of Covenant is an irrevocable covenant for the benefit of a person between 18 and 25 years of age who is undertaking a course of higher education. The covenant must be made by a parent or grandparent of the donee, and the donee must be within the qualifying age band when the covenant is made and when the payment is made.

A nonresident (or resident claiming the Short-Term Residence Concession) is taxable only on remuneration received for duties carried out in the Isle of Man.

Self-Employment and Business Income. Self-employment income includes income from a trade, profession or vocation.

A self-employed individual is assessed on business profits. In general, the assessment for a particular year is based on business profits earned during an accounting period ending in the current tax year. For tax purposes, profits are usually determined in accordance with normal accounting principles, subject to certain adjustments (see *Business Deductions*).

Investment Income. For tax purposes, investment income, including dividends, interest, royalties and rental income, is included in an individual's total income. If necessary, double taxation relief is granted on income subject to withholding tax in another country (see Section E).

Relocation of Key Employees. If an individual is contractually obligated to take up residence in the Isle of Man to facilitate the process of starting up of a new business or the diversification or expansion of an existing one and if the necessary approval is obtained, the individual and his or her jointly assessed spouse is subject to income tax on Manx-source income only for the first three years of residence. For the company, financial assistance is granted for any reasonable relocation package that needs to be incurred with respect to the new business.

Taxation of Employer-Provided Stock Options. The Isle of Man has no specific legislation addressing the taxation of employer-provided stock options; however, if the shares are offered at a discount at the date of granting the option, the difference between the market value and the discounted price is taxable as a benefit in kind. If the shares are offered under the option at the market value, no taxable benefit arises. Any capital gain that arises at the exercise of the option is not taxable.

Capital Gains. No capital gains tax is imposed in the Isle of Man.

Deductions

Deductible Expenses. Expenses are deductible if they are incurred wholly, exclusively and necessarily in the performance of employment duties. No allowance is available for travel between home and work or for office attire. Allowable expenses include membership fees of approved professional bodies and contributions by an employee to an occupational pension scheme (the maximum deduction is 17.5% of relevant earnings for those younger than 50 years of age, increasing to 27.5% for those older than 61 years of age).

In addition, the following expenses are deductible from total income:
• Mortgage or other loan interest payable to an Isle of Man lender (no limit or restriction);
• 50% of life insurance premiums (within certain limits);
• Private medical insurance premiums for residents 60 years of age and over (up to £1,800 per year);
• Payments made under Educational Deeds of Covenant (up to £5,000 per year; see *Employment Income*); and
• Nursing expenses incurred in caring for a dependent relative (up to £8,000 per year).

Personal Deductions and Allowances. The following personal allowances apply for the tax year ending 5 April 2006.

Type of Allowance	Amount (£)
Single allowance	8,500
Married allowance	17,000
Single parent	14,300
Blind person (additional)	2,610
Disabled person (additional)	2,610

Business Deductions. Expenses incurred wholly, exclusively and necessarily in producing self-employment or business income are deductible. The following expenses are not allowed for tax purposes:
• Depreciation;
• Local entertainment expenses; and
• Costs of a capital nature.

Although costs of a capital nature are not deductible, capital allowances (tax depreciation) are deductible in computing taxable profits. Capital allowances include a 100% first-year allowance for plant and machinery and a 25% annual allowance on a declining-balance basis for cars. The car allowance is limited to an annual maximum of £3,000.

A 100% first-year allowance is available for qualifying expenditure incurred to acquire, extend or alter qualifying industrial buildings, agricultural buildings and tourist premises. Government grants received for capital expenses are not taken into account in calculating the capital allowance that may be claimed.

For tourist premises, up to an additional 50% capital allowance is available in each of the three years after the 100% allowance is claimed, subject to the level of government grants received.

Rates. The following are the income tax rates for resident individuals for the tax year ending 5 April 2006.

Taxable Income		Tax on Lower	Rate on
Exceeding £	Not Exceeding £	Amount £	Excess %
0	10,300	0	10
10,300	—	1,030	18

The 10% rate applies to the first £10,300 of income for each individual above their personal allowance (see *Personal Deductions and Allowances*). Unless they elect otherwise, married persons are taxed jointly. As a result, the 10% rate applies to the first £20,600 of joint income above the married allowance of £17,000.

Nonresidents are taxed at 18% on all income arising in the Isle of Man.

For a sample tax calculation, see Appendix 2.

A cap on an individual's annual tax liability in the Isle of Man has been proposed. At the time of writing, the amount of the cap and the date of its introduction had not been confirmed. However, an amount of £100,000 or £200,000 has been suggested.

Under the standard zero rate of corporate income tax to be introduced effective from 6 April 2006, a Distributable Profits Charge will apply to the extent that a zero-rate company has Isle of Man resident shareholders. Under the DPC regime such company will suffer a tax charge on behalf of the Isle of Man resident shareholders unless a certain percentage of profits are distributed. The percentages are 55% for trading companies and 100% for investment companies.

Relief for Losses. Business losses may be carried forward and offset against future profits from the same trade. Business losses incurred in the first four years of assessment may be carried back against other income. On permanent discontinuance of a trade, a terminal loss may be carried back and offset against profits from the same trade in the three previous years of assessment. Certain restrictions apply.

B. Other Taxes

No inheritance or estate tax, wealth tax, stamp duty or stamp duty land tax is imposed in the Isle of Man.

C. Social Security

In general, national insurance is payable on the earnings of individuals who work in the Isle of Man.

The rates of national insurance contributions are similar but lower than those in effect in the United Kingdom. The Isle of Man has a reciprocal agreement with the United Kingdom that permits national insurance contributions to be paid in either place to count toward total payments required.

For the 2005-06 tax year, an employee's national insurance contribution is 10% of weekly earnings between £94 and £630 (8.4% for employees who contract out of the state second pension [S2P], which is permitted if the employee is a member of an approved occupational pension scheme). The annual ceiling on the amount of wages subject to national insurance contributions by the employee is £32,760. An employer must pay contributions of 12.8% of an employee's weekly earnings exceeding £94 (£4,895 per year), with no ceiling.

A self-employed individual must pay a weekly flat-rate contribution of £2.10 per week if annual profits are expected to exceed £4,345 plus an annual contribution of 8% of profits between £4,895 and £32,760, collected together with his or her income tax.

D. Tax Filing and Payment Procedures

The tax year runs from 6 April to the following 5 April. Resident individuals must complete annual tax returns containing details of worldwide income arising or accruing during the tax year. The tax return must be submitted by 6 October following the tax year. A £50 penalty is imposed for late submissions.

Unless an election is made to the contrary, married persons are taxed jointly, enabling the sharing of allowances and lower rate thresholds.

Income tax and national insurance are deducted at source from employment income by the employer, in accordance with a tax code issued by the tax authorities, which takes into account available allowances, deductions and thresholds. A payment on account may be due by 6 January in the tax year if non-employment income (for example, investment or self-employment income) is expected to arise in the tax year. This payment is based on the amount of income received in the preceding tax year.

When total income is assessed in accordance with the tax return at the end of the tax year, any tax liability in excess of tax deducted at source or paid on account becomes payable, and any shortfall is refunded. Any tax payable is due within 30 days of the issuance of the tax assessment.

A separate assessment is issued for profit-related national insurance contributions.

For late income tax payments, interest is charged at an annual rate of 7% on the amount of overdue tax, or 9% if the return is not submitted by 5 April following the year of assessment.

Nonresidents are required to submit a tax return if any Isle of Man-source income is received in the year, unless the income was subject to withholding tax. Withholding tax at a rate of 18% is imposed on certain payments to nonresidents, such as dividends, interest (except bank interest) and directors' fees. However, effective from 6 April 2006, a standard zero rate of tax for companies will be introduced, and tax will no longer be withheld from dividends.

By concession, the Isle of Man does not take action to tax bank interest paid to nonresidents by approved financial institutions in the Isle of Man.

E. Double Tax Relief and Tax Treaties

Double tax relief is available for foreign tax paid if evidence of payment is produced. Relief is granted in an amount equal to the lesser of the following amounts:
- The amount of foreign tax paid on the income; or
- The marginal amount of Isle of Man income tax attributable to the foreign-source income.

Isle of Man has concluded a double tax treaty with the United Kingdom.

F. Temporary Permits

The basic immigration law in the Isle of Man is the United Kingdom Immigration Act of 1971, which applies to almost everyone who is not a British citizen or who does not have the right of abode in the United Kingdom. However, under treaty rights, some Irish citizens and citizens of European Economic Area (EEA) countries are exempt from many provisions of the act.

Any person seeking to enter the Isle of Man should initially contact a British embassy, high commission or consulate for advice on entering the country and to ascertain if it is necessary to obtain a certificate of entitlement, visa entry certificate, governor's letter of consent or work permit.

Please refer to the United Kingdom chapter for the rules pertaining to temporary permits applicable in the Isle of Man.

G. Work Permits and Self-Employment

Under the provisions of the Control of Employment Acts, any person who is not an Isle of Man worker must obtain a work permit issued by the Work Permit Committee of the Department of Industry before taking up employment or self-employment on the Isle of Man, except individuals in a few exempt categories (for example, police officers, doctors, dentists and ministers of religion). The employer of a foreign national must apply for a work permit on behalf of the foreign national.

To qualify as an Isle of Man worker, a person must satisfy one of the following conditions:

- Be born in the Isle of Man.
- Has lived in the Isle of Man for at least 10 consecutive years.
- Has been a continuous resident of the Isle of Man for a period of five years commencing on or after 1 June 1963. However, the person ceases to qualify as an Isle of Man worker if, within the five years immediately following the completion of such residence, he or she ceases to reside in the Isle of Man and does not resume residence within 15 years. If a person resumes residence within the 15-year period and if, in the five years immediately following such resumption, he or she again ceases to be a resident of the Isle of Man, the person ceases to qualify as an Isle of Man worker.
- Be married to an Isle of Man worker.
- Has been married to an Isle of Man worker and has lived in the Isle of Man for at least three years immediately before becoming widowed or divorced and continued to live in the Isle of Man thereafter.
- Be the child of an Isle of Man worker who was serving in the armed forces at the time of birth.
- Has parents who were born in the Isle of Man and were continuous residents of the Isle of Man for five consecutive years immediately following the person's birth in the Isle of Man.
- Has received full-time education either in the Isle of Man or elsewhere while normally living in the Isle of Man, and continues to live in the Isle of Man thereafter.

Application for work permits is made to the Employment Section. Employment may not begin before a permit is issued.

Before commencing self-employment, self-employed persons who do not qualify as Isle of Man workers must obtain work permits in the same manner as those seeking employment.

H. Residence Permits

No regulations restricting the entrance of new residents into the Isle of Man currently exist, but the Residence Act 2001 may be introduced if such restrictions become necessary.

I. Family and Personal Considerations

Family Members. Any application for a work permit by a spouse of a working foreign national is automatically approved for a period of up to one year and is renewable annually if certain conditions are met.

Marital Property Regime. Isle of Man does not have a community property or similar marital property regime.

Drivers' Permits. New residents must obtain Isle of Man drivers' licenses. Persons holding current U.K. and Channel Islands drivers' licenses may obtain Isle of Man drivers' licenses by presenting their existing drivers' licenses to the Vehicle Licensing Office. Persons holding drivers' licenses other than those issued in the United Kingdom or Channel Islands may have to take driving tests.

U.K.- and foreign-registered motor vehicles must be registered as soon as possible after the owner takes up residence in the Isle of Man. It is necessary for owners of vehicles from the United Kingdom to register motor vehicles by presenting the following documents:

- The existing vehicle registration.
- A current insurance certificate for the vehicle.
- If the vehicle is more than three years old, a vehicle testing certificate. Motor vehicles may be tested in the Isle of Man and owners issued testing certificates.

Persons wishing to register foreign vehicles from outside the United Kingdom, as well as commercial and other types of vehicles, must contact the Vehicle Licensing Office to inquire about additional registration requirements.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contribution to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—

	Taxable*	Not Taxable	Comments
Moving expense reimbursement	—	X	(b)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	(a)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(c)
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.

(a) Employer-provided accommodation is not taxable if it is occupied solely for the purpose of employment, such as hotel accommodation while performing duties away from home.

(b) Reimbursement for moving expenses is not taxable, up to the amount of £10,000 plus the cost of travel between the individual's old home and the Isle of Man during the first six months of the individual's stay in the Isle of Man.

(c) This income is taxable if the individual is resident for tax purposes in the Isle of Man and if he or she is not an "approved key employee."

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2005-06 year of assessment is provided below for an expatriate who is resident in the Isle of Man for the entire year of assessment and is married with two dependent children under 18 years old. The expatriate is classified as a "key employee" (see Section A). During the year of assessment, the expatriate receives compensation of £50,000 and the individual's employer provides housing at a cost to the company of £20,000. The expatriate earned dividends of £5,000 from home-country investments*. The following is the tax calculation.

	£	£
Calculation of Taxable Income		
Salary	50,000	
Taxable value of housing	20,000	
Total income		70,000
Personal deduction:		
Married couple		(17,000)
Taxable income		53,000
Calculation of Tax		
Tax on £20,600 at 10%		2,060
Tax on £32,400 at 18%		5,832
£53,000		
Income tax payable		7,892

* Individuals approved as key employees are taxed only on Isle of Man-source income for the first three years of residence. Consequently, the home-country dividends are not taxable. If an individual is not a key employee, dividend income is taxable, but double tax relief is available at the effective rate of tax applied to the income in the home country.

ISRAEL

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A. Income Tax

Who Is Liable. Resident individuals are subject to tax on their worldwide income and worldwide capital gains. Nonresident individuals are subject to tax on income from Israeli sources, which is income accrued or derived in Israel.

An Israeli resident is defined as an individual whose center of living is in Israel, taking into account the person's family, economic and social links, including the following considerations:
- Permanent home;
- Place of residence of the individual and his or her family;
- Habitual place of business, permanent place of employment;
- Place where assets and investments are situated; and
- Place of membership in organizations, associations and institutions.

Under the law, a rebuttable presumption of Israeli residency will apply in either of the following circumstances:
- The individual is present in Israel at least 183 days in a tax year ending 31 December; or
- The individual is present in Israel at least 30 days in the current tax year and a cumulative of 425 days in the current and two preceding tax years.

New immigrants are generally classified as residents for Israeli tax purposes. However, they may enjoy certain income tax, capital gains tax and import tax benefits for specified periods.

Income Subject to Tax

Employment Income. Taxable employment income broadly covers salary and virtually all cash and in-kind benefits and allowances provided directly or indirectly to employees or for their benefit. If benefits are provided on a net-of-tax basis, they must be grossed up for tax purposes.

Company vehicles at an employee's disposal are taxable based on their prescribed usage value. The usage value for all types of vehicles depends on the price group of the model shown on the vehicle registration. These values are set forth in tax tables published by the tax authorities.

The use of a cell phone provided by the employer is taxable.

Educational allowances provided by employers to their employees' are taxable for income tax and national insurance purposes.

A portion of severance payments granted by employers to employees on termination of employment relationships is exempt from tax, regardless of whether the payments are required by law or are voluntary. The exempt portion is the lesser of one month's salary or NIS 10,250 per year of service.

Some Israeli employers provide a range of social benefits through externally approved provident funds. These funds are administered by Israeli banks, insurance companies or other financial institutions. The social benefits and the related Israeli tax relief for employees typically include some or all of the benefits shown in the following tables.

	Contribution as a Percentage of Salary	
Benefit	**Employee %**	**Employer %**
Retirement policy		
Comprehensive pension plan	7 (a)	7.5 (a)
Long-term savings plan	7 (a)	7.5 (a)
Severance pay funding	0	8.33
Disability insurance	0	2.5
Educational funds (b)	2.5 (c)	7.5 (c)

(a) These are the maximum rates. The first 5% of the employer's contributions is matched by a parallel contribution by the employee. The balance of the contribution up to the maximum rate is voluntary.
(b) These funds may be used after three years for training in Israel or, after six years, for any reason. Different rules apply to 5% or greater shareholders and to self-employed individuals.
(c) These are the maximum rates.

	Employee Tax Relief		
Benefit	**On Employee's Contributions**	**On Employer's Contributions**	**Monthly Salary Limit for Tax Relief NIS**
Retirement policy			
Comprehensive pension plan	35% tax credit	Exempt	7,300 (a)
Long-term savings plan	25% tax credit	Exempt	7,300 (a)
Training funds (b)	0	Exempt	15,712

(a) Employer's contributions are exempt from tax if contributions are made on monthly employment income not exceeding NIS 29,532. Contributions exceeding this amount are taxable as employment income.
(b) These funds may be used after three years for training in Israel or, after six years, for any reason. Different rules apply to 5% or greater shareholders and to self-employed individuals.

Self-Employment Income. Residents and nonresidents generally are subject to Israeli income tax on income derived from a business conducted in Israel and on income from one-time commercial transactions. Residents are also subject to tax on overseas income.

Self-employed individuals are subject to tax on business profits at the rates set forth in *Rates*.

Directors' Fees. Directors' fees and related expenses for participating in board meetings are taxable as income from self-employment. A 15.5% value-added tax (VAT) liability also arises, but if the director derives primarily employment income, the payer company may account for the VAT under a reverse charge mechanism. The company may recover the VAT as input VAT if it is a VAT dealer. Directors' remuneration for other managerial duties is taxable as employment income.

For private, closely held companies (controlled by five or fewer individuals or their relatives), additional rules apply to the deductibility of payments to employee-shareholders who directly or indirectly control 10% or more of such companies.

Investment Income. Effective from 1 January 2006, investment income and gains realized by individuals are generally taxed at the rates listed in the table below.

Income	Rate (%)
Real (inflation adjusted) capital gains derived from publicly traded and untraded securities	
Standard rate for gains accruing on or after 1 January 2003 (generally) or 2005 (foreign publicly traded securities)	20
Rate for individuals who were 10% or greater shareholders (material shareholders) in the relevant company within the preceding 12 months	25
Real capital gains accruing before the above dates	15 to 49 (b)
Capital gains on securities not linked to the consumer price index or denominated in foreign currency, such as bonds, short term government bonds and commercial paper (unlinked instruments)	15 (a)
Interest on instruments linked to the consumer price index or denominated in a foreign currency (linked instruments)	
General rate for individuals	20
Rate for individuals who are material shareholders	Up to 49 (b)
Interest on unlinked Israeli instruments	
General rate for individuals	15
Rate for individuals who are material shareholders	Up to 49 (b)
Dividends	
General rate for individuals	20
Rate for individuals who are material shareholders	25
Dividends from Israeli resident companies (tax is withheld at source) or from the profits of an approved enterprise or approved property under the Law for the Encouragement of Capital Investments, 1959	0/4/15
Dividends from a Real Estate Investment Trust (REIT) if certain conditions met	Up to 49 (b)

Income	**Rate (%)**
Residential rental income received by an individual landlord from individual tenants, not exceeding NIS 3,830 per month (the exemption is reduced by the amount of the excess)	Exempt

(a) For pre-2006 capital gains, investors could elect during the month of December 2005 to deem their securities to be sold at market value and repurchased (hypothetical sale).
(b) Marginal rates.

Double tax relief provisions may apply in certain circumstances (see Section E).

Taxation of Employee Share Option Plans and Share Purchase Plans. Detailed rules apply to employee share option plans and share purchase plans. Capital gains tax treatment is permissible for certain qualified plans called Section 102 plans, which are administered by a trustee.

Employers may choose between alternative rules for allocating gains between salary income (the employer deducts an option expense but the employee is subject to income tax at rates of up to 49% plus national insurance contributions, see Section C) and capital gains (the employer receives no deduction and the employee is subject to capital gains tax at a rate of 25%).

For options granted on or after 1 January 2006, to obtain the capital gains tax treatment, the options must be held for at least two years after the options were granted. For salary treatment, the minimum holding period is one year.

Options granted according to the capital gains alternative (see above) before 1 January 2006 are subject to a minimum holding period of 24 months from the end of the year in which the options were granted or 30 months from the grant date. The trustee may choose the applicable holding period.

The tax authorities must approve the trustee and receive notice concerning a Section 102 plan at least 30 days before the implementation of the plan. Individuals who move to another country to work or reside may request tax rulings from the tax authorities to mitigate uncertainty or address double taxation.

Capital Gains and Losses. Residents and nonresidents generally are subject to Israeli tax on their capital gains relating directly or indirectly to assets in Israel, including Israeli securities, and to rights related to such assets. However, under a relevant tax treaty, a resident of the other tax treaty country may be exempt from Israeli tax on capital gains, except for gains derived from transfers of real estate interests or business assets in Israel. Special rules apply to securities (see below). Resident individuals are also subject to capital gains tax on their capital gains derived abroad.

Capital gains and land appreciation derived by resident and nonresident individuals are taxed at a rate of 20% or 25% (see *Investment Income*), subject to an applicable tax treaty. Higher rates of up to 49% apply to pre 2003 gains.

Exit Tax. Persons who cease to be Israeli residents are generally liable to capital gains tax as if they sold all their assets one day before they ceased to be residents. The tax is payable on departure or on the sale of the relevant assets.

Calculation of Taxable Amount. Capital gains are divided into real and inflationary components. Real gains derived on or before 31 December 2002 are taxed at the regular personal tax rates (30% to 49%). Capital gains derived on or after 1 January 2003 are taxed at a rate of 20% (or 25% for a 10% or greater shareholder). A 35% rate applies to gains accruing before 1 January 2005 on foreign publicly traded securities. The inflationary component is exempt from tax to the extent that it accrued after 31 December 1993, and is taxable at the rate of 10% to the extent it accrued before that date.

Capital losses may be used to offset capital gains derived in the same tax year or in subsequent tax years.

Detailed rules relate to deferrals of capital gains tax in certain cases, including mergers, divisions and shares-for-assets exchanges.

Gains Attributable to Securities. Israeli residents are taxed at a rate of 20% on the real (inflation adjusted) gains derived from sales of traded securities in Israel and abroad, or 15% on the nominal gain on the sale of certain bonds not linked to the consumer price index or a foreign currency (see *Investment Income*).

Regular tax rates up to 49% apply if interest expense is deducted, if the interest is business trading income, or if a special relationship exists (for example, customer and supplier, employer and employee, and related parties). Nonresidents are exempt from Israeli tax on capital gains derived on the Tel-Aviv stock exchange or from Israeli securities on an overseas exchange. However, if an Israeli resident owns at least 25% of a nonresident investor company, such exemption does not apply. Residents in a country that has had a tax treaty with Israel for more than 10 years may be exempt with respect to sales of securities acquired from 1 July 2005 through 31 December 2008 if additional conditions are met.

Gains Attributable to Real Estate. Gains derived from sales of Israeli real estate or from sales of interests in real estate entities (entities whose primary assets relate to Israeli real estate) are subject to land appreciation tax at rates similar to those applicable to other capital gains that are accrued before 7 November 2001. After that date, the applicable rate is 25% until 31 December 2006. Effective from 1 January 2007, the rate will be reduced to 20%, with the exception of 10% or more material shareholders, which will continue to be subject to tax at a rate of 25%. Assets purchased in 2002 are eligible for a tax rebate of 20%. Assets purchased in 2003 are eligible for a 10% rebate. Various exemptions apply to residential homes. In addition, the purchaser of real estate must pay transfer fees (acquisition tax) at various rates of up to 5%.

Deductions

Deductible Expenses. Business-related expenses incurred by employees are deductible only in limited circumstances. For example, expenses incurred to update existing professional knowledge are deductible. However, to claim these deductions, employees generally must file annual personal Israeli tax returns, even if they are otherwise exempt from filing.

To complement the tax deductions available to employees for training, self-employed individuals may deduct payments made to approved training funds that are used for training in Israel (or for any purpose after six years). The amount of payments that may be deducted is subject to the following limitations.

% of Income, Up to Limit*	**Deduction Available**
First 2.5	None
Next 4.5	Full amount
Over 7.0	None

* The annual income limit for 2006 is NIS 219,000. This limit is adjusted annually.

For example, if a self-employed person earns NIS 250,000 and pays NIS 20,000 into an approved training fund in 2006, he or she may deduct NIS 9,855 from taxable income. Because the taxpayer's income exceeds the limit, the deductible amount is calculated as follows:

	NIS
Maximum deduction (NIS 219,000 at 7%)	15,330
Nondeductible amount (NIS 219,000 at 2.5%)	(5,475)
Total deduction	9,855

Personal Deductions. In general, tax relief for individuals is in the form of tax credits rather than tax deductions. Consequently, relatively few items are deductible for tax purposes. The principal deductions for individuals are described below.

Self-funded contributions to an approved provident or pension fund are generally deductible, up to a maximum of 7% of nonemployment income or, if the employer does not contribute to any fund, up to a maximum of 5% of employment income. These percentages are subject to an income ceiling. If contributions on nonemployment income exceed 12% of the ceiling, a supplementary deduction of up to 4% may be claimed. Taxpayers who are 50 years of age or older may claim higher percentage deductions, but the income ceiling is the same.

Business Deductions. Expenses are generally deductible if they are incurred wholly and exclusively in the production of taxable income. Additional rules apply to certain items, including car expenses, travel, entertainment, and research and development. The cash basis is acceptable for certain small businesses, and special inflation-adjustment rules are prescribed for businesses. These adjustments include inflation relief relating to inventories and depreciation for certain small businesses.

Special Rules for Expatriates. If no treaty exemption applies, expatriate nonresidents working in Israel lawfully for an employer may enjoy certain benefits. For the first 12 months in Israel, a foreign expert is entitled to a deduction for accommodation expenses incurred and a living expense deduction of up to NIS 270 per day if his or her employment income exceeds NIS 11,000 per month.

Foreign journalists who are members of the Foreign Press Association in Israel and foreign sportspersons are entitled to a tax rate of 25% and the above-mentioned expatriate deductions for their first 36 months of work in Israel in the case of journalists and the first 48 months in the case of sportspersons.

A levy at the rate of 10% is imposed on foreign employees' employment income unless the employees are journalists or sportspersons or if the employment income exceeds NIS 14,767 per month. The levy must be paid by the employer and is not deducted from the employment income.

Rates. The Israeli tax year is the calendar year. In principle, Israeli personal tax liability is computed annually, although tax is typically withheld from salaries and reported each month. Monthly tax brackets used during a year for payroll and other purposes are updated annually for inflation and are totaled to produce the annual tax brackets. The following table presents the monthly taxable income brackets for 2006.

Monthly Taxable Income		
Exceeding NIS	Not Exceeding NIS	Tax Rate %
0	4,280	10*
4,280	7,620	22*
7,620	11,440	29
11,440	20,420	36
20,420	35,370	37
35,370	—	49

* These tax rates are restricted to income earned from employment and self-employment and to rental income derived by persons over 60 years of age. In other cases, a minimum tax rate of 30% applies.

Due to the monthly withholding tax system, annual personal tax returns are not always required from employees who earn less than a specified amount (see Section D).

A maximum tax rate of 25% for up to three years (extendible for up to five more years) applies to an expatriate if an Israeli resident invites the expatriate to work in Israel and applies to the Investment Center for approved specialist status for the expatriate before his or her arrival in Israel. This status is granted on a limited discretionary basis primarily to industrial or tourism specialists. If granted, the reduced tax rate usually applies only to the first US$75,000 of annual salary.

Credits. Israeli resident individuals are entitled to personal tax credits, which are known as credit points. These credit points are deducted from the computed income tax liability of individuals. Each credit point is currently worth NIS 178 per month.

The number of credit points granted to an individual reflects family circumstances. For example, an unmarried male resident generally receives 2.25 credit points, and an unmarried female resident generally receives 2.75 credit points. If both spouses work and opt for separate tax computations, the husband receives 2.25 credit points and the wife receives 2.75 points; the wife also generally receives one credit point for each child under 18 years of age and one-half of a credit point for a child born or reaching 18 in the tax year.

The following are other significant tax credits granted to individuals:

- Credits with respect to savings fund contributions (see *Income Subject to Tax*).
- A 25% tax credit for life insurance contributions to the extent that pension and long-term savings policy tax limits are not fully utilized (see *Taxable Income*).
- Tax credit for 35% of charitable contributions to recognized institutions if a taxpayer's annual contributions exceed NIS 370. However, no credit is given for annual contributions exceeding 30% of taxable income or NIS 2,165,000, whichever is lower.
- Additional credits in various other cases, including new immigrants, one-parent families, divorcées, graduates of a higher education institute in or after 2005 and residents living and working in various priority areas.

Relief for Losses. In general, business losses may be offset against income from any source derived in the same tax year, including salary income. Unrelieved business losses may be carried forward for an unlimited number of years to offset business income or capital gains derived from business activities (see *Capital Gains and Losses*).

B. Other Taxes

Net Worth Tax. Net worth tax is not levied in Israel.

Estate and Gift Taxes. Israel does not impose taxes on inheritances or bona fide gifts to Israeli residents. Gifts to nonresidents are subject to capital gains tax. For transfers by inheritance or by gift of assets that would normally be subject to capital gains tax or land appreciation tax, the recipient's tax cost base and date of purchase are generally deemed to be the same as those for the transferor of the property.

Real Estate Tax. Sellers of real estate interests in Israel pay a 2.5% sales tax on nonresidential assets purchased before 7 November 2001. In general, sellers of real estate assets are subject to land appreciation tax on capital gains at rates of up to 49%, relating to any appreciation before 7 November 2001. A rate of 25% (reduced to 20% in 2007) applies to any appreciation after that date, with certain exceptions, including exemption provisions for homes owned by individuals.

Purchasers of real estate interests in Israel pay an acquisition tax at rates of up to 5%.

C. Social Security

Contributions. National insurance contributions are generally payable on taxable income as calculated for income tax purposes. The following table sets out the rates of national insurance contributions. For residents, these rates include a supplementary health levy. Foreign residents generally arrange comprehensive private health care.

Category	Employer %	Employee %	Self-Employed Persons % (a)	Nonworking Passive Income Recipients % (a)
	Contribution as Percentage of Income			
Israeli residents (c)				
Monthly income of up to NIS 4,430	4.98	3.5 (b)	9.82	9.61
Monthly income from NIS 4,430 to NIS 35,760	5.68	12 (b)	16.23	16.05
Nonresidents				
Monthly income of up to NIS 4,430	0.72	0.04	0.56	—
Monthly income from NIS 4,430 to NIS 35,760	0.80	0.87	0.82	—

(a) 52% of national insurance contributions paid in a tax year on nonemployment income is deductible for income tax purposes in that year.
(b) An organization levy at rates of 0.7% to 0.9% is also payable by Israeli residents who are members of certain unions or who work in a unionized workplace.
(c) Lower contributions apply to Israeli residents who work abroad as self-employed persons for continuous periods exceeding six months or for nonresident employers, unless they were hired in Israel.

Totalization Agreements. Israel has entered into social security totalization agreements with Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Italy, the Netherlands, Poland, Sweden, Switzerland, the United Kingdom and Uruguay.

D. Tax Filing and Payment Procedures

In principle, Israeli and foreign employers with personnel in Israel must maintain an Israeli payroll withholding tax file. Income tax and national insurance contributions relating to monthly employment income and benefits must generally be reported and remitted by the 15th day of each following month. Various other monthly or bimonthly filings may also be required from the employer, including company tax advances determined by the tax authorities and supplementary company tax advances of 45% for nondeductible expenses incurred, including car maintenance and depreciation, travel and entertainment.

Capital Transactions. Capital gains transactions generally are reportable within 30 days after the transaction date. Land appreciation tax transactions are generally reportable within 30 to 50 days. Tax must be settled or paid on account within this period. Sales of securities not taxed at source must be reported within one month after the end of each half year, accompanied by payment of the applicable tax.

Annual Tax Returns. As a result of the withholding tax system, individuals are not always required to file annual personal tax returns in Israel. Individuals who are currently required to file annual tax returns include the following:

- Foreign residents who accrue or derive income in Israel. However, an exemption from filing may apply if tax is withheld at source and if the income is derived either from a business or

profession conducted for no longer than 180 days in the tax year or from salary, dividends, interest or royalties.
- Resident individuals over 18 years of age at the beginning of the tax year. However, an exemption from filing may apply if all of the following conditions are satisfied:
  — The individual's primary income is employment income taxed at source or residential rental income;
  — The primary income did not exceed the ceiling for that year per spouse; and
  — Other income earned by the individual is both less than half the primary income and less than the ceiling for that year per spouse.

Notwithstanding the above, the following individuals must file annual income tax returns:
- 10% or greater shareholders;
- Spouses who work together;
- Individuals (or their spouses) who receive severance pay or a commuted pension allowed to be spread over several tax years;
- Trust settlor for the year in which they settle the trust;
- Recipients of a distribution or other transfer of assets from a trust;
- Professional athletes and their spouses;
- Individuals (or their spouses or children) who had either a lawful right in a foreign entity or other foreign assets worth more than NIS 1,540,000 at any point during the tax year or a foreign bank account with a balance exceeding NIS 1,540,000 at any point during the tax year;
- Individuals required to file returns the previous year, unless a specific exemption is granted; and
- Any other person or entity instructed to file a return by a tax assessor.

Due Dates for Tax Returns. For employees and taxpayers maintaining single-entry books, the due date is 30 April. Taxpayers maintaining double-entry books must file annual tax returns by 31 May following the year-end. The tax authorities may grant filing extensions. Individuals represented by an Israeli certified public accountant (CPA) may receive an automatic extension, up to 31 July, based on the number of tax returns that the CPA must file with the tax authorities.

Assessment. The Israeli tax system is based on the principle of self-assessment. An annual tax return must be accompanied by payment of any balance of tax due computed by the taxpayer for the relevant tax year.

Married Persons. Married persons, or the tax assessor, may elect one spouse to be the registered spouse in whose name the couple is assessed. For the election to be binding, the registered spouse's income should be at least 25% of the other spouse's income in the year before the election and in the next five years. If the couple does not elect otherwise, the tax assessor nominates the spouse with the higher taxable income over the two years preceding the assessment as the registered taxpayer. Joint tax computations are allowed. However, if the spouses derive employment or self-employment income from unrelated sources, many couples may benefit by opting to compute tax separately on the second spouse's income.

E. Double Tax Relief and Tax Treaties

Unilateral Relief. If no double tax treaty applies, Israeli residents may claim relief from double taxation on foreign-source income.

Under Israeli domestic law or applicable tax treaties, foreign income tax or capital gains tax on dispositions of foreign assets may be credited by Israeli residents against Israeli income tax or capital gains tax on such dispositions. Any excess foreign income tax credit may be carried forward for up to five tax years.

Foreign residents who receive little or no relief for Israeli taxes in their home countries may be granted a reduced Israeli tax rate by the Minister of Finance. In practice, the reduced rate is usually at least 25% and applies to capital gains only.

Tax Treaties. Israel has entered into double tax treaties with the following countries.

Austria	India	Russian Federation
Belarus	Ireland	Singapore*
Belgium	Italy	Slovak Republic
Brazil	Jamaica	South Africa
Bulgaria	Japan	Spain
Canada	Korea	Sweden
China	Latvia	Switzerland
Czech Republic	Luxembourg	Thailand
Denmark	Mexico	Turkey
Finland	Netherlands	Ukraine
France	Norway	United Kingdom
Germany	Philippines	United States
Greece	Poland	Uzbekistan
Hungary	Romania	

* A new treaty between Israel and Singapore is effective from 2006.

Israel is negotiating tax treaties with Croatia, Ethiopia, Lithuania, Portugal and Slovenia.

F. Transit and Visit Visas

All foreign nationals, except those from countries that do not require entry visas from Israeli citizens, must obtain valid entry visas to enter Israel. Citizens of certain countries may obtain visas at the port of entry. Foreign nationals may enter Israel under transit visas, visit visas, temporary residence visas or permanent residence visas.

Transit visas are issued for transit purposes only. They are valid for five days and are renewable for an additional 10 days (maximum total period may not exceed 15 days).

Visit visas are divided into the following categories:
- B1: For foreign nationals who wish to work and receive remuneration in Israel on a temporary basis.
- B2: For foreign nationals who wish to visit Israel for any purpose other than paid or unpaid work. This is the typical tourist visa.
- B3: For foreign nationals whose entry status is not clear. This visa is of limited duration (one month) until the entry status is clarified and the entry visa is reclassified. The duty of reclassifying the entry status rests on the foreign national granted the B3 visit visa.

- B4: For foreign nationals who wish to volunteer (work without earnings) in Israel.

Citizens of the following countries are generally exempt from obtaining transit and class B2 visit visas.

Argentina	France	Monaco
Australia	Gibraltar	Netherlands
Austria	Greece	New Zealand
Bahamas	Guatemala	Norway
Barbados	Haiti	Panama
Belgium	Hong Kong	Paraguay
Bolivia	Hungary	Philippines
Brazil	Iceland	Portugal
Canada	Ireland	St. Kitts and Nevis
Central African Republic	Isle of Man	San Marino
Channel Islands	Italy	Slovenia
Chile	Jamaica	South Africa
Colombia	Japan	Spain
Costa Rica	Korea	Suriname
Cyprus	Lesotho	Swaziland
Denmark	Liechtenstein	Sweden
Dominican Republic	Luxembourg	Switzerland
Ecuador	Malawi	Trinidad and Tobago
El Salvador	Malta	United Kingdom
Fiji	Mauritius	United States
Finland	Mexico	Uruguay

In general, all visit visas, with the exception of B1 and B3 class visas, are valid for 90 days and are renewable for an additional two years (the maximum total period is 27 months).

Other than an application form and payment of a small fee, no specific documentation is needed to obtain a visit visa.

Application takes place at an Israeli consulate or at a special unit of the Ministry of Industry and Trade.

Transit and visit visas may be applied for in groups. Both B1 and B4 class visas may be applied for by the employer.

G. Work Permits

A foreign national may work in Israel only if he or she enters the country with a permanent residence visa, a temporary residence visa, or a B1 or B4 visit visa.

An applicant for a temporary residence visa for employment must file the following items:

- Recommendation of the Ministry of Industry and Trade;
- Employee's certificate of valid medical insurance;
- Employment contract;
- An employer's undertaking assuring the employee's departure on termination of the employment contract;
- The employee's accurate personal data, including his or her passport number;
- Proof of the employee's social security registration;
- Letter of an Israeli employer, or other Israeli party, explaining the reasons why the employee's presence is needed; and
- Affidavit on a specified form concerning the above items.

A B1 visa may be granted on a case-by-case basis to self-employed foreign nationals to work in an Israeli business. Detailed rules apply to employers and employees regarding, among other things, pre-arrival medical examinations, as well as housing and medical care.

For a B1 visa application, the registration fees payable to the Ministry of the Interior are approximately US$1,100.

H. Residence Visas

Temporary residence visas are divided into the following categories:

- A1: For Jewish foreign nationals only who wish to obtain Israeli citizenship. The A1 class visa is valid for three years.
- A2: For foreign nationals who wish to study in Israel.
- A3: For members of the clergy who are invited to Israel by a religious institute. The institute must apply for the visa.
- A4: For the spouse or children (under 18 years of age) of an A2 or A3 class visa holder.
- A5: For foreign nationals wishing to stay in Israel for any reason other than those listed above.

A permanent residence visa is granted for an unlimited duration of stay. Applications are considered by the Ministry of the Interior on a case-by-case basis. An application may be filed after several years of temporary residence.

I. Family and Personal Considerations

Family Members. A B2 visa may be granted to the spouse and children of a foreign national who receives a B1 visa. In these cases, the duration of the B2 visa corresponds to that of the B1 visa.

Marital Property Regime. For income that a spouse derives from property owned before marriage or from property inherited while married, a separate tax calculation may be prepared. If the spouse has other separately calculated income, then the income from the separate property is added to this separate tax calculation.

Drivers' Permits. Foreign visitors who hold valid foreign or international drivers' licenses may drive a car legally in Israel for up to 12 months per visit to Israel. If a visit exceeds 12 months, the visitor must pass a short vehicle control test and receive an Israeli drivers' license. Different rules apply to commercial vehicles.

ITALY

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A. Income Tax

Who Is Liable. Tax residents of Italy are subject to tax on their worldwide income. Individuals who are not tax resident in Italy are subject to tax on their Italian-source income only.

An individual is considered resident for income tax purposes if, for the greater part of the tax year, he or she satisfies any of the following conditions:
- His or her habitual abode is in Italy;
- The center of his or her vital interests is located in Italy; or
- He or she is registered at the Office of Records of the Resident Population in Italy.

Italian citizens who move their residence for tax purposes to countries considered to be tax havens ("black list" countries) are deemed to be tax resident in Italy in all cases, unless they provide specific evidence of their nonresident status.

Income Subject to Tax. Taxable income for personal income tax purposes consists of income from the following categories:
- Income from employment;
- Income from self-employment;
- Business income;
- Income from real estate;
- Income from capital (primarily, dividends and interest); and
- Miscellaneous income, including capital gains.

Each category, including miscellaneous income, is defined by law. If income falls under a category not specifically mentioned in the law, further investigation is needed to determine the tax treatment. Uncategorized income may not be automatically aggregated with miscellaneous income.

For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income is income derived from work performed for an employer. It includes any compensation, either in cash or in kind, received during a tax period in connection with employment, including any payments received as shares, as acts of generosity or as reimbursement for expenses incurred in the production of the income. Benefits in kind are valued for tax purposes at the "normal value," as defined by the Italian tax code. For certain benefits in kind, the Italian tax code provides specific rules for determining the applicable tax value. All compensation received in connection with employment is considered employment income, even if the compensation is paid by a third party (for example, the legal employer's parent company).

Employment income also includes income known as "income deriving from a collaboration" unless the activity is performed by an individual who is registered for value-added tax (VAT) purposes and income derived by directors, auditors and contractors.

An Italian employer, which qualifies as a withholding tax agent, must withhold income taxes monthly from payments of gross employment income, including benefits in kind. Employment income is also subject to social security contributions (see Section C). The same rules apply to the determination of the tax base for income taxes and social security contributions.

The following items are not included in the taxable employment income:

- Mandatory contributions paid by an employer and by an employee for social security as provided by law;
- Contributions, up to a ceiling of €3,615.20, paid by an employer or an employee to entities or funds for the sole purpose of medical assistance in accordance with collective labor contracts or company agreements and regulations;
- Rewards in connection with holidays given to all employees or to categories of employees up to certain annual limits;
- Stock options and share purchase plans granted under certain conditions;
- Business trip indemnity, up to a maximum of €46.48 for trips within Italy and up to €77.47 for trips abroad if the employer reimburses only the travel expenses; and
- Certain benefits in kind, including meals in factory cafeterias and transportation services provided to a majority of employees, up to certain amounts and under specified conditions.

Nonresidents are subject to tax on income from employment derived from services performed in Italy and pensions paid by the state or by Italian residents.

A special tax regime applies to employees who meet all of the following conditions:

- The individual is resident for tax purposes in Italy;
- The employment activity is rendered wholly and continuously outside Italy for more than 183 days in a 12-month period; and
- The employee's assignment outside Italy is regulated by an employment contract or by another written agreement signed by the parties.

Under the tax regime mentioned in the preceding paragraph, an individual is subject to tax in Italy on a notional remuneration, as determined each year by the Italian Ministry of Finance.

Directors' Fees. For tax purposes, directors' fees are treated as employment income, subject to progressive income tax rates and withholding tax. This tax treatment does not apply if the services are performed by a professional individual who is registered for VAT purposes (see *Self-Employment Income*).

Nonresident directors are subject to a final withholding tax at a rate of 30% on directors' fees received.

Self-Employment Income. Self-employment income consists of income from a profession, including accounting, law and medicine. As mentioned in *Employment Income*, income from a collaboration is treated as employment income, unless the activity is performed by an individual who is registered for VAT purposes.

Residents are subject to tax on worldwide self-employment income at the rates described in *Rates*; a 20% withholding tax applies to income derived from Italian sources. Nonresidents are subject to tax on income from self-employment derived from services performed in Italy. Nonresidents are subject to a final withholding tax of 30% on self-employment income and need not file a tax return.

For professionals, taxable self-employment income consists of the difference between compensation received during a tax period and related expenses incurred during the same period, subject to certain limits.

Professional income is subject to VAT and to regional tax (IRAP) at a rate of 4.25% (see *Business Income*), and bookkeeping is required.

Real Estate Income. Income from nonrental real estate located in Italy is based on the cadastral value and is taxed as ordinary income (see *Rates*). Rental income derived from real property is also taxed as ordinary income (see *Rates*). Italian tax residents must report income from real estate located outside Italy in their Italian tax return, unless otherwise provided in an applicable double tax treaty.

Real estate is also subject to a local municipality tax (ICI; see Section B).

Business Income. Business income consists of income derived from the commercial or industrial activities (entrepreneurial activities) described in the Civil Code.

Taxable business income consists of profits disclosed in the financial statements, adjusted for exemptions, disallowed expenses, special deductions and losses carried forward. Business income is determined using the accrual method.

Taxable business income is subject to personal income tax at the rates described in *Rates*. In addition, business income is subject to IRAP, a regional tax on productive activities. IRAP is levied at a rate of 4.25% on the amount of net production income derived from activities carried out in Italy. Net production income is calculated by adding to taxable business income certain costs that are not deductible for IRAP purposes (for example, salaries paid to employees and interest expenses).

Nonresidents are subject to tax on business income from a permanent establishment in Italy.

Investment Income. Forty percent of dividends derived from qualified participations that are received by Italian tax residents from resident and nonresident entities are taxed as ordinary income (see *Rates*). Dividends derived from nonqualified participations that are paid by resident and nonresident entities are subject to a separate final withholding tax of 12.5%. The tax base for dividends on nonqualified participations that are paid by nonresident entities is net of foreign taxes.

For listed companies, a nonqualified participation is a participation representing no more than 2% of the voting rights in the ordinary shareholders' meeting or representing no more than 5% of the issued capital. For unlisted companies, a nonqualified participation is a participation representing no more than 20% of the voting rights in the ordinary shareholders' meeting or representing no more than 25% of the issued capital.

One hundred percent of the dividends received by an individual from a company resident in a tax haven (as defined by Italian authorities) is taxed as ordinary income.

Dividends paid by Italian resident entities to nonresidents are subject to a 27% withholding tax if the dividends are paid on ordinary shares. The withholding tax rate is 12.5% for dividends paid on saving shares. Tax treaties may provide for a lower tax rate.

Italian-source interest paid to residents is usually subject to a final withholding tax at a rate of 12.5% or 27%. Consequently, such interest is not aggregated with other taxable income. Foreign-source interest may be included with other income and taxed at the rates described in *Rates* or taxed separately at a rate of 12.5% or 27%.

Interest paid to nonresidents is subject to a final withholding tax of 12.5% or 27%; tax treaties may provide for a lower tax rate. Interest derived from bank and postal accounts that is paid to nonresidents is exempt from tax.

Residents are subject to tax on royalties derived from patents, trademarks and know-how at the rates set forth in *Rates*.

Nonresidents are subject to final withholding tax at a rate of 30% on 75% of the amount of royalties received from Italian resident entities.

Capital Gains and Losses

Securities-Residents. Capital gains derived by residents from the sale of securities (including shares representing capital and other similar interests, convertible obligations, stock options and similar rights) not related to business activities are subject to a flat tax. The taxation of such gains varies according to whether the transaction involves a qualified percentage of the company's shares (see *Investment Income*). If the transaction involves a qualified percentage of the company's shares, the ordinary rates are applied to 40% of the gain. The ordinary rates are applied to 100% of the gain if the shares sold relate to a company residing in a tax haven (as defined by the Italian authorities).

In general, the capital gain or loss equals the difference between the sales proceeds and the purchase cost, or the value that has already been subject to taxation. If the taxpayer's losses exceed gains, the difference may be carried forward up to a maximum of four years against future capital gains. The capital gains tax must be paid by the same date as the balance of tax due shown in the taxpayer's annual income tax return. If the security is held with an Italian resident intermediary (for example, an Italian bank) and if the transaction does not involve a qualified percentage of the company shares, an election may be made under which the tax due is withheld at source by the Italian resident intermediary and the transaction does not need to be reported in the individual's annual income tax return.

Securities-Nonresidents. Capital gains derived by nonresidents from the sale of securities (including shares representing capital and other similar interests, convertible obligations, stock options and similar rights) not related to business activities are subject to the tax treatment applicable to residents (see above) if the securities are issued by an Italian entity.

Real Estate. Capital gains derived by individuals from the sale of real estate are taxable if the sale occurs within five years after the date on which the property was purchased or built. The gain is subject to tax as ordinary income, unless in the transfer deed, the vendor asks the Public Notary to apply a separate final tax at a rate of 12.5%. Capital gains derived from sales of real estate after the five-year period are not subject to tax.

Deductions

Personal Deductions, Tax Credits and Allowances. Tax deductions are allowed for various items, including the following:

- Mandatory social security contributions paid by an individual to the social security authorities;
- Voluntary social security contributions to qualified and individual pension funds and life insurance premiums, within specified limits;
- Social security and welfare contributions required by law that are paid on behalf of servants and babysitters;
- Alimony paid to a spouse from whom the taxpayer is legally separated or divorced (children's maintenance is not deductible);
- Medical expenses paid to disabled individuals; and
- Main residency (deduction equal to the main residency taxable income).

A tax credit of up to 19% of the following expenses is granted:

- Interest paid to European entities on mortgage loans for real estate located in Italy that is used as a principal abode, up to a maximum amount of €3,615.20;
- Medical expenses, including specialized medical treatment, surgical expenses and prostheses, for the taxpayer or dependants if the expenses exceed €129.11;
- Life and health insurance premiums, up to a maximum amount of €1,291.14 (applies only in certain circumstances);
- University tuition expenses, not exceeding tuition charged at state universities; and
- Funeral expenses, up to a maximum amount of €1,549.37.

The following personal allowances may be claimed by resident taxpayers, regardless of the category of income earned.

Type of Allowance	**Amount (€)**
Dependent spouse (a)	3,200 (b)
Each dependent child (a)	2,900 (b)(c)(d)(e)

(a) A taxpayer's spouse or child is considered a dependant if he or she earns less than €2,841.
(b) A formula is used to determine the actual deductibility of tax allowances from taxable income.
(c) For each dependent child under three years of age, the amount is increased by €550.
(d) For the first child, the allowance is increased up to €3,200 in any of the following circumstances:
- The taxpayer is not married or the spouse is absent or has not recognized his or her natural children;
- The taxpayer is divorced; or
- The children have been adopted by a married or divorced taxpayer.

(e) For each handicapped child, the amount is increased by €800.

Foreign taxes paid by resident taxpayers on foreign-source income may be credited against the personal income tax. The maximum amount of foreign tax that may be credited is the full amount of Italian tax attributable to the foreign-source income, based on the proportion of the foreign-source income to the aggregate income.

Other Deductions. In addition to deductible expenses specifically allowed, other expenses may be deducted from aggregate income for personal tax, depending on the category of income.

Rates. The following tax rates apply for personal income tax in 2006.

Taxable Income		**Rate on**
Exceeding €	**Not Exceeding €**	**Excess %**
0	26,000	23
26,000	33,500	33
33,500	100,000	39
100,000	—	39 + 4*

* A solidarity levy at a rate of 4% is applied only to the amount of income that exceeds €100,000.

A "no tax area" deduction is allowed for an amount equal to €3,000, plus an additional deduction for certain specified types of income. For employment income, an additional deduction of up to €4,500 is available, based on the number of working days. Such amount decreases as the taxable income increases until it reaches zero for income over €33,500.

An additional regional tax applies at rates ranging from 0.9% to 1.4% on taxable income as calculated for income tax purposes. An additional municipal tax applies at rates ranging from 0% to 0.5% on taxable income as calculated for income tax purposes.

Nonresidents are taxed on Italian source income at the rates described above.

For a sample tax calculation, see Appendix 2.

B. Other Taxes

Municipality Tax On Real Estate. A municipality tax (ICI) is imposed on the ownership of real estate in Italy at a rate ranging from 0.4% to 0.7% of the cadastral value (legal value) of the real estate.

Inheritance and Gift Taxes. Cadastral tax and mortgage tax are imposed on inherited and gifted assets, as described below.

Inheritances. The only taxes applicable to inheritances are the mortgage tax and cadastral tax, which are levied at 2% and 1%, respectively. However, if a beneficiary uses an inherited house as his or her habitual abode, mortgage and cadastral taxes are payable at a flat amount of €258.

Gifts. No tax is due if a close parental relationship exists between the donor and the recipients. If no close relationship between the donor and the recipient exists, different tax treatments are available.

Estate Tax Treaties. To prevent double taxation of estates, Italy has entered into estate tax treaties with Denmark, France, Greece, Israel, Sweden, the United Kingdom and the United States. In the absence of a treaty, a tax credit may be available for foreign taxes paid on assets located abroad.

C. Social Security

Coverage. Italian law provides for a comprehensive system of social insurance covering the following: disability, old age and survivorship; illness and maternity; unemployment and "mobility"; family allowances; health care; labor injuries; and professional diseases. The system is controlled by the government, with various sections administered by separate public institutions, most notably, the National Institute for Social Security (Istituto Nazionale Previdenza Sociale, or INPS).

Collective labor agreements provide for compulsory additional coverage through pension and health funds. Both employers and employees usually make contributions to these funds.

Contributions

Employees. In general, social security contributions are payable at varying percentages of gross remuneration, depending on the employee's qualification level and the employer's activity sector.

In general, employees' social security contributions range from approximately 9% to 10% of their gross remuneration. Employers' contributions may range from 30% to 35%.

Employees with no record of social security contributions before 1 January 1996, are subject to pension contributions on gross income up to a maximum of €85,478 for 2006.

Self-Employed Individuals. Self-employed individuals, directors and consultants must enroll with the Gestione Separata (INPS), unless other specific rules apply (for example, certain professionals, such as lawyers, engineers and accountants, are required by law to enroll in specified pension plans). The contributions are calculated at a flat rate ranging from 10% to 19.2% on annual income up to a maximum of €85,478 for 2006. The rates will be gradually increased in the future.

Also foreign citizens, such as nonresident directors, must enroll with the INPS.

Under certain circumstances, a totalization agreement may provide an exemption from the contributions mentioned above.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Italy has concluded totalization agreements with various jurisdictions. In addition, an EU regulation on social security applies to all of the EU countries, including all of the new member states (plus Switzerland).

Italy has entered into totalization agreements with the following jurisdictions.

Argentina	Croatia	United States
Australia	Israel	Uruguay
Brazil	Korea (South)	Venezuela
Canada and Quebec	Monaco	Yugoslavia (former) (b)
Cape Verde	San Marino	
Channel Islands (a)	Tunisia	

(a) The Channel Islands consist of Alderney, Guernsey, Herm, Jersey and Lihou.
(b) This treaty applies to Bosnia-Herzegovina, Macedonia and the Union of Serbia and Montenegro.

Most of Italy's totalization agreements allow an employee temporarily seconded abroad to remain covered under the social security scheme in the employee's home country for a two-year period that may be extended to five years or more. The agreement with the United States does not provide a time limit. Italy's totalization agreements with the United States and a few other countries do not cover all the mandatory social security contributions payable in Italy. As a result, U.S. and other foreign companies must pay minor contributions in Italy.

D. Tax Filing and Payment Procedures

The tax year in Italy is the calendar year. Income tax returns for the previous year must be filed by 31 October, if filing electronically. Married persons may not file joint returns.

Late filing is subject to a penalty ranging from €258 to €2,065 and from 120% to 240% of the tax due. Under a special procedure to reduce penalties, these penalties may be reduced to 1/8 (within 30 days after the payment due date) or to 1/5 (within the filing deadline for the following tax year) of the otherwise applicable penalty.

Income tax must be paid by 20 June for income earned in the preceding calendar year. Advance tax payments must be made, equal to 99% of the preceding year's tax liability. Advance tax payments may be reduced if the individual has a lower estimated tax liability in the current year. Forty percent of the advance tax payments must be paid by 20 June, and the remaining 60% must be paid by 30 November. Individuals who make a late payment during the period of 21 June to 20 July must pay a 0.4% additional surtax. If a late payment is made between 21 July and 21 August, the effective rate of the additional surtax due is 3.75%, plus 2.5% annual interest. If a late payment is made after 21 August and on or before 31 October of the following year, a surtax of 6% plus annual interest of 2.5% is due.

The due dates mentioned above may be subject to some changes each year.

E. Double Tax Relief and Tax Treaties

A tax credit for taxes paid abroad on foreign-source income is available; however, it is limited to the portion of Italian tax due based on the ratio of foreign-source income to total income.

Italy has entered into double tax treaties with the following countries.

Albania
Algeria
Argentina
Australia
Austria
Bangladesh
Belgium
Brazil
Bulgaria
Canada
China
Côte d'Ivoire
Cyprus
Czech Republic
Denmark
Ecuador
Egypt
Estonia
Ethiopia (a)
Finland
France
Georgia
Germany
Greece
Hungary
India
Indonesia
Ireland
Israel
Japan
Kazakhstan
Kenya (a)
Korea (South)
Kuwait
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mauritius
Mexico
Morocco
Mozambique
Netherlands
New Zealand
Norway
Oman
Pakistan
Philippines
Poland
Portugal
Romania
Russian Federation
Senegal
Singapore
Slovak Republic
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Tanzania
Thailand
Trinidad and Tobago
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
USSR (b)
Uzbekistan
Venezuela
Vietnam
Yugoslavia
Zambia

(a) The treaty has been ratified, but is not yet in force.
(b) Italy honors the USSR treaty with respect to the republics of the Commonwealth of Independent States.

The treaties generally follow the Organization for Economic Cooperation and Development (OECD) model treaty. In general, the treaties provide that employment income is taxable only in the employee's country of residence, unless it is derived from work performed in Italy. Income derived from work performed in Italy, however, is not taxed if all of the following conditions apply:
- The recipient is present in Italy for a period not exceeding 183 days in the relevant fiscal year (a different time frame applies under certain treaties);
- The remuneration is not paid by, or on behalf of, an employer in Italy; and
- The remuneration is not borne by an employer's permanent establishment or fixed base in Italy.

Self-employment income is generally taxable only in the country of residence of the recipient, with the following exceptions: professional income produced in Italy by a fixed base; and directors' fees paid by an Italian company (see Section A).

F. Temporary Visas

Visas for temporary stays in Italy include transit visas, tourist visas, student visas and business visas. They may be short-term (up to three months, for example, tourist visas) or long-term (from 3 to 12 months) and generally may not be renewed.

Foreign nationals must apply for temporary visas at the Italian consulates or embassies in their home countries or in their place of residence.

G. Employment and Self-Employment Visas

European Union (EU), European Economic Area (EEA) and Swiss nationals do not need permits to work in Italy. An EU national who intends to reside and work in Italy must register by applying for a residence permit (*carta di soggiorno*).

Special rules are provided for nationals of the new EU member states (except for nationals of Cyprus and Malta) until May 2006 (an extension is possible). In general, such individuals must obtain in advance a work authorization from the competent police office (see below), but they are exempt from the visa requirements.

Non-EU nationals must enter Italy with the proper visas if they intend to carry out professional activities. The type of work permit and visa required and the procedures necessary to obtain these items differ depending on how the work relationship is classified (for example, as a self-employment activity or an employment activity).

The procedure for obtaining an employment visa for a foreign national is initiated by the prospective Italian employer (or the Italian entity for which the employees are assigned to work), which must first submit an application to the Italian Unified Immigration Office (Sportello Unico) for a work authorization (*nulla osta al lavoro*). The approval and issuance of such authorization usually requires up to two months, and can only be obtained for the purpose of filling available vacancies within the quota limits. Certain categories of foreign citizens who enter Italy for employment reasons are exempt from the entry quotas. These include executives or highly skilled personnel of companies with registered offices or branches in Italy or with representative offices of foreign companies that have registered offices in World Trade Organization (WTO) countries.

After the police issue the *nulla osta al lavoro*, the Italian company sends it to the employee who uses this document to request an employment visa at the Italian consulate in his or her last country of residence.

After a non-EU national obtains the proper entry visa, he or she must obtain a residence permit (*permesso di soggiorno*) for employment reasons to stay in Italy.

Under certain conditions, a holder of a residence permit for employment reasons may engage in self-employment activities and vice versa.

Foreign nationals may engage in the following self-employment activities in Italy:

- They may be directors of companies (that is, members of boards); and
- They may pursue freelance or other professional activities.

In both cases, foreign nationals must obtain a self-employment visa (*visto di lavoro autonomo*).

H. Residence Permits

Within eight days after arrival in Italy with the proper visa, a non-EU foreign employee must request a residence permit (*permesso di soggiorno*) and report to the police his or her place of residence in Italy.

EU nationals and their family members must apply for a residence card (*carta di soggiorno*) if their stay exceeds 90 days.

I. Family and Personal Considerations

Family Members. Family members who accompany a non-EU foreign national to Italy or wish to join a foreign national in Italy must request special visas from the Italian consulate in their last country of residence. These visas (*visto per familiare al seguito* or *visto per ricongiungimento familiare*) allow family members to work in Italy after the relative residence permit for family purpose is obtained (see below).

After obtaining their visas, within eight days after their arrival in Italy, family members accompanying a foreign national must report to the police in the area where they will live to request residence permits (*permesso di soggiorno per motivi familiari*).

A special rejoining procedure (*coesione familiare*) can be favorable for family members who legally entered Italy and hold valid residence permits.

Residence permits for study reasons within the annual quotas are convertible into permits for employment reasons.

Drivers' Permits. Foreign nationals may drive legally in Italy using their home country drivers' licenses if they also possess international drivers' licenses. If the individual resides is Italy, he or she should carefully investigate if he or she may continue to drive legally without any action (specific rules apply depending on the country that issued the driver's license). Italy has drivers' license reciprocity with all EU member countries and certain non-EU countries, but not with the United States.

To obtain an Italian driver's license, foreign nationals must take a driver education course, undergo written, physical and medical examinations, and register with the Italian resident population records.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Non-Taxable	Comments
Compensation			
Base salary	X	—	—
Mandatory employee contributions to home country benefit plans	(X)	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—

	Taxable*	Non-Taxable	Comments
Housing allowance	X	—	(a)
Housing	X	—	(a)(b)
Housing contribution	(X)	—	(a)
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement			
Current gross	X	—	—
One-year rollover	X	—	—
Deferred compensation	—	X	(c)
Imputed interest on loans	X	—	(d)
Value of meals provided	—	X	(e)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(f)
Capital gain from sale of personal residence in home country	—	X	(g)
Capital gain from sale of stock in home country	X	—	—

* Bracketed amounts reduce taxable income.

(a) In the context of the above table, the following definitions apply:
- Housing allowance: cash amount paid to by the employer to an employee for the purpose of helping the employee pay the rent for a house;
- Housing: taxable benefit derived by an employee from the use of an apartment rented by the employer; and
- Housing contribution: cash amount withheld from the salary of an employee who uses an apartment rented by the employer.

(b) If employer-owned or leased housing is provided by the employer to the employee, the employee's taxable income equals the difference between the cadastral income of the property (an amount set for each parcel of real estate by the Italian authorities) plus the expenses borne by the employer in providing the housing (for example, utilities), less the contribution paid by the employee.

(c) Deferred compensation is taxed when the employee can dispose of the money.

(d) Employees who receive interest-free or low-interest loans from their employers are subject to tax on an amount equal to 50% of the difference between the interest charged by the employer and the official European Union (EU) bank rate if the former amount is lower.

(e) Meals provided at the worksite to all employees and equivalent services are not subject to income tax. Equivalent services (in particular, restaurant tickets) in excess of €5.29 per day are taxable.

(f) Interest paid from an Italian bank is subject to a 27% final withholding tax; consequently, such interest does not have to be included in the individual's tax return. Non-Italian source interest income paid from a foreign bank must be declared in the individual's income tax return, but is subject to a separate tax of 27%. The separate tax is paid when the return is filed. However, the taxpayer may elect in the tax return to have such interest income taxed at the ordinary tax rates. In such case, the interest income is added to the taxpayer's other taxable income.

(g) Gain from the sale of real property is subject to tax if the holding period of the property is five years or less and if the property was not used as the taxpayer's personal residence during the greater part of such period.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation is set forth below for a full-year resident, with a dependent spouse and two children. In 2006, the individual earned income of €100,000 net of compulsory social security taxes. It is assumed that the taxpayer's income was derived solely from employment.

	€	€
Total taxable income		100,000
Gross income tax (excluding regional and local tax)		34,390
Theoretical tax allowance		
Spouse	(3,200)	
Two children (2 x €2,900)	(5,800)	
Total theoretical tax allowances	(9,000)	
Tax allowance deductible		(0)*
Net income tax (excluding regional and local tax)		34,390

* The deduction is calculated using a formula.

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A. Income Tax

Who Is Liable. Individuals who are resident and domiciled in Jamaica are taxed on worldwide income. Individuals who are resident but not domiciled in Jamaica are generally taxed on their Jamaican-source income and on foreign-source income that is remitted to Jamaica. However, if the individual is present in Jamaica in a tax year for a total of three months or more, any foreign employment income that relates to work done in Jamaica or elsewhere in relation to Jamaica, is subject to tax in Jamaica regardless of where it is received. Nonresidents are taxed only on Jamaican-source income and on remittances of foreign income to Jamaica.

In general, individuals are considered resident if they stay in Jamaica for six months or longer. Other factors that may be considered include whether they (or their spouses) have a place of abode available for their use in Jamaica, and if they habitually visit Jamaica for substantial periods. The tax authorities are likely to regard periods totalling three months as substantial and visits as habitual if the individual is present in Jamaica for approximately three months annually for four consecutive years.

For an individual who is in Jamaica for a temporary purpose only and not with an intent to establish residence, and who has not actually resided in Jamaica in any year of assessment for a period of six months (or periods aggregating to six months), income arising outside Jamaica is not subject to income tax in Jamaica.

All resident employees with annual incomes exceeding J$193,440 are subject to tax. All self-employed individuals are subject to tax.

Nonresidents are subject to tax on all Jamaican-source employment income (unless specifically exempted under applicable double tax treaty provisions). A nonresident employed by a resident employer is treated as resident from the first day of employment.

A nonresident employed in Jamaica by a foreign employer for less than three months is taxed on remittances to Jamaica only. However, if the employee performs the work over a period of three months or longer in the year of assessment, he or she is taxable in Jamaica, regardless of whether the payment is received in Jamaica.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. All compensation arising in Jamaica or accruing to any person from an office or employment in Jamaica is subject to tax. This includes salaries, wages and bonuses. Benefits in kind and allowances are taxable, but the Tax Commissioner may allow a portion to be exempt.

Accommodation supplied by an employer to an employee is valued in accordance with the following rules:
- If the annual value of the accommodation is less than the balance of the emoluments, the taxable benefit is 15% of the other emoluments; or
- If the annual value of the accommodation is greater than the balance of the emoluments (that is, the total emoluments excluding the accommodation), the taxable benefit is 15% of the average sum of the annual value of the accommodation and the balance of the other emoluments, including emoluments paid by related parties.

The taxable value of the personal-use portion of a company car is determined in accordance with the following table.

Cost of Motor Vehicle		Value of Car			
		Up to Five Years Old		Over Five Years Old	
Exceeding J$	Not Exceeding J$	A J$	B J$	A J$	B J$
0	300,000	40,000	48,000	30,000	36,000
300,000	700,000	50,000	60,000	40,000	48,000
700,000	1,000,000	75,000	80,000	60,000	65,000
1,000,000	1,500,000	90,000	100,000	72,000	80,000
1,500,000	—	120,000	140,000	98,000	100,000

A – Up to 50% private use during the year.
B – More than 50% private use during the year.

Self-Employment and Business Income. Residents are subject to tax on profits from self-employment and business activities as ordinary income at the rates described in *Rates*.

Investment Income. Interest paid by specified entities (called "prescribed persons") to individuals is subject to withholding tax at a rate of 25%. Prescribed persons include financial institutions, licensed securities dealers, life insurance companies, building societies, issuers of commercial paper, unit trust management companies, certain industrial and provident societies, the Ministry of Finance and certain other entities specified under the Income Tax Act.

In general, dividend income paid to individuals is subject to withholding tax at a rate of 25%. No tax is imposed on dividends paid by companies listed on the Jamaica Stock Exchange. However, companies not listed on the Jamaica Stock Exchange are required to deduct tax at a rate of 25% from dividends paid to individuals.

Directors' Fees. Directors' fees are treated as taxable income for the year of assessment to which they relate and are subject to tax with other income at the rates described in *Rates*. Employers must treat directors' fees paid as emoluments that are subject to the deduction of income tax. If the directors are also employed by the same company, they are subject to other statutory deductions.

Concessionary Loans. Directors and employees who, by reason of their employment in a specified financial institution, receive concessionary loans (loans at a rate of interest lower than the prescribed rate), are taxable on the cash equivalent of the benefit of the loan, that is, the difference between the interest at the prescribed rate and the interest actually paid at the concessionary rate.

Exempt Income. If received from a superannuation or pension scheme approved by the Tax Commissioner, lump-sum payments of up to J$120,000 are exempt from tax. Lump sums paid from the government's Consolidated Fund are fully exempt from tax.

Individuals receiving a pension from an approved superannuation fund or from a pension or retirement scheme approved by the Tax Commissioner are exempt from tax on up to J$45,000 of the income. The exemption is restricted to the lower of the pension income or J$45,000 if the pensioner is under 55 years of age. Individuals 65 years of age and older enjoy an income exemption of J$45,000.

Individuals classified as handicapped under the Income Tax Act are exempt from tax on all salary and pension income.

The above exemptions are available to both residents and nonresidents.

For each tax year, resident self-employed individuals are entitled to a tax-exemption for the first J$193,440 of their income; this exemption does not apply to nonresidents.

Capital Gains. Jamaica does not impose tax on capital gains.

Taxation of Employer-Provided Stock Options. In practice, employer-provided stock options are taxable only at grant on the difference between the exercise price and the market price at the grant date.

Deductions

Deductible Expenses. Charitable donations are deductible, up to a maximum of 5% of taxable income.

Personal Deductions and Allowances. Pension contributions of up to 10% of taxable compensation to approved pension schemes and contributions to the national insurance scheme are deductible.

Business Deductions. All expenses incurred wholly and exclusively in producing self-employment or business income are deductible.

Rates. Tax is levied at a rate of 25% on residents with annual income exceeding J$193,440.

Tax at a flat rate of 25% applies to all taxable income earned by nonresidents, unless the rate is reduced by a double tax treaty (see Section E). Withholding taxes are levied on management fees, dividends, certain interest, royalties and directors' fees. Nonresidents are not eligible for the J$193,440 exemption available to residents.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses may be carried forward indefinitely to offset profits or gains arising from a trade, business or profession carried on in Jamaica or from the ownership or occupation of land in Jamaica. No carrybacks of losses are allowed.

Approved agricultural activities may be granted relief from income tax for five to ten years; losses from these activities may be used to offset income from all sources. Losses from unapproved agricultural activities may be offset only against profits from unapproved agricultural activities. These losses may be carried forward indefinitely.

B. Estate and Gift Taxes

Although Jamaica has no estate tax, a transfer tax is payable at the following rates on the transfer of land and shares in a Jamaican company.

	Rate
Transfer by an individual while alive	7.5%
Transfer on death	
On the first J$100,000	0%
On the balance	7.5%

Wills are probated in accordance with the laws of the country of domicile of the deceased, and real property is transferred according to the laws of the country where the property is situated.

C. Social Security

Contributions. The applicable social security contributions and other payroll taxes are described in the following paragraphs.

National insurance rates are 5% for employed and self-employed workers, other than domestics, on annual earnings of up to J$500,000. For employees, the 5% is paid one-half by the employee and one-half by the employer. For domestic workers, the employer and the employee each pay J$10 a week. These contributions are mandatory.

National housing trust contributions are made at a rate of 5% of salary, borne 2% by the employee and 3% by the employer. Self-employed persons contribute at a rate of 3% of gross taxable income. Contributions by employees and self-employed persons, together with a bonus, are refundable to the contributor on an annual basis after seven years of contribution or in full after retirement at 65 years of age.

An education tax is payable at a rate of 5% of salary, borne 2% by the employee and 3% by the employer. Self-employed persons are subject to tax at a rate of 2% of net taxable income (after deduction of pension and national insurance contributions).

Totalization Agreements. To prevent double social security taxes and to assure benefit coverage, Jamaica has entered into totalization agreements with Antigua and Barbuda, the Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guernsey, Guyana, Ireland, Isle of Man, Jamaica, Jersey, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago and the United Kingdom.

D. Tax Filing and Payment Procedures

The income tax year in Jamaica is the calendar year. Income taxes are withheld by employers from the wages of employees monthly under the Pay As You Earn (PAYE) system. Taxes withheld must be paid to the Collector of Taxes by the 14th day of the following month. For individuals who are required to file, annual tax returns must be filed, and the final tax paid, by 15 March following the tax year.

Nonresident employees must file tax returns if requested by the Tax Commissioner or if tax is overpaid and a refund is requested. Nonresident self-employed persons must file tax returns. Credits are available for withholding taxes paid.

E. Double Tax Relief and Tax Treaties

Jamaica has entered into double tax treaties with Canada, China, Denmark, France, Germany, Israel, Norway, Sweden, Switzerland, the United Kingdom, the United States and CARICOM nations (Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago are signatories to this treaty). These treaties generally provide for reduced rates of withholding tax on dividends, interest, royalties, and technical or management fees.

F. Temporary Visas

Foreign nationals may visit Jamaica for up to two weeks without visas. If a visit exceeds two weeks, a visa is required. The visa may be obtained in either the foreign national's home country or in Jamaica.

A temporary visa is renewable. The number of times it may be renewed and the period of validity depend on the individual's circumstances.

G. Work Permits and Self-Employment

The right to work in Jamaica is relatively restricted. The Ministry of Labor and Social Security and the Ministry of National Security are responsible for ensuring that employment opportunities are made available to Jamaican citizens and permanent residents before being offered to foreign nationals.

Citizens of other countries coming to Jamaica to work are required to have work permits (and visas if they are from non-British Commonwealth countries) if the visit exceeds two weeks; an exemption is usually granted if the visit is for a shorter period. Foreign nationals married to Jamaican citizens or born in Jamaica also receive exemptions from the work permit requirement. If an exemption for a work permit is granted, then only a visa is required. No legal restrictions exist on the employment of foreign nationals in any specific field; however, the work permit review board must be satisfied that a particular skill is not readily available locally at the time of application for a work permit.

Work permits are valid for the length of a foreign national's employment contract, up to a maximum of three years. The work permit is renewable an indefinite number of times. The renewed permit is valid for the length of an employee's contract, not to exceed three additional years. A fee is charged for the work permit.

A Jamaican employer must apply to the Ministry of Labor and Social Security for a work permit and then apply to the immigration department of the Ministry of National Security for a visa before confirming an employment offer with a foreign worker. Students and persons on work-exchange programs who are not citizens of British Commonwealth countries must obtain visas and work permits before commencing employment. An application for a work permit generally takes two to eight weeks to process.

A self-employed person must apply to the Ministry of Labor and Social Security for a work permit and then apply to the immigration department of the Ministry of National Security for a visa.

H. Residence Permits

Residence permits are valid for the period allowed by the work permit for the employee and his or her children who are neither full-time students nor younger than 18 years of age. Otherwise, permits are valid for three years.

The residence permit is renewable an indefinite number of times. The renewed permit is valid for the same period as the original permit.

I. Family and Personal Considerations

Family Members. A foreign national married to a Jamaican citizen or person born in Jamaica does not need a work permit. All other family members, however, must obtain work permits.

Marital Property Regime. The Family Property (Rights of Spouses) Act recognizes the union of a single man and single woman who have lived together continuously for a five-year period. The act grants the same property rights to common law unions as those granted to married couples.

Drivers' Permits. Foreign nationals may drive legally in Jamaica using their home country drivers' licenses for up to one year. Jamaica has driver's license reciprocity with the United States and most British Commonwealth countries. To obtain a local Jamaican driver's license, an applicant is required to take a written examination and a road test.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Other compensation income	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus payment relating to assignment	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(b)
Education reimbursement	X	—	—
Other allowance	X	—	—
Airfare paid for return trip home	X	—	—
Resettlement allowance	X	—	—
Value of hotel accommodation provided	X	—	(c)
Income tax recoverable (current and/or prior, including interest, if any)	—	X	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(d)
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* The bracketed amount reduces taxable income.

(a) The payment is not taxed if the pension plan is approved by Jamaica's tax authorities.

(b) The taxable benefit for the employee is generally based on the percentage that the rent bears to the total emoluments (not including the rent). If the rent percentage is less than 50%, the taxable benefit is deemed to be the lower of the actual rent paid or 15% of the total emoluments (not including the rent). If the rent percentage is greater than 50%, the taxable benefit is deemed to be 50% of the average of the rent and the other emoluments.

(c) The provision of hotel accommodation is taxable if the accommodation is provided as housing and not for business travel.

(d) For individuals not domiciled in Jamaica, the income is generally taxable in Jamaica only if it is remitted to Jamaica. However, if a nondomiciled individual is present in Jamaica for three months or more in a tax year and if he or she derives income from work performed in Jamaica or performed elsewhere in relation to Jamaica, the individual is taxable in Jamaica (subject to tax treaty provisions), regardless of where the income is paid.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2005 tax year is provided below for an expatriate who is married with two dependent children under 18 years old. The expatriate was a resident of Jamaica for all of 2005, but was not domiciled in Jamaica. During 2005, the expatriate received compensation of J$3,000,000, J$500,000 of which was paid in Jamaica and the balance deposited in a home country bank account and not remitted to Jamaica. The individual's employer also provided housing at a cost to the company of J$600,000 (the housing is in addition to the individual's salary of J$3,000,000). The employer made the payments for the housing directly to an independent landlord not connected to the employer. The expatriate earned dividends from home-country investments of J$50,000, J$5,000 of which was remitted to Jamaica.

The following is the tax calculation.

	J$
Calculation of Taxable Income	
Salary	3,000,000
Taxable value of housing (lower of J$600,000 or 15% of J$3,000,000)	450,000
Dividends	5,000*
Taxable income	3,455,000
Calculation of Income Tax	
Tax on J$193,440 at 0%	0 (b)
Tax on J$3,261,560 at 25%	815,390
Income tax payable	815,390

* If the dividend was taxed at source in the home country and if Jamaica has entered into a tax treaty with that country, based on the treaty provisions, the expatriate would generally receive a credit against the Jamaican income tax for the tax imposed on the dividends remitted to Jamaica.

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A. Income Tax

Who Is Liable. In Japan, the tax liability of individuals is determined by residence status. Individual taxpayers are classified into the following three categories:

- A permanent resident is an individual who has a permanent domicile in Japan or who has resided continuously in Japan for more than five years (however, see below);
- A nonpermanent resident is an individual who does not intend to permanently reside in Japan and who has resided in Japan fewer than five years; and
- A nonresident is an individual who has not established a domicile in Japan and who has resided in Japan less than one year.

Foreign nationals arriving in Japan are considered to have established residence in Japan, unless employment contracts or other documents clearly indicate that they will stay in Japan less than one year.

Permanent residents are subject to income tax on their worldwide income, regardless of source. Nonpermanent residents are taxed on their Japanese-source income and on foreign-source income that is paid in or remitted to Japan. Nonresidents are subject to tax on their Japanese-source income only.

Effective from 1 April 2006, the following new rules will narrow the nonpermanent privilege:

- Individuals who are Japanese nationals will no longer be eligible to claim the privilege.
- Non-Japanese nationals must satisfy a 10-year look back rule to be eligible for the privilege. Under this rule, if an individual has amassed stays in Japan that exceed five years in aggregate within the past 10 years, the individual will not be treated as a nonpermanent resident if he or she leaves Japan and re-enters for a renewed assignment.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income and Deductions. Individuals with employment income are subject to income tax. Employment income includes salaries, wages, directors' fees, bonuses and other compensation of a similar nature. Benefits in kind provided by the employer, including the private use of an employer-provided automobile, tuition for dependent children, private medical insurance premiums and private pension contributions, are included in employment income. However, certain employer-paid benefits, including moving expenses and, for resident foreigners and nonresidents, home-leave expenses, are excluded from taxable income.

Favorable tax treatment is available for employer-provided housing if the lease is in the employer company's name. The employer pays the rent directly to the landlord, and the individual pays to the employer an amount equal to the "legal rent" for the premises. The legal rent is computed using different formulas for directors and employees. For directors, the legal rent is the greater of one-half (35% if used for business) of the monthly rent paid by the employer or an amount computed by formula involving the area and assessed value of the rented property. If private living space exceeds 240 square meters, if amenities are located on the premises such as a swimming pool, tennis courts or other similar facilities, or if luxury amenities are provided that cater to the director's personal tastes, the favorable tax treatment does not apply and the director's housing is taxed at full value. For other employees, the legal rent equals one-half of an amount computed by a formula involving the area and assessed value of the rented property. Experience indicates that this amount is approximately 5% to 15% of the rent actually paid by the employer.

Taxable employment income equals gross receipts minus an employment income deduction, as computed in the following table.

Gross Compensation		
Exceeding ¥	Not Exceeding ¥	Employment Income Deduction
0	1,800,000	Gross receipts x 40% (minimum ¥650,000)
1,800,000	3,600,000	¥720,000 + [(Gross receipts – ¥1,800,000) x 30%]
3,600,000	6,600,000	¥1,260,000 + [(Gross receipts – ¥3,600,000) x 20%]
6,600,000	10,000,000	¥1,860,000 + [(Gross receipts – ¥6,600,000) x 10%]
10,000,000	—	¥2,200,000 + [(Gross receipts – ¥10,000,000) x 5%]

Self-Employment and Business Income. Individuals who derive income from business and professional activities are subject to income taxes at the rates set forth in *Rates*. Taxable income consists of gross receipts, minus reasonable and necessary expenses incurred in connection with the business. Certain advantages are available to individual taxpayers filing a "blue form" tax return (see Section D) if they meet the necessary bookkeeping requirements.

Investment Income. Dividend income includes dividends and distributions of profits from corporations as well as distributions of earnings from security investment trusts, except public and corporate debenture investment trusts. It also includes constructive dividends realized in the form of distributions of remaining assets on the liquidation of a company, distributions on the reduction of capital or distributions on the retirement of shares. Interest on borrowings for the acquisition of shares on which dividends were paid may be deducted from the gross amount of dividends.

Dividends from unlisted shares and dividends for shareholders who own 5% or more of listed shares are included in taxable income and taxed at the regular graduated rates. A 20% withholding tax is imposed on dividends paid. For dividends from listed shares paid by a Japanese paying agent (securities company or trust company in Japan), the statutory withholding tax rate is 20% (15% national tax plus 5% local tax). However, a reduced tax rate of 10% (7% national tax plus 3% local tax) is applied until 31 March

2008 if a Japanese paying agent is used. A taxpayer does not need to report dividends as income on the tax return if the dividends are from listed shares and are paid by a Japanese paying agent.

Interest income includes interest on public bonds, corporate debentures, deposits and postal savings, as well as interest on distributions of earnings of joint operation trusts, public bonds and debenture investment trusts. No deductions are allowed for expenses. Interest is taxed separately from other income and is subject to a final 15% withholding tax (plus a final 5% local withholding tax) at source. Interest on public bonds and debentures issued overseas is subject to a 15% final withholding tax if received through a dealer in Japan.

Interest up to certain amounts on postal savings and deposits, public bonds and security investment trusts is exempt from income tax if such income is received by qualified taxpayers. Qualified taxpayers include spouses qualifying for survivors' or widows' annuities and handicapped persons. The following interest is exempt from tax:
- Interest on postal savings, up to a maximum principal amount of ¥3.5 million;
- Interest on time deposits, public bonds, debentures and security investment trusts, up to a maximum principal amount of ¥3.5 million; and
- Interest on national bonds, up to a maximum principal amount of ¥3.5 million.

Under the workers' savings program, interest on employees' savings for pensions and for housing acquisitions is exempt from tax, up to a maximum principal amount of ¥5.5 million.

Directors' Fees. Directors' fees paid by a Japanese corporation to nonresidents are considered Japanese-source income and are subject to tax in Japan, even if the services are performed outside Japan.

Capital Gains. Capital gains from the sale of assets other than securities, land and buildings are divided into short-term and long-term gains and are then included in ordinary income and subject to tax at the normal income tax rates set forth in *Rates*. Gains derived from the disposal of property held longer than five years are considered long-term, and only one-half of the gains is taxable. A ¥500,000 deduction is available from the total of short-term and long-term gains.

Capital gains derived from the sale of securities are generally taxed at 20% (15% national tax plus 5% local tax). However, capital gains on certain listed shares may be subject to a reduced tax rate of 10% (7% national tax plus 3% local tax) from 1 January 2003 through 31 December 2007 if the shares are sold through a securities company or bank in Japan.

Capital gains from the sale of land and buildings are taxed separately from other income and at different rates. Gains from the sale of land and buildings held for no longer than five years are considered short-term, and gains from the sale of similar assets held for longer than five years are treated as long-term gains. Long-term gains are taxed at a rate of 20%, plus a 6% inhabitant tax on taxable gains. Proceeds from the sale of land and buildings held by nonresidents are subject to a 10% withholding tax, unless the property is purchased by individuals for residential use and the sales value does not exceed ¥100 million.

Gains derived from the sale of residential property held longer than 10 years are taxed at a rate of 10% (plus a 4% inhabitant tax) on taxable gains of up to ¥60 million and at a rate of 15% (plus a 5% inhabitant tax) on gains in excess of ¥60 million. A special deduction of ¥30 million is available on gains from the sale of residential property if specified conditions are met. Tax on short-term gains is the higher of 40% of taxable gains plus a 12% inhabitant tax, or 110% of the tax amount computed under the aggregate-taxation method.

Deductions

Deductible Expenses. If the aggregate amount of specific employment-related expenditure incurred during a year exceeds the amount of the employment income deduction (see *Employment Income and Deductions*), the excess may be deducted in addition to the employment income deduction. Specifically allowed expenditure includes commuting expenses, moving expenses for a company transfer and training expenses for technology skills or knowledge directly required in performing duties. Expenditure must be documented and certified by the employer. The deduction of specific expenditure may be claimed only by filing a tax return.

Other allowable deductions include the following expenses.

Expenses	Deductible Amount
Casualty losses	The greater of (amount of loss, including expenditure incurred in relation to the casualty) – (insurance reimbursement) – (10% of adjusted total income), or (expenditure incurred in relation to the casualty – ¥50,000)
Medical expenses	(Medical expenses) – (insurance reimbursement) – (the lesser of 5% of adjusted total income or ¥100,000); maximum deduction is ¥2 million

Insurance Premiums. Social insurance premiums are fully deductible. Life insurance premiums are deductible, up to a maximum of ¥50,000. Individual pension premiums are deductible, up to ¥50,000. For casualty insurance premiums, the deductible amount is ¥3,000 for short-term insurance (less than 10 years) and ¥15,000 for long-term insurance. The deductible amount of combined short-term and long-term insurance premiums may not exceed ¥15,000.

Contributions. Contributions to the government or local authorities, to institutions for educational, scientific or other public purposes designated by the Minister of Finance, and to institutions for scientific study or research specifically provided for in the tax law are deductible. The deductible amount is the lesser of the amount of the contribution, or 30% of adjusted total income minus ¥10,000.

Personal Deductions and Allowances. The following personal deductions are available for purposes of income tax.

	¥
Physically handicapped person	270,000
Seriously physically handicapped person	400,000
Seriously physically handicapped dependant, living with taxpayer	730,000
Widow (or divorcee), widower or working student	270,000
Spouse	380,000
Senior spouse (70 years of age or older)	480,000
Dependant	380,000
Senior dependant (70 years of age or older)	480,000
Senior dependant who is parent of, and lives with, the taxpayer	580,000
Basic deduction	380,000

For eligible dependants 16 to 22 years of age, an additional deduction of ¥250,000 is allowed.

Personal deductions for purposes of the inhabitant tax are lower than those for purposes of income tax.

Rates. Individual income taxes consist of national income tax and local inhabitant tax. Individuals are also subject to a local enterprise tax on income derived from businesses or professions at rates ranging from 3% to 5%.

Normally, a 20% withholding tax is levied on nonresidents, with no deductions available; however, depending on the type of income, tax may be levied at progressive rates through self-assessment. Dividends and salaries paid by Japanese companies, interest income, annuities and prizes are subject to a 20% withholding tax if paid to nonresidents.

National Individual Income Tax Rates. National income tax rates are progressive. For 2006, the rates range from 10% (on taxable income of up to ¥3.3 million) to 37% (on taxable income exceeding ¥18 million), as shown in the following table.

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
¥	¥	¥	%
0	3,300,000	0	10
3,300,000	9,000,000	330,000	20
9,000,000	18,000,000	1,470,000	30
18,000,000	—	4,170,000	37

A special tax credit allows a 10% reduction in the taxpayer's national income tax, up to a maximum reduction of ¥125,000.

Local Inhabitant Tax Rates (Prefectural and Municipal). Local inhabitant taxes, both prefectural and municipal, consist of per capita and income levies, as shown in the following tables. The amounts of these taxes vary, depending on the locality. Nonresidents are not subject to local inhabitant tax.

Tax Rates for Per Capita Levy

Population	Municipal Inhabitant Tax ¥	Prefectural Inhabitant Tax ¥
500,000 or more	3,000	1,000
From 50,000 to 499,999	2,500	1,000
Up to 49,999	2,000	1,000

Tax Rates for Income Levy: Municipal Tax

Taxable Income		Tax on Lower	
Exceeding ¥	Not Exceeding ¥	Amount ¥	Rate %
0	2,000,000	0	3
2,000,000	7,000,000	60,000	8
7,000,000	—	460,000	10

Tax Rates for Income Levy: Prefectural Tax

Taxable Income		Tax on Lower	
Exceeding ¥	Not Exceeding ¥	Amount ¥	Rate %
0	7,000,000	0	2
7,000,000	—	140,000	3

For sample tax calculations, see Appendix 2.

Relief for Losses. Losses from rental, business and forestry activities and from capital transactions (other than securities) may be used to offset income from other categories. The portion of a rental loss equal to the ratio of interest expense on loans used to acquire the land, to total rental expenses, may not offset other income.

The net loss remaining after using all available losses to reduce income may be carried forward for three years by a taxpayer filing a blue form tax return (see Section D). A taxpayer who does not file a blue form tax return is allowed a carryforward of three years for certain losses, including the loss of business assets due to a natural disaster.

B. Other Taxes

Inheritance Tax. Inheritance tax is levied on heirs and legatees who acquire property by inheritance or bequest. An individual domiciled in Japan is subject to tax on all property, regardless of location. An individual not domiciled in Japan is, in principle, taxed only on property located in Japan at the time of the decedent's death. However, a Japanese national not domiciled in Japan is subject to inheritance tax on all inherited property, regardless of location.

Gifts made within three years before death are treated as inherited property and are included in taxable property for purposes of inheritance tax. Certain exemptions and allowances are permitted in the computation of total net taxable property. A basic exemption of ¥50 million, plus ¥10 million multiplied by the number of statutory heirs, is deductible from taxable properties. The inheritance tax is calculated separately for each statutory heir. The aggregate of the calculated tax is then prorated to those who actually receive the property.

Inheritance tax rates range from 10% to 50%, with a 20% surtax on transfers to heirs, other than the parents and children of the decedent, as shown in the following table.

Taxable Amount Exceeding ¥ (millions)	Not Exceeding ¥ (millions)	Tax on Lower Amount ¥ (millions)	Rate on Excess %
0	10	0	10
10	30	1	15
30	50	4	20
50	100	8	30
100	300	23	40
300	—	103	50

Tax credits are allowed for surviving spouses, minors, gift taxes, and foreign estate and inheritance taxes paid on property located outside Japan. The credit for a spouse is the amount of inheritance tax payable on the spouse's statutory share of the estate or on an estate of ¥160 million, whichever is higher.

Japan has entered into an estate tax treaty with the United States.

Gift Tax. Gift tax is levied on individuals receiving gifts from other individuals. A donee domiciled in Japan is taxable on all gifts of property, regardless of their location. A donee not domiciled in Japan is, in principle, taxable only on gifts of property located in Japan at the time of the gift. However, a donee who is a Japanese national not domiciled in Japan is subject to tax on all gifts of property, wherever located. An annual exemption of ¥1.1 million applies. Spouses are each entitled to a one-time exemption of up to ¥20 million on a gift of a residential house or land if the period of marriage is 20 years or longer.

The following table presents the gift tax rates for 2006.

Taxable Amount Exceeding ¥	Not Exceeding ¥	Tax on Lower Amount ¥	Rate on Excess %
0	2,000,000	0	10
2,000,000	3,000,000	200,000	15
3,000,000	4,000,000	350,000	20
4,000,000	6,000,000	550,000	30
6,000,000	10,000,000	1,150,000	40
10,000,000	—	2,750,000	50

C. Social Security

Social security programs in Japan include health insurance, nursing care insurance (for employees 40 to 64 years of age), welfare pension insurance, unemployment insurance and workers' accident compensation insurance.

The premium for health insurance is 8.2% of monthly remuneration and bonus, up to a maximum premium of ¥80,360 (bonus ceiling of ¥164,000 per bonus). The premium for nursing care insurance is 1.25% of monthly remuneration and bonus, up to a maximum premium of ¥12,250 (bonus ceiling of ¥25,000 per bonus). For welfare pensions, the premium is 13.934% of monthly remuneration and bonus, up to a maximum premium of ¥86,390 (bonus ceiling of ¥209,010 per bonus). Costs are borne equally by employers and employees for the types of insurance mentioned in this paragraph.

The premium for unemployment insurance is 1.95%, of which 1.15% is borne by the employer and 0.8% by the employee. The premium for workers' accident compensation insurance is borne entirely by the employer at a rate of 0.6% of total compensation paid to employees.

D. Tax Filing and Payment Procedures

Individual income taxation in Japan is based on the principle of self-assessment. In general, taxpayers must file tax returns to declare income and deductions and to pay the tax due. However, national income tax liability of individuals compensated in yen at gross annual amounts not exceeding ¥20 million is settled through employer withholding if income other than employment income does not exceed ¥200,000. If tax is withheld from payments to nonresidents and if the amount withheld satisfies the Japanese tax liability, the nonresidents need not file income tax returns.

Married persons are taxed separately, not jointly, on all types of income.

Income tax returns must be filed, and the final tax paid, between 16 February and 15 March for income accrued during the previous calendar year. For those taxpayers who filed tax returns for the preceding year and who reported tax liabilities of ¥150,000 or more after the deduction of withholding tax, prepayment of income tax for the current year is due on 31 July and 30 November. Each prepayment normally equals one-third of the previous year's total tax liability, less amounts withheld at source. To the extent that prepaid and withheld payments exceed the total tax due, they are refundable if a return is filed.

Under the "blue form" tax return system, a taxpayer is required to keep a set of books that clearly reflects all transactions affecting assets, liabilities and capital in accordance with the principle of double-entry bookkeeping and to settle accounts on the basis of those books. Financial statements must be attached to the tax return under the blue form system.

Blue form taxpayers receive certain benefits. A net operating loss for any taxable year in which a taxpayer files a blue form tax return may be carried forward for three years. In addition, reassessments are made based on the results of actual tax examinations if a mistake is made in computing taxable income, deductible reserves or an additional depreciation deduction for the taxable year (the authorities may not make arbitrary adjustments).

E. Double Tax Relief and Tax Treaties

A foreign tax credit is allowed, with limitations, for foreign income taxes paid by a resident taxpayer if the income is taxed by both Japan and the other country. The credit is generally limited to the lesser of foreign income tax paid or the Japanese tax payable on the foreign-source income. If the foreign tax paid exceeds the limit, the excess may be carried forward for three years. A taxpayer may elect to deduct foreign tax from taxable income.

If a nonresident is resident in a country with which Japan has entered into a tax treaty, income may be either exempt from tax or subject to a lower rate of tax. Japan has entered into double tax treaties with the following countries.

Armenia	India	Singapore
Australia	Indonesia	Slovak Republic
Austria	Ireland	South Africa
Bangladesh	Israel	Spain
Belarus	Italy	Sri Lanka
Belgium	Korea	Sweden
Brazil	Kyrgyzstan	Switzerland
Bulgaria	Luxembourg	Tajikistan
Canada	Malaysia	Thailand
China	Mexico	Turkey
Czech Republic	Moldova	Turkmenistan
Denmark	Netherlands	Ukraine
Egypt	New Zealand	USSR*
Finland	Norway	United Kingdom
France	Pakistan	United States
Georgia	Philippines	Uzbekistan
Germany	Poland	Vietnam
Hungary	Romania	Zambia

* Japan honors the USSR treaty with respect to the Russian Federation only.

Most of the above treaties reduce the tax rates on Japanese-source interest, dividends, royalties and similar income, and also provide relief from double taxation through tax credits.

F. Visitor Visas

Persons admitted to Japan under the status of temporary visitors may undertake the following activities: sightseeing, recreation, sports, visiting relatives, going on inspection tours, participating in lectures and meetings, making business contacts, or other similar activities during a short period of stay in Japan.

If a person applies for entry at an airport with a visa that does not correspond to his or her purpose of entry (for example, if the holder of a temporary visitor visa wishes to enter Japan for work or employment), a special inquiry officer hears the case, and the applicant may be ordered to leave.

G. Work Visas and Self-Employment

Foreign nationals accepting employment in Japan must obtain a work permit (visa) at a Japanese embassy or consulate. To obtain a work permit, a foreign national must first apply for a Certificate of Eligibility (CoE) from the Japanese Immigration Authority. The CoE is generally issued by the Ministry of Justice in Japan. The CoE certifies that the holder has met the criteria established for a certain status of residence in Japan (see Section H).

It is possible for expatriates to be self-employed in Japan; however, it is very difficult. The expatriate must obtain a certificate of eligibility.

H. Residence Permits

Residence status, as defined by the Immigration Control Act, refers to the status of a foreign national under which he or she is permitted to conduct certain activities while residing in Japan.

Categories of Residence. The following section describes several of the different categories of residence status available in Japan and the activities in which each category of resident is authorized to engage:

- Diplomat: activities on the part of constituent members of diplomatic missions or consular offices of foreign governments hosted by the government of Japan.
- Official: activities on the part of those who engage in the official business of foreign governments or international organizations recognized by the government of Japan, and activities on the part of their family members.
- Professor: activities involving research or education at colleges or equivalent educational institutions.
- Investor/Business Manager: activities involved in conducting, investing in, or operating or managing an international trade or business, or in operating or managing a trade or business on behalf of a foreign national.
- Legal/Accounting Services: activities involved in law or accounting, which are required to be carried out by attorneys legally recognized as foreign law specialists or by certified public accountants legally practicing foreign accounting.
- Researcher: research activities on the basis of a contract with a public or private organization in Japan (excluding the activities described under the *Professor* heading).
- Engineer: activities requiring technology or knowledge pertinent to physical science, engineering or other areas of natural science, on the basis of a contract with a public or private organization in Japan.
- Specialist in Humanities or International Services: activities requiring knowledge pertinent to jurisprudence, economics, sociology or other human science fields or to areas that require specific ways of thought or sensitivity acquired by experience with a foreign culture, based on a contract with a public or private organization in Japan.
- Intracompany Transferee: activities of personnel transferred for a limited period of time to offices in Japan from foreign offices of public or private organizations who engage in the activities described under the *Engineer* or *Specialist in Humanities or International Services* headings.
- Skilled Labor: activities requiring industrial techniques or skills in special fields based on a contract with a public or private organization in Japan.
- Trainee: activities in learning and acquiring technology, skills or knowledge at public or private organizations in Japan.
- Spouse or Child of Japanese National: daily activities of a relative of a Japanese citizen living in Japan.
- Dependent: daily activities of spouses and unmarried minor children of those in Japan with any status of residence mentioned above (except *Diplomat*, *Official* and *Temporary Visitor*).

Re-entry Permits. For a foreign national who wishes to leave Japan temporarily before his or her period of stay expires, an application must be made for a reentry permit. On the issuance of a reentry permit, the foreign national can return to Japan without additional visa requirements. However, because a reentry permit is not identical to a permission to land, on reentering Japan, the holder of the reentry permit must undergo an examination by an Immigration Inspector at the port of entry.

Extensions. A foreign national may stay in Japan for a period determined by reference to various factors, including the residence status at the time of entry and any change in residence status.

If a foreign national desires to remain in Japan beyond the authorized period of stay, he or she must obtain an extension. An application for extension should be made about one month before the expiration date of the authorized period of stay. Applications for extension are not automatically approved. The Minister of Justice gives permission only under reasonable grounds based on the strength of documents submitted by the applicant. Applications are not approved if the applicants have already attained the purposes of their visit or if the applicants' continuous stay in Japan is found to be detrimental to the interest of Japan.

Anyone who stays in Japan beyond his or her authorized period of stay may be subject to punishment or deportation.

Permanent Residence. The criteria for obtaining permanent residence in Japan are generally strict. Permanent residence is permitted only if a foreign national shows that his or her permanent residence will benefit Japan, and if he or she fulfills the following conditions:

- Continuous residence in Japan for an extended period does not guarantee permission for permanent residence, but is an important consideration. This requirement is not necessary for former Japanese nationals, spouses and children of Japanese citizens, refugees or persons who have made notable contributions to life in Japan.
- The person must have sufficient assets or be able to make an independent living (not required for spouses and children of Japanese nationals or recognized refugees).
- The person must have adequate moral standing (not required for spouses and children of Japanese nationals).
- The person must be in good health.

I. Family and Personal Considerations

Family Members. If a foreign national wants to bring his or her family to Japan, the family members may apply together for dependent visa status. Dependent visas are granted for the same time period as the work visa. Any family member of a working expatriate who wishes to work in Japan must obtain the proper permit independently of the working expatriate.

Drivers' Permits. Foreign nationals may not drive legally in Japan using their home country drivers' licenses. Nationals of France, Germany and Switzerland are exempt from this rule because Japan has driver's license reciprocity with those countries.

A foreign national may use an international driver's license issued by a signatory country of the Geneva Treaty. An international driver's license is valid for one year from the date of issuance. The license is valid for one year from the employee's date of entry into Japan.

Three licensing offices in Tokyo handle procedures for changing a foreign license to a Japanese license. Applicants must have spent a total of at least three months in the country where the license was obtained.

To acquire a driver's license for the first time in Japan, an individual must attend a driving school and take written and physical examinations at a licensing office. The written exam is available in English or in the simple hiragana script.

A driver's license is valid until the holder's third birthday after the date of issue. Renewal may be made one month prior to the date of expiration.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(a)
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	—
Educational allowance	X	—	(b)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave cost reimbursement	—	X	(c)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(d)
Capital gain from sale of personal residence in home country	X	—	(d)
Capital gain from sale of stock in home country	X	—	(d)

* The bracketed amount reduces taxable income.

(a) See discussion regarding the taxability of the housing allowance in Section A.

(b) An education allowance is not taxable if a contribution or scholarship plan is used.

(c) This item is not taxable if the amount covers only one trip per year to the expatriate's or spouse's home country (country of domicile or citizenship).

(d) The income is not taxable during the first five years of residency unless it is Japan-source or remitted to Japan.

APPENDIX 2: SAMPLE TAX CALCULATIONS

Tax calculations are provided below for 2004, 2005, 2006 and 2007 for an expatriate and spouse who, with their two children, ages 7 and 9, arrive in Japan on 1 October 2004 and depart on

31 July 2006. Unless otherwise indicated, all compensation amounts are paid while they are residents in Japan. In addition, they did not work any business days outside Japan. Their housing does not exceed the legal rent amount of 35% for a director. The expatriate receives interest of HC 2,000 and dividends of HC 500, both from home country sources and not remitted to Japan.

	2004 ¥	2005 ¥	2006 ¥	2007 ¥
Income				
Base salary	2,000,000	8,000,000	4,666,666	—
Bonuses paid after departing Japan for services performed in Japan	—	—	2,000,000	2,000,000
Cost-of-living allowance	500,000	2,000,000	1,166,666	—
Legal rent for housing	500,000	2,000,000	1,166,666	—
Total income	3,000,000	12,000,000	8,999,998	2,000,000
Deductions				
Employment income	(1,080,000)	(2,300,000)	(1,900,000)	—
Personal allowances:				
Spouse	(380,000)	(380,000)	(380,000)	—
Dependants	(760,000)	(760,000)	(760,000)	—
Basic allowance	(380,000)	(380,000)	(380,000)	—
Taxable income	400,000	8,180,000	5,579,998	2,000,000
Tax (a)				
National income tax accrued	32,000	1,056,000	747,200 (b)	400,000
Local inhabitant's tax accrued	29,500	763,400	—	—
Total	61,500	1,819,400	747,200	400,000

(a) For further details regarding the rates of the national income tax and the local inhabitant tax rates (prefectural and municipal) and the calculation of taxable income for the purposes of these taxes, see Section A.

(b) Total national income tax for 2006 includes both a 20% tax (¥400,000) on a Japan-source bonus of ¥2,000,000 paid after the taxpayers' residency terminated and a regular tax (¥347,200) on income of ¥3,579,998.

JERSEY, CHANNEL ISLANDS

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A. Income Tax

Who Is Liable. Individual income taxation in Jersey is based on residence. Taxpayers are categorized as resident and ordinarily resident, resident and not ordinarily resident, or nonresident.

Individuals are considered resident in Jersey in any income year if they meet any of the following qualifications:
• They are present in Jersey for more than 183 days;
• They are physically present in Jersey an average of three months a year over any four-year period; or
• They maintain a place of abode in Jersey and visit Jersey for any length of time.

Individuals are considered ordinarily resident in Jersey in any income year if they meet either of the following qualifications:
• They normally spend all of their time in Jersey other than periods spent away on holiday or business; or
• They maintain a place of abode in Jersey only and visit for more than 90 days a year on average.

Resident and ordinarily resident individuals are subject to Jersey income tax on their worldwide income. Resident and not ordinarily resident individuals are subject to tax on Jersey-source income and on remittances of income to Jersey. Nonresidents are subject to tax on Jersey-source income, excluding bank deposit interest by concession.

Income Subject to Tax

Employment Income. Taxable employment income includes salaries, wages, directors' fees, bonuses, gratuities, pensions and benefits in kind. The first £1,000 of taxable benefits in kind from all sources is exempt from tax, and several specific exemptions exist.

Education allowances provided by employers to their employees' children 18 years of age and under are taxable for income tax purposes.

Self-Employment and Business Income. All self-employed individuals carrying on a trade, business or profession are subject to tax on business profits.

Tax is charged on the accounting profits, subject to certain adjustments, at a flat rate of 20%. Except for the first three and the last two years of assessment, when special rules apply, the tax assessment is based on profits for the accounting year ending in the preceding year.

Investment Income. Dividends, interest, royalties and income from property are taxed on an actual-year basis at a rate of 20%. Property rental expenses are fully deductible.

By concession, nonresidents are not taxed on bank interest arising in Jersey or on state pensions.

Although Jersey is not part of the European Union (EU), it is a U.K.-dependent territory. As a result, in accordance with the EU savings directive, Jersey adopted a withholding tax regime for interest on savings paid to individuals residing in EU member states. The directive was effective from 1 July 2005. The initial withholding tax rate is 15%. Individuals can request exchange of information to avoid the withholding tax.

Although Jersey is applying the directive to payments of savings income made to EU individuals, Jersey residents are subject to the directive with respect to payments of savings income made to them from EU member states.

Taxation of Employer-Provided Stock Options. A Jersey tax liability arises at the time an option is granted to an employee. The liability is 20% of the difference between the fair market value of the stock at the date of grant and the strike price, but, by concession, this is reduced by 50% if the exercise date is more than five years after the date of grant. A proportional reduction may be made at the tax office's discretion if the exercise date is less than five years after the date of grant. No additional tax is levied at the time the option is exercised. The sale of the stock is not taxed because Jersey does not tax capital gains. Stock options fall under the benefit-in-kind rules (see *Employment Income*) and, accordingly, the £1,000 exemption can be claimed.

Scrip dividends (as opposed to stock reinvestment dividends) are not subject to income tax in Jersey.

Capital Gains. Jersey does not impose a capital gains tax.

Deductions

Deductible Expenses. Deductible expenses must be incurred wholly and exclusively for the purpose of employment.

Personal Deductions and Allowances. The primary personal deductions are mortgage interest expenses, pension contributions and life insurance premiums.

Relief for mortgage interest paid on a principal private residence is restricted to the interest paid on a capital amount of £300,000. No restriction applies to mortgage interest relief if the property is commercially leased. Interest paid on personal loans and debts other than mortgages is no longer a deductible expense.

Payments made to a superannuation fund or a pension scheme and premiums paid under a retirement annuity contract are deductible, with certain restrictions.

Life insurance premiums paid are deductible from taxable income, up to the following limits:

- In aggregate, one-sixth of total net income; and
- For each individual life policy, 7% of the capital sum insured at death.

The following personal allowances are available:

- Earned income allowance: The earned income allowance is one-quarter of earned income, up to a maximum allowance of £3,400.
- Wife's earned income allowance: The wife's earned income allowance is equal to the wife's earned income, up to £4,500.
- Single person's allowance: The single person's allowance of £2,600 is granted to an unmarried, separated, divorced or widowed person.
- Married person's allowance: The married person's allowance of £5,200 is granted to a married man whose wife is living with him or is wholly supported by him during the income year.
- Child allowance: The child allowance is essentially a deduction of £2,500 from taxable income for each child of the taxpayer. In addition, a £5,000 allowance may be claimed for children attending higher education institutions full-time.

Personal allowances are reduced if individuals are not resident in Jersey for the entire year.

A nonresident who is a British Commonwealth or EU national is entitled to a proportion of the personal allowances set forth above if worldwide income is declared.

Business Deductions. Disbursements or expenses incurred wholly and exclusively for the purpose of trade are allowable. Depreciation allowances are given for machinery and equipment at an annual reducing-balance rate of 25% and for greenhouses at an annual rate of 10%.

Rates. The income tax rate is a flat rate of 20%.

Nonresidents are subject to tax at a rate of 20% on annual profits and gains from any property in Jersey; from any trade, profession, employment, vocation or office exercised within Jersey; and from any pension arising in Jersey.

Relief for Losses. Losses incurred may be offset against profits earned in the preceding two years or carried forward indefinitely to be offset against future profits from the same trade.

B. Other Taxes

No wealth tax or estate tax is levied in Jersey.

C. Social Security

Contributions. Jersey has a compulsory social security scheme. Everyone between school-leaving age and pension age is insurable in either Class 1 (employed persons) or Class 2 (self-employed or unemployed individuals). The figures provided below are effective from 1 January 2005.

Class 1. Employers and employees must make contributions based on salaries at the rates of 6.5% and 6%, respectively, with an annual earnings limit of £37,656. The maximum annual contribution is £2,447.64 for employers and £2,259.36 for employees.

Class 2. The required contribution for Class 2 individuals is equivalent to the combined total of the employer's and employee's Class 1 maximum contribution amounts. Earnings-related contributions may be paid if the person's earned income shown in the income tax assessment for the relevant year is less than the earnings limit and if total income does not exceed the earnings limit by more than one-third.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Jersey has entered into totalization agreements, which usually apply for a maximum of 12 months, with Alderney, Australia, Austria, Barbados, Bermuda, Canada, Cyprus, France, Guernsey, Iceland, Isle of Man, Italy, Jamaica, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.

D. Tax Filing and Payment Procedures

The income year in Jersey is the calendar year. Persons subject to income tax must file income tax statements with the Comptroller of Income Tax if required to do so by general or particular notice. Jersey does not operate a Pay-As-You-Earn (PAYE) system. However, it operates a similar system called the Income Tax Instalment System (ITIS). Under the ITIS, income tax payments are deducted from an employee's salary and applied towards settlement of the preceding year's tax liability. Married persons are taxed jointly, not separately, on all types of income, unless they elect otherwise.

Taxpayers are normally notified of tax assessments in the year following the income year. Tax is payable to the Comptroller of Income Tax on the day after the day on which the assessment is made. A 10% surcharge is levied on any remaining tax unpaid by the specified date, which is the first Friday in December in the year following the year of assessment.

Returns are required to be filed by th elast Friday in May following the year of assessment (last Friday in July if an agent has been appointed). A £200 penalty is imposed for returns submitted after the deadline.

E. Double Tax Relief and Tax Treaties

Foreign tax paid is allowed as a deduction from taxable income.

Jersey has entered into double tax treaties with France, Guernsey and the United Kingdom. The treaty with France is extremely limited and addresses only the exemption of air transport and shipping profits. The arrangements with the United Kingdom and Guernsey provide a credit for tax levied on all sources of income, excluding dividends and debenture interest in the U.K. treaty.

F. Work Permits and Self-Employment

Foreign nationals wishing to work in Jersey must obtain work permits through their intended employers. The Immigration and Nationality Department issues permits to employers who demonstrate that they are unable to fill a vacancy locally, or to foreign persons who are free of permit restrictions. A visa or entry certificate is also required and is available from the British high commission, embassy or consulate in the country where the person lives.

Work permits may also be issued to people with specialist skills if their appointment is of particular benefit to the island or to foreign nationals who are free of work permit restrictions in the United Kingdom.

In addition, under The Regulations of Undertaking and Development (Jersey) Law 1973 an employer must apply for a license to engage any person who has not worked in Jersey for at least five years to fill a vacancy within an existing undertaking.

British subjects and nationals of the member states of the European Economic Area (EEA), which includes the European Union (EU), do not require work permits (although employers on the island are required to obtain licenses to employ them) and, in the majority of cases, may enter and exit the country freely.

Self-employed individuals are subject to the same visa, work permit and residential permit guidelines outlined in this chapter. Additional restraints may also apply.

G. Residence Permits

Economic Grounds. The Housing Committee may grant an individual permission to reside in Jersey if the permission can be justified on social or economic grounds. Consent normally is granted if the committee is satisfied that the applicant would make a major contribution to the island's tax revenues if he or she were to reside in Jersey. Each application is considered on individual merits. The committee consults with the Chief Advisor to the States of Jersey on each application. Initial inquiries should be addressed to the Chief Advisor.

To obtain consent on economic grounds, several requirements must be satisfied, including the following:
- An asset summary must be provided;
- A detailed curriculum vitae (CV) demonstrating the business and social background of the applicant and their likely business activities in Jersey must be provided;
- Details must be provided regarding the non-economic benefits that would be generated in Jersey if consent is granted; and
- Agreement on the likely tax contribution must be reached with the Comptroller of Income Tax.

High-value residents are subject to a different tax regime than other residents in Jersey. They are taxed at the standard rate of 20% on all Jersey-source income. Non-Jersey-source income is assessed differently, and worldwide income must be declared. If Jersey-source income exceeds £1,000,000, the first £500,000 of foreign income is assessed at 10%, and the balance is assessed at 1%.

The availability of substantial properties outside the financial reach of the vast majority of local residents is an important issue in the admission of residents on economic grounds. As a guideline, residents admitted on economic grounds are expected to purchase freehold property with a value in excess of £1 million.

After an immigrant admitted on economic grounds emigrates from the island, he or she loses his or her residence status.

Employment Grounds. It is possible to take up residence in Jersey as an essentially employed individual. This is commonly known as J category.

J category applies to people employed on the island if the Housing Committee deems that its consent is in the best interests of the community and if a license for employment has been granted under The Regulations of Undertaking and Development (Jersey) Law 1973, as amended.

The committee has discretion to grant consent to purchase or rent property, or to require J category employees to be housed in accommodation owned or leased by their employers.

The following are the primary criteria the committee considers in determining whether to grant J category status to an applicant:
- The contribution made to the island by the employer (in terms of tax revenues and services provided);
- The record of the employer in recruiting and training local people;
- Evidence that no satisfactory local candidate exists for the position in question; and
- The overall staffing framework within the business.

If the committee is satisfied that an application is justified, it issues either open-ended or time-restricted consent. Typically, time-restricted consent is given for a three- to five-year period; however, for very senior, highly specialized employees, open-ended consent may be granted.

Employees are granted permanent residential status after completing a continuous period of 10 years of essential employment on the island.

Other possibilities to take up residence in Jersey exist for individuals who are in neither of the above categories, including living in a guest house or hotel or lodging in a private dwelling.

H. Family and Personal Considerations

Family Members. To enter Jersey as the fiancé(e) or spouse of either a person settled in Jersey, or a person free from immigration controls who is coming to settle on the same occasion, one must first obtain an entry clearance, which is in the form of either a visa or an entry certificate. Application for an entry clearance should be made to the British high commission, embassy or consulate in the country where the person lives. If the fiancé(e) or spouse is in Jersey, he or she should contact the Immigration and Nationality Department for further advice and to arrange an interview.

The child of a person granted residential status under either economic grounds or J category status is granted residential status in his or her own right after he or she has completed an aggregate period of 10 years' residence, provided the residence commenced when the child was a minor.

Drivers' Permits. A non-Jersey driving license must be exchanged for a Jersey license immediately, if the holder's intention is to stay in Jersey longer than 12 months.

Jersey has driver's license reciprocity with the following countries: member countries of the EU, Alderney, Australia, Austria, Barbados, British Virgin Islands, Cyprus, England, Finland, Gibraltar, Guernsey, Hong Kong, Ireland, Isle of Man, Japan, Kenya, Malta, New Zealand, Norway, Scotland, Singapore, Sweden, Switzerland, Wales and Zimbabwe.

To obtain a driver's license in Jersey, one should take driving lessons from a qualified instructor on the island. The driving test includes a vision test, a short drive and a written test on the highway codes.

JORDAN

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A. Income Tax

Who Is Liable. All income derived from Jordan is subject to tax in Jordan regardless of the residence of the recipient. In addition, Jordanian nationals and residents who earn income outside Jordan from funds or deposits derived from Jordan are taxable in Jordan on the income.

A non-Jordanian national is considered resident for tax purposes if he or she resides in Jordan for a total of at least 183 days per year. Residents may claim personal allowances.

Income Subject to Tax

Employment Income. Income tax is assessed on all remuneration and benefits earned in Jordan. This includes directors' fees and employer-paid rent, school fees, air tickets and relocation expenses.

Self-Employment and Business Income. Jordanian individuals must pay tax on income earned from all taxable activities in Jordan at the rates described in *Rates*.

Investment Income. Interest income is subject to income tax. Banks must withhold 5% from interest earned.

Rental income is treated as ordinary income and taxed at the rates set forth in *Rates*, with certain exceptions.

Capital Gains. In general, capital gains, including those derived from the sale of shares and land, are not taxed in Jordan. However, if the individual has business income, certain costs relating to dividends or capital gains on investments in shares are disallowed. Gains on depreciable assets, within certain specified limits, are subject to tax at the rates described in *Rates*.

Deductions

Personal Deductions and Allowances. Individuals are granted the following deductions:

- An amount equal to 50% of salaries received from the government, public institutions and local authorities;
- An amount equal to 50% of the first JD 12,000 and to 25% of the amount exceeding JD 12,000 of salaries received from the private sector;
- Contributions to a social security system, provident fund, medical insurance plan, pension fund or similar fund approved by the tax authorities;
- All hospitalization costs incurred and paid in Jordan for an employee or his or her spouse, children or legal dependants;
- An amount paid by a resident for the treatment of serious illness for his or her legal dependants, up to JD 10,000 if the treatment is performed inside Jordan and up to JD 15,000 if the treatment is performed outside Jordan;
- Rent or interest on housing loans of up to JD 2,000;
- An amount of up to JD 10,000 per year paid by a resident for a surgical operation performed on the resident or his or her legal dependant outside Jordan if the operation results from a medical emergency or cannot be performed in Jordan; and
- An amount of JD 2,000 for university tuition paid for each student who is the taxpayer, spouse, dependant, child, sibling or grandchild, if the student does not receive a scholarship from a third party.

Personal and family allowances are granted as follows.

Type of Allowance	Amount of Allowance JD
Single person	1,000
Married couple	2,000
Each child	500
Dependent parent	500 each
Other dependants	200 each, maximum 1,000

Business Deductions. All business expenses incurred in generating income are deductible. However, certain limitations apply to entertainment and head office expenses.

Rates. Tax rates for individuals are levied according to the following graduated scale.

Taxable Income		Tax on Lower Amount	Rate on Excess
Exceeding JD	Not Exceeding JD	JD	%
0	2,000	0	5
2,000	6,000	100	10
6,000	14,000	500	20
14,000	—	2,100	25

For payments made by a resident taxpayer to nonresidents for taxable activities in Jordan, the taxpayer must withhold 10% of gross payments and remit this withholding tax to the tax authorities within one month after the date of deduction. This tax is final.

Relief for Losses. Taxpayers may carry forward losses incurred on or before 1 January 2002 to offset profits for up to six years after the year the loss was incurred if the losses are supported by proper accounting records, are acknowledged by the tax assessor and relate to taxable sources of income. Effective from 1 January 2002, losses may be carried forward indefinitely.

B. Other Taxes

Jordan does not levy property tax, net worth tax, inheritance tax or gift tax.

C. Social Security

Social security contributions are levied at a rate of 16.5% on gross salary except overtime. The employer's share is 11%, and the employee's share is 5.5%. The social security system provides retirement and death benefits as well as certain benefits for work-related injuries.

D. Tax Filing and Payment Procedures

The tax year is the calendar year. Tax returns must be filed in Arabic using a prescribed form within four months after the end of each fiscal year. The total amount of tax due must be paid at that time.

Married persons are taxed jointly or separately, at the taxpayers' election, on all types of income.

The tax regulations provide incentives to taxpayers who make advance tax payments. These taxpayers are entitled to the following credits:
- 6% on payments made in the first month after the fiscal year-end;
- 4% on payments made in the second month after the fiscal year-end; and
- 2% on payments made in the third month after the fiscal year-end.

On receipt of the withholding tax remitted by resident taxpayers for payments made to nonresidents for activities performed in Jordan, the tax authorities must open a tax file in the name of the nonresident and issue a receipt in his or her name. The nonresident must file a tax return directly with the tax authorities.

If a tax return is not submitted by the nonresident taxpayer, the tax authorities hold the resident taxpayer responsible for payment of tax.

If a tax return is not submitted within the statutory time limit, a 2% fine is levied for each month of delay, up to a maximum annual rate of 24% on the amount of tax due.

E. Double Tax Relief

Because foreign-source income is not taxed in Jordan, no double tax relief is available.

F. Temporary Visas

All visitors must obtain entry visas to visit Jordan.

The following temporary visas are offered to foreign nationals:
- Transit visa — Valid for a maximum of 48 hours;
- Business visa — Valid for three months (a work permit must be obtained after arrival);
- Student visa — Valid for the period that the foreign national is attending school in Jordan;
- Medical visa — Valid for the time required to finish the medical treatment; and
- Tourist visa — Valid for three months.

These visas may be applied for either in the foreign national's home country or in Jordan. Temporary visas may be renewed one time for three additional months.

G. Work Permits

Individuals of all nationalities must apply for a working permit if they want to work in Jordan, with priority given to Arab nationals if expertise is not available locally. Work permits are issued with the approval of the Ministry of Interior.

An applicant may not begin working in Jordan before obtaining a work permit. Work permits may not be transferred from one employer to another; therefore, if an employee changes employers, the previous work permit is cancelled, and the worker must apply for a new permit.

A work permit is valid for one year and may be renewed each year. The following are the fees for renewal:

- JD 180 for Arab workers in fields other than agriculture or nursing;
- JD 60 for Arab workers in agriculture or nursing;
- JD 300 for foreign nationals working in fields other than agriculture; and
- JD 120 for foreign nationals in agriculture or nursing.

Foreign investors may engage in almost any type of economic activity. Jordan places no limit on foreigners' investments. Except for certain sectors, including construction and trade, in which foreign ownership should not exceed 50%, non-Jordanians may fully own any economic project in Jordan. The following types of businesses may be 100% foreign-owned: agriculture, hotels, health care, banking, mining, industrial activities and telecommunications.

H. Residence Permits

Temporary residence is granted to foreign nationals who intend to work in Jordan. The permit is valid for one to six months and is renewable one time. The renewed permit is valid for three months for a maximum total period of nine months.

To apply for temporary residence, foreign nationals should provide the following items:

- Approval from the Ministry of Interior;
- A copy of the passport (valid for at least six months);
- Personal commitment from the employer to report the employee to the security authorities if the employee does not finish the work contract; and
- Completed residence request form and clearance from the Jordanian intelligence service.

I. Family and Personal Considerations

Family Members. The spouse of a foreign national with a work permit does not automatically receive the same type of work permit as his or her spouse. He or she must file independently of the primary work-permit holder if he or she wishes to work in Jordan.

Drivers' Permits. Foreign nationals in the country on tourist visas may not drive legally in Jordan with their home country drivers' licenses. Westerners usually may automatically exchange their home country drivers' licenses; however, persons of other nationalities usually may not.

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Because of the rapidly changing economic and political situation in Kazakhstan, readers should obtain updated information before engaging in transactions.

A. Income Tax

Who Is Liable. Residents are taxed on their worldwide income. Nonresidents are taxed on Kazakh-source income only, regardless of where it is paid. Income is deemed to be from a Kazakh source if it is deducted in Kazakhstan by the payer or if it is paid for work performed in Kazakhstan.

For tax purposes, individuals are considered resident if they are present in the country for more than 183 days in any consecutive 12-month period ending in that year. Individuals are also deemed to be tax residents in Kazakhstan if the sum of the number of days spent there in a tax year plus the amount of days spent there in the two preceding tax years is 183 or more. For purposes of this calculation, the number of days spent in Kazakhstan in the two preceding tax years is multiplied by coefficients. The coefficient for the immediately preceding tax year is one-third, and the coefficient for the second preceding year is one-sixth.

Individuals spending less than 30 days in Kazakhstan during the current tax year are deemed not to be tax residents in Kazakhstan.

Kazakhstan citizens are always considered residents of Kazakhstan if their center of vital interests is located in Kazakhstan. The center of vital interests is deemed to be located in Kazakhstan if all of the following conditions are fulfilled:

- The individual is a citizen of Kazakhstan or has permission to live in Kazakhstan;
- The family or close relatives of the individual reside in Kazakhstan; and
- The individual or members of the family of the individual own, or otherwise have at their disposal, immovable property in Kazakhstan permanently available for residence.

Double tax treaties may provide different rules to determine residency.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Income from employment consists of all compensation, whether received in cash or in kind, subject to minor exceptions, regardless of the place of payment of such income. The value of gifts and bonuses in kind received from enterprises, institutions and organizations is taxable.

Education allowances provided by employers to their employees' children are taxable for income tax and social tax purposes.

Self-Employment and Business Income. The income of individuals engaged in self-employment activities (individual entrepreneurs) is subject to income tax.

Tax is levied on an individual's annual business income, which consists of gross income less expenses incurred in obtaining that income. However, to deduct expenses, individual entrepreneurs must be specially registered with the tax authorities and provide supporting documentation for such expenses. The tax rates for self-employment income are the same as those applicable to employment income as set forth in *Rates*, with the exception of individual entrepreneurs using a simplified taxation regime, lawyers and notaries.

Investment Income. Dividend income, interest and winnings are subject to tax at a rate of 15%. Royalties paid to nonresidents are subject to withholding tax at a rate of 20%. Interest income on deposits paid to individuals by licensed organizations in Kazakhstan is exempt from tax. Income from Kazakhstan state securities is also exempt from tax.

Dividend income, interest and royalties paid offshore are included in taxable income.

Exempt Income. Certain items are exempt from income tax, including, but not limited to, the following:
- Alimony;
- Business trip per-diems within established norms and reimbursement of certain business trip expenses; and
- Social benefits for maternity and paternity leave, up to the established limits.

Capital Gains. Capital gains are subject to tax at the rates set forth in *Rates*. Capital gains derived from the sale of securities on the A and B listings of the Kazakhstan Stock Exchange and from the sale of state securities are exempt from tax.

Deductions

Personal Deductions and Exemptions. The monthly computation index (MCI), which amounts to 1,030 tenge (approximately US$7.80) per month for 2006, for an employee and for each dependant, is deductible from an employee's monthly salary.

Other deductions include, but are not limited to, the following:
- Obligatory pension fund contributions;
- Voluntary pension fund contributions not exceeding 10 times the MCI per month; and
- Insurance premiums for the individual's own benefit under accumulative insurance agreements.

Business Deductions. Like the corporate income tax, the main criterion for the deductibility of business expenses for individual income tax purposes is the necessity of such expenses for the generation of income. Deductible business expenses consist of the following:

- Cost of materials;
- Salaries and wages paid to individuals who have signed employment agreements;
- Social tax payments;
- Lease payments;
- Depreciation of fixed production assets; and
- Interest paid on loans.

Individual entrepreneurs may deduct from their annual income an amount equal to one minimum annual index (the minimum annual index equals 12 times the MCI) for themselves and for each dependant.

Rates. Personal income tax is levied on employment income and other income at the following rates for 2006.

Annual Taxable Income		Tax on	Rate on
Exceeding Tenge	Not Exceeding Tenge	Lower Amount Tenge	Excess %
0	185,400	0	5
185,400	494,400	9,270	8
494,400	2,472,000	33,990	13
2,472,000	7,416,000	291,078	15
7,416,000	—	1,032,678	20

The income of lawyers and private notaries is taxable at the rate of 10%.

Income received in foreign currency is converted into tenge at the exchange rate on the date the income is received. Nonresidents are taxed on all income derived from sources in Kazakhstan at the rates listed above.

For a sample income tax and social tax calculation, see Appendix 2.

Relief for Losses. Losses from entrepreneurial activities may be carried forward for up to three years to offset taxable income. Losses may not be carried back.

Losses resulting from the sale of securities can be offset only against capital gains derived from the sale of securities. If total losses exceed total gains realized from the sale of securities during the year, the excess can be carried forward for up to three years. Capital losses incurred on the sale of securities on the A and B listings of the Kazakhstan Stock Exchange, state securities and agency bonds cannot be offset against capital gains.

B. Other Taxes

Property Tax. Individuals are subject to property tax at rates ranging from 0.05% to 0.5% of the residual value of the property owned by them.

Vehicle Tax. Individuals are subject to vehicle tax on vehicles owned by them, up to a maximum annual tax of approximately US$913 per vehicle.

C. Social Security

Social Tax. Kazakhstan does not have a social security tax as it is known from other countries. A social tax is payable by employers. However, this tax is an additional direct tax imposed on employers that is not earmarked for the social benefit of employees.

Social tax is payable by the employer for the following groups of individuals:
- Resident employees receiving any income in monetary form or in kind, including income provided by an employer in the form of a material or social benefit;
- Nonresident employees receiving income from activities performed in Kazakhstan;
- Expatriate employees seconded to work in Kazakhstan; and
- Individuals working under a service (civil law) agreement.

Exemptions from social tax, include, but are not limited to, the following:
- Business trip per diems within established norms and the reimbursement of certain business trip expenses;
- Compensation resulting from the liquidation of an organization or termination of the employer's activities, or from personnel reductions;
- Compensation paid to an employee who is called up for military service;
- Compensation paid by an employer to employees for unused vacation; and
- Obligatory pension fund contributions.

Employers are required to pay social tax on a regressive scale on gross income, less the 10% obligatory pension fund contributions for Kazakhstan citizens.

Social tax must be remitted to the state budget on a monthly basis. Monthly social tax liability is reduced by the monthly amount of obligatory social insurance contributions (see *Obligatory Social Insurance Contributions*).

The following table provides the general social tax rates.

Annual Taxable Income		Tax on	Rate on
Exceeding Tenge	Not Exceeding Tenge	Lower Amount Tenge	Excess %
0	185,400	0	20
185,400	494,400	37,080	15
494,400	2,472,000	83,430	12
2,472,000	7,416,000	320,742	9
7,416,000	—	765,702	7

Employers of foreign specialists who are classified as administrative or managerial personnel or engineering or technical personnel must pay social tax as indicated in the following table.

Annual Taxable Income		Tax on	Rate on
Exceeding Tenge	Not Exceeding Tenge	Lower Amount Tenge	Excess %
0	494,400	0	11
494,400	2,472,000	54,384	9
2,472,400	7,416,000	232,368	7
7,416,000	—	578,448	5

Under the Tax Code, foreign administrative or managerial personnel and engineering or technical personnel must be working in Kazakhstan with a work permit (see Section G) to benefit from the reduced social tax rates.

In addition to foreign administrative or managerial personnel and engineering or technical personnel, the following individuals may benefit from the reduced social tax rates:
- Heads of branches and representative offices of foreign legal entities;
- Heads and general managers of entities that have concluded investment agreements of more than US$50 million with the government of Kazakhstan;
- Heads and general managers of Kazakhstan legal entities that have concluded agreements to invest in the priority sectors of the Kazakhstan economy; and
- General managers of financial entities.

For individual entrepreneurs (excluding entrepreneurs working under special tax regimes), private notaries and advocates (attorneys), the rate of social tax is 3 times the MCI (approximately US$23.40) for themselves, and 2 times the MCI (approximately US$15.60) for each employee.

Pension Fund Contributions. Obligatory pension fund contributions of 10% of the gross salaries of local employees must be withheld and remitted to pension funds by the employer on a monthly basis. For 2006, income received in excess of 690,000 tenge (approximately US$5,227) per month is not subject to obligatory pension fund contributions. Obligatory pension fund contributions are deductible for personal income tax and social tax purposes.

Obligatory Social Insurance Contributions. Obligatory social insurance contributions are payable by employers on income paid to employees. The following are the rates of the obligatory social insurance contributions:
- For 2006: 2%; and
- For 2007 and future years: 3%.

Individual entrepreneurs are also subject to obligatory social insurance contributions. The rates of the obligatory social insurance contributions for individual entrepreneur are applied to the minimum salary (9,200 tenge for 2006). The following are the applicable rates:
- For 2006: 2% of the minimum salary; and
- For 2007 and future years: 3% of the minimum salary.

Social Security Agreements. Kazakhstan has entered into social security agreements with certain Commonwealth of Independent States (CIS) countries. It has not entered into any other social security treaties.

D. Tax Filing and Payment Procedures

The tax year in Kazakhstan is the calendar year.

Foreign citizens who have a tax agent in Kazakhstan pay income tax based on the method chosen by the agent. A tax agent can choose to apply either the withholding or advance tax payment mechanism for its expatriate employees if all of the following conditions are satisfied:

- The employer is a nonresident legal entity engaging in activities in Kazakhstan through a permanent establishment, branch or representative, which are considered tax agents under the Tax Code;
- An individual labor agreement has been concluded between an individual and the tax agent; and
- Income is paid from outside Kazakhstan.

Calculation of the personal income tax of the individuals listed above for their first year in Kazakhstan is based on the income indicated in a labor agreement. For subsequent tax years, advance payments of individual income tax are calculated based on the amount of actual tax liability indicated in an annual income tax declaration. Advance tax payments before the submission of the annual income tax declaration are calculated based on an estimate of income tax for the current year, but may not be less than the average monthly individual income tax advance payments for the preceding tax year. After the submission of the annual income tax declaration, an adjusted statement of individual income tax payment for the reporting period must be submitted within 20 working days, but no later than 20 April of the current year.

If the advance tax payment mechanism is applied, personal income tax is payable by the 20th of each month based on a certificate of estimated income tax, which should be submitted to the tax authority where the tax agent is registered by 20 January or within 25 working days from the individual's initial arrival in Kazakhstan. A tax agent must submit an annual income tax return to the tax authorities where the agent is registered by 31 March of the year following the tax year.

Under the withholding mechanism, an individual's tax agent withholds actual personal income tax from actual monthly income on a monthly basis by the 15th day of the month following the reporting month. The tax agent must report an individual's actual income and withhold personal income tax on a quarterly basis.

If a tax agent is not available, resident and nonresident individuals are responsible for the calculation of personal income tax liabilities and filing the appropriate return. The rules for the calculation of advance payments applicable to tax agents (see above) also apply to the calculation of advance payments by individuals. Personal income tax is payable by individuals by the 20th day of each month based on a certificate of estimated income tax, which must be submitted to the tax authority where the individual is registered by 20 January or within 25 working days from state tax registration. Under both the advance payment mechanism and withholding mechanism, an annual income tax return must be submitted to the tax authorities if the individual is registered by 31 March of the year following the reporting year.

Individual entrepreneurs are required to file a certificate of estimated income tax, make monthly advance tax payments and submit an annual income tax return.

The law provides for late payment interest penalties, late filing fines, fines for the underpayment of estimated taxes and fines for the underreporting of taxable income.

E. Double Tax Relief and Tax Treaties

Under the Tax Code, income tax paid outside Kazakhstan by tax residents may be credited against the income tax payable in Kazakhstan on the same income, but may not exceed the amount of Kazakhstan tax accrued.

If an individual receiving income subject to withholding tax meets the conditions of a double tax treaty, the tax agent can apply a treaty exemption if it receives a tax residency certificate issued by the competent tax authority. If an individual receives income not subject to withholding tax, a residency certificate must be submitted to the tax authorities where the individual is registered within 25 working days from state tax registration to obtain treaty exemption.

Kazakhstan has entered into double tax treaties with the following countries.

Austria	India	Poland
Azerbaijan	Iran	Romania
Belarus	Italy	Russian Federation
Belgium	Korea	Sweden
Bulgaria	Kyrgyzstan	Switzerland
Canada	Latvia	Tajikistan
China	Lithuania	Turkey
Czech Republic	Moldova	Turkmenistan
Estonia	Mongolia	Ukraine
France	Netherlands	United Kingdom
Georgia	Norway	United States
Germany	Pakistan	Uzbekistan
Hungary		

F. Entry Visas

An invitation letter from a host institution is required for both resident and nonresident foreign nationals who wish to enter Kazakhstan. A host institution should also obtain confirmation from the Consular Department of the Ministry of Foreign Affairs regarding the foreign national's visa application.

Kazakhstan authorities issue the following types of visas: diplomatic; official; investment; business; private; tourist; study; work; medical; and permanent residency. Visas may be issued as entry, entry/exit, exit, exit/entry or transit.

Entry visas are issued for a period of up to 6 months for study, medical treatment and permanent residency. Entry/exit visas are issued for up to 2 years. Exit visas are valid for up to 15 days from the date of issuance (up to 3 months for individuals leaving Kazakhstan for permanent residency abroad). Exit/entry visas are valid for up to 3 months. Transit visas are valid for up to 30 days and entitle the holder traveling to a third country to be in Kazakhstan for up to 120 hours in a single visit.

Single-entry diplomatic, official and investment visas are generally valid for up to 1 year. However, they may be valid for up to 2 years depending on reciprocity. Study, work and business visas are valid for up to 1 year. Medical visas are valid for up to 6 months. Visas for permanent residency and private visas are valid for up to 90 days. Tourist visas are valid for up to 30 days.

Diplomatic, official, investment, business and work visas may be issued as single- or multiple-entry. Tourist visas may be single- or double-entry. Private, study visas and visas for medical treatment and permanent residency may be only single-entry.

Visas are issued by the Consular Department of the Ministry of Foreign Affairs. An officially registered representative office or a local company must issue a letter of invitation to a prospective expatriate employee and file a copy with the Consular Department. The Consular Department then sends confirmation to the Kazakhstan consulate or embassy in the home country of the invited person, where he or she must apply for the visa. The fee for issuing a visa ranges between US$50 to US$200, depending on the country of residence of the invited party and the type of visa sought. The whole procedure may be completed in 7 to 14 days.

An individual may obtain a diplomatic, tourist, private, official or business visa without a letter of invitation by submitting a written application to the Consular Department if an individual is a citizen of one of the following countries: Australia; Austria; Belgium; Canada; Denmark; Finland; France; Germany; Greece; Iceland; Ireland; Italy; Japan; Liechtenstein; Luxembourg; Malaysia; Monaco; the Netherlands; New Zealand; Norway; Portugal; Singapore; Spain; Sweden; Switzerland; the United Kingdom; and the United States.

G. Work Permits

The employer must apply for a work permit on behalf of a foreign national. These permits are issued in accordance with quotas established by the government of Kazakhstan. The process to obtain a work permit takes approximately two to three months. To obtain a work permit, certain documents must be submitted, including, but not limited to, the following:

- Originals of Russian and Kazakh language newspapers advertising the vacancy at least one month prior to application;
- A work permit application and copies of the respondent's *curriculum vitae* (CV);
- An application letter from the employer;
- Results of the employee's HIV test;
- A bank deposit in an amount equal to 120% of the value of a return air ticket to the employee's home country; and
- A copy of the employee's employment contract.

The local labor authorities review the documents before issuing a work permit, which is usually valid for one year. The renewal process may be completed in approximately three weeks.

Certain categories of individuals are not required to obtain work permits. These include, among others, the following:

- The heads of branches and representative offices of foreign legal entities;
- The heads and general managers of entities that have concluded investment agreements of more than US$50 million with the government of Kazakhstan;
- Seamen;
- Accredited journalists; and
- Individuals registered as individual entrepreneurs.

Foreign nationals are not prohibited from establishing companies or subsidiaries of foreign companies in Kazakhstan. These companies must be registered by the Ministry of Justice.

H. Residence Permits

Kazakhstan issues residence permits. No quota system is in effect for immigration into Kazakhstan.

I. Family and Personal Considerations

Family Members. The spouse of a holder of a Kazakh work permit does not automatically receive the same type of work permit. If he or she wishes to undertake employment, a work permit application must be filed independently.

Marital Property Regime. Kazakh law does not provide for a community property or other similar marital property regime.

Drivers' Permits. Foreign nationals may drive legally in Kazakhstan with their home country drivers' licenses. However, an official Russian and Kazakh translation of the foreign driver's license by a confirmed translator is required; therefore, it is advisable to have an international driver's license.

Kazakhstan has driver's license reciprocity with Belarus, Kyrgyzstan, the Russian Federation, Ukraine and Uzbekistan.

A foreigner may obtain a Kazakh driver's license after taking a one and one-half month theoretical and practical training course and passing written and medical examinations. Reference letters from medical and psychiatric institutions, stating that the foreign national is not registered as a patient, are also necessary.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Base salary	X	—	—
Employee contributions to home country benefit plan	—	X	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Employer-provided housing	X	—	—
Housing allowance	X	—	—
Housing contribution	(X)	—	—
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement:			
Current gross-up	X	—	—
One-year rollover	X	—	—
Deferred compensation	X	—	—
Value of meals provided	X	—	—
Value of lodging provided	X	—	—

* Bracketed amounts reduce taxable income.

APPENDIX 2: SAMPLE TAX CALCULATIONS

The following are sample income tax and social tax calculations.

Income Tax Calculation

A sample income tax calculation is set forth below for a foreign national working the entire year in Kazakhstan. The calculation is based on the tax rates and annual deductions in effect for 2006.

	Tenge
Gross employment income	4,000,000
Annual specified index	(12,360)
Taxable income	3,987,640
Income tax on Tenge 2,472,000	291,078
Income tax on Tenge 1,515,640 at 15%	227,346
Tenge 3,987,640	
Total income tax liability	518,424

Social Tax Calculation

A social tax calculation is set forth below for an expatriate who is a managerial, administrative, technical or engineering specialist working the entire year in Kazakhstan. It is based on the tax rates in effect for 2006.

	Tenge
Gross employment income	4,000,000
Taxable annual income	4,000,000
Social tax on Tenge 2,472,000	232,368
Social tax on Tenge 1,528,000 at 7%	106,960
Tenge 4,000,000	
Total social tax liability	339,328

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A. Income Tax

Individuals are subject to income tax on employment earnings if they meet either of the following conditions:

- They are resident during the time of employment, whether their duties are performed within or outside Kenya; or
- For nonresidents, their employer is resident or has a permanent establishment in Kenya.

Who Is Liable. An individual is considered resident in Kenya if he or she is present in Kenya for 183 days or more during a fiscal year or for an average of 122 days or more in that year and in the two preceding years. If an individual has a permanent home in Kenya and spends time in Kenya, he or she qualifies as resident.

It is irrelevant for tax purposes where an employment contract is signed or remuneration is paid.

Income Subject to Tax

Employment Income. Employment income includes directors' fees and almost all cash and noncash remuneration, allowances and benefits arising from employment. The taxable values of employer-provided vehicles and utilities are set periodically. Employer-provided housing is taxed at the market rental value of the premises.

Education allowances provided by employers to their local or expatriate employees' children 18 years of age or under are taxable for income tax purposes.

Specific exemptions include the following:
• The cost of any medical services borne by the employer;
• Employer contributions to accredited pension or provident fund schemes;
• Withdrawal benefits from a pension or provident fund, up to a maximum of KSH 480,000;
• The first KSH 180,000 of annual pension income;
• Refunds of national social security fund contributions plus interest, up to a maximum of KSH 480,000; and
• For noncitizens recruited outside Kenya and their families, the cost of passage on joining the company, for annual leave and for departure.

Self-Employment and Business Income. All income accrued in or derived from Kenya is subject to income tax. For a resident, this includes profits from a business carried on both inside and outside Kenya.

Business income includes income derived from any trade, profession or vocation, as well as from manufacturing or other related operations. A partnership is transparent for tax purposes, with the individual partners taxed on their shares of partnership profits.

Business profits and losses are determined using normal commercial methods, matching expenses with income from similar activities and using the accrual method of accounting.

Initially, a business may select any accounting period, but generally must continue using the same accounting date thereafter. The Income Tax Department must approve a change in the accounting date. All individuals and unincorporated businesses must have a 31 December year-end.

Investment Income. Dividends and interest income from investments in Kenya are subject to a final withholding tax in the year received. For residents, the tax rates are 5% on dividends and 15% on interest.

The principal sources of exempt investment income are the following:

- Interest derived from savings accounts held with the Post Office Savings Bank;
- For each individual, up to KSH 300,000 of gross interest derived from investments in housing bonds, except for a 10% withholding tax deducted at source; and
- Interest and dividend income accruing to a resident from investments outside Kenya.

Rental income is aggregated with income from other sources and taxed at the rates set forth in *Rates*.

Taxation of Employer-Provided Stock Options. The Income Tax Act does not specifically address the taxation of employer-provided stock options.

Capital Gains. Kenya does not impose a capital gains tax. Property transfers are subject to stamp duties at a rate of 4% on urban property and a rate of 2% on rural property.

Deductions. An individual not resident in Kenya for tax purposes is not entitled to any deductions or credits. Expatriate employees of accredited nontrading liaison branches of foreign corporations who spend at least 120 days during the fiscal year working outside Kenya may deduct one-third of their total income.

Deductible Expenses. Resident individuals may deduct the following expenses in computing taxable income:
- Professional and technical subscriptions;
- The cost of special clothing or necessary tools;
- Contributions to a registered pension or provident fund, up to a maximum of KSH 240,000 per year;
- Interest, up to a maximum of KSH 150,000, on borrowings to finance the purchase of owner-occupied residential property; and
- Contributions to a home ownership savings plan, up to a maximum of KSH 48,000 per year.

Personal Deductions and Allowances. Resident taxpayers are granted relief against tax payable in the amount of KSH 13,944 per year.

Business Deductions. Generally, expenses and losses are not deductible unless incurred wholly and exclusively to produce income.

Accounting depreciation is not deductible, but capital allowances are available. A first-year investment deduction of 100% of qualifying expenditure on manufacturing premises, plant, electric power generating projects with capacity to supply the national grid and hotel buildings is allowed. Allowances are available on a straight-line basis on other industrial buildings and hotels, and on the amount remaining after subtracting the investment deductions, at a rate of 2.5% (manufacturing), 4% (hotels) and 33.33% (agriculture). The rates for plant and machinery are 12.5%, 25%, 30% or 37.5%, according to the type, using the declining-balance method. The qualifying cost of a noncommercial vehicle is restricted to KSH 2 million.

Other deductible capital expenditure includes expenses incurred for scientific research and development, the prevention of soil erosion by a farmer, the development of agricultural land and structural alterations to rental premises. Realized foreign-exchange losses on capital borrowings are also deductible.

Deductions are allowed for employer and employee contributions to registered pension and provident funds, with certain restrictions.

Rates. The following tax rates apply for employment, self-employment and business income for 2006.

Taxable Income Exceeding KSH	Taxable Income Not Exceeding KSH	Tax on Lower Amount KSH	Rate on Excess %
0	121,968	0	10
121,968	236,880	12,197	15
236,880	351,792	29,434	20
351,792	466,704	52,416	25
466,704	—	81,144	30

Tax is withheld from payments to nonresidents at the following rates.

Income Category	Rate (%)
Management and professional fees, royalties and performance fees	20
Use of immovable property	30
Use of other property	15
Interest	15
Dividends	10
Pensions and retirement annuities	5

These rates normally constitute the final liability for Kenyan income tax.

Relief for Losses. Tax-adjusted profits and losses from the following specified sources must be categorized separately:
• Agricultural activities;
• Rental or other use of immovable property;
• Services rendered (including employment);
• A wife's employment (including self-employment) and professional income; and
• Other business activities.

Profits are aggregated. Losses may be carried forward, without time or monetary limits, for offset against future profits from the same specified source. Losses may not be carried back.

B. Other Taxes

Kenya does not levy property tax, net worth tax, inheritance tax or gift tax.

C. Social Security

The only social security tax levied in Kenya is the National Social Security Fund (NSSF). The NSSF is a statutory savings scheme to provide for retirement. The rate of contribution is 5% of an employee's salary, with employers and employees each required to pay up to a maximum monthly amount of KSH 200.

An individual earning more than KSH 1,000 per month must make a monthly contribution to the National Hospital Insurance Fund, which entitles him or her to a reduction in certain hospital charges. The contribution required is calculated on a graduated basis, with a minimum monthly contribution of KSH 30 and a maximum monthly contribution of KSH 320.

Kenya is a member of the International Social Security Association.

D. Tax Filing and Payment Procedures

Employee Withholding. For employees, tax is withheld at source under the Pay-As-You-Earn (PAYE) system.

Installment Tax. Individuals must pay estimated tax in four equal installments during the financial year. The payments are due on the 20th day of the fourth, sixth, ninth and twelfth months.

Individuals with no income other than employment income that is taxed at source are not required to pay installment tax. Also exempt are individuals whose total tax payable does not exceed KSH 40,000.

Final Returns. Resident individuals are required to file a self-assessment return by 30 June following the end of the previous calendar year.

Nonresidents are required to file tax returns only if they receive taxable income that is not subject to withholding tax. If required to file, nonresidents must follow the procedures described for residents.

Assessment. A taxpayer may be assessed further after a self-assessment return is filed. However, for most taxpayers, the self-assessment is final.

Married Couples. A wife's income is generally assessed with that of her husband. Her independent income from employment (including self-employment) or from a recognized profession is taxed at separate rates, but any other income is aggregated with that of her husband. A wife has the option to file a separate tax return with respect to her independent income.

E. Double Tax Relief and Tax Treaties

Foreign taxes are deductible from taxable income as an expense. Kenyan citizens working outside Kenya are allowed a tax credit for foreign tax paid on employment income earned outside Kenya.

Kenya has entered into double tax treaties with Canada, Denmark, Germany, India, Norway, Sweden, the United Kingdom and Zambia. Generally, these treaties provide that foreign income taxes may be offset against equivalent Kenyan taxes payable on the same income.

F. Temporary Visas and Passes

Visitors must have visas to enter Kenya, unless they are from a country for which visa requirements have been eliminated. These countries include Denmark, Finland, Germany, Italy, Norway, Sweden, Turkey and most of the British Commonwealth countries. Visitors from these countries are issued visitors' passes at the point of entry.

Visas are obtained from the Kenyan embassy or from the British embassy in areas that do not have a Kenyan embassy. Foreign nationals wishing to visit Kenya are advised to confirm the entry requirements before departing from their home countries.

Visas usually are granted without delay. They are issued for a maximum period of three months and may be extended for an additional three months on application. A foreign national wishing to stay in Kenya for longer than six months must have an entry permit (see Section G).

The types of temporary visas and passes issued by the government of Kenya are described below.

Visas. The following types of visas are issued:
- Transit visa: issued to individuals in transit and valid for a maximum of seven days. A fee of US$20 is payable on application.
- Ordinary/Single-journey visa: issued to visitors, including tourists, making single trips to Kenya. A fee of US$50 is payable.
- Multiple-journey visa: issued to such foreign nationals as businesspeople expecting to make several trips to Kenya within a period of six months to one year. A fee of US$100 is payable.

Passes. The following types of passes are issued:
- Visitors' pass: issued to foreign nationals from countries without visa requirements.
- Dependents' pass: issued to family members of foreign nationals with entry permits.
- Students' pass: issued to foreign students who wish to study in Kenya.
- Prohibited immigrants' pass: issued to foreign nationals who do not have valid entry documents or to foreign nationals who have contravened certain immigration rules (for example, visa or entry permits have expired or passports are lost).
- Re-entry pass: issued to holders of valid entry permits who intend to leave the country and return before the permits expire.
- Special pass: issued to others who do not qualify for the above passes, for example, trainees on work-exchange programs.

G. Work Permits and Self-Employment

Certain classes of entry permits allow foreign nationals to work in Kenya and are generally referred to as work permits. An entry permit that allows a foreign national to work in Kenya is obtained by an employer on behalf of a foreign national. Employers are required to justify employment of a foreign national instead of a Kenyan. If the foreign national changes employment, his or her new employer is responsible for obtaining a new work permit.

Individuals requiring entry permits may enter Kenya on visas or visitors' passes while their applications for the permits are being processed. Foreign nationals staying in the country for more than 90 days must register as aliens.

Different classes of entry permits are issued in Kenya including permits for the following categories of expatriates:
- Class A – A person who is offered specific employment by a specific employer.
- Class B – A person who is offered specific employment by the government of Kenya.
- Class C – A person who is offered specific employment under an approved technical aid scheme, sponsored by the United Nations or another approved agency.
- Class D – A person holding a dependents' pass who is offered specific employment by a specific employer.

- Class F – A person who intends to engage in, whether alone or in partnership, the business of agriculture or animal husbandry in Kenya.
- Class H – A person who intends to engage in, whether alone or in partnership, a specific trade, business or profession (other than a prescribed profession) in Kenya.
- Class I – A person who intends to engage in, whether alone or in partnership, a specific manufacture in Kenya.
- Class J – A member of a prescribed profession who intends to practice that profession in Kenya, whether alone or in partnership.
- Class K – A person who:
  - Is at least 21 years of age;
  - Has in his or her own right an assured annual income; and
  - Will not accept paid employment of any kind if he or she is granted an entry permit of this class.
- Class L – A person who is unemployed, who was issued a resident's certificate or would have qualified for one under the repealed acts, or who has held an entry permit in any of the foregoing classes for a continuous period of no less than 10 years immediately before the date of application.

The permits are issued only to persons whose employment, business or presence will benefit the country.

A foreign national wishing to carry out business in Kenya must prove that the business is registered in Kenya and that it has a capital investment of at least KSH 5 million.

H. Residence Permits

Foreign nationals wishing to reside in Kenya must have entry permits. Different classes of entry permits are issued, depending on the purpose of entry (see Section G).

Residence permits are valid for a maximum of two years. These permits are renewable for an unlimited number of times. A renewed permit is valid for a maximum of two additional years.

Residence permits are issued by the Kenyanization Bureau of the Immigration Department. The application process takes one to two months.

I. Family and Personal Considerations

Vaccinations. Individuals entering Kenya must have International Immunization Certificates.

Family Members. Family members of entry permit holders are entitled to dependents' passes. Any dependent wishing to take up employment must obtain a separate work or entry permit.

Marital Property Regime. Kenyan law does not provide for a community property or a similar marital property regime.

Drivers' Permits. Foreign nationals with international drivers' licenses or drivers' licenses issued in a British Commonwealth country may drive in Kenya for a maximum period of 90 days. Foreign nationals living in Kenya for longer than 90 days must obtain Kenyan drivers' licenses.

Holders of international drivers' licenses or licenses issued in British Commonwealth countries may obtain Kenyan drivers' licenses on application. These foreign nationals must take a driving test that includes both verbal and physical examinations.

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A. Income Tax

Who Is Liable. Residents are subject to income tax on worldwide income. Nonresidents are subject to income tax on Korean-source income only.

A resident is a person who maintains a domicile or residence in Korea longer than one year.

Income Subject to Tax

Personal income is divided into the following separate categories:
- Global income (including wages, salaries, interest, dividends, temporary property income, rents, business income, pension income and other worldwide income);
- Severance pay;
- Forestry income; and
- Capital gains.

For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Salary and wage income includes the following amounts in addition to basic monthly payroll:
- Reimbursement for personal expenses, entertainment expenses and other allowances not considered proper business expenses;
- Various allowances for family, position, housing, health, overtime and other similar expenses; and
- Insurance premiums paid by the company on behalf of the employee.

The following items are excluded from salary and wage income:
- For foreign employees and executive officers, 30% of the annual gross pay. However, foreign workers may elect to pay tax at 17% of annual gross pay, instead of applying the progressive tax rates (see *Rates*) to their net income. If the 17% flat tax rate is applied, no exclusions, exemptions, deductions or credits may be claimed.

- Reimbursements for automobile operating expenses, up to W 200,000 a month, to employees using their own cars for company business.
- Meal charges, up to W 100,000 a month.

Salary and wage income is classified as either Class A income or Class B income.

Class A income is earned income paid and deducted by a Korean entity. Salaries paid by a foreign entity but charged back to the Korean entity are also defined as Class A income. Class A income is subject to withholding by the payer on a monthly basis. Recipients of Class A income are entitled to an annual tax credit of up to W 500,000.

Class B income is earned income paid by a foreign entity but not claimed as a deduction in Korea by any Korean entity. The individual recipient, not the payer, is responsible for declaring the income in a global income tax return or through a taxpayer's association, and is entitled to a tax credit of 10% of the tax liability (see Section D).

The following resident aliens are exempt from personal income taxes:

- Aliens assigned to Korea under bilateral agreements between governments are exempt. Compensation received from either government is fully exempt from Korean income taxes without limitation.
- Aliens employed under tax-exempt technology inducement contracts that satisfy the requirements of the Foreign Investment Promotion Law are exempt from taxes for five years from the date the particular technological inducement contract is approved. The tax exemption is allowed only for high-technology inducement contracts.
- Foreign technicians who offer their services to domestic companies or persons are exempt from personal income taxes on earned income for five years if the employment contracts are concluded with domestic corporations or with persons running domestic corporations and if the technicians have five years' work experience in one of the following industries (three years if they hold a degree higher than a bachelor's degree):
  — Technology-intensive industries;
  — Mining;
  — Construction; or
  — Engineering activities.

Self-Employment and Business Income. Residents are subject to tax in Korea on worldwide income. Nonresidents are subject to tax on Korean-source income only.

Business income is income derived from the continuous operation of a business by an individual and includes directors' fees and all income derived from businesses and personal services, including services provided by the following individuals:

- Entertainers;
- Athletes;
- Lawyers, accountants, architects and other professionals; and

- Persons with expert knowledge or skills in science and technology, business management or other fields.

Business income is added to the individual's other worldwide income and is taxed accordingly.

Investment Income. Dividends, interest, royalties and rental income are generally categorized as global income and are taxed at the rates set forth in *Rates*. However, interest and dividends paid by domestic companies to minority shareholders are subject to a 15.4% withholding tax. No other tax reporting is required for this income if the total amount of the income is under W 40 million. Nonresidents are taxed at the rates set forth in *Rates*.

Capital Gains and Losses. Capital gains are taxed separately from global income. In general, capital gains derived from the transfer of land, buildings, rights related to real estate and shares of an unlisted company are taxable in Korea.

Although capital gains derived from the transfer of shares in a listed company is not taxable, the shareholder of a listed company is subject to capital gains tax on gains derived from the transfer of shares if the shareholder owned at least 3% of the total outstanding shares or at least W 10 billion worth of the shares based on the market value at the end of the preceding year ("majority shareholder"). The transfer of unlisted shares is subject to capital gains tax regardless of the quantity or value of shares.

In general, gains derived from taxable transfers of shares are subject to tax at a rate of 20%. However, two exceptions apply. First, transfers of shares in companies classified as small or medium-sized are subject to capital gains tax at a rate of 10%. Second, transfers of shares are taxed at a rate of 30% if both of the following conditions are met:

- The shareholder is a "majority shareholder" who has held the shares for less than one year before the transfer; and
- The shares are not of a small or medium-sized company.

Tax rates on capital gains derived from specified assets are set forth in the following table.

Capital Asset	Rate (%)
Securities or shares	
Securities of small and medium-sized corporations	10
Securities of companies not of small or medium size and are transferred by a majority shareholder who held the securities for less than one year	30
Other securities or shares	20
Land, buildings and rights related to real estate	
Not registered in the seller's name	70
Held by the seller for less than one year	50
Held by the seller for more than one year, but less than two years	40

Other land, buildings and rights related to real estate (registered in the seller's name and held by the seller for more than two years) are taxed at the following rates.

Taxable Income Exceeding W (thousands)	Not Exceeding W (thousands)	Tax on Lower Amount W (thousands)	Rate on Excess %
0	10,000	0	9
10,000	40,000	900	18
40,000	80,000	6,300	27
80,000	—	17,100	36

In addition, resident taxes are imposed as a surtax on income tax at a rate of 10%.

Special deductions are generally available to reduce the amount of capital gains. These deductions are designed to eliminate the effects of inflation and to encourage long-term possession.

Capital losses may be offset against capital gains derived from transferring assets within the following same categories in the taxable year:
• Securities and shares; or
• Land, buildings and rights related to real estate.

Capital losses may not be carried forward.

Nonresidents are taxed on capital gains in the same manner as residents.

Deductions

Personal Deductions. The personal deductions described below are available in determining taxable income.

An earned income deduction is permitted. For individuals receiving less than W 5 million in annual compensation, the deduction equals 100% of compensation. For individuals receiving from W 5 million to W 15 million, the deduction equals W 5 million plus 50% of the amount exceeding W 5 million. For individuals receiving from W 15 million to W 30 million, the deduction equals W 10 million plus 15% of the amount exceeding W 15 million. For individuals receiving from W 30 million to W 45 million, the deduction equals W 12.25 million plus 10% of the amount exceeding W 30 million. For individuals receiving more than W 45 million, the deduction equals W 13.75 million plus 5% of the amount exceeding W 45 million.

Taxpayers receive a basic deduction of W 1 million each for themselves, their spouses and each eligible dependent. For purposes of this basic deduction, eligible dependents are male dependents older than 60 years of age, female dependents older than 55 years of age and children younger than 20 years of age.

Additional deductions of W 1 million each are available for persons older than 65 years of age and children younger than 6 years of age. An additional deduction of W 2 million for disabled persons is available. For persons older than 70 years of age, a deduction of W 1.5 million is available. An additional deduction of W 500,000 is available for working women who are heads of households with dependants or who have a spouse. Additional deductions are also available for small households. Individuals who have only the basic deduction are entitled to an additional deduction of W 1 million, while individuals who deduct only themselves and one dependent are entitled to an additional deduction of W 500,000.

Both employees and self-employed persons are eligible for special standard deductions of W 1,000,000 a year. Instead of this standard deduction, however, employees may elect to take the following special itemized deductions:

- Insurance premiums paid for life, casualty and other insurance, up to W 1 million a year. Premiums for insurance offered exclusively to handicapped individuals, up to W 1 million a year, are also deductible. Medical and unemployment insurance premiums are fully deductible.
- All medical expenses paid on behalf of the employee taxpayer, disabled persons and elderly parents residing with the taxpayer. Medical expenses paid on behalf of other dependants that exceed 3% of total compensation, up to a maximum of W 5 million a year, are deductible.
- All education expenses (primarily tuition, including tuition for graduate school) for the employee taxpayer. Education expenses for the taxpayer's children and for brothers or sisters of the taxpayer, excluding graduate school, are deductible up to the following amounts:
  - — University or college expenses: W 7 million;
  - — Elementary, middle and high school tuition: W 2 million; and
  - — Kindergarten expenses: W 2 million a year for each qualifying student.
- Payments related to housing, including long-term savings to purchase a house and payments of principal and interest on a housing loan for an individual who does not own a house or owns a house smaller than 85 square meters, and interest on a mortgage loan with a duration of more than 15 years, are deductible up to W 10 million.
- 100% of donations made to the government; other designated donations are limited to 10% of total income, less donations to government entities.

Business Deductions. Most normal business-related expenses are deductible, including depreciation and bad debts.

Individuals engaged in small and medium-sized manufacturing businesses may receive a tax credit equal to 10% of the computed tax (15% if located in a nonmetropolitan area). Individuals engaged in small and medium-sized businesses, including wholesale, retail, medical services and auto repair, may receive a tax credit equal to 5% of the computed tax.

Rates. Tax rates applied to global income, severance pay and forestry income in 2005 are set forth in the following table.

Taxable Income		Tax on Lower	Rate on
Exceeding W (thousands)	Not Exceeding W (thousands)	Amount W (thousands)	Excess %
0	10,000	0	8
10,000	40,000	800	17
40,000	80,000	5,900	26
80,000	—	16,300	35

In addition, resident taxes are imposed as a surtax on income tax at a rate of 10%.

A nonresident with a place of business or employment income derived from Korea is generally taxed at the same rates that apply to a resident. However, a 2004 revision to the Tax Incentives

Limitation Law introduced a new measure designed to simplify the personal income tax system for expatriate employees working in Korea. Under the new measure, expatriates may elect either the progressive tax rate system or a new flat tax rate system. Under the new flat tax rate system, expatriate employees pay tax at the rate of 18.7% on the gross taxable income.

To elect the flat rate system, an expatriate must submit an application for use of the flat tax rate to the withholding agent or district tax office in January when filing the year-end income tax finalization form for the settling of the tax on Class A income or in May when filing the global income tax return.

The Korean-source income of a nonresident without a place of business in Korea is subject to withholding tax at the rates indicated in the following table.

Income Category	Rate*
Business income and income from leasing ships, airplanes, registered vehicles and similar items	2%
Income from professional or technical services	20%
Interest, dividend, royalty and other income	25%
Capital gains derived from the transfer of securities or real estate	Lower of 10% of sales price or 25% of capital gains

* Resident tax at a rate of 10% of the Korean-source income tax is added.

Reduced rates may apply, depending on tax treaty provisions (see Section E).

For sample tax calculations, see Appendix 2.

Relief for Losses. Business losses of a self-employed person may be carried forward for five years and may be carried back to the preceding year if the self-employed person's business qualifies as a small or medium-sized company.

B. Inheritance and Gift Taxes

Residents in Korea, heirs and donees are subject to inheritance and gift taxes on assets acquired worldwide. If nonresident, heirs and donees are subject to inheritance and gift taxes on assets located in Korea only.

Each heir who acquires property must pay inheritance and gift taxes at the following rates after the deduction of exempt amounts (see below).

Taxable Income		Tax on Lower	Rate on
Exceeding W (thousands)	Not Exceeding W (thousands)	Amount W (thousands)	Excess %
0	100,000	0	10
100,000	500,000	10,000	20
500,000	1,000,000	90,000	30
1,000,000	3,000,000	240,000	40
3,000,000	—	1,040,000	50

The following amounts are exempt in determining the taxable amount of property for the purposes of inheritance tax.

Type of Allowance	Exempt Amount
Basic deduction	W 200 million
Personal deductions	
Spouse allowance	Minimum W 500 million, maximum W 3 billion
Direct dependent allowance	W 30 million
Allowance for children younger than 20 years of age or for siblings	W 5 million x the number of years, up to 20 years of age
Old age allowance (60 years of age or older)	W 30 million
Allowance for the handicapped	W 5 million x the number of years, up to 75 years of age
Financial asset deduction	Net value of the asset x 20% if the net value is at least W 20 million (minimum W 20 million, maximum W 200 million) or total net value of the asset if the net value is less than W 20 million

Donees who acquire property must pay gift tax at the same rates that apply for inheritance tax after deducting the following exempt amounts.

Allowance	Exempt Amount (W)
Spouse deduction	300 million
Direct dependent deduction	30 million
Dependent children deduction	15 million
Other dependent deduction	5 million

C. Social Security

National Health Insurance. Under the Medical Insurance Law, an ordinary workplace with at least one employee must join the medical insurance plan. The rate for the medical insurance is 4.48% of an employee's salary, which is shared equally by the employee and the employer. The monthly premium for health insurance must be paid by the 10th day of the month after the month when the salary is paid.

National Pension. Under the National Pension Law, an ordinary workplace with at least one employee must join the national pension program. The contribution to the national pension fund is 9% of an employee's salary, with a maximum ceiling of W 324,000. The 9% contribution is shared equally by the employee and the employer.

Accident Insurance. Under the Workmen's Accident Compensation Insurance Law, an ordinary workplace with at least one employee must join the workmen's accident compensation insurance program and pay the premium on an annual basis. The premium rate is normally 0.4% to 6.4% of payroll, depending on the industry.

Unemployment Insurance. A company with at least one employee must pay unemployment insurance premiums. The following types of premiums are paid on an annual basis: unemployment insurance premiums at a rate of 0.9%, shared equally by the employer and employee; employment security premiums at a rate of 0.15%, borne entirely by the employer; and employee ability development premiums at a rate ranging from 0.1% to 0.7%, depending on the number of employees, which is also borne entirely by the employer.

Foreign nationals with certain visa types, such as D-7, D-8, F-2 or F-5, are required to pay unemployment insurance. If the premiums are paid quarterly in advance, a 5% discount in the premium applies.

Totalization Agreements. Korea has entered into social security totalization agreements with Canada, China, Germany, Iran, Italy, Japan, the Netherlands, the United Kingdom and the United States.

D. Tax Filing and Payment Procedures

The income year in Korea is the calendar year.

Taxes on Class A income are withheld by the employer. Taxpayers who receive other types of income, including interest, dividends or rents, must file returns reporting their combined worldwide income between 1 May and 31 May of the following year. Tax due must be paid when the return is filed.

Taxpayers reporting Class B income have the following options:
- To file an annual tax return in the month of May following the tax year.
- To join an authorized taxpayer's association through which monthly tax payments are made. In return for payments made to an authorized taxpayer's association, taxpayers receive a 10% credit on income tax liability.

Married persons are taxed separately on employment, severance, rent, dividends, interest, business income and capital gains.

Foreign nationals must file returns prior to departing from Korea.

Self-employed persons must make interim tax payments during the tax year.

E. Double Tax Relief and Tax Treaties

A credit for foreign income taxes paid is available, up to the ratio of foreign-source income to total taxable income.

Korea has entered into double tax treaties with the following countries.

Australia	Israel	Poland
Austria	Italy	Portugal
Bangladesh	Japan	Romania
Belarus	Jordan	Russian Federation
Belgium	Kazakhstan	Singapore
Brazil	Kuwait	Slovak Republic
Bulgaria	Luxembourg	South Africa
Canada	Malaysia	Spain
Chile	Malta	Sri Lanka
China	Mexico	Sweden
Czech Republic	Mongolia	Switzerland
Denmark	Morocco	Thailand
Egypt	Myanmar	Tunisia
Fiji	Nepal	Turkey
Finland	Netherlands	Ukraine

France
Germany
Greece
Hungary
India
Indonesia
Ireland
New Zealand
Norway
Pakistan
Papua New Guinea
Philippines
United Arab Emirates
United Kingdom
United States
Uzbekistan
Vietnam

F. Temporary Visas

Korean entrance policy allows only temporary residence status. To enter Korea, a foreign national must have a valid passport and a visa. Foreign nationals may obtain temporary visas from the local Korean embassy or consulate, allowing them to remain in Korea for up to three months. On application, a foreign national's sojourn may be extended.

Visa Waiver Agreement. Qualified nationals of the following countries, which have a reciprocal visa exemption agreement with Korea, may enter Korea without visas for, in general, a period of up to 90 days.

Antigua and Barbuda
Austria
Bahamas
Bangladesh
Barbados
Belgium
Benin
Brazil
Bulgaria
Chile
Colombia
Costa Rica
Croatia
Cyprus
Czech Republic
Denmark
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Estonia
Finland
France
Germany
Greece
Grenada
Guatemala
Haiti
Hungary
Iceland
Iran
Ireland
Israel
Italy
Jamaica
Japan
Latvia
Lesotho
Liberia
Lithuania
Luxembourg
Malaysia
Malta
Mexico
Mongolia
Morocco
Netherlands
New Zealand
Nicaragua
Norway
Pakistan
Panama
Paraguay
Peru
Philippines
Poland
Portugal
Romania
Singapore
Slovak Republic
Spain
St. Kitts-Nevis
St. Lucia
St. Vincent
Suriname
Sweden
Switzerland
Thailand
Trinidad and Tobago
Tunisia
Turkey
United Kingdom
Uruguay
Venezuela
Vietnam

No Visa Entry. Most foreigners who want to visit Korea for a short-term tour or are in transit may enter Korea with no visa in accordance with the principles of reciprocity or priority of nationals interests with a tourist/transit visa status (B-2, 30 days). Special status is awarded to Canadians (6 months) and Australians (90 days).

G. Work Permits and Self-Employment

Korean authorities are relatively restrictive in granting working rights to foreign nationals. As a result of the degree of difficulty in obtaining permits, readers should obtain appropriate professional assistance.

A foreign national may engage in only those activities relating to the working status of his or her sojourn. A foreign national in Korea who intends to engage in activities other than those relating to his or her status of sojourn must obtain a permit from the Minister of Justice. A foreign national who does not hold a working status of sojourn may not be employed in Korea.

The following are the categories of working status of sojourn:

- Two Years
  - Foreign nationals invited by Korean public or private institutions to provide special industrial techniques or skills.
  - Foreign nationals who work for foreign companies as employees in Korea or who engage in trade or other profit-making businesses.
  - Foreign nationals who work for companies under the Korean Foreign Capital Inducement Law.
  - Foreign nationals in certain professions, including accountants, doctors, lawyers and professors.
  - Spouses and dependants of foreign nationals described in the first three categories above.
  - Foreign nationals employed as trainees.
  - Foreign nationals who work on behalf of foreign information media companies and other journalistic organizations.
  - Foreign nationals who work for private or public organizations in Korea and install and repair imported machinery and other items, or supervise the building of ships and industrial plants, except for locally hired foreign employees or individuals relocated to joint ventures or wholly owned subsidiaries.
  - Foreign nationals invited by Korean public or private institutions to engage in study or research in the area of natural science or sophisticated technology.
- One Year
  - Foreign language teachers.
  - Foreign nationals identified by the Justice Ministerial Ordinance.
- Six Months
  - Foreign nationals who perform profit-oriented entertainment, sports or other shows.

Korean immigration law requires a foreign national who wants to obtain a work permit to submit an application together with a résumé, a notarized affidavit of identification, an employment agreement, and a diploma or qualified license sent by his or her Korean employer to the Korean consulate. The work permit includes the applicant's working status and period of sojourn.

Foreign nationals may be self-employed in Korea if they obtain the appropriate trade licenses or registration.

H. Residence Permits

A foreign national who wishes to enter Korea must obtain a permit, which specifies the status and period of sojourn, from the Minister of Justice. A foreign national who plans to stay in Korea for longer than three months should file a residence report with the chief of the immigration office that has jurisdiction over his or her place of residence within 90 days after the date of entry.

Foreign nationals who intend to change their status of sojourn or whose diplomatic status changes must obtain permits to change the status of sojourn from the Minister of Justice.

A foreign national who intends to extend the sojourn period must obtain a permit of extension or a renewal of sojourn from the Minister of Justice before expiration of the initial permit.

I. Family and Personal Considerations

Family Members. Family members need separate permits and visas to accompany expatriates. These permits may be applied for jointly with an expatriate's permits.

A family member of a working expatriate must obtain a separate work permit to be employed legally in Korea. This permit may be applied for either jointly or independently of the working expatriate.

Children of working expatriates do not need student visas to attend schools in Korea.

Drivers' Permits. Foreign nationals may not drive legally in Korea with their home country drivers' licenses. However, an expatriate may drive for one year in Korea with an international driver's license. After one year, the expatriate must apply to have the license converted to a Korean license.

If an individual wishes to obtain a Korean driver's license, he or she must take a fairly easy written exam and a standard physical exam.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Retained hypothetical tax	(X)	—	—
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing	—	X	(a)
Employer-provided housing	—	X	—
Housing contribution	—	X	—
Educational allowance	X	—	(b)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(c)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	—

	Taxable*	Not Taxable	Comments
Capital gain from sale of stock in home country	X	—	(e)

* The bracketed amount reduces taxable income.

(a) The rental portion of housing costs paid by employer is not taxable. Utilities and similar items are taxable, regardless of whether they are paid directly by employer or whether the employee is reimbursed for the cost of such items.

(b) A separate deduction is allowed for tuition paid to a qualified school.

(c) A home-leave allowance is not taxable to the taxpayer, but it is taxable to the dependants.

(d) In general, moving expense reimbursements for one direction are not taxable.

(e) Sales of shares listed on the Korean Stock Exchange (KSE), and foreign companies' shares, except for sales by majority shareholders, are not taxable; however, sales of unlisted shares are taxable.

APPENDIX 2: SAMPLE TAX CALCULATIONS

The following are sample tax calculations.

Case 1

Assume that an individual, a spouse, and three children (ages 8 through 14) reside in Korea for an entire calendar year. The compensation paid in Korea consists of the following: a base salary of W 30,000,000; a W 8,400,000 cost-of-living allowance; a W 8,000,000 utilities allowance; other miscellaneous allowances; and W 6,500,000 for school tuition and bus fees. The employer paid directly the housing rental costs. The individual also received a bonus of W 10,000,000 for services rendered in Korea. This bonus was paid in U.S. currency by a U.S. company. The individual has paid the tax on this bonus on a monthly basis through a taxpayers' association. The following are tax calculations under the progressive tax system and the flat tax system.

	Progressive Tax System W	Flat Tax System W
Base salary	30,000,000	30,000,000
Bonus	10,000,000	10,000,000
Cost-of-living allowance	8,400,000	8,400,000
Utilities and other miscellaneous allowances	8,000,000	8,000,000
School tuition and bus fees	6,500,000	6,500,000
Gross income	62,900,000	62,900,000
Less exclusion for overseas allowances	(18,870,000)	—
Gross taxable earned income	44,030,000	62,900,000
Less deductions:		
Earned deduction	(13,653,000)	
Basic income	(1,000,000)	
Spouse	(1,000,000)	
Dependent children	(3,000,000)	
School tuition (excluding bus fees of W 500,000)	(6,000,000)	
National pension premium paid (W 162,000 x 12 months)	(1,944,000)	
Total deductions	(26,597,000)	—
Taxable income	17,433,000	62,900,000

	Progressive Tax System W	Flat Tax System W
Calculation of Tax Liability		
Income tax on W 17,433,000	2,063,610	10,693,000
Less: Credit for Class B income: (W 2,063,610 x 10,000,000/62,900,000) x 10%)	(32,808)	—
Credit for earned income	(500,000)	—
Net income tax	1,530,802	10,693,000
Residents tax (W 4,037,033 x 10%)	153,080	1,069,300
Total tax liability	1,683,882	11,762,300

As shown above, the application of the progressive tax system results in greater tax savings at this particular income level.

Case 2

Assume the same facts as in Case 1 except that all income is Class B and is properly reported to a taxpayers' association in the month received.

	W
Taxable income	17,433,000
Calculation of Tax Liability	
Income tax on W 17,433,000	2,063,610
Less credit for Class B income (income tax on W 2,063,610 x 10%	(206,361)
Credit for earned income	(500,000)
Net income tax	1,357,249
Residents tax (W 1,357,249 x 10%)	135,725
Total tax liability	1,492,974

Case 3

Assume the same individual as in the previous cases except that annual gross pay is W 450,000,000. This example illustrates a situation in which the flat tax system could be more favorable. In the example, the income is entirely in one class. If the income is a combination of Class A and Class B, the total tax liability falls within the range calculated below.

	Progressive Tax System W	Flat Tax System W
Annual gross pay	450,000,000	450,000,000
Less: Special exclusion for foreign employees	(135,000,000)	—
Gross earned taxable income	315,000,000	450,000,000
Less deductions:		
Earned deduction	(27,250,000)	
Basic income	(1,000,000)	
Spouse	(1,000,000)	
Dependent children	(3,000,000)	
School tuition (excluding bus fees of W 500,000)	(6,000,000)	
National pension premium paid (W 162,000 x 12 months)	(1,944,000)	
Total deductions	(40,194,000)	—
Taxable income	274,806,000	450,000,000

Calculation of Tax Liability

	Progressive Tax System Class A W	Progressive Tax System Class B W	Flat Tax System W
Income tax on W 274,806,000	84,482,100	84,482,100	
Credit for Class B income: (W 84,482,100 x 450,000,000 / 450,000,000) x 10%)		(8,448,210)	
Credit for earned income	(500,000)	(500,000)	
Net income tax	83,982,100	75,533,890	76,500,000
Residents tax (10% of net income tax)	8,398,210	7,553,389	7,650,000
Total tax liability	92,380,310	83,087,279	84,150,000

As seen from the above, the application of the flat tax system could result in greater tax savings at this particular income level. No difference exists between Class A and Class B when applying the flat tax system.

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A. Income Tax

No income taxes are currently imposed on individuals in Kuwait. However the government of Kuwait is currently studying a proposal to impose income tax on individuals in Kuwait at rates ranging from 2.5% to 25% on income in excess of KD 34,000 (except dividends, interest and royalties); and withholding tax at a rate of 20% on dividends, interest and royalties. At the time of writing, it was not known whether the Kuwait government will approve the proposed tax law containing the taxes described above and, if approved, when the tax law will take effect.

B. Other Taxes

Net worth, estate and gift taxes are not imposed on individuals in Kuwait.

C. Social Security

For Kuwaiti employees, contributions are payable monthly by both the employer and employee under the Social Security Law. The employer's contribution is 11% and the employee's is 6% of monthly salary, up to a ceiling of KD 2,250 per month. Benefits provided, which are generous, include pensions on retirement and allowances for disability, sickness and death.

A health insurance scheme applies for all expatriate residents of Kuwait. The annual premium is payable at the time of initial application or renewal of the expatriate's residence permit. The premium is KD 50 for expatriates working in Kuwait and from KD 10 to KD 30 for other resident expatriates. No other social security obligations apply to expatriates.

D. Tax Treaties

Kuwait has entered into double tax treaties with several countries. In addition, double tax treaties have been signed or initialed, but not yet ratified, with about five countries. However, because no tax is currently imposed on individuals in Kuwait, the provisions for relief under these double tax treaties are not relevant to individuals in Kuwait.

E. Entry Visas

Nationals of Gulf Cooperation Council (GCC) member countries do not require visas to visit Kuwait.

Nationals of certain specified countries, which are Canada, the United States, several European countries and a few Far Eastern countries, are given entry visas on arrival at the Kuwait airport. Nationals from other countries must arrange for entry permits before traveling to Kuwait.

The entry permit enables a visitor to stay a maximum of one month in Kuwait, which may be extended to three months at the discretion of the Department of Immigration. Heavy fines are imposed for staying in the country after expiration of the visa, and violators may be imprisoned.

All visas in Kuwait are issued for a definite period of time. Permanent visas are not issued in Kuwait. Visas for short visits, usually one month, are issued to business visitors and to certain family members of residents (see Section H).

Business visas are issued to employer-sponsored or business-sponsored applicants. These may be obtained by a sponsor or host in Kuwait (for example, local hotels, local agents or partners in joint ventures) from the Department of Immigration or the Ministry of Interior before travel. Normally, a photocopy of a passport showing the personal information of an applicant, along with an application form signed by a Kuwaiti sponsor, is necessary to obtain a business visa. After the visa is obtained by the sponsor, it may be collected by the visitor at the Kuwait International Airport. It is also possible to obtain a business visa by personal application to the nearest Kuwait embassy or consulate.

F. Work Permits and Self-Employment

Procedures. Under Kuwait labor law, which is administered by the Ministry of Social Affairs and Labor, priority in employment must be made available first to Kuwaitis, then to GCC nationals, then to Arab nationals and finally to other foreign nationals. Due to a shortage of qualified Kuwaitis, a large part of the workforce in Kuwait is made up of non-Kuwaiti Arabs, Europeans, Americans and Asians. The employment of expatriate workers will continue to be essential.

Employers must obtain work permits from the Ministry of Social Affairs and Labor for foreign nationals, other than the GCC nationals, to take up employment. All expatriates, including those who wish to be self-employed, must have Kuwaiti sponsors to obtain work permits.

Work permits are issued by the Ministry of Social Affairs and Labor after the ministry considers various factors, including an employer's requirement for the labor, the availability of labor in the country and the composition of the population of the country. Issuance of work permits is sometimes banned temporarily based on the aforementioned factors. It usually takes one to two months to obtain a work permit if no ban is in effect. Work permits must be activated by employees when they arrive to take up residence in Kuwait. The permits are valid for three years from the date of issue.

To obtain a work permit, an employer must submit a copy of the employee's passport and sign an application form. In certain cases, authenticated copies of the educational certificates of the employees must also be submitted. After the work permit is issued, it is sent by the employer to the country of origin of the foreign national for presentation at the point of entry into Kuwait.

If an employee travels to Kuwait on a visit visa while the work permit is being processed, it is possible to convert the visit visa to a work permit if the work permit relates to the same sponsor.

Payment of Salaries Through Local Bank Accounts. The Ministry of Social Affairs has announced that it will impose stiff penalties if companies fail to comply with the requirement to pay salaries to employees through local bank accounts in Kuwait. These penalties apply from 1 October 2003.

Noncompliance with such regulations may also affect the ability of the companies to obtain work permits for workers in Kuwait. In addition, the Department of Income Taxes may disallow the payroll costs for employees who did not receive their salaries in their bank accounts in Kuwait.

G. Residence Permits

On arrival in Kuwait, an employee with a work permit must apply to the Department of Immigration for a residence permit. The residence permit, which costs KD 10 per year, is usually arranged within two months after arrival in Kuwait. Residence permits are normally issued for up to three years, with renewal for additional three-year periods available at the request of an employer.

All residents in Kuwait must obtain identity cards (Civil ID), which must be carried at all times. The Civil ID is obtained from the Public Authority for Civil Information after a residence permit is issued.

Foreign nationals with resident status in Kuwait may travel in and out of the country without restriction if the stay outside of Kuwait does not exceed six consecutive months. Resident status is cancelled if a resident stays outside Kuwait longer than six consecutive months.

Procedures for obtaining a residence permit include a medical examination, which costs KD 10 and this includes tests for HIV antibodies and for tuberculosis. The procedures also involve fingerprinting. International vaccination certificates are not required for entry into Kuwait.

H. Family and Personal Considerations

Family Members. Expatriates with residence permits in Kuwait may obtain visit or dependent visas for their spouses, dependent children and parents, and visit visas for certain other family members. Dependent visas may be issued for a period of three years and are renewable for additional three-year periods. Family visit visas are issued for a period of one month. A person who enters Kuwait on a dependent or visit visa may not take up employment.

Family Visit Visa. Family visit visas may be obtained by residents of Kuwait for certain family members. These visas are valid for three months from the date of issue and allow visitors to stay in Kuwait for a maximum period of one month. The following documents are normally required to apply for a family visit visa:
- Copy of the passport of the prospective visitor;
- Affidavit in Arabic stating the relationship of the prospective visitor to the resident (sponsor) applying for the visa, attested to by the embassy of the sponsor's home country and by the Ministry of the Interior;
- Marriage certificate if the visa applicant is a spouse, attested to in the same way as the affidavit mentioned above;
- Copies of the school certificates for the children, if applicable;
- Copies of the passport and Civil ID of the sponsor; and
- Application form signed by the sponsor.

Dependent Visa. Spouses and dependent children 21 years of age or younger may obtain family or dependent visas if the monthly salary of the employee is at least KD 250 for private-sector employees. Persons holding dependent visas may not take up employment in Kuwait.

Education. Kuwait places great emphasis on providing schools at all levels for its population. Education is compulsory for children 6 to 14 years of age. The free government schools are for Kuwaiti nationals only; however, a wide range of private schools is available. These come under the inspection program of the Ministry of Education, but are otherwise self-governing. Private education is relatively expensive, with normal fees ranging from KD 700 per year at the kindergarten level to KD 1,700 per year for high school. British, American, French and other curricula are available.

Children on dependent visas may study in any of the private schools. Admission to Kuwait University is restricted to Kuwaitis, dependent children of Kuwait University professors and members of diplomatic missions in Kuwait. For other expatriate residents, special permission is required from the Minister of Education for admission to Kuwait University. Such permission is given in rare cases.

Drivers' Permits. Holders of foreign drivers' licenses, except for drivers' licenses issued by GCC countries, may not drive in Kuwait. Holders of visitors' visas may drive with international drivers' licenses, which should be endorsed at the Traffic Department after local insurance is obtained.

Kuwait has driver's license reciprocity with GCC countries only. Nationals and residents of the GCC countries may drive in Kuwait with the GCC country's drivers' license.

Holders of resident visas must obtain Kuwait drivers' licenses. These may be obtained quickly on presentation of a European or American drivers' license. Other applicants must apply for learners' permits and then take driving tests. In these instances, unless a person has a driver's work visa, drivers' licenses are restricted to certain categories of professionals, including medical professionals, engineers and accountants.

To obtain a learner's permit, an applicant must have his or her eyesight tested at one of the government hospitals. Copies of the person's home country drivers' license and a certificate of qualification are required. These documents must be translated into Arabic and attested to by the embassy in the expatriate's home country and by the Ministry of the Interior in Kuwait. This is a simple process and usually takes one or two days.

After a learner's permit is obtained, a verbal examination is administered at the Traffic Department. A practical driving test is then given. Private driving schools are available to help prepare for these tests. The whole process of obtaining a driver's license usually takes one to two months.

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A. Income Tax

Who Is Liable. All permanent residents are subject to Latvian personal income tax on their worldwide income. Nonresidents are subject to tax on their Latvia-source income.

Under Latvian law, an individual is considered to be a resident of Latvia if any of the following conditions are satisfied:

- The individual's permanent place of residence is located in Latvia;
- The individual resides in Latvia for 183 days or longer in a 12-month period beginning or ending during the tax year; or
- The person is a citizen of Latvia and is employed abroad by the government of Latvia.

In general, individuals who do not meet the above requirements are considered to be nonresidents of Latvia for tax purposes.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Income derived from employment or self-employment activities is taxed. Fringe benefits, including employer-provided lodging and car usage, are also taxable.

Self-Employment and Business Income. The income of individuals engaged in self-employment activities is subject to income tax. This tax applies to individual enterprises that are not required to provide annual reports, which are generally those with annual income of less than LVL 45,000. If the annual income of an individual enterprise exceeds LVL 45,000, such individual enterprise is subject to corporate income tax at a rate of 15%, instead of personal income tax. If the LVL 45,000 threshold is exceeded and the individual enterprise calculates its taxable income in accordance with the provisions of the Law on Corporate Income Tax, it should continue applying corporate income tax for the following five years, regardless of the amount of annual income in those years.

For purposes of determining income tax on self-employment income, taxable income consists of gross income less expenses.

Investment Income. For residents, dividends received from Latvian companies and from companies registered in EU that do not receive specific corporate income tax allowances, are not taxed.

For residents and nonresidents, interest from Latvian banks is not taxed.

Directors' Fees. Board members of resident and nonresident companies are subject to withholding tax at a rate of 10% on their directors' fees, regardless of whether the fees are paid by a Latvian-registered company or foreign company.

Taxation of Employer-Provided Stock Options. Latvian law does not specifically address the taxation of employer-provided stock options.

Capital Gains. Latvia does not generally impose tax on capital gains derived from the sale of personal property if the sale of the property is a one-off transaction that is not part of a commercial activity. Capital gains derived from the sale of real estate held for less than 12 months are subject to tax.

Deductions

Deductible Expenses. Individuals may deduct the employees' portion of social security contributions from the income reported on their tax returns.

Personal Deductions and Allowances. Individuals may deduct the following expenses from the income reported on their tax returns:

- Contributions to private pension funds and to life insurance schemes with the accumulation of contributions), but the deduction for the sum of both types of contributions is limited to 10% of annual taxable income;
- Contributions to life insurance schemes without the accumulation of contributions and to health or accident schemes, but the deduction for the sum of both types of contributions is limited to 10% of annual taxable income or LVL 180, whichever is less;
- Medical expenses;
- Expenses for professional education (together with medical expenses up to the limit of LVL 150); and
- Donations to acceptable charitable organizations of up to 20% of annual taxable income.

The current nontaxable amount is LVL 32 per month.

A parent may deduct LVL 22 per child monthly. For other individuals living with the taxpayer, including unemployed family members and parents, the taxpayer receives an additional monthly allowance of LVL 22, provided the unemployed family members and parents are properly registered with the State Revenue Service.

Income tax paid abroad may be credited against tax payable in Latvia, up to 25% of the foreign income. The amount of the credit is limited to the amount of the tax paid on the income in Latvia.

Personal deductions for medical and educational expenses are not allowed to nonresidents.

Business Deductions. Costs for materials, goods, fuel and energy, salaries, rent and leases, repairs and depreciation on fixed assets, and other costs may be deducted from the taxable income of a self-employed individual.

Rate. Income tax at a basic rate of 25% of taxable income applies to residents and nonresidents.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Self-employed individuals may carry losses forward for three years.

B. Other Taxes

Property Tax. Property tax is imposed on individuals, legal entities and nonresidents that possess or hold Latvian buildings and constructions. Technological equipment is not taxable. The property tax rate is 1.5% of the net book value of land, buildings and constructions. Private dwellings are exempt from the real estate tax.

Estate and Gift Taxes. Estate, inheritance and gift taxes are not imposed in Latvia, but employer gifts exceeding one minimum monthly salary (LVL 90 in 2006) per year are taxed as personal income. Royalties received by the legal successor of a deceased person are taxable as personal income. State authorities may impose duties on the value of inheritances at rates ranging from 0.5% to 3%.

C. Social Security

Employers pay 24.09%, and employees 9%, of monthly salaries in social security contributions. Expatriates who remain in Latvia for more than 183 days in any 12-month period and who are employed by a foreign company pay monthly social security contributions at a rate of 33.09% if employed by a European Union (EU) company and 30.98% if employed by a non-EU company. The maximum amount of monthly income subject to social security contributions is LVL 20,700. Although, in principle, payments of social security contributions entitle individuals to social insurance benefits, few benefits are actually available for disabled, sick, unemployed and retired people.

If a foreign company employs citizens of Latvia, the company must register with State Revenue Service for the purpose of social security contributions or the employee can register as a social security contribution payer. Regulation (EEC) No 1408/71 of the Council of 14 June 1971 on the application of social security schemes to employed persons and their families moving within the European Community applies to such companies.

D. Tax Filing and Payment Procedures

The tax year in Latvia is the calendar year.

Employers must withhold taxes and social security contributions on personal salary and then remit the withheld amounts to the fiscal authorities monthly on the same day the salary is paid.

Every taxpayer receives a tax code number from the fiscal authorities. Individual taxpayers must submit an annual tax return, but they may authorize a certified auditor to submit the return on their behalf. The return must be filed before 1 April of the year following the tax year.

Any excess of the final tax over the prepaid tax must be paid within three months after the tax return is filed. In each of the three months, at least one-third of the tax due must be paid.

A nonresident who permanently leaves Latvia before year-end must file an annual tax declaration before departure.

E. Double Tax Relief and Tax Treaties

Foreign taxes paid may be credited against Latvian tax liability on the same income. The exemption method applies to income derived in Estonia or Lithuania.

Latvia has entered into double tax treaties with the following countries.

Armenia	Georgia	Poland
Austria*	Germany	Portugal
Azerbaijan	Greece	Romania

Belarus	Hungary	Singapore
Belgium	Iceland	Slovak Republic
Bulgaria	Ireland	Slovenia
Canada	Italy*	Spain
China	Kazakhstan	Sweden
Croatia	Lithuania	Switzerland
Czech Republic	Luxembourg*	Turkey
Denmark	Malta	Ukraine
Estonia	Moldova	United Kingdom
Finland	Netherlands	United States
France	Norway	Uzbekistan

* This treaty has been signed, but it is not yet in force.

Latvia is currently negotiating double tax treaties with Cyprus, India, Israel and Serbia and Montenegro.

F. Entry Visas

The forms of visas are individual and group. The types of visas are single, double and multiple. The following are the categories of visas:

- Airport transit visa (Category A);
- Transit visa (Category B);
- Short-term visa (Category C);
- Long-term visa (Category D); and
- Frontier visa (Category L).

Airport Transit Visa. The airport transit visa (Category A) is an individual single, double or multiple transit visa enabling a foreigner to cross the airport transit zone once, twice or an unlimited number of times, respectively. The maximum period of validity for an airport transit visa is three months.

Transit Visa. The transit visa (Category B) is an individual single, double or multiple transit visa or a single or double group transit visa, which allows a foreigner within the time period indicated in the visa to enter Latvia once, twice or an unlimited number of times, respectively, to cross through and to depart from Latvia. The maximum period that an individual may be present in Latvia on a transit visa is three days (five days for seamen). The maximum period of validity of a transit visa is six months.

Short-Term Visa. The short-term visa (Category C) is an individual single- or double-entry visa enabling a foreigner within the time period indicated in the visa to enter Latvia once, twice or an unlimited number of times, respectively, to stay in the country for the time period indicated in the visa and to depart from Latvia. The maximum period of presence in Latvia on a short-term visa is 90 days within a half year, beginning with the date of first entry. The maximum period of validity of a short-term visa is generally one year. However, the maximum period of validity for a short-term visa issued at a border control point is 15 days.

Long-Term Visa. The long-term visa (Category D) is an individual single-, double- or multiple-entry visa, which allows a foreigner, within the time period indicated in the visa, to enter Latvia once, twice or an unlimited number of times, respectively, to stay in the country for the time period indicated in the visa and then to depart from the country.

A long-term visa is issued if a foreigner needs to stay in Latvia for more than 90 days within a half year, beginning with the date of first entry. The visa is issued if the issuance of the visa satisfies all of the following conditions:
• It complies with international law;
• It complies with the interests of Latvia;
• It is substantiated by *force majeure*; and
• It is substantiated by humane considerations.

If a foreigner enters Latvia for the purpose of obtaining a residence permit based on a decision to issue such permit by the Office of Citizenship and Migration Affairs, a single long-term visa with a validity period of 30 days is issued.

The maximum period of validity of a long-term visa is generally one year. However, long-term visas with a note "Diplomatic visa" or "Service visa" are valid for a maximum period of five years.

Frontier Visa. A frontier visa (Category L) is an individual single-, double- or multiple-entry visa, which allows an individual from a frontier territory in the period indicated in the visa to enter Latvia once, twice or an unlimited number of times, respectively, to stay in Latvia for the indicated period of time stated on the visa and to depart from the territory. A frontier visa is issued to individuals from frontier territories under a simplified procedure in accordance with international agreements. The maximum period of presence in Latvia on the frontier visa may not exceed 90 days in a half year, beginning with the date of first entry. The maximum period of validity of the frontier visa is one year.

Latvia has entered into an agreement on a simplified visa issue procedure for individuals from frontier territories with Belarus only.

Special Rules Applicable to Certain Countries. Citizens of the certain countries may obtain single-entry, double-entry, private, transit and emergency visas (valid up to 10 days) at the Riga International Airport without providing an invitation verified by the immigration authorities (the invitation is on a special form that must be approved by the Office of Citizenship and Migration Affairs before the visa application is made) if the individual has a residence certificate that guarantees the right to return. The following are the countries.

Canada	United States	Vatican City

Latvia has reciprocal agreements to abolish visa requirements with the following countries.

Andorra	Honduras	Nicaragua
Argentina	Hungary	Norway
Austria	Iceland	Panama
Belgium	Ireland	Paraguay
Bulgaria	Israel	Poland
Chile	Italy	Portugal
Costa Rica	Japan	Romania
Croatia	Korea	San Marino
Cyprus	Liechtenstein	Singapore
Czech Republic	Lithuania	Slovak Republic
Denmark	Luxembourg	Slovenia
El Salvador	Macau	Spain

Estonia	Malaysia	Sweden
Finland	Malta	Switzerland
France	Mexico	United Kingdom
Germany	Monaco	Uruguay
Greece	Netherlands	Venezuela
Guatemala	New Zealand	

Under the above agreements, in general, foreigners from the listed countries may stay in Latvia for up to 90 days within a year (within six months under the more recently concluded agreements) without a visa. Latvia unilaterally allows the following individuals to stay in Latvia up to 90 days during a year without a visa: citizens of Australia, Bolivia, Brazil, Brunei Darussalam, Canada and Vatican City; individuals with a United Nations or European Commission passport; and EU member country diplomatic or service passport holders.

G. Work and Residence Permits

A residence permit is required if a foreigner wants to reside in Latvia for a time period exceeding 90 days within a half year, beginning from the date of first entry.

H. Family and Personal Considerations

Family Members. Spouses and dependents of expatriates may apply jointly with the expatriate for residence permits as well as work permits. They must provide legalized copies of marriage and birth certificates to obtain Latvian visas or residence permits.

Marital Property Regime. The default marital property regime in Latvia is one of community property. Spouses may establish, alter or terminate their property rights by marital contract before or during the marriage. Under the community property regime, property owned by a spouse prior to marriage and property acquired during the marriage is community property, unless specifically reserved as separate property by contract.

Forced Heirship. Forced heirs in Latvia include a surviving spouse and any descendents, or the most closely related ascendants. The amount of their legal portion varies, according to the number of forced heirs surviving.

Drivers' Permits. Latvia recognizes foreign drivers' licenses in accordance with the European Convention on Road Transport, including international drivers' licenses. In other cases, if a foreign national resides in Latvia longer than six months, he or she must exchange the foreign driver's license for a Latvian driver's license. To obtain a Latvian license, the foreign national must take a driving test. Licenses issued by EU-member countries are valid in Latvia.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—

	Taxable*	Not Taxable	Comments
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Employer-provided housing	X	—	—
Housing contribution	X	—	—
Education reimbursement	X	—	(c)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	(d)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(e)
Capital gain from sale of personal residence in home country	X	—	(f)
Capital gains from sale of stock in home country	X	—	(g)

* The bracketed amount reduces taxable income.

(a) Employee and employer contributions to home-country benefit plans are not taxable up to a maximum of 10% of the annual employment income.

(b) Reimbursement of the increase in housing expenses incurred by an employee within six months after relocation is not taxable if such increase occurs as a result of the relocation.

(c) Payments by the employer on behalf of the employee for the professional education and training of the employee and reimbursements of such expenses may not be taxable.

(d) Payments on behalf of the employee for hotel accommodation and reimbursements of such expenses are taxable if the accommodation does not relate to business trips.

(e) Dividends and interest received from companies registered in other European Union (EU) member states are not taxable.

(f) Capital gains derived from the sale of property are not taxable if the property was owned for at least 12 months.

(g) Capital gains derived from sales of securities are taxable if such sales result from an entrepreneurial activity.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample monthly tax calculation.

	LVL
Monthly gross income	1,000
Less personal allowance	(32)
Less allowance for dependants	(22)
Less social security tax at 9%	(90)
Taxable income	856*
Income tax on LVL 856 at 25%	214
Net income after income and social taxes	696

* Expenses incurred to obtain intellectual property rights, expenses for health care and education (up to an overall limit of LVL 150) and annual donations (up to a limit of 20% of annual taxable income) are deductible on an annual basis.

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A. Income Tax

Who Is Liable. All resident and nonresident individuals are subject to income tax on their income derived in Lebanon. However, certain individuals, such as agricultural workers, nurses and clergymen, are exempt from tax.

Income Subject to Tax. The following are the three categories of taxable income:
- Profits of sole traders from industrial, commercial and noncommercial professions;
- Salaries, wages and pensions; and
- Income from movable capital (dividends, interest and other types of investment income).

Employment Income. Individuals are subject to tax on their salaries and wages earned in Lebanon.

Gross employment income includes total salaries and allowances, wages, indemnities, bonuses, gratuities and other benefits in cash and in kind.

In determining net employment income, the following deductions may be claimed:
- Representation allowances up to 10% of basic salary;
- Transportation allowance provided under the Labor Law;
- Personal allowances;
- Schooling allowances allowable by the Labor Law; and
- In general, all allowances granted to cover disbursements incurred in connection with the performance of employment duties if they are supported by invoices or similar documents.

Net employment income is taxed at progressive rates ranging from 2% to 20%. For a table of the rates applicable to employment, see *Rates*.

Self-Employment Income. Sole traders are taxed on the basis of lump-sum profits, which are equal to a specified percentage of gross income.

Sole traders must submit to the Ministry of Finance before 1 February of each year a statement showing their total gross income and sales during the preceding year. They are taxed at progressive rates ranging from 4% to 21% (for a table of rates applicable to self-employment income, see *Rates*).

Gross income is defined as the total gross proceeds from all operations concluded by the taxpayer during the year preceding the year of assessment. It includes the value of commodities, goods, instruments or materials sold or hired, commissions, brokerage fees, interest, exchange differences and fees.

Deductions

Personal Deductions and Allowances. Resident individuals are entitled to the following family exemptions, which are deducted from taxable income.

Status	Annual Exemption (LL)
Taxpayer	7,500,000
Spouse	2,500,000
First child	500,000
Second child	500,000
Third child	500,000
Fourth child	500,000
Fifth child	500,000

Rates. The following tax rates apply to employment income.

Taxable Income		Tax on	Rate on
Exceeding LL	Not Exceeding LL	Lower Amount LL	Excess %
0	6,000,000	0	2
6,000,000	15,000,000	120,000	4
15,000,000	30,000,000	480,000	7
30,000,000	60,000,000	1,530,000	11
60,000,000	120,000,000	4,830,000	15
120,000,000	—	13,830,000	20

The following tax rates apply to the lump-sum profits of sole traders derived from industrial, commercial and noncommercial professions.

Lump-Sum Profits		Tax on	Rate on
Exceeding LL	Not Exceeding LL	Lower Amount LL	Excess %
0	9,000,000	0	4
9,000,000	24,000,000	360,000	7
24,000,000	54,000,000	1,410,000	12
54,000,000	104,000,000	5,010,000	16
104,000,000	—	13,010,000	21

Nonresidents and other persons without a registered place of business in Lebanon who earn business income for services rendered in Lebanon receive special treatment under the business income tax rules. They are taxed on a deemed profit of the income received from Lebanon. The deemed profit percentage is 50% and the tax rate is 15%. Consequently, the effective tax rate is 7.5% of income derived from Lebanon.

B. Other Taxes

Built Property Tax. Built property tax is generally imposed on rental income, including fees for services provided by the landlord to the tenant. However, it is imposed on estimated rental

income determined by the Department of Built Property Tax if any of the following conditions apply:
• No rent contract exists;
• The property is occupied by the owner; or
• The property is occupied by another party for no rent (free of charge).

Tax is calculated on the net income from property which equals the gross rental income subject to Built Property Tax, as described above, less allowable expenses as stated in the rent contracts. These expenses are specified by law and are limited to a certain percentage of income.

To qualify unoccupied property for exemption from the Built Property Tax, the owner must file the relevant declaration to the competent authorities within a month from the date on which the property was vacated.

The following tax rates are applied to the net income from each property to determine the Built Property Tax.

Taxable Income Exceeding LL	Taxable Income Not Exceeding LL	Tax Rate %
0	20,000,000	4
20,000,000	40,000,000	6
40,000,000	60,000,000	8
60,000,000	100,000,000	11
100,000,000	—	14

Inheritance and Gift Tax. Inheritance and gift taxes are imposed in Lebanon and consist of a flat tax and a proportional tax.

The flat tax is imposed at a rate of 0.5% of the gross inheritance or gift amount less an exemption of LL 40 million.

The net amount of the inheritance, after the deduction of the flat tax, is distributed among the various heirs in accordance with the law. Each heir, depending on his or her relationship with the deceased, may claim deductions ranging between LL 8 million and LL 40 million. The following inheritance tax rates apply to the amount of the inheritance, reduced by the deduction.

Children, Spouses and Grandchildren

Amount of Inheritance Exceeding LL	Amount of Inheritance Not Exceeding LL	Rate %
0	30,000,000	3
30,000,000	60,000,000	5
60,000,000	100,000,000	7
100,000,000	200,000,000	10
200,000,000	—	12

Parents

Amount of Inheritance Exceeding LL	Amount of Inheritance Not Exceeding LL	Rate %
0	30,000,000	6
30,000,000	60,000,000	9
60,000,000	100,000,000	12
100,000,000	200,000,000	16
200,000,000	—	18

Siblings

Amount of Inheritance Exceeding LL	Not Exceeding LL	Rate %
0	30,000,000	9
30,000,000	60,000,000	12
60,000,000	100,000,000	16
100,000,000	200,000,000	20
200,000,000	—	24

Cousins

Amount of Inheritance Exceeding LL	Not Exceeding LL	Rate %
0	30,000,000	12
30,000,000	60,000,000	16
60,000,000	100,000,000	21
100,000,000	200,000,000	26
200,000,000	350,000,000	31
350,000,000	—	36

Other Beneficiaries

Amount of Inheritance Exceeding LL	Not Exceeding LL	Rate %
0	30,000,000	16
30,000,000	60,000,000	21
60,000,000	100,000,000	27
100,000,000	200,000,000	33
200,000,000	350,000,000	39
350,000,000	—	45

Gift tax rates are the same as the inheritance tax rates.

Stamp Duty. Under the Lebanese Stamp Duty Law, fiscal stamps at the rate of LL 3 per LL 1,000 must be affixed to all deeds or contracts. Payment of stamp duty is due within five days from the date of signature of the deed or contract. A fine equal to 10 times the duty is imposed if the stamp duty is paid after the deadline or if it is not paid at all.

Rent contracts must be registered each year and are subject to stamp duty at a rate of 0.3% of the rent.

C. Social Security

Lebanon operates a compulsory social security scheme that requires contributions from both employers and employees. The social security scheme in Lebanon covers the following areas: sickness and maternity; family allowance; and end-of-service indemnity.

Contributions. All companies that have at least one employee must register with the National Social Security Fund within one month of beginning operations. New employees must be registered within 15 days from the date of their employment. Social security contributions by employers are payable on a quarterly basis for companies with less than 10 employees and on a monthly basis for larger companies. Employee contributions are withheld by the employer and paid to the authorities together with the employer's contribution.

Contributions to the social security scheme are calculated as percentages of monthly salaries and wages including overtime, gratuities and fringe benefits. For the sickness and maternity and family allowance schemes, the maximum amount on which contributions are calculated is LL 1.5 million.

For the sickness and maternity scheme, the contribution rates are 7% for employers and 2% for employees. Only employers make contributions to the family allowances and end-of-service indemnity schemes. The contribution rates are 6% and 8.5%, respectively.

Non-Lebanese employees need not be registered with Social Security National Fund if their contracts are signed outside Lebanon and if they can prove that they enjoy social security benefits in their home country similar to the benefits granted in Lebanon.

Totalization Agreements. Lebanon has entered into totalization agreements with Belgium, France, Italy and the United Kingdom to prevent double payment of social security contributions by expatriates working in Lebanon.

D. Tax Filing and Payment Procedures

Under the Lebanese income tax law, employers are responsible for withholding payroll tax and social security contributions from employees' salaries on a monthly basis and remit the withholdings to the tax authorities every three months. Employees are not required to file tax returns.

E. Double Tax Relief and Tax Treaties

Lebanon has entered into double tax treaties with the following countries.

Armenia	France	Romania
Belarus	Iran	Russian Federation
Bulgaria	Malta	Syria
Czech Republic	Morocco	Tunisia
Egypt	Oman	United Arab Emirates

Lebanon has signed other tax treaties that are not yet in force.

F. Entry Visas and Work Permits

All expatriates working in Lebanon must have a work permit and a residence permit. Such permits may be issued only at the request of an employer.

To obtain a work permit, the following items must be submitted:

- A special work permit application completed and signed by the applicant and the employer.
- A list of the names of the foreign employees (if any) at the office of the employer that must be signed and sealed by the employer.
- The address of the employer.
- The passport or the identity card of the expatriate. The Minister of Labor retains a photocopy of this document.
- A medical report evidencing that the expatriate is free from epidemic diseases.
- A photocopy of the employer's registration in Lebanon.
- A list of authorized signatures of the employer.
- A certified copy of the employment contract entered into between the employer and the expatriate.
- A quittance (discharge or clearance certificate) issued by the Social Security National Fund.

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A. Income Tax

Who Is Liable. Citizen residents and permanent residents are taxable on Lesotho-source income and on income brought into Lesotho. Tax-resident expatriates are taxed on income from all sources to the extent that the income is brought into or received in Lesotho.

Income Subject to Tax

Employment Income. All compensation from sources within or deemed to be within Lesotho is taxable. Compensation includes salaries, wages, overtime or leave pay, commissions, directors' fees, bonuses, gratuities, benefits in cash or in kind, allowances, gifts, pensions and retirement benefits. Compensation does not include fringe benefits, but employers are subject to tax on them.

War and disability pension benefits and amounts received from agricultural activities are tax-exempt.

Self-Employment and Business Income. Any individual who earns self-employment or business income from a source within Lesotho or a source deemed to be within Lesotho is subject to tax in the year the income is earned.

To be taxable, self-employment or business income must arise from a source in Lesotho or a source deemed to be within Lesotho. Business income is defined as all profits or gains arising from a business, including capital gains. Business income is calculated by subtracting exempt income and allowable deductions from gross income. If a taxpayer's gross income is less than M 150,000, the cash basis of accounting may be used to determine business income.

Investment Income. Resident shareholders are not subject to tax on dividends.

In general, interest is taxed with other income at the rates set forth in *Rates*. The following interest income is exempt:

- Up to M 500 received by a resident individual from a single savings account; and
- Interest received by a resident individual on which a 10% withholding tax is imposed.

Other investment income, including the profit or loss on the sale of an investment asset, is taxed with other income at the rates described in *Rates*.

Capital Gains and Losses. Gains or losses derived from the sale of business and investment assets are included in the normal taxable income of an individual. Gains or losses derived from the sale of personal assets are not included in taxable income.

Deductions

Deductible Expenses. Expenses directly related to employment are deductible, but personal expenses, including clothing and commuting, are not.

Personal Deductions and Allowances. A personal tax credit of M 2,911 may be deducted from tax liability.

Business Deductions. In general, expenses incurred in earning taxable income are deductible, except for expenses of a capital nature.

Rates. The tax rates for residents are set forth in the following table.

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
M	M	M	%
0	33,075	0	25
33,075	—	8,269	35

The following categories of income derived by nonresidents are subject to withholding tax.

Type of Income	Withholding Tax Rate (%)
Dividends, interest, royalties, natural resource payments and management fees	25
Payments for services	10
Reinsurance payments	5

Nonresidents are subject to pay tax on these categories of income at a flat rate of 25%. A credit is allowed for withholding tax paid.

Relief for Losses. Losses may be carried forward and offset against income of a similar nature in subsequent years.

B. Other Taxes

Lesotho does not impose net worth, estate or gift taxes.

C. Social Security

Lesotho does not impose any social security taxes.

D. Tax Filing and Payment Procedures

The income year in Lesotho runs from 1 April to 31 March. Tax returns must be filed within 30 days of a date set by the tax authorities and announced in the *Government Gazette*. Nonresidents must file tax returns and pay tax on certain categories of income.

Employers are required by law to withhold taxes from remuneration paid to their employees on a monthly basis and to remit these taxes to the tax authorities.

Married persons are taxed separately, not jointly, on all types of income.

E. Double Tax Relief and Tax Treaties

Double tax relief in the form of a tax credit is available in the absence of an applicable double tax treaty.

Lesotho has negotiated double tax treaties with South Africa and the United Kingdom, but these treaties have not yet been ratified.

F. Temporary Visas

All foreign nationals must obtain valid entry visas to enter Lesotho, with the exception of citizens of certain British Commonwealth countries and nationals of Greece, Ireland, Israel, Japan, Norway, Sweden and Thailand. Ownership of assets in Lesotho facilitates the process of obtaining a visa to enter Lesotho.

The following types of temporary visas are issued in Lesotho:
- Transit visas are issued to people passing through Lesotho;
- Tourist visas are issued to visitors who stay less than 90 days in Lesotho;
- Student visas are issued to people entering Lesotho to study; and
- Business visas are issued to people who wish to establish businesses in Lesotho.

The following documents are required when applying for a temporary visa in Lesotho:
- Passport or equivalent document;
- Two passport-size photographs;
- Health declaration;
- Educational credentials; and
- Letter from employer, if applicable.

G. Work Visas and Permits

Work visas are valid for up to two years. Work visas for periods of less than two years may be renewed, but in no case may the total period of validity exceed two years.

Any foreign national seeking employment in Lesotho must obtain a valid work permit. A work permit is valid for a maximum of two years. Work permits are renewable for a maximum of an additional two years. Work permits may be applied for in either the foreign national's home country or in Lesotho. After all of the necessary documents are submitted, the approximate time for receiving a work permit is one to four weeks.

It is possible for an expatriate to change employers after he or she has obtained a work permit, but immigration services should be notified.

The Board of Trade and Commerce reviews and approves proposals for establishing businesses in Lesotho. Proposals must indicate the amount of capital necessary to start the proposed business. The foreign national seeking to start the business must obtain a work permit, trade license and residence permit.

The following additional documents may be required:
- Income tax certificate;
- Memorandum and articles of association; and
- Bank statement (an account must be opened with a local bank).

H. Residence Permits

A residence permit in Lesotho may be valid for six months, one year, two years or an indefinite period of time, depending on the reasons for obtaining the permit. Residence permits are renewable an unspecified number of times. A renewed permit is valid for a maximum of an additional two years. Students must renew their permits annually.

I. Family and Personal Considerations

Family Members. The working spouse of a work permit holder does not automatically receive the same type of visa. An application must be filed independently.

Drivers' Permits. A foreign national must exchange his or her home country driver's license for a Lesotho driver's license to drive legally in the country. However, a foreign national may drive in Lesotho with an international driver's license.

Lesotho has driver's license reciprocity with all other countries; therefore, all foreign country drivers' licenses may be exchanged for Lesotho drivers' licenses.

To obtain a local Lesotho driver's license, an applicant must complete an application form and take a written examination and driving test.

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The information presented below is based on the tax laws of Lithuania in effect on 1 January 2006, and is subject to changes in such laws, including changes that could have retroactive effect. Readers should obtain updated information before engaging in transactions.

A. Income Tax

Who Is Liable. Residents are subject to income tax on their worldwide income. Nonresidents are subject to income tax on income earned through a fixed base in Lithuania and other income derived in Lithuania, including the following: interest; income from distributed profits; rent for real estate located in Lithuania; income on sales of movable property subject to mandatory registration in Lithuania; employment income; income of sportspersons and performers; and royalties, including copyright and auxiliary rights. Income is recognized when it is received.

An individual is considered to be a resident of Lithuania for tax purposes if he or she meets any of the following conditions:
- He or she has a habitual abode in Lithuania;
- His or her center of vital interests is in Lithuania;
- He or she is present in Lithuania continuously or with interruptions for 183 or more days in the calendar year; or
- He or she is present in Lithuania continuously or with interruptions 280 or more days in two consecutive calendar years and is present in Lithuania continuously or with interruptions 90 or more days during one of these tax years.

If an individual who is considered a Lithuanian resident for three tax years leaves Lithuania during the fourth year, and if he or she spends less than 183 days in Lithuania during the fourth year, he or she is treated as a Lithuanian resident during the fourth year until his or her last day in Lithuania.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Residents employed by Lithuanian companies are subject to income tax on income earned from employment in Lithuania and abroad. Nonresidents employed by Lithuanian companies are subject to income tax on income earned from employment in Lithuania. Residents of Lithuania employed by foreign companies and nonresidents employed by foreign companies to work in Lithuania are subject to income tax on their employment income.

Taxable employment income is all income in cash and in kind, including wages and salaries, bonuses, fringe benefits including free lodging, and other incentive payments.

Self-Employment and Business Income. The taxation of income from partnerships and private (personal) enterprises is regulated by the Law on Corporate Profit Tax. Income from individual activity (for example, income from rendering independent services) that is registered with Lithuanian tax authorities is subject to tax under the Law on Residents Income Tax at either of the following rates:
- 15%, if the individual elects to be taxed on the gross income received; or
- 33% (27% from 1 July 2006 and 24% from 1 January 2008), if the individual elects to be taxed on the profit (the income reduced by certain expenses).

Investment Income. Dividends received from Lithuanian and foreign companies (with certain exceptions) are taxed at a rate of 15%.

Interest from Lithuanian credit institutions (banks, credit unions or other institutions that are licensed by the Lithuanian central bank) is not taxable in Lithuania. Interest from foreign credit institutions may be taxed at a rate of 15% (the rules will be changed, effective from 1 January 2007). Interest on loans is not taxable if the repayment period of the loan begins more than 366 days after the date of the granting of the loan. For interest on loans granted by the borrower's shareholders or employees to be not taxable, additional requirements apply.

Interest from securities of the government of Lithuania (effective from 1 January 2007, EEA countries) or municipalities is not taxable. Interest on other securities is not taxable if the maturity date of the securities is more than 366 days after the date of issuance of the securities. For interest on securities owned by the issuer's employees to be not taxable, additional requirements apply.

Royalties paid to resident and nonresident authors and inventors are taxed at a rate of 15%.

Directors' Fees. An annual management bonus received from a Lithuanian company by a board member that is not payable under the individual's employment contract is treated as miscellaneous income. It is taxed at a rate of 33% (27% from 1 July 2006, and 24% from 1 January 2008) if the board member is a Lithuanian resident, but it is not taxed if the board member is a nonresident.

If a board member is employed by the Lithuanian company and receives income under his or her employment contract, the income is treated as employment income and is taxed accordingly (see *Employment Income*).

Exempt Income. The following amounts are excluded from taxable income:
- Death allowances to the spouse, children (including adopted children) and parents (including foster parents);
- Life insurance payments;
- The difference between annual proceeds received from the sale of property not requiring legal registration and its acquisition price, not exceeding 24 monthly nontaxable income amounts (LTL 6,960 or €2,016);
- Income received from the sale of movable property legally registered in Lithuania or immovable property located in Lithuania if the property was acquired more than three years before the date of the sale;
- Income from the sale of securities (in certain cases); and
- Certain other income listed in the Law on Resident Income Tax.

Capital Gains. Capital gains are generally taxable, subject to the exceptions mentioned in *Exempt Income*.

Deductions

Personal Deductions and Allowances. Residents and nonresidents may deduct the general nontaxable minimum amount, which is LTL 290 per month (approximately €84) from all types of income. For specified groups of residents, including disabled persons and single parents, the nontaxable minimum amount is higher.

Individuals who have one or two children may deduct an additional nontaxable income amount. The monthly amounts are LTL 14.5 (€4.2) and LTL 29 (€8.4), respectively.

Nonresidents may deduct the general nontaxable minimum amount from Lithuanian-source employment income only.

Deductible Expenses. The following deductions from a resident's personal taxable income are allowed:
• Cumulative life insurance premiums (these are premiums paid under a life insurance agreement providing that the insurance payments may be received not only in the event of accidents, but also after the expiration of the agreement) paid on the individual's own behalf and on behalf of his or her spouse and minor children.
• Pension contributions to pension funds on the individual's own behalf and on behalf of his or her spouse and minor children.
• Interest on housing construction and acquisition loans.
• Tuition (university education, acquisition of qualification, PhD, post-graduate studies). This includes tuition paid for the spouse, siblings and children. If a loan is obtained to pay tuition, only the amount of loan repaid during a tax year may be deducted.
• The expenses of purchasing a personal computer (subject to certain limitations).

The total amount of the above deductions may not exceed 25% of taxable income (taking into account deductions).

Rates. The two rates of individual income tax are 15% and 33% (27% from 1 July 2006, and 24% from 1 January 2008). The 15% rate applies to the following income:
• Income from distributed profits (with certain exceptions);
• Interest income;
• Royalties and remuneration under copyright agreements;
• Income from sales or other transfers of non-individual activity (see *Self-Employment and Business Income*) assets;
• Rental income;
• Income from individual activity (if the individual elects to pay tax on the gross income, as opposed to the profit from the activity); and
• Certain other income listed in the Law on Resident Income Tax.

Other income is subject to tax at a rate of 33% (27% from 1 July 2006, and 24% from 1 January 2008).

For a sample tax calculation, see Appendix 2.

B. Other Taxes

Land Tax and State Land Lease Tax. Land tax is imposed on landowners, both individuals and legal entities, at a rate of 1.5% of the estimated value of the land. State land lease tax is imposed on users, both individuals and legal entities, of state land at rates ranging from 1.5% to 4% of the estimated value of the state land.

Inheritance Tax. Inheritance tax is applied to both residents and nonresidents, unless international treaties provide otherwise. The tax base for a Lithuanian permanent resident is inherited property, such as movable property, immovable property, securities and cash. The tax base for a nonresident is inherited movable property requiring legal registration in Lithuania (for example, vehicles) or immovable property located in Lithuania. The rate of inheritance tax applied to inheritors is 5% if the taxable value is less than LTL 0.5 million (€144,810) and 10% if the taxable value exceeds LTL 0.5 million. Close relatives, such as children, parents, spouses and certain other individuals, may be exempt from this tax. Inherited property valued below LTL 10,000 (€2,896) is not subject to tax.

C. Social Security

Employers must withhold social security contributions at a rate of 3% from an employee's gross salary. Social security contributions are not deductible when calculating the amount of an employee's personal income tax to be withheld from the employee's gross payroll. In addition, employers must make social security contributions at a rate of 30.98%, 31.23% or 31.7%, depending on the type of the employer.

Certain types of employment-related income are exempt from social security contributions, including the following:

- Benefits related to an employee's death paid by an employer to the employee's spouse, children and parents, or in the event of a natural disaster or fire, in the amount of five minimum monthly salary payments (LTL 2,750 or €796; from 1 July 2006, LTL 3,000 or €869);
- Reimbursement of business travel expenses in the amount specified under the laws or government resolutions;
- Payments for the training and requalification of employees; and
- Allowances for illness compensated by the Lithuanian employer for the first two days of illness.

Self-employed individuals and individuals that register an individual activity in Lithuania must pay social security contributions that vary depending on amount of income received.

D. Tax Filing and Payment Procedures

A Lithuanian tax resident that receives income during a tax year must file an annual income tax return by 1 May of the following year. A permanent resident must pay the difference in income tax between the amount specified in his or her annual income tax return and the amount paid (withheld) during the tax year by 1 May of the following year.

A permanent resident may elect not to file the annual income tax return if any of the following apply:

- The individual will not exercise his or her right to deduct the annual nontaxable income amount (the general nontaxable minimum amount applicable to residents and nonresidents is LTL 290 [€84] per month) or the additional nontaxable income amount (see Section A);
- The individual will not exercise his or her right to deduct certain expenses incurred from income; or
- The individual received Class A income only (in general, Class A income includes income received from Lithuanian enterprises in the tax year; the tax is calculated, paid and declared by the enterprise).

Tax residents who hold specified positions in certain Lithuanian institutions must file annual tax returns and special asset tax returns.

Nonresidents must file income tax returns and pay tax due not later than 25 days after the receipt of income.

E. Double Tax Relief and Tax Treaties

The following rules apply to the taxation of foreign source income received by permanent Lithuanian residents:

- Income (except dividends, interest and royalties) received by a permanent Lithuanian resident and taxed in another European Union (EU) member state or another state with which Lithuania entered into a double tax treaty is exempt from tax in Lithuania;
- A permanent Lithuanian resident may reduce the Lithuanian income tax applicable to dividends, interest and royalties by the amount of income tax paid in the country where the income was sourced if the source country was an EU member state or a state with which Lithuania has entered into a double tax treaty; and
- A permanent Lithuanian resident may reduce the Lithuanian income tax applicable to all types of income by the amount of income tax paid on such income in other states, except for income received from tax havens.

Lithuania has entered into double tax treaties with the following countries.

Armenia	Germany	Romania
Austria	Greece	Russian
Azerbaijan	Hungary	Federation
Belarus	Iceland	Singapore
Belgium	Ireland	Slovak Republic
Canada	Italy	Slovenia
China	Kazakhstan	Spain
Croatia	Latvia	Sweden
Czech Republic	Malta	Switzerland
Denmark	Moldova	Turkey
Estonia	Netherlands	Ukraine
Finland	Norway	United Kingdom
France	Poland	United States
Georgia	Portugal	Uzbekistan

F. Entry Visas

The Law on the Legal Status of Aliens, which entered into force on 30 April 2004, is designed to harmonize the Lithuanian law regulating the legal status of aliens in Lithuania with the requirements of the EU with respect to visas, migration, asylum and free movement of persons.

In general, to enter Lithuania, a foreign national must have a visa stamped in his or her valid travel document. Under Lithuanian free travel agreements, resolutions and treaties, citizens of the EU and the following jurisdictions may enter Lithuania freely.

Andorra	Honduras	Nicaragua
Argentina	Hong Kong (c)	Norway
Armenia (a)	Iceland	Panama
Australia	Israel	Paraguay
Bolivia	Japan	Romania
Brazil	Korea (South)	San Marino
Brunei Darussalam	Liechtenstein	Singapore
Bulgaria	Macau (c)	Switzerland
Canada	Malaysia	Turkey (d)
Chile	Mexico	Ukraine (b)

China (b)	Moldova (a)	United States
Costa Rica	Monaco	Uruguay
Croatia	Morocco (a)	Vatican City
El Salvador	New Zealand	Venezuela
Guatemala		

(a) For holders of diplomatic passports only.
(b) For holders of diplomatic and official passports only.
(c) For Hong Kong and Macau Special Administrative Region passport holders only.
(d) For holders of diplomatic, official and special passports only.

In general, Lithuania allows such citizens to stay in Lithuania for up to 90 days without obtaining any specific stay document. EU citizens seeking employment or intending to engage in any other lawful activity in Lithuania may stay in the country for an additional three months.

An ordinary visa allows an individual to enter and stay in Lithuania for up to 90 days during a 6-month period.

G. Work Permits

Before beginning employment in Lithuania under an employment contract, a foreign national, other than an EU citizen, must obtain a work permit. Certain other exemptions from this requirement apply, including the following:
- A manager or authorized representative of the company, office or organization that is registered in Lithuania if the principal purpose of his or her stay in Lithuania is employment with that company, office or organization;
- A specialist who sets up or adjusts equipment acquired abroad, or trains the employees in the use of the equipment, for a period of three months throughout the year; and
- A consultant who comes to work in Lithuania for a period of three months or less throughout the year.

Work permits, which are valid for up to two years, are issued by the State Labor Exchange.

H. Residence Permits

A foreign national intending to reside in Lithuania for longer than 90 days during a 6-month period or work for a Lithuanian company must obtain a temporary residence permit, which is valid for one year. Citizens of EU countries may obtain temporary residence permits for a period of up to five years, depending on the purpose of the individual's stay in Lithuania. Temporary residence permits are granted to applicants who meet certain qualifications, such as possession of a valid work permit, possession of legally acquired funds or marriage to a Lithuanian citizen.

Foreign nationals (except EU citizens and citizens who do not need visas for travel to Lithuania) who apply for a residence permit for the first time must submit an application to a diplomatic mission of Lithuania or a consular institution abroad. EU citizens and citizens who do not need a visa for travel to Lithuania may apply for a residence permit in Lithuania after they arrive in the country.

Under the law, an application for a temporary residence permit in Lithuania from an EU citizen must be examined within one month. For non-EU foreign nationals, this period is increased to six months.

A foreign national who is an EU citizen may apply for a permanent residence permit in Lithuania if he or she has held a temporary residence permit for at least four years. For non-EU citizens, this minimum period is increased to five years.

I. Family and Personal Considerations

Marital Property Regime. Marital property relations are regulated by the Civil Code of Lithuania.

Under the law, spouses or future spouses may enter into a notarized marital agreement regulating the legal status of the spouses' property that is registered under an established procedure. If a marital agreement is not entered into, property acquired by spouses during their marriage is considered jointly owned property. Each of the spouses has equal rights to use and dispose of jointly owned property. At any stage of marital life, couples may divide their jointly owned property by a notarized marital agreement.

The jointly owned property regime applies to all officially married heterosexual couples who have a permanent residence in Lithuania, unless a marital agreement establishing another governing law is concluded. If the spouses reside in different countries, the jointly owned property regime applies only if both spouses are citizens of Lithuania. In other situations, the jointly owned property regime applies only if the couples solemnize their marriages in Lithuania. The law recognizes a concept of family property that may be used for family requirements only, including matrimonial domicile and right to use a matrimonial domicile.

The law applicable to an agreement between the spouses regarding matrimonial property is determined by the law of the state chosen by the spouses in the agreement. The spouses may choose the law of the state in which they are both domiciled or will be domiciled in the future, or the law of the state in which the marriage was solemnized, or the law of the state of which is one of the spouses is a citizen. The agreement of the spouses on the applicable law is valid if it is in compliance with the requirements of the law of the selected state or the law of the state in which the agreement is made. The applicable law chosen in the agreement of the spouses may be used in resolving disputes related to real rights in immovable property only if the requirements of public registration of this property and of the real rights therein, as determined by the law of the state where the property is located, were complied with.

Forced Heirship. Under the Civil Code of Lithuania, certain heirs and descendants have a right to a legal share of their relatives' estate. Children (including adopted children) of the deceased, as well as a spouse and parents requiring care, are entitled to half of their intestate share, regardless of the provisions of any will, unless the bequeathed share is larger.

The form of the will is determined by the laws of the country where the will is concluded. However, a will, as well as its amendment or revocation, is valid if the form of these items is in compliance with the requirements of any of the following:

- The law of the state of the testator's domicile;
- The law of the state of which the testator was a citizen when the relevant acts were performed; or
- The law of the state of the testator's residence when the relevant acts were performed or at the time of his or her death.

Land, buildings and other immovable property located in Lithuania are inherited in accordance with the laws of Lithuania.

Drivers' Permits. A driver's permit issued to a resident of a foreign country is valid in Lithuania if the person possesses an international driver's license that meets the requirements of the 1968 Vienna Convention or a driver's license issued by a EU member state or a driver's license that Lithuania must recognize under international agreements. A driver's license issued by a non-EU country to a foreigner residing in Lithuania for a period longer than 185 days within one calendar year is not recognized.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan (pension fund)	(X)	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(b)
Housing allowance	X	—	(b)
Employer-provided housing	X	—	(b)
Housing contribution	X	—	(c)
Education reimbursement	—	X	—
Hardship allowance	X	—	—
Other allowance	X	—	(b)
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	(b)
Tax reimbursement (current and/or prior, including interest, if any)	—	X	(d)
Value of hotel provided	X	—	(b)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(d)
Capital gain from sale of personal residence in home country	X	—	(d)
Capital gains from sale of stock in home country	X	—	(d)

* Bracketed amounts reduce taxable income.

(a) The deductibility of the contributions is subject to the overall limit on the deductibility of expenses. If the total amount of deductible expenses incurred by a resident exceeds 25% of the taxable income (taking into account deductions), the excess amount is not deductible. Otherwise, the full amount is deductible.

(b) If travel in or outside Lithuania qualifies as a business trip, maximum daily allowances and maximum amounts for rent of a living space, which are established for various countries, are classified as nontaxable compensation. Reimbursements for other travel expenses are also considered to be nontaxable income.

(c) Individuals may not reduce their taxable income by the amount of housing contributions made by them.
(d) A tax reimbursement is not taxable if the amount is paid directly to the tax authorities.
(e) Nonresident individuals are not subject to tax on foreign-source ordinary income and capital gains. In certain circumstances, resident individuals are not subject to tax on interest and capital gains.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for an expatriate, who is a resident in Lithuania for all of 2005 and is married with two dependent children under 18 years old. During 2005, the expatriate received compensation of LTL 150,000, LTL 100,000 of which was paid in Lithuania and the balance deposited in a home-country bank account and not remitted to Lithuania. The individual's employer also provided housing at a cost to the company of LTL 60,000. During 2005, the expatriate paid a tuition fee of LTL 10,000 for the expatriate's Master's studies and purchased a personal computer for LTL 4,000. The following is the tax calculation.

	LTL	LTL
Calculation of Taxable Income		
Income:		
Salary	150,000	
Taxable value of housing	60,000	
Total income		210,000
Nontaxable income amounts:		
Taxpayer	(3,480)	
Children	(696) (a)	
Total nontaxable income amounts		(4,176)
Personal deductions:		
Tuition fee	(10,000)	
Personal computer	(4,000) (b)	
Total deductions		(14,000)
Taxable income		191,824
Calculation of Tax		
Tax on LTL 191,824 at 33% (c)		63,302

(a) It is assumed that the individual's spouse does not use half of the deduction for children.
(b) This item is deductible only from 2004 through 2006 if specific requirements are met.
(c) The tax rate of 33% will be reduced to 27%, effective from 1 July 2006, and to 24%, effective from 1 January 2008.

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A. Income Tax

Who Is Liable. Residents of Luxembourg are subject to tax on their worldwide income. Nonresidents are subject to tax on their Luxembourg-source income only.

Individuals are considered resident if their accommodation indicates that they do not intend to reside only temporarily in Luxembourg or if they spend more than six months in Luxembourg.

Married individuals are jointly taxable.

Income Subject to Tax. Luxembourg income tax law distinguishes among several categories of income, including income from employment, self-employment, trade and business, and agriculture.

Employment Income. Resident and nonresident employees are subject to income tax on remuneration received from employment. Employment income includes wages, salaries, bonuses, employer-provided pension contributions and all other compensation for services rendered. Wage tax is withheld at source.

Self-Employment and Business Income. Individuals who act independently in their own name and at their own risk are taxed on income derived from self-employment or business activities. Nonresidents are taxable only to the extent they operate through either a permanent establishment or a fixed place of activity located in Luxembourg.

In general, taxable income includes all income and capital gains attributable to self-employment or business activities, at the rates set forth in *Rates*.

Investment Income. Dividends received by a resident taxpayer from a resident or nonresident company are generally subject to personal income tax. A 50% exemption is granted for dividends received from the following: a taxable resident company; a taxable European Union (EU) resident company; or a taxable company resident in a country that has entered into a double tax treaty with Luxembourg. A 20% tax is withheld by the Luxembourg distributing company and can be offset against Luxembourg tax or refunded under certain circumstances. Only 50% of the expenses related to such dividends is deductible.

Under the EU Savings Directive and the Luxembourg law implementing the directive, Luxembourg paying agents are required to withhold tax on interest paid to beneficial owners (individuals or residual entities residing in other EU member states as well as in some non-EU countries), unless these individuals choose exchange of information or provide the paying agent with a certificate issued by the tax authorities of their home country. The withholding tax is 15%, effective from 1 July 2005, 20%, effective from 1 July 2008, and 35%, effective from 1 July 2011.

Effective from 1 January 2006, a new law provides a final withholding tax of 10% on interest income paid by a paying agent established in Luxembourg to beneficial owners residents in Luxembourg. Interest income subject to this final withholding tax is no longer required to be reported into the annual tax return. The 10% tax will apply on income accrued since 1 July 2005, but paid after 1 January 2006. The withholding tax is not considered a final withholding tax if the income derives from business assets of the investor rather than from private assets. For this purpose, business assets are assets used in self employment or business activities. The definition of interest payment subject to a final withholding tax is contained in Article 6 of the law implementing the EU Savings Directive with certain exclusions (for example, dividends or capital gains derived from investment funds). In addition, the law provides that for certain savings deposits, interest under a threshold of €250 per person per paying agent is not taxable.

If the taxpayer is a Luxembourg resident, income excluded from the 10% final withholding tax must be reported in the annual tax return and is taxed at the progressive rates.

A lump-sum deduction of €25 is granted for expenses related to both dividend and interest income (excluded from the 10% final withholding tax), unless actual expenses are higher. This lump-sum deduction is €50 for spouses subject to joint taxation. In addition, both dividend and interest income (excluded from the 10% final withholding tax) are exempt up to €1,500 (the exemption is doubled for spouses jointly taxable). Expense deductions may not create a loss that could offset other sources of income, except in certain limited cases.

Royalties and income from the rental of real property are aggregated with other income and taxed at the rates set forth in *Rates*.

Nonresidents are subject to the 20% withholding tax on dividends received from Luxembourg companies. However, if an applicable double tax treaty provides a lower tax rate (for example, 15%), nonresidents can claim a refund of the excess tax withheld.

Nonresidents are not subject to withholding tax on royalties, effective from 1 January 2004.

Directors' Fees. Payments to managing directors of Luxembourg companies for day-to-day management are considered to be employment income and are taxed at the rates set forth in *Rates*. Otherwise directors' fees are subject to withholding tax at a rate of 20%. If a nonresident director's only income in Luxembourg amounts to a gross fee of less than €100,000 per year, the 20% withholding tax is a final tax and an individual income tax return does not need to be filed. However, the nonresident director may file a tax return at his or her discretion. Individuals who are required to or elect to file an income tax return may credit the 20% withholding tax against their Luxembourg tax liability.

If the company bears the tax on directors' fees, then the tax rate applicable to the net fees is 25%.

Taxation of Employer-Provided Stock Options. If a stock option is freely tradable or transferable, the employee is taxed on the date the option is granted. If the option is not tradable or transferable, the employee is taxed on the date the option is exercised. The taxable benefit is subject to income tax and to social security contributions by both the employer and the employee.

Capital Gains

Movable Property. Substantial shareholdings (more than 10%) in resident or nonresident corporations are fully subject to tax on capital gains in the hands of resident taxpayers. However, half of the normal tax rate (that is, a maximum of 19%) and tax relief of €50,000 (€100,000 for spouses jointly taxable) apply to capital gains if substantial shareholders sell the shares after a six-month holding period (for a transitional period from 2002 until 2007, the allowance is granted even if the six-month holding period requirement is not met). For the disposal of substantial shareholdings, an adjustment for inflation applies to the acquisition price. Capital gains on nonsubstantial shareholdings (10% or less) and other securities, such as shares in investment funds, are tax-free only if they are realized more than six months after acquisition. Otherwise, the gains are fully taxable at the rates set forth in *Rates*.

Capital gains derived from the disposal of substantial shareholdings in corporations are taxable in the hands of a nonresident taxpayer if either of the following applies:

- The taxpayer was previously resident in Luxembourg for more than 15 years and became nonresident less than 5 years before the disposal; or
- The taxpayer sold his or her shares within six months following the acquisition.

The above rules regarding nonresidents do not apply if an applicable tax treaty does not give Luxembourg the right to tax the gains.

Real Estate. Capital gains on sales of privately owned buildings and land realized within two years after purchase are taxable as ordinary income. Gains on real estate sold more than two years after purchase are taxable after adjustment for inflation and application of a standard exemption of €50,000. This allowance is €100,000 for spouses subject to joint taxation. The exemption is renewed every 10 years (for example, if the exemption is completely used up in one year, the individual must wait 10 years to claim another exemption). In addition, the capital gain is taxed at half of the normal rate (that is, 19%). An additional allowance of €75,000 for each spouse is available for the sale of a home inherited by a direct descendant that was the principal residence of the taxpayer's parents or spouse.

Temporary measures have been introduced for the period of 2002 through 2007. These measures provide for taxation at a quarter of the normal rate (that is, 9.5%) for capital gains realized on real estate, regardless of the holding period. During the transitory period, the above-mentioned allowance (€50,000 or €100,000) is also granted.

Under certain conditions, gains on the sale of privately owned real estate may be deferred for tax purposes if the proceeds are reinvested in newly built leasehold properties located in Luxembourg.

Gains derived from the sale of a principal residence are exempt from tax.

Nonresident taxpayers are taxed on capital gains from real estate located in Luxembourg in the same manner as residents.

Personal Property. Capital gains derived from transfers of personal property not used in a business are taxed at ordinary rates if the asset is sold within six months after acquisition.

Realized by a Business. Capital gains derived from investments and from the disposal of real estate that forms part of the net asset value of a privately owned business are taxable.

Deductions

Deductible Expenses. Nonreimbursed expenses incurred by an employee to create, protect or preserve employment income are generally deductible. A standard deduction of €540 for employment-related expenses is granted. The standard deduction is doubled for a married couple if both spouses earn employment income.

The following expenses are deductible for tax purposes:
- Alimony paid to a divorced spouse and other specified periodic payments;
- Social security contributions levied on salary (however, care insurance is not deductible; see *Social Security*); and
- Interest on loans contracted to purchase owner-occupied housing, up to a ceiling that decreases with the length of time the housing is occupied, as indicated in the following table:

Date Housing First Occupied	Ceiling (€)
Before 1 January 1995	750
From 1 January 1995 to 31 December 1999	1,125
After 31 December 1999	1,500

Subject to certain conditions, each of the following items is deductible, up to an annual ceiling of €672 for each person in the taxpayer's household:
- Premiums paid for voluntary life, accident, sickness, third-party unemployment and automobile insurance;
- Interest on consumer loans; and
- Contributions to house-saving institutions to finance housing through approved home-ownership plans.

Under specified conditions, old-age providence premiums may be deducted up to an annual ceiling ranging from €1,500 to €3,200, depending on the age of the subscriber.

Personal Deductions and Allowances. A deduction may be claimed for the following extraordinary expenses if specified conditions are fulfilled:
- Expenses for hospitalization that are not covered by a sickness fund;
- Maintenance of close relatives;
- Expenses related to handicapped persons;
- Child care expenses; and
- Employment of domestic staff.

A dependent partner (not married) allowance, amounting to €9,780 per year plus €1,020 for each child of the partner living in the household, has been introduced, effective from 1 November 2004.

Business Deductions. In general, all expenses for business or professional activities are deductible, such as the following:

- Costs of material and stock;
- Staff costs, certain taxes, rental and leasing expenses, finance charges, self-employed social security contributions, and all general and administrative expenses;
- Depreciation of fixed assets;
- Provisions for identified losses and expenses; and
- Loss carryforwards.

Rates. Tax rates are progressive with a maximum rate of 38.95% in 2006, which includes a 2.5% surcharge for the unemployment fund. The following average income tax rates for 2006 do not take this surcharge into account.

	Single Individual		Married Couple	
Taxable Income €	Amount of Tax €	Effective Tax Rate %	Amount of Tax €	Effective Tax Rate %
20,000	1,357	6.79	40	0.2
40,000	7,535	18.84	2,714	6.79
60,000	15,135	25.23	7,812	13.02
80,000	22,735	28.42	15,070	18.84
100,000	30,335	30.34	22,670	22.67
120,000	37,935	31.61	30,270	25.23
140,000	45,535	32.53	37,870	27.05

	Married, 1 Child		Married, 2 Children	
Taxable Income €	Amount of Tax €	Effective Tax Rate %	Amount of Tax €	Effective Tax Rate %
20,000	0	0	0	0
40,000	1,814	4.54	914	2.28
60,000	6,912	11.52	6,012	10.02
80,000	14,170	17.71	13,270	16.59
100,000	21,770	21.77	20,870	20.87
120,000	29,370	24.48	28,470	23.72
140,000	36,970	26.41	36,070	25.76

Nonresidents are subject to the same rates.

Business Profits Tax. Net business profit is subject to both income tax and municipal business tax.

Certain tax credits, such as the investment tax credit, may reduce the final tax due.

In addition, privately held businesses are subject to municipal business tax on trade profit as computed for income tax purposes, subject to various adjustments, less a standard exemption of €40,000. The rate varies depending on the municipality, but generally is approximately 7.5%.

Nonresidents who carry on business through a permanent establishment in Luxembourg are taxed at the same rates as residents, except that the minimum rate for nonresidents is 15.38%.

Relief for Losses. Business losses may be carried forward without limitation if accounts are kept in accordance with generally accepted accounting principles. Losses may not be carried back. They may not be deducted by a successor except under certain circumstances.

Losses derived from investments in securities may only offset positive investment income, and not positive income from other categories. However, an exception to this rule may apply if the taxpayer holds a significant shareholding in a company and derives his or her professional earning from activities in that company.

B. Other Taxes

Net Worth Tax. The wealth tax for resident and nonresident individuals is abolished, effective from 1 January 2006.

Inheritance and Gift Taxes. The tax base for inheritance tax is the market value at the time of death of the entire net estate inherited from a person domiciled in Luxembourg. Exemptions apply to real estate located abroad and, under certain conditions, to movable assets held outside Luxembourg. If the decedent was a nonresident at the time of his or her death, inheritance tax is levied only on real estate located in Luxembourg. The inheritance tax rates range from 0% to 48%. The rate applicable to resident heirs in direct line (for example, a son or daughter, or grandson or granddaughter) is 0%. However, nonresident heirs are taxable, even in direct line, at rates that range from 2% to 48%.

Gifts and donations that are required to be registered with the Administration de l'Enregistrement (and therefore subject to registration tax) are subject to gift tax. Gift tax is payable by the resident or nonresident donee on the gross market value of the assets received. The rates range from 1.8% to 14.4%, depending on the relationship between the donor and the donee.

Gifts that are not required to be made in writing (for example, gifts of movable assets transferred by delivery) are generally accepted without registration. However, such gifts may be subject to registration tax if another registered deed refers to them.

In addition, gifts made by the decedent within the year preceding his or her death are aggregated with the taxable asset base, unless they were subject to gift duties.

C. Social Security

Contributions. Social security contributions apply to wages and salaries and must be withheld by the employer. These contributions cover old-age pension and health insurance. Only employers pay contributions for professional accident coverage. The following social security rates apply as of 1 January 2006.

	White-Collar		Blue-Collar	
	Employee %	Employer %	Employee %	Employer %
Pension (a)	8	8	8	8
Illness (a)	2.80	2.80	5.05	5.05
Accident	0	0.53 (b)	0	0.53 (b)
Health at Work	0	0.11 (c)	0	0.11 (c)
Total	10.80	11.44	13.05	13.69

(a) Subject to an annual ceiling of €90,205.44, effective from 1 January 2006.
(b) The rates range from 0.53% to 6%, depending on the economic sector of the business carried out by the employer.
(c) The Health at Work contribution is payable only by employers that are members of the National Service for Health at Work.

In addition, care insurance to support the elderly and the disabled is payable by employees at a rate of 1% on total gross income with no ceiling, but after an annual deduction of €4,510.32 (as of 1 January 2006). Employers are not subject to care insurance contributions.

Self-employed individuals must register for social security purposes. The rates of contribution are approximately the same as those for employers and employees combined.

Totalization Agreements. In accordance with the principle of free circulation of wage earners, Luxembourg has adopted the EU's multilateral social security regulations concerning social security for nonresident workers, which provide coordination among the social security systems of EU countries. These regulations also apply to European Free Trade Association (EFTA) countries, and to Switzerland effective from June 2002.

In addition, Luxembourg has entered into bilateral social security totalization agreements with Brazil, Canada, Cape Verde, Chile, Croatia, Quebec, Serbia and Montenegro, Tunisia, the United States and Yugoslavia. Bilateral social security agreements with Bulgaria, Romania and Turkey are not yet entered into force.

D. Tax Filing and Payment Procedures

The tax year corresponds to the calendar year.

Taxpayers must file annual income tax returns by 31 March 2007 for income earned in 2006. The filing deadline may be extended on the request of a taxpayer.

Special rules apply to certain taxpayers. For example, employees subject to withholding tax and without another source of income must file tax returns only if their annual taxable remuneration exceeds €58,000. The employer must withhold wage tax.

Single nonresident taxpayers earning Luxembourg-source salaries and pensions must file tax returns if their taxable annual income exceeds €58,000 and if they have been employed continuously during nine months of the tax year. Married nonresidents filing jointly must file tax returns if their joint salaries and pensions exceed €31,000 and if, separately or together, they earn more than one Luxembourg salary or pension.

Self-employed individuals must make quarterly prepayments of tax in amounts that are fixed by the tax authorities based on the individual's most recent final assessment.

E. Tax Treaties

Most of Luxembourg's tax treaties provide double tax relief through the exemption-with-progression method. Interest, dividends and royalty income, however, are subject to tax credit rules. Luxembourg has entered into double tax treaties with the following countries.

Austria	Italy	Singapore
Belgium	Japan	Slovak Republic
Brazil	Korea	Slovenia
Bulgaria	Malaysia	South Africa
Canada	Malta	Spain

China	Mauritius	Sweden
Czech Republic	Mexico	Switzerland
Denmark	Mongolia	Thailand
Finland	Morocco	Trinidad and Tobago
France	Netherlands	Tunisia
Germany	Norway	Turkey
Greece	Poland	United Kingdom
Hungary	Portugal	United States
Iceland	Romania	Uzbekistan
Indonesia	Russian Federation	Vietnam
Ireland		

Treaties with Argentina, Azerbaijan, Estonia, India, Israel, Latvia, Lebanon, Lithuania, San Marino, Serbia and Montenegro, Ukraine and the United Arab Emirates are in the process of negotiation or await ratification.

Residents deriving income in nontreaty countries are in principle entitled to a credit for foreign taxes paid, up to the amount of tax imposed by Luxembourg on the foreign-source income.

F. Temporary Visas

Luxembourg offers temporary transit visas and short-stay visas (*visa de court séjour*). A transit visa is valid for travelers passing through Luxembourg. A short-stay visa is valid for persons (employed and self-employed) who stay in Luxembourg for a short period and do not derive income in Luxembourg—for example, tourists, students enrolled in training courses in Luxembourg for less than three months and people on business trips.

For businesspersons, a special visa called *visa de circulation* may be requested. This visa is valid for one year under the condition that stays do not exceed 90 days per semester (from 1 January to 30 June and from 1 July to 31 December).

The renewal of visas depends on the situation of the visa holder. In general, renewals are granted for one year.

G. Work Permits and Self-Employment

Before becoming employed in Luxembourg, a foreign national must satisfy conditions entitling him or her to enter and reside in Luxembourg and, if applicable, to obtain a work permit.

For purposes of entry, residence and work in Luxembourg, foreign nationals are divided into different categories of workers, depending on whether they are nationals of a member country of the EU, a member country of EFTA or nationals of other countries.

Work Permits. Luxembourg legislation provides for several categories of work permits, which are described below. Each type of work permit becomes invalid if the holder is absent from Luxembourg for six months or longer without interruption. However, this does not apply if the worker remains under contract with the Luxembourg employer throughout the period of absence, regardless of the duration of absence from Luxembourg.

Non-EU citizens and non-EFTA citizens must obtain work permits. The application for the work permit must be obtained prior to the commencement of work.

Work Permit A. Work Permit A is granted to employees applying for the first time for a work permit in Luxembourg. Work Permit A is valid for only one year, in one profession and with one employer. This type of work permit may also apply if the permit holder has several employers in the same profession. However, the permit holder's working hours per week may not exceed the normal working hours authorized by the regulations in force.

Work Permit B. Work Permit B is valid for four years and for one profession, but for any employer. This work permit is granted to employees who have at least one year of both continuous residence and continuous occupation in Luxembourg. Frontier workers with a continuous occupation period in Luxembourg of at least one year may obtain Work Permit B without residing in Luxembourg.

Work Permit C. Work Permit C is valid for an undetermined period of time, for all professions and for any employer. Salaried people maintaining five years of continuous residence and continuous occupation in Luxembourg may obtain this type of work permit.

Work Permit C is also granted to persons born in Luxembourg having continuous residence in Luxembourg of at least two years prior to filing the application for the work permit.

Frontier workers with a continuous occupation period in Luxembourg of at least five years may obtain Work Permit C without residing in Luxembourg.

Work Permit D. Work Permit D is granted to apprentices and trainees and is valid only for the duration of the apprenticeship or training period.

Group Permits. A group of workers seconded temporarily to Luxembourg to work either for a foreign or a Luxembourg business is issued a group permit on application by the employer. A group permit is valid for eight months.

Steps for Obtaining Work Permits. When hiring foreign and Luxembourg wage earners, employers must notify the Labor administration (Administration de l'Emploi et de la Main d'Oeuvre, or ADEM) of all job vacancies within three working days before publication in the press. A special form, Déclaration de Place Vacante, is used to notify the ADEM of the vacancy.

After the decision to hire a person is made, certain administrative formalities must be fulfilled, or permits obtained, depending on the citizenship of the prospective employee, as outlined below.

Employers must inform the Centre d'Affiliation de la Sécurité Sociale (CASS), by use of the *Déclaration d'Entrée* form, to have an employee affiliated with social security.

Citizens of EU-Member Countries and EFTA-Member Countries. Citizens of EU-member countries and EFTA-member countries are not required to obtain work permits, except for citizens of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia, for whom a work permit is required from 1 May 2004 through 30 April 2006, with a possible extension of five years. Employers must file a *Déclaration d'Entrée* with the CASS to affiliate an individual with social security, as well as a *Fiche d'Embauchage* (notification that a person has been hired) with the Labor Administration.

Citizens of EU-member countries and EFTA-member countries must apply for foreigners' identity cards (*carte d'identité d'étranger)*. The foreigner's identity card is issued by the Ministry of Justice and is given to the applicant by the communal administration where the applicant will reside. For this purpose, a foreign national must notify the communal administration within three days after his or her arrival to fill out the appropriate form.

Frontier Workers. Frontier workers include any employed or self-employed person who pursues his or her occupation in one EU member country and who resides in another member country to which he or she returns daily or at least once a week.

Frontier workers are not required to comply with any special formalities.

Non-EU Citizens and Non-EFTA Citizens. Non-EU citizens and non-EFTA citizens must obtain work permits, which must be applied for before starting work in Luxembourg. The procedure may take up to four months. Employers must complete *Déclarations d'Entrée* with the CASS to affiliate these foreign nationals with social security.

Non-EU citizens and non-EFTA citizens must apply for foreigners' identity cards. The steps necessary to obtain an identity card are the same as those described above for citizens of EU-member countries or EFTA-member countries.

In general, non-EU citizens and non-EFTA citizens must obtain work permits. If these nationals wish to take up residence in Luxembourg, they must also obtain stay permits and foreigner's identity cards. However, exceptions to this rule exist. The following persons do not need work permits:
- Personnel of embassies and diplomatic agents;
- Personnel who provide services to diplomatic agents;
- Personnel with international status; and
- Entertainers working less than one month in Luxembourg.

Other persons, including trainees, family members of students, students working during school holidays, business visitors and work exchange employees, must apply for work permits.

The following procedures apply to non-EU and non-EFTA citizens only.

The application for a work permit is filed by using a form called *Déclaration d'Engagement*. This form must be completed in duplicate, signed by the employer and countersigned by the employee. The declaration must include a cover letter justifying the reasons and arguments why a non-EU or non-EFTA citizen should be hired for the vacancy. The forms must be sent, together with a certified copy of the passport curriculum vitae, diplomas and a justification letter, to the ADEM.

A special commission gives advice concerning the granting, refusal or withdrawal of a work permit. The commission also decides if the employer must present a bank guarantee. The amount of the bank guarantee is fixed by the commission and must be at least €1,500. On the recommendation of the special commission, the Ministry of Labor grants or refuses work permits.

For work permit extensions, the applicant must return to the ADEM with the *Déclaration d'Engagement* and indicate on the top of the form that a work permit (with date of issue and number) already exists.

Self-Employment. Work permit rules do not apply to self-employed persons. Self-employed persons may need to apply for a business license. The permit is issued by the Ministère des Classes Moyennes et du Tourisme after receiving the opinion of a committee, which considers an applicant's qualifications and professional standing.

Persons practicing a professional activity in Luxembourg are not required to obtain stay permits if the stay in Luxembourg is three months or less. However, in these cases, a person must provide notice of his or her arrival to the local communal administration within three days after arrival. If a person changes residence to another commune, he or she must notify the local administration of the new commune within three days after arrival.

H. Stay Permits

The application for a temporary stay permit must be filed with the local Luxembourg embassy or consulate before the foreign national comes to Luxembourg. This requirement does not apply to tourists visiting the country for a maximum of three months.

A foreigner coming to work in Luxembourg and taking up residence for more than three months must apply to the Ministry of Justice in Luxembourg for a definitive stay permit. To obtain a definitive stay permit, the applicant must file with the ministry a copy of his or her work permit. He or she must also file an application for a foreigner's identity card (see Section G).

An application for a foreigner's identity card is not required if the applicant takes up residence in Luxembourg for more than 3, but less than 12, months. In this case, it is sufficient for the foreigner to make an arrival declaration at the communal administration where he or she will reside. The applicant must submit the same documents as for the foreigner's identity card, with the exception of the recent identity photos (see Section G).

For persons staying in Luxembourg for less than three months not engaging in remunerated activity, registration in hotel records, as required by law, is sufficient. They do not need to notify the communal administration of their arrival. A stay permit is not required if the stay in Luxembourg does not exceed three months.

I. Family and Personal Considerations

Family Members. An expatriate worker may be accompanied to Luxembourg by his or her spouse and children. The application for the stay permit for each family member is submitted to the Ministry of Justice in Luxembourg jointly with the expatriate worker's request.

Foreigners' identity cards are required for spouses and any children older than 15 years of age.

An expatriate's work permit is not valid for his or her spouse or children. For any family member wanting to work in Luxembourg, an individual work permit is required.

Children accompanying an expatriate worker to Luxembourg may attend any school in Luxembourg.

Marital Property Regime. Three main marital regimes are available in Luxembourg. A marital contract registered with a notary public is required to elect either of the following regimes:

- The universal co-ownership regime (*la communauté universelle*), under which all assets are owned in common by both spouses, regardless of whether the assets were acquired before or during the marriage; and
- The separate ownership regime (*la séparation de biens*), under which each spouse retains sole title to assets and wealth he or she acquires before and during the marriage.

The default regime is *la communauté réduite aux acquêts*, under which assets are owned in common, except assets acquired before the marriage and assets acquired during the marriage through inheritance and donation.

In general, Luxembourg recognizes marital property agreements concluded under foreign law.

Forced Heirship. Forced heirship rules apply in Luxembourg to protect the descendants. The forced heirship rules are summarized in the following table.

Number of Children	Heirship Reserve	Free Reserve
1	1/2	1/2
2	2/3	1/3
3	3/4	1/4

If no descendants exist, the entire legacy can be legated to the surviving parent or other persons.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employer contributions to home complementary pension plan	X	—	(a)
Employee contributions to home complementary pension plan	—	—	(b)
Employer contributions to home country benefit plan	X	—	—
Employee contributions to home country benefit plan	—	—	(c)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-paid housing in the host country	X	—	(d)
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—

	Taxable*	Not Taxable	Comments
Other compensation income	X	—	—
Transportation of goods to and from the host country	—	X	(e)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(f)
Value of meals provided	X	—	(g)
Other benefits	X	—	(h)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	(i)

* The bracketed amount reduces taxable income.

(a) In principle, the contributions are taxable.

(b) In principle, employee contributions to home complementary pension plans are deductible up to a maximum of €1,200 per year.

(c) In principle, employee contributions to home country benefit plans are deductible up to the ceiling for deductions of voluntary insurance premiums.

(d) Free housing provided by the employer is taxed at a reduced value, which is equal to 25% of the house's "unit value" (a fictional tax value), with a minimum taxable amount of 75% of the actual rent paid (increased by 10% for a furnished house). This rule applies if the employer is the leaseholder of the premises. A housing allowance paid in cash is fully taxable.

(e) This item is exempt from tax if the reimbursement is based on invoices. Otherwise, it is taxable.

(f) All elements of compensation are taxable in the year in which they are received in cash and in which the employer is liable for withholding tax. If the employer reimburses income tax that is assessed in a year after the expatriate has left Luxembourg, the tax-on-tax may be considerably lower in the absence of any other compensation.

(g) The taxable value of free meals is €2.80 per meal if the meal is provided in a staff canteen. The employer can provide lunch vouchers to its employees. The employer's contribution to the lunch vouchers is free from tax, up to a maximum amount of €5.60, if the employee bears a cost of €2.80 and if the amount of the lunch voucher equals €8.40.

(h) The following fringe benefits are also taxed at a reduced value:
- The private use of a company car is taxable at a rate of 1.5% per month of the purchase value of the car (including options and value-added tax).
- The taxable interest benefit from an employer's loan with a low interest rate equals the difference between the amount of interest calculated at a rate of 3% (the 2005 and 2006 rate) and the amount of interest at the rate granted. The taxable amount is exempt up to €3,000 per year (€6,000 for jointly taxable married employees) if the loan is granted for the employee's private dwelling. For a personal loan, the exempt amount is €500 per year (€1,000 for jointly taxable married employees).

(i) Shares may be sold free of tax if they are held for more than six months after acquisition.

APPENDIX 2: SAMPLE TAX CALCULATION

An expatriate who is married with two children is assigned to Luxembourg for several years. The expatriate acquired a home with an interest-free loan of €300,000 granted by the expatriate's employer. The rental value of the home is €150. The expatriate is subject to the Luxembourg social security scheme. The following is a 2006 tax calculation for the expatriate.

	€	€
Calculation of Taxable Income		
Employment Income		
Gross salary	100,000	
Benefit on zero-rated loan	3,000 (a)	
Standard and commuting allowances	(936)	
Net employment income		102,064
Investment Income		
Dividends from nontaxable U.S. company	2,500	
Interest on Luxembourg deposits (no tax at source)	2,000	
Tax-exempt investment income	(3,000)	
Lump-sum deduction	(50)	
Net investment income		1,450
Rental Income		
Rental value of owner-occupied home	150	
Mortgage interest	(3,000) (a)(b)	
Negative rental income		(2,850)
Personal Expenses		
Social security contributions paid (except care insurance)	(9,742) (c)	
Private life insurance paid (€3,800 paid, but maximum deductible amount is 4 x €672)	(2,688)	
Total personal expenses		(12,430)
Other Deductions		
Standard allowance for employed taxpayers		(600)
Taxable income		87,634
Calculation of Tax		
Income tax		16,158
Unemployment surtax (2.5% of income tax)		404
Total tax liability		16,562
Wage tax withheld		(17,100)
Tax credit		(375) (d)
Care insurance (1% of taxable investment income)		15 (e)
Tax refund		(898)

(a) The taxable benefit on the zero-rated loan can be deducted from the rental value of the owner-occupied home as mortgage interest. The following is the calculation of the taxable benefit on the zero-rated loan:

	€
Total benefit (3% of €300,000)	9,000
Tax-exempt benefit	(6,000)
Taxable benefit	3,000

(b) Mortgage interest is deductible up to the following ceilings for each member of the household.

Period of Occupation		Deductible
Exceeding	Not Exceeding	Interest
Years	Years	€
0	5	1,500
5	10	1,125
10	—	750

In the above calculation, the interest deductible could be €6,000 (€1,500 x 4), but the deductible amount is limited to the taxable benefit, which is €3,000.

(c) The social security contributions are based on rates and ceilings, which are effective from 1 January 2006.

(d) The tax credit is granted for U.S. tax paid on the dividends in accordance with the double tax treaty between Luxembourg and the United States.

(e) Care insurance on employment income is directly withheld at source each month. In this example, the following is the calculation of the care insurance on employment income as of 1 January 2006.

(€103,000 - €4,510) x 1% = 985

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As a result of a general lack of tax practice and precedent, several unresolved or ambiguous tax issues exist in Macau.

A. Income Tax

Who Is Liable. Individuals are subject to tax on income arising in or derived from Macau. Residency is not relevant for tax purposes.

Income Subject to Tax. Professional tax is imposed on employment and self-employment income arising in Macau. Complementary tax is imposed on business income arising in Macau. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Income from employment is subject to professional tax. For purposes of the tax, taxpayers are divided into employees and professional practitioners (see *Self-Employment and Business Income*).

In general, all income from employment, including benefits in kind and directors' fees, is subject to professional tax.

Self-Employment and Business Income. Professional practitioners are subject to tax on self-employment income.

Sole proprietors are subject to tax on business income.

Investment Income. Property tax is levied annually on the owners of real property in Macau. Actual rental income derived from real property is taxed at a rate of 16%. For property that is not rented, the tax is levied at a rate of 10% on the deemed rental value of the property as assessed by the Macau Finance Department. A deduction of up to 10% of the rent or rental value of the property is allowed for repairs, maintenance and other expenses.

The following buildings are exempt from property tax:
- Industrial buildings occupied for industrial purposes by the owners;
- New residential or commercial buildings during the first six years after construction for buildings located on Coloane and Taipa islands, and during the first four years after construction for buildings located in other parts of Macau;
- New industrial buildings during the first ten years after construction for buildings located on Coloane and Taipa islands, and during the first five years after construction for buildings located in other parts of Macau; and
- Buildings occupied by nonprofit educational and charitable organizations.

Exempt Income. Employers' contributions to medical and related schemes and to approved pension schemes are not included in taxable income.

Taxation of Employer-Provided Stock Options. No specific laws in Macau regulate the taxation of employer-provided stock options.

Capital Gains. Macau does not levy capital gains tax.

Purchasers of real property must pay stamp duty, which is levied on the sales price or assessable value of the property at a rate of 3%.

Deductions

Personal Deductions and Allowances. A 25% exemption and a personal allowance of MOP 95,000 may be deducted from employment income.

Business Deductions. Expenses incurred wholly and exclusively for the purpose of producing taxable income are deductible in Macau.

Rates. Professional tax rates are set forth in the following table and apply to both residents and nonresidents.

Taxable Income		Tax on	Rate on
Exceeding MOP	Not Exceeding MOP	Lower Amount MOP	Excess %
0	95,000	0	0
95,000	115,000	0	7
115,000	135,000	1,400	8
135,000	175,000	1,600	9
175,000	255,000	3,600	10
255,000	375,000	8,000	11
375,000	—	13,200	12

For a sample tax calculation, see Appendix 2.

Relief for Losses. Employees may not carry back or carry forward losses. However, an individual carrying on a business as a sole proprietor may carry forward and deduct losses from assessable profits in the following three years if he or she is a Class A taxpayer or a professional practitioner with proper accounting records.

B. Estate and Gift Taxes

Effective from 1 August 2001, estate and gift tax was abolished. However, a de facto gift tax is charged as a stamp duty at a rate of 5% on transfers of real or personal property without consideration. Assessment is based on the value of the property transferred.

C. Social Security

Employers must contribute monthly to a government social security fund in the amounts of MOP 30 for every resident worker and MOP 45 for every nonresident worker. Resident workers must each contribute MOP 15 per month. No ceiling applies to the amount of wages subject to social security contributions.

Macau has not entered into any social security totalization agreements with other countries.

D. Tax Filing and Payment Procedures

Tax is levied on income arising in or derived from Macau during the fiscal year, which ends on 31 December.

Employers in Macau must withhold professional tax at the rates set forth in *Rates* from salaries paid to employees. In addition, employers must withhold professional tax at a rate of at least 5% from amounts paid to nonresidents. Professional tax collected by employers must be remitted quarterly to the Macau Finance Department. Employers in Macau must prepare and submit annual tax returns with respect to salaries paid to residents and nonresidents and the professional tax withheld.

E. Double Tax Relief and Tax Treaties

Macau has entered into a double tax treaty with Portugal. Macau-source income is taxable in Macau, regardless of whether foreign tax is paid on the income.

Macau has also entered into a double tax arrangement with Mainland China.

F. Visitor Visas

All travelers entering Macau must hold valid passports or other equivalent travel documents. Visas are not required for a visit of up to 30 days for nationals of the following countries.

Australia	Ireland	Portugal
Austria	Italy	Singapore
Belgium	Japan	South Africa
Brazil	Korea	Spain
Canada	Luxembourg	Sweden
Czech Republic	Malaysia	Switzerland
Denmark	Mexico	Taiwan
Estonia	Netherlands	Thailand
France	New Zealand	United Kingdom
Germany	Norway	United States
Greece	Philippines	Uruguay
India	Poland	

Residents of Hong Kong may stay in Macau for up to one year without a visa.

Nationals from countries other than those listed above may obtain visitor visas on arrival in Macau at the cost of MOP 100 for an adult, MOP 50 for a child under 12 years of age, MOP 200 for family groups and MOP 50 per person for tourist groups of 10 or more. The length of stay permitted depends on the nationality of the passport holder.

Foreign nationals staying in Macau under visitor status may not engage in any form of employment in Macau.

G. Work Permits

Before work permits are granted by the Immigration Department, approval must be obtained from the Labor and Employment Bureau (Direccao dos Servicos de Trabalho e Emprego, or DSTE), the government authority that handles employment issues including the employment of foreign nationals.

Before an application is made to the DSTE, the employer must register the vacant position with the DSTE's employment section for at least three working days, and must indicate the identity of the employer, title of the position, remuneration, working hours, qualification and experience required. Prescribed registration forms are available in the DSTE's employment section. An employer who is unable to find a local employee with comparable experience and qualifications to fill a vacancy may apply for a work permit to bring in a qualified nonresident. The employer must prove that the DSTE was notified of the vacant position and was unable to provide a prospective employee.

To obtain work permits for their foreign employees, employers should generally submit the following documents to the DSTE:

- A prescribed application form completed in full with details of the employer, reason of employing the foreign national, number and positions of existing resident and nonresident employees;
- Photocopy of the employer's commercial registration certificate issued by the Commercial Registry and photocopy of the legal representative's identity card;
- Photocopies of the employer's business registration, industrial license or equivalent registration document, and business tax payment record;
- Evidence of the employer's contribution to the social security fund;
- Photocopy of the foreign employee's passport or other travel document;
- A copy of the employment contract with details of the position, salary, terms of employment and benefits;
- Evidence of the foreign employee's qualification and experience;
- Declaration by the employer for sponsoring the repatriation expenses of the foreign employee; and
- Declaration by the employer for supporting the foreign employee's medical expenses during the period of employment.

If an application is approved by the DSTE, a letter of approval is issued to the applicant for submission to the Immigration Department to process the foreign employee's work permit. A foreign national may not undertake employment in Macau until a work permit is issued. The work permit is normally granted for employment with a specific employer.

Applying for a work permit in Macau may be a lengthy process. Applications are considered on a case-by-case basis. Generally, it takes approximately two to six months to obtain the work permit after all the required documents have been submitted. No fee is charged for the granting or renewal of a work permit.

Work permits are normally granted for an initial period of one to two years and are renewable by the DSTE on renewal of the employment contract. The extended work permit application form, together with a renewed employment contract and other required documents, must be submitted to the DSTE three months before the expiration date of the work permit.

Expatriates who perform supervisory duties for non-Macau companies under occasional contracts in Macau are not required to obtain work permits if they stay in Macau for not more than 45 days within six months of arrival.

H. Residence Permits

The government's policy is to encourage people of financial standing, who will make substantial investment in the territory, to become residents of Macau. To qualify, an applicant must demonstrate his or her financial ability to invest significantly in real property or in an enterprise in Macau. A foreign national in an executive or managerial position with qualifications and professional experience that contribute to Macau's economy may also be granted a residence permit on application.

Foreign nationals applying for residence permits must have the prior approval of the Macau Trade and Investment Promotion Institute (Instituto de Promocao do Comercio e do Investimento de Macau, or IPIM). To obtain this approval, the applicant must file with the IPIM an application describing all pertinent information relating to the investment or the foreign national's qualification and experience. An appointment must be made with the IPIM to submit the required documents. After all the required documents have been submitted, the IPIM generally takes about two to six months to process the application. The time for processing has increased recently because of the many investors in real estate who qualify for residence in Macau.

If the IPIM is satisfied that all prerequisites for the grant of a residence permit are fulfilled, the IPIM transfers the applicant's documents to the Immigration Department for processing the residence permit. A temporary residence permit is then issued to the applicant. The issuance of the temporary residence permit (residence permit letter) takes approximately two weeks. The temporary residence permit is then taken to the Macau Identification (ID) Department for the issuance of a Macau ID, which generally takes two weeks.

The temporary residence permit is normally granted for an initial period of three years (18 months renewable once if the applicant is proposing to establish business venture in Macau) depending on the validity of the applicant's travel document. A residence permit expires 30 days prior to the expiration of an applicant's travel document.

Temporary residence permits may be extended on application by the permit holders. An application for renewal, together with all documents required, must be submitted to the IPIM for endorsement at least 30 days before the expiration date of the temporary residence permit. The granting or renewal of a temporary residence permit is not subject to any fees by the issuing authorities.

In general, a temporary residence permit holder may, after seven years of continuous residence in Macau, apply for permanent residence status.

I. Family and Personal Considerations

Family Members. In general, foreign nationals who hold work permits or residence permits may be accompanied to Macau by their family members upon application. Unskilled workers may not have dependents accompany them to Macau. Accompanying family members are normally permitted to stay in Macau for the duration of their family member's work permit or residence permit.

A foreign national applying for a residence permit in Macau may have his or her family members included in the original application for processing at the same time. For these purposes, family members of a resident permit applicant include only the following persons:

- Spouse of the applicant (spouse includes a person who has maintained de facto relationship with the applicant for at least two years);
- Parents of the applicant or the applicant's spouse; and
- Dependent children under 18 years of age of the applicant or the applicant's spouse.

Marital Property Regime. Couples who apply for marital registration in Macau may elect one of the following marital property regimes:

- Separate property;
- Separate property for property acquired before marriage, community property for property acquired during marriage; or
- Community property for property acquired before and during marriage.

Drivers' Permits. Foreign nationals may drive legally using their home country drivers' licenses if they hold valid international driving permits. The foreign nationals must register their licenses with the Traffic Department. Temporary drivers' permits may be obtained by presenting the Traffic Department with the foreign nationals' passports or equivalent travel documents, foreign drivers' licenses and international driving permits. Holders of drivers' licenses issued by certain countries, including EU member countries, Australia, Canada and the United States, may be exempt from the requirement of holding international driving permits. Temporary drivers' permits are generally valid for three months and may be renewed for an additional three-month period on request. No fee is charged for the issuance or renewal of the permits.

Foreign nationals holding residence permits are entitled to exchange their foreign drivers' licenses for Macau drivers' licenses within one year after arriving in Macau. Foreign drivers' licenses issued by certain countries may be accepted on a reciprocal basis. Macau licensing authorities normally recognize foreign licenses issued by countries with requirements comparable to those of Macau (passing a practical driving test is essential).

To exchange a foreign license for a Macau one, the applicant must submit the following documents in person or through his or her attorney to the Traffic and Transport Division of the Provisional Macau Municipal Council:

- Completed prescribed application form (Form 3A);
- Original of the applicant's valid foreign driver's license (must include an official translation of the license into Chinese or Portuguese if the license is in a language other than Chinese, Portuguese, English or French);
- Originals and photocopies of the applicant's identification documents;
- Medical certificates (Form 8 and Form 9) completed by a local registered medical practitioner confirming the applicant's mental and physical capability of driving;
- Three identical, recent passport-type photographs of the applicant;
- A statement by the applicant, declaring the authenticity and validity of his or her foreign driver's license; and
- Application fee of MOP $1,000.

In general, the Traffic and Transport Division takes about one month to process the application.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home-country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	—	—	(a)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Employer-provided housing	X	—	(c)
Housing contribution	—	—	(c)
Educational allowance	X	—	—
Hardship allowance	X	—	(b)
Other allowance	X	—	(d)
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(e)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(a)
Value of meals provided	X	—	(f)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	—

(a) The retained hypothetical tax is not deductible, and the tax reimbursement (net of retained hypothetical tax) is taxable.
(b) The allowance is taxable if it exceeds the amount specified by the law governing the Macau professional tax.
(c) The imputed benefit from the housing contribution ranges from MOP 2,000 to MOP 3,500 per month, depending on the type of accommodation. An additional amount is imputed if utilities and other benefits are also provided. The amount paid by the employee to the employer is not deductible.
(d) Certain amounts may be exempt, depending on the nature of the allowance and on whether the allowances are supported by relevant invoices.
(e) A moving expense allowance is taxable if it is provided in cash. However, it is not taxable if supporting invoices are available.
(f) The value of meals is not taxable if the employer directly pays for the meals.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for a single individual who received salary from Macau employment. The individual is paid an annual salary and bonus of MOP 600,000. The following is the tax calculation.

		MOP
Calculation of Assessable Income		
Salary and bonus		600,000
25% deduction from employment income		(150,000)
Net assessable income		450,000
Calculation of Income Tax		
Tax on MOP 95,000 (a)		0
Tax on MOP 20,000	at 7%	1,400
Tax on MOP 20,000	at 8%	1,600
Tax on MOP 40,000	at 9%	3,600
Tax on MOP 80,000	at 10%	8,000
Tax on MOP 120,000	at 11%	13,200
Tax on MOP 75,000	at 12%	9,000
MOP 450,000		
Total tax		36,800 (b)

(a) For individuals who are age 65 or above or who have a proven 60% physical incapacity, the personal allowance may be increased from MOP 95,000 to MOP 135,000.
(b) Tax deducted by the employer must be paid to the Macau tax authorities within 15 days after the end of each quarter.

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A. Income Tax

Who Is Liable. Resident individuals and nonresident individuals with a permanent establishment in Malawi are subject to income tax on their income deemed to be from a source in Malawi. Income is deemed to be from a source within Malawi if it is derived from the carrying on in Malawi of a "trade." For this purpose, "trade" covers any employment, profession, business, calling, occupation, or venture, including the leasing of property. Foreign-source income is exempt from tax.

Foreign-source income is exempt from income tax.

Income Subject to Tax

Employment Income. As noted in *Who Is Liable*, income derived from employment in Malawi is subject to income tax.

Investment Income. A final withholding tax is imposed on dividends distributed to resident and nonresident individuals.

Interest and rent are included in assessable income.

Amounts received for the right of use or occupation of land and buildings or plant and machinery or for the use of patents, designs, trademarks or copyrights or other property, which in the opinion of the Commissioner General of the Malawi Revenue Authority is of a similar nature, is included in assessable income.

Self-Employment and Business Income. As noted in *Who Is Liable*, income derived from the carrying on of self-employment or business activities in Malawi is subject to income tax.

If land is sold and if timber that is intended for sale is growing on the land, the market value of the timber is included the seller's taxable income. However, a deduction is allowed. If the land was acquired by the taxpayer for valuable consideration, the Commissioner General apportions a reasonable portion of that consideration to the timber and this amount may be deducted. If no valuable consideration was given for the land, the Commissioner General sets a reasonable value for the standing timber, which may be deducted.

Other Income. An annuity is taxable. However, on the maturity of a purchased annuity, the purchase price of the annuity is deductible.

Realized foreign-exchange gains and losses are assessable. Unrealized foreign-exchange gains and losses are not taxable.

Exempt Income. Certain income is specifically exempt from tax under the Taxation Act. The following are examples of exempt income:

- Foreign-source income;
- Redundancy pay of up to K 50,000;
- Contract gratuity of up to K 40,000;
- Terminal benefits not exceeding K 5,000, received from approved pension funds (terminal benefits are amounts paid to employees from pension funds on the cessation of employment, on the employee's withdrawal from the fund or on the winding up of the fund);
- Leave pay up to K 1,200;
- War disability or war widows pensions; and
- Interest accruing on tax-free accounts with the New Building Society, which is a bank.

Capital Gains and Losses. In general, 60% of capital gains derived by individuals is included in assessable income and subject to tax at the normal progressive income tax rates. However, capital gains derived from the following transactions are not subject to tax:

- Disposal of the individual's principal residence;
- Transfers between spouses, or former spouses or to a spouse from the estate of a deceased spouse; and
- Disposals of personal and domestic assets not used in connection with a trade.

Capital losses on assets not qualifying for capital allowances can be offset only against current or future capital gains. However, such capital losses may be set off against other income in the year of the death of the individual. Capital losses with respect to assets on which capital allowances have been granted are fully deductible from taxable income.

For assets qualifying for capital allowances, capital gains and losses equal the difference between the sales proceeds and the written-down tax value of the assets. For other assets, capital gains and losses equal the difference between the sales proceeds and the cost or adjusted basis of the asset. The adjusted basis is determined by applying the appropriate inflation factor for the year in which the asset was acquired or the inflation factor for 1992 if the taxpayer opted for the open market value as of 1 April 1992.

Deductions. Expenditure that is not of a capital nature and losses wholly and exclusively and necessarily incurred for the purposes of trade or in the production of income are allowable as deductions in determining the assessable income of an individual. For tax purposes, certain expenses are not allowed as deductions, including the following:

- Losses or expenses that are recoverable under insurance contracts or indemnities;
- Tax on the income of individuals or interest payable on such tax;
- Expenses relating to income that is not included in taxable income;
- Expenses for which subsidies have been or will be received;
- Rent or cost of repairs to premises not occupied for purposes of trade;
- Costs incurred by individuals to maintain themselves and their families; and
- Domestic or private expenses of individuals including the cost of travel between the individual's residence and place of work.

Individuals may deduct donations to charitable organizations that are approved and gazetted by the Minister of Finance.

An individual's pension contribution to an approved pension fund is deductible subject to certain limitations. If the employer also contributes to the pension scheme, the deduction is limited to the lower of K 3,000 or 8% of the combined emoluments of the individual and his or her spouse. If the employer does not contribute to the pension scheme, the deduction is limited to K 3,000. The pension schemes must be approved by the Commissioner General.

In determining taxable income derived from farming, expenses with respect to the following are allowed as deductions:

- The stamping, leveling and clearing of land;
- Works for the prevention of soil erosion;
- Boreholes;
- Wells;
- Aerial and geophysical surveys; and
- Water control work with respect to the cultivation and growing of rice, sugar or other crops approved by the Minister of Finance and water conservation work (reservoir, weir, dam or embankment constructed for the impounding of water).

Rates

Progressive Income Tax Rates. The following progressive income tax rates are imposed on the assessable income of resident individuals and nonresident individuals with a permanent establishment in Malawi:

Annual Assessable Income		
Exceeding K	**Not Exceeding K**	**Rate %**
0	60,000	0
60,000	102,000	15
102,000	1,200,000	30
1,200,000	—	35

Minimum Tax. A minimum tax is payable by individuals who derive business income but have no taxable income or incur losses. For this purpose, business income is income that is not derived from employment or pensions. The following are the amounts of the minimum tax.

Gross Business Income		Minimum
Exceeding K	Not Exceeding K	Income Tax K
0	500,000	30,000
500,000	2,000,000	60,000
2,000,000	—	250,000

Withholding Taxes. Certain payments are subject to withholding tax. The tax is withheld by the payer and remitted to the Malawi Revenue Authority on a monthly basis by the 14th day of the following month. Recipients of the payments treat the withholding tax as an advance payment of tax that offsets income tax subsequently assessed.

Withholding Tax Exemption Certificates may be issued to qualifying taxpayers whose affairs are up to date. Under the Income Tax Act, no exemption from withholding tax is granted for bank interest, rent, royalties, fees, commission, payments for casual labor and payments to contractors and subcontractors. The Commissioner General may exempt from withholding tax the receipts of certain persons or organizations that are exempt from tax under the Income Tax Act. The following table provides withholding tax rates.

Payment	Rate (%)
Bank interest exceeding K 10,000	20
Royalties	20
Rents	20
Payment of over K 1,000 for supplies to traders and institutions under tender or similar arrangements*	
Foodstuffs	7
Other	10
Fees	10
Commission	20
Payments for carriage and haulage	10
Payments exceeding K 1,000 for tobacco and other products	7*
Payments to contractors and subcontractors	4
Payments for public entertainment	20
Payments of over K 500 for casual labor or services	20*
Net sales of tobacco by tenants	3

* The withholding tax is imposed on the entire amount.

The income of a nonresident arising or deemed to arise from a source within Malawi that is not attributable to a permanent establishment of the nonresident in Malawi is subject to a final withholding tax at a rate of 15% of the gross amount of such income unless the income is specifically exempt from tax under an agreement, a double tax treaty or a tax law.

A withholding tax is also imposed on dividends (see *Investment Income*).

Relief for Losses. Assessed losses attributable to trading operations may be carried forward to offset assessable income.

B. Other Taxes

Estate Duty. Estate duty is payable by the executors of estates of deceased individuals. The following are the rates of the estate duty.

Principal Value of the Estate Exceeding K	Not Exceeding K	Rate of Duty %
0	30,000	0
30,000	40,000	5
40,000	80,000	6
80,000	140,000	7
140,000	200,000	8
200,000	400,000	9
400,000	600,000	10
600,000	—	11

Reductions in rates are allowed for quick successions. The value of the estate comprises all assets of the deceased at the date of his or her death less any debts. In addition, any gifts or transfers of property for less than full value made within three years of death must be included in the value of the estate.

Property Tax. Property tax is levied by local authorities on the value of industrial, commercial or private properties owned by a taxpayer in the district. The tax is payable semiannually. The rates vary depending on whether the property is located in an urban or rural area and whether it is an industrial, commercial or private property.

C. Social Security

Malawi does not require social security contributions.

D. Tax Filing and Payment Procedures

The year of assessment is from 1 July to 30 June. For self-employed individuals, financial years ending on or before 31 August are normally treated as relating to the year of assessment ended in June of that calendar year.

Individuals must file an income tax return with the Commissioner General within 180 days after the end of the year of assessment. The balance of tax due is payable when the tax return is due.

Married women have the option of filing their own returns. The earned income of a wife is not aggregated with her other income or the income of her husband when calculating their joint tax liability.

Income of minor children earned in their own right is deemed to be their own income and is taxed accordingly. Income of minor children arising from a trust established or gift made by a parent is deemed to be income of the parent.

Under the Pay-As-You-Earn (PAYE) system, an employer making payments totaling in excess of K 36,000 per year to an employee for services rendered is required to withhold income tax from such payments. The tax withheld must be remitted to the Malawi Revenue Authority by the 14th day of the month following the month in which the tax is withheld.

At the beginning of each year of assessment, a taxpayer must estimate the tax payable in that year. This estimated tax, which is known as provisional tax, must be paid quarterly within 14 days from the end of each quarter. The total installments must be not less than 90% of the actual tax liability for the year of assessment.

If the amount of tax unpaid as a percentage of the total tax liability exceeds 10% but does not exceed 50%, a penalty equal to 25% of the unpaid tax is imposed. If the percentage of unpaid tax exceeds 50%, a penalty equal to 30% of the unpaid tax is imposed.

Interest on unpaid tax is levied at the rate of 0.75% for the first month and 0.25% for each additional month or part thereof.

Under the PAYE system, a penalty of 15% plus a further sum of 5% per month is charged on any amounts not remitted to the Malawi Revenue Authority within 14 days from the end of the month in which the tax was deducted.

E. Double Tax Relief and Tax Treaties

If foreign income that has been taxed in a foreign country is included in taxable income in Malawi, a tax credit is available to reduce the tax payable in Malawi. To qualify for this relief, the individual must prove to the Commissioner General that it has paid the tax on the income in the foreign country. On receipt of this proof, the Commissioner General grants the relief.

Malawi has entered into double tax treaties with the following countries.

Denmark	Netherlands	Sweden
France	Norway	Switzerland
Kenya	South Africa	United Kingdom

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A. Income Tax

Who Is Liable. Residents and nonresidents are subject to tax on Malaysian-source income only. Effective from 1 January 2004, remittances of foreign-source income into Malaysia by tax residents of Malaysia are no longer subject to Malaysian income tax.

Individuals are considered resident in any of the following circumstances:

- They are physically present in Malaysia for 182 days or more during the calendar year.
- They are physically present in Malaysia for less than 182 days during the calendar year, but are physically present in Malaysia for at least 182 consecutive days in the immediately preceding or following calendar year. Periods of temporary absence are considered part of a period of consecutive presence if the absence is related to the individual's service in Malaysia, personal illness, illness of an immediate family member or social visits not exceeding 14 days.
- They are present in Malaysia during the calendar year for at least 90 days and have been resident or present in Malaysia for at least 90 days in any three of the four preceding years.
- They have been resident for the three preceding calendar years and will be resident in the following calendar year. This is the only case in which an individual may qualify as a resident even though he or she is not physically present in Malaysia during a particular calendar year.

For the purposes of determining residence, presence during part of a day is counted as a whole day.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Gross income from employment includes wages, salary, remuneration, leave pay, fees, commissions, bonuses, gratuities, perquisites or allowances (in money or otherwise) arising from employment. An individual employed in Malaysia is subject to tax on income arising from Malaysia, regardless of where the employment contract is signed or the remuneration is paid. Gross income also includes income for any period of leave attributable to employment in Malaysia and income for any period during which the employee performs duties outside Malaysia incidental to the employment in Malaysia.

Education allowances provided by employers to their employees' children are taxable for income tax purposes.

Employee benefits and amenities not convertible into money are included in employment income. The cost of leave passages for an employee and the employee's immediate family are also taxable, but the following items are exempt:

- Leave passage within Malaysia, up to three times in a calendar year; and
- One leave passage in a calendar year from Malaysia to any place outside Malaysia, up to a maximum of RM 3,000.

The cost of moving expenses, approved pension contributions, and the cost of any medical or dental treatment borne by an employer are not taxable to an employee.

Short-term visitors to Malaysia enjoy a tax exemption on income derived from employment in Malaysia if their employment does not exceed any of the following periods:

- A period totaling 60 days in a calendar year;
- A continuous period or periods totaling 60 days spanning two calendar years; or

- A continuous period spanning two calendar years, plus other periods in either of the calendar years, totaling 60 days.

Non-citizen individuals working in operational headquarters and in regional offices are taxed only on that portion of income attributable to the number of days that they are in Malaysia.

Self-Employment and Business Income. All profits accruing in Malaysia are subject to tax. Effective from 1 January 2004, remittances of foreign-source income into Malaysia by tax residents of Malaysia are no longer subject to Malaysian income tax.

Income from any business source is subject to tax. A business includes a profession, a vocation or a trade, as well as any associated manufacture, venture or concern.

Contract payments to nonresident contractors are subject to a total withholding tax of 13% (10% for tax payable by the nonresident contractor and 3% for tax payable by the contractor's employees).

Income derived in Malaysia by a nonresident public entertainer is subject to a final withholding tax at a rate of 15%.

Investment Income. Interest paid by banks to resident individuals on deposits in excess of RM 100,000 is subject to a 5% final withholding tax. Other interest, dividends, royalties and rental income are aggregated with other income and taxed at the rates set forth in *Rates*.

Certain types of income derived in Malaysia by nonresidents are subject to final withholding tax at the following rates.

Type of Income	Rate (%)
Special classes of income	
Use of movable property	10
Technical advice, assistance or services	10
Installation services on the supply of plant, machinery and similar assets	10
Personal services associated with the use of intangible property	10
Royalties for the use or conveyance of intangible property	10
Interest	15

Directors' Fees. Directors' fees are considered employment income; therefore, fees derived from Malaysia are taxable. Fees are deemed to be derived from Malaysia if the company is resident in Malaysia for the year of assessment. If the fees are derived from a country other than Malaysia, they are not taxed. Effective from 1 January 2004, remittances of foreign-source income into Malaysia by tax residents of Malaysia are no longer subject to Malaysian income tax.

Employer-Provided Stock Options. New tax legislation has been introduced to govern the taxation of employer-provided stock options. Under the new tax legislation, employer-provided stock options are subject to tax as employment income. The taxable income is calculated based on the difference between the fair market value of the underlying stock at the exercise date or exercisable date, whichever is lower, and the strike price. This amount is recognized at the time the option is exercised, and is taxed as current-year income (that is, it is no longer related back to the year of grant).

The new tax rules described above are effective from the 2006 year of assessment and apply to all unexercised stock options that are exercised in 2006 and future years.

Capital Gains. Capital gains are not taxable, except for gains derived from the disposal of real property situated in Malaysia or gains from sales of shares in closely controlled companies with substantial real property interests, which are subject to real property gains tax (RPGT). For individuals, the first RM 5,000 or 10% of the gain, whichever is greater, is exempt. The following are the rates of RPGT.

Length of Time Held	Rate (%)
Disposal within two years after acquisition	30
Disposal in third year	20
Disposal in fourth year	15
Disposal in fifth year	5
Disposal in sixth year and thereafter	0

Gains realized by an individual who is not a citizen or a permanent resident are taxed at a flat rate of 30% for assets disposed of within five years after acquisition. Gains realized by these individuals on assets held longer than five years are taxed at a rate of 5%.

Deductions

Deductible Expenses. Although provisions are made for the deduction of all expenditures incurred wholly and exclusively to produce income, the terms of the provisions tend to limit deductibility in practice. Deductions for employees usually cover specific travel and entertainment costs as well as professional subscriptions. The cost of traveling from home to work is not deductible.

No general deduction is allowed for interest costs, but interest on borrowings used to finance the purchase of income-producing property or investments may be deducted from the income received.

Donations of cash to the government, a local authority or an institution or organization approved by the tax authorities are deductible.

A rebate of RM 500 is allowed to individuals once every five years for the purchase of a personal computer, which may not be used for business purposes.

Foreign employees may claim a rebate for the levy imposed by the Immigration Department to obtain an employment pass, visit pass (temporary employment) or work permit.

Personal Deductions and Allowances. In determining taxable income, an individual resident in Malaysia may subtract from total income the following personal deductions. These deductions are not available to nonresidents.

Type of Allowance	Amount of Allowance RM
Self	8,000
Additional relief for personal disability	6,000
Spouse (if jointly assessed)	3,000
Additional relief for spouse's disability	3,500

Type of Allowance	Amount of Allowance RM
Child	
Younger than 18 years of age or, if 18 years of age or older, receiving full-time education or serving under articles	1,000
For each child 18 years of age or older, receiving full-time tertiary education or serving under articles in or outside Malaysia	4,000
For each disabled child studying in a a recognized institution of higher learning in or outside Malaysia	4,000
Disabled child (instead of other child deductions)	5,000
Medical expenses for parents	Up to 5,000
Purchase of basic support equipment for self, spouse, child or parent who is disabled	Up to 5,000
Study fees incurred for courses up to tertiary level in any recognized institution or professional body in Malaysia for the purpose of acquiring legal or accounting skills or qualifications	Up to 5,000
Purchase of books, journals or other publications to enhance knowledge of self, spouse or child	700
Life insurance premiums/provident fund contributions	Up to 6,000
Medical and educational insurance premiums	Up to 3,000
Medical expenses for self, wife or child with serious disease, including up to RM 500 for complete medical examination expenses for self, spouse or child	Up to 5,000

Business Deductions. The deductions and expenditure allowable against business income are those incurred wholly and exclusively in the production of gross income from the same source.

Depreciation charged in the financial accounts is not a deductible expense. However, straight-line capital allowances based on cost may be claimed on qualifying assets used in a business. In addition, an initial allowance of 20% of the cost of the asset is granted in the year of acquisition.

Rates. Income tax is payable on taxable income by residents at the following graduated rates.

Taxable Income Exceeding RM	Taxable Income Not Exceeding RM	Tax on Lower Amount RM	Rate on Excess %
0	2,500	0	0
2,500	5,000	0	1
5,000	20,000	25	3
20,000	35,000	475	7
35,000	50,000	1,525	13
50,000	70,000	3,475	19

Taxable Income Exceeding RM	Not Exceeding RM	Tax on Lower Amount RM	Rate on Excess %
70,000	100,000	7,275	24
100,000	250,000	14,475	27
250,000	—	54,975	28

Nonresidents are subject to withholding taxes on certain types of income. Other income is taxed at a rate of 28%.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Individuals may carry forward business losses indefinitely.

B. Other Taxes

Malaysia does not impose estate, gift or net worth taxes.

C. Social Security

No social security tax is levied in Malaysia, but employees who are Malaysian citizens are required to contribute to the Employees' Provident Fund (EPF). The EPF is a statutory savings scheme to provide for employees' old-age retirement in Malaysia.

Under the Employees' Provident Fund Act 1951, all employers and employees are required to make monthly contributions to the EPF.

The statutory contribution rate is 23% of monthly wages, 12% paid by the employer and 11% by the employee. Employers may increase their contributions up to 19% without restrictions by the Malaysian tax authorities, and still deduct the amounts for corporate tax purposes. Employees' contributions are deducted at source. No ceiling applies to the amount of wages subject to EPF contributions. Expatriates are not required to contribute to the EPF, but may elect to contribute to take advantage of the available tax relief.

Self-employed persons may elect to contribute to the EPF. The individual may make voluntary contributions at a fixed monthly rate of any amount from RM 50 to RM 5,000.

EPF contributions and interest credited are not subject to Malaysian tax on withdrawal. The contributions may be withdrawn by an employee on reaching 55 years of age or at an earlier time if the employee leaves Malaysia permanently with no intention of returning. Contributions may also be withdrawn on the death of an employee or if he or she is physically or mentally incapacitated and is prevented from further employment. Employees may make partial withdrawals to purchase a house or to finance medical treatment, or when they attain 50 years of age.

D. Tax Filing and Payment Procedures

The year of assessment in Malaysia is the calendar year. The base year for assessing tax is the calendar year coinciding with the year of assessment. Effective from the 2004 year of assessment, an individual carrying on a business in Malaysia is assessed to tax on the business income for the calendar year coinciding with the year of assessment, regardless of the accounting period adopted by the business.

A self-assessment system of taxation for individuals is effective from the 2004 year of assessment. Under the self-assessment system, an individual must submit his or her tax return to the tax authorities by 30 April in the year following the year of assessment. A notice of assessment is deemed served on the submission of the tax return to the tax authorities. An appeal must be filed within 30 days from the date of the deemed notice of assessment (that is, within 30 days of the date of submission of the tax return).

An individual arriving in Malaysia who is subject to tax in the following year of assessment must notify the tax authorities of chargeability within two months after arrival. Nonresidents who are subject to final withholding taxes do not need to file tax returns unless required to do so by the tax authorities.

For employees, tax payment is made through mandatory monthly withholdings under the Schedular Tax Deduction Scheme (STD). All employers must deduct tax from cash remuneration, which includes wages, salaries, overtime payments, commissions, tips, allowances, bonuses and gratuities, based on tax tables provided by the Inland Revenue authorities and pay the amount of taxes withheld to the tax authorities within 10 days after the end of each month. Employers must withhold tax at a rate of 28% from wages paid to nonresident employees.

Married persons are taxed as separate individuals. Each spouse is assessed on his or her own income and is given tax relief through his or her own tax deductions and allowances. An individual may elect to have his or her income aggregated with the income of the spouse and to be jointly assessed in the spouse's name. This election enables the individual to utilize all allowances if his or her own income is insufficient to make full use of the available deductions and allowances.

E. Tax Treaties

Malaysia has entered into double tax treaties with the following countries.

Albania (c)	Ireland	Philippines
Argentina (b)	Italy	Poland
Australia	Japan	Romania
Austria	Jordan	Russian Federation
Bahrain	Kazakhstan (d)	Saudi Arabia (b)
Bangladesh	Korea (South)	Seychelles (c)
Belgium	Kuwait (d)	Singapore
Brunei Darussalam (d)	Kyrgyzstan (c)	South Africa (d)
Canada	Lebanon (c)	Spain (d)
China	Luxembourg	Sri Lanka
Croatia	Malta	Sudan (c)
Czech Republic	Mauritius	Sweden
Denmark	Mongolia	Switzerland
Egypt	Morocco (c)	Thailand
Fiji	Myanmar (c)	Turkey
Finland	Namibia	USSR (a)
France	Netherlands	United Arab Emirates
Germany	New Zealand	United Kingdom
Hungary	Norway	United States (b)
India	Oman (d)	Uzbekistan
Indonesia	Pakistan	Venezuela
Iran (c)	Papua New Guinea	Vietnam
		Zimbabwe (c)

(a) Malaysia honors the USSR treaty with respect to the former Soviet republics with which it has not concluded new treaties.
(b) The agreements with Argentina, Saudi Arabia and the United States provide only reciprocal exemption of taxes on the income of shipping and air transport enterprises.
(c) The treaty has been gazetted, but it is not yet in force.
(d) The treaty is not yet in force.

Under the above treaties, a foreign tax credit is available for the lesser of Malaysian tax payable on the foreign income or the amount of foreign taxes paid. For nontreaty countries, the foreign tax credit available is limited to one-half of the foreign tax paid.

Under most of Malaysia's tax treaties, a business visitor to Malaysia for varying periods of up to 183 days is exempt from Malaysian income tax if the services performed are for, or on behalf of, a nonresident person and if the remuneration paid for the services is not directly deductible from the income of a permanent establishment in Malaysia.

Agreements with some countries provide for reduced withholding taxes under certain conditions.

F. Temporary Permits

Malaysia issues the following temporary permits:
- Tourist passes for visitors to Malaysia. These may be obtained at the port of entry.
- Transit visas, which are valid for one month.
- Business passes for foreign nationals attending business meetings. These may be obtained at the port of entry.
- Student passes for students attending approved educational institutions.

The nationality of the passport holder is considered in determining whether to issue these permits.

G. Employment Passes and Self-Employment

Employment Passes. Any person who wishes to enter Malaysia to take up employment with a Malaysian company or firm must apply for an employment pass from the Department of Immigration. Employment passes are issued for a specified period, usually two to three years, and are renewable for an additional two to three years.

Employment passes are granted on a case-by-case basis, generally for positions that require special technical knowledge or expertise not available locally or for positions that cannot be filled by local Malaysian citizens.

To obtain employment passes, expatriates must be at least 27 years of age and have a valid passport from their home country, a contract from their employer, a cover letter and three passport-size photos.

The employer of an expatriate must submit an application to the Department of Immigration and await a decision, which may take one month. After the employer receives a letter of approval, it must submit the passport of the employee and pay for the employment pass and the levy. The levy is applicable only to expatriates holding employment passes valid for less than two years.

Companies that wish to hire expatriates must meet the minimum paid-up share capital requirement of RM 250,000 for wholly foreign-owned companies and RM 150,000 for companies in a joint venture with locals. Licensed manufacturing companies that wish to hire expatriates must present copies of their manufacturing licenses. Service companies with foreign equity of more than 70% may need to seek the approval of the Foreign Investment Committee before hiring expatriates. Companies engaged in construction and project management must register with the Construction Industry Development Board before hiring expatriates. Companies engaged in the retail, trade wholesale and direct-sales sectors must have at least 30% equity for Bumiputras (indigeneous people and Malays) and seek the approval of the Ministry of Domestic Trade and Consumer Affairs before hiring expatriates.

It is illegal to work without a valid employment pass; therefore, a foreign national may not work in Malaysia until he or she has received an employment pass and all other necessary documents.

To obtain an extension, expatriates must submit new applications for extension three months before the expiration of their passes.

Expatriates who have not completed their terms of contract but wish to take up employment with other companies must shorten their employment pass and leave the country for six months before taking up new employment. A waiver of this "cooling off" period may be granted on a case-by-case basis.

Self-Employment. A foreign national may start a business in Malaysia by registering a company locally. For companies that sell to the domestic market or render services within the country, a local joint venture may be required.

To encourage more direct foreign investment into Malaysia, effective from 17 June 2003, the government has liberalized the equity policy to allow 100% foreign ownership in manufacturing companies. Equity and export conditions imposed on companies before this new policy took effect continue to apply.

H. Residence Permits

Under the "Malaysia, My Second Home Program," the Malaysian government grants social visit passes to all foreign nationals, except nationals of Israel and Yugoslavia, to reside in Malaysia. These passes are issued to applicants and their accompanying spouses and children on an annual basis, up to a maximum of 10 years. Holders of these passes are not permitted to work in Malaysia. Married applicants must have fixed monthly offshore income in the form of pensions, royalties, or other fixed income of at least RM 10,000 (US$2,632) per month, and savings of at least RM 285,000 (US$75,000) maintained with local banks or financial institutions for at least 1 year. Thereafter, they can withdraw up to RM 247,000 (US$65,000) for the purchase of a property or a motorcar in Malaysia. Similar to married applicants, single applicants must have monthly offshore income of at least RM 7,000 (US$1,842) and savings of at least RM 285,000 (US$75,000). In addition, applicants must hold valid medical health insurance issued by a Malaysian insurance company.

The social visit passes described above are not permanent residence permits.

I. Family and Personal Considerations

Family Members. The working spouse of an expatriate must file independently for an employment pass.

Marital Property Regime. In Malaysia, the distribution of marital assets is administered by the courts at the time of a divorce or legal separation. No strict rules govern the distributions, and courts have considerable flexibility in adjusting the property rights of the parties. The court-adjudicated distribution applies to all married persons in or domiciled in Malaysia. However, the regime does not apply to Muslims or persons married under Muslim law.

Marriages contracted outside Malaysia are recognized as valid if carried out in accordance with the laws of the relevant country and if the parties had the capacity to marry under the laws of their country of domicile.

A distinction is made between marital property acquired during the marriage by "joint efforts" and marital property acquired during the marriage by "the sole effort of one party." With respect to marital property acquired by joint efforts, the courts incline toward equal division after taking into account the extent of the contributions made by each party in acquiring the property, any debts owed by either party that are for their joint benefit and the needs of minor children. For marital property acquired by the sole effort of one party, the courts may arrive at a reasonable distribution after considering the extent of contributions made by the other party to the welfare of the family; however, the distribution must give a greater proportion of the property to the person who acquired the property.

Assets acquired by one party prior to the marriage and assets received during the marriage by gift from third parties are not distributed under this regime. However, if during the marriage, a nonmatrimonial asset is sold and another asset is purchased with the sale proceeds, the new asset may be regarded as marital property subject to distribution.

Prenuptial agreements between the parties regarding property rights are irrelevant. The courts are not bound by these agreements in adjusting the respective rights of the parties.

The regime for distribution of property for Muslims and Muslim marriages varies from state to state. In general, a divorced party is entitled to one-third of all property acquired during the marriage.

In parts of Malaysia where the matriarchal system is followed, distribution of property follows the customary law. Under this system, at the time of divorce, property acquired by each party prior to the marriage is generally restored to the respective party, and property acquired during the marriage is generally divided equally.

Inheritance Rules. In general, Malaysian law does not specify how to distribute property at death. Individuals are free to provide for the distribution of their property in a will. However, if a testator is domiciled in Malaysia, the courts have the power to intervene to provide adequate maintenance to dependants of the deceased. In addition, a Deed of Family Arrangement can alter the terms of a will or the application of intestacy laws by agreement among the beneficiaries.

In general, the provisions of wills regarding the disposal of immovable property situated in Malaysia are construed in accordance with Malaysian law, whether the testator is a Malaysian or a foreigner. Wills disposing of movable or immovable property situated outside Malaysia are governed by the laws of the country where the property is situated.

Muslim persons are subject to a separate regime of distribution.

Under customs prevalent in certain areas of Malaysia, land devolves on the female issue only, and the widower and sons take nothing.

Drivers' Permits. Expatriates may drive legally in Malaysia with their home country drivers' licenses for up to three months, depending on the validity of their entry permits, if they are nationals of one of the following countries.

Australia	Iran	Nigeria
Belgium	Iraq	Papua New Guinea
Brunei	Italy	Philippines
China	Japan	Poland
Denmark	Korea	Russian Federation
Egypt	Laos	Singapore
Fiji	Libya	Spain
Finland	Mauritius	Switzerland
France	Myanmar	Thailand
Germany	Netherlands	Turkey
Hong Kong	New Zealand	

License holders from countries that are listed in the Geneva Convention Agreements of 1949 and 1968 are also allowed to drive in Malaysia, if their home country licenses are valid and they have official translations of their licenses into English or Bahasa Malaysia (the official language in Malaysia). Official translations are provided by an embassy or the issuing authority of an expatriate's home country.

Because Malaysia has driver's license reciprocity with the countries listed above, license holders of these countries may automatically exchange their home country drivers' license for a Malaysian license. License holders from other countries listed in the Geneva Convention may apply for Malaysian drivers' licenses by sending applications to the Director General of the Road Transport Department, together with the following documents:

- Identification card or passport (original and copy);
- A certified copy of the home country license;
- A translation of the license into English or Bahasa Malaysia by the embassy or licensing authority of the home country;
- An application form obtainable from the Road Transport Department in Malaysia; and
- A work permit issued by the Department of Immigration.

To obtain a new driver's license, the applicant must first pass a written examination on simple road signs and basic driving regulations and then apply for a temporary license, which is obtained by paying a small fee to the Road Transport Department of

Malaysia. A practical test on basic driving skills is then conducted by the relevant authority.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(b)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	(c)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.

(a) The value equals 30% of the employee's salary plus allowances, or actual rent, whichever is lower.

(b) Home-leave airfare within Malaysia is exempted three times in a calendar year. Home-leave airfare outside Malaysia, up to RM 3,000, is exempted once in a calendar year.

(c) The value is taxable to the extent of 3% of the gross employment income for the period of accommodation.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2005 year of assessment is provided below for an expatriate, who is a resident in Malaysia for all of 2005 and is married with two dependent children under 18 years old. During 2005, the expatriate received compensation of RM 150,000, RM 100,000 of which was paid in Malaysia and the balance deposited in a home country bank account and not remitted to Malaysia. The individual's employer also provided housing at a cost to the company of RM 60,000. The expatriate earned dividends from home country investments of RM 3,000, RM 1,000 of which were remitted to Malaysia. The following is the tax calculation.

	RM	RM
Calculation of Taxable Income		
Income:		
Salary	150,000	
Taxable value of housing (lower of RM 60,000 or 30% of RM 150,000)	45,000	
Total income		195,000
Personal deductions:		
Taxpayer	(8,000)	
Wife	(3,000)	
Children	(2,000)	
Total deductions		(13,000)
Taxable income		182,000
Calculation of Tax		
Tax on first RM 100,000		14,475
Tax on next RM 82,000 at 27%		22,140
Income tax payable		36,615

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Maldives does not impose taxes on the income or capital gains of individuals.

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A. Income Tax

Who Is Liable. Persons who are both ordinarily resident and domiciled in Malta are subject to tax on worldwide income. Persons who are not ordinarily resident in Malta or not domiciled in Malta are subject to tax only on Maltese-source income and on foreign income that is remitted to or received in Malta.

In practice, individuals generally are considered resident in Malta if they spend more than 183 days in a calendar year in Malta. Individuals are considered ordinarily resident if Malta is their habitual residence.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income consists of gains or profits from any employment or office, including directors' fees and fringe benefits, such as the grant of the following: the private use of a motor vehicle; the use of immovable and movable property; and other benefits granted as a result of the nature of the employment or office.

Pensions are included in taxable income.

Self-Employment and Business Income. Taxable self-employment and business income is based on accounting profits, adjusted for tax purposes. Tax adjustments include the addition of such disallowable expenses as accounting depreciation, amortization of goodwill, provisions, donations, stamp duty expense and start-up expense.

Taxable self-employment and business income is aggregated with other income and taxed at the rates set forth in *Rates*.

Investment Income. Malta operates a full imputation system under which dividends paid by a company resident in Malta carry a tax credit equal to the tax paid by the company on the profits out of which the dividends are paid. Shareholders are taxed on the gross dividend at the regular rates, but are entitled to deduct the tax credit attaching to the dividend against their total income tax liability. The full imputation system applies to both residents and nonresidents. If a dividend is paid to resident individuals out of the untaxed amount (the difference between tax and accounting profits), a 15% withholding tax is imposed. This withholding tax does not apply to nonresidents. Dividends paid out of profits exempt from tax under the terms of the Business Promotion Act are not taxable in the hands of the shareholders.

Resident individuals may opt to pay a 15% withholding tax on bank interest. This tax may be treated as a final tax at the taxpayer's option and need not be disclosed in the income tax return.

Interest and royalties paid to nonresidents are exempt from tax in Malta unless they are effectively connected to a permanent establishment in Malta through which the nonresidents engage in a trade or business.

Rental income is taxed with other income at the rates set forth in *Rates*. Bank interest, license fees and rents payable may be deducted if incurred in the production of rental income. An additional 20% maintenance allowance, calculated on the difference between rents receivable and rents and license fees payable, may be taken. Each property is treated as a separate source of income. Losses from one property may not offset income from another.

Taxation of Employer-Provided Stock Options. The exercise by an employee of a share option is taxable as a fringe benefit.

Capital Gains. Capital gains derived from the transfer of ownership of the following assets are taxable: real property; securities; business goodwill; copyrights; patents; trademarks and trade names; and beneficial interests in trusts. In addition, the assignment or conveyance of any rights over such property is taxable. Taxable capital gains are included with other income and taxed at the rates set forth in *Rates*.

Capital losses may not offset trading profits; however, capital losses may be carried forward for offset against future capital gains. Trading losses may offset capital gains.

Individuals who are not ordinarily resident or not domiciled in Malta are exempt from tax on gains derived from the disposal of shares in a Maltese company that is not primarily engaged in holding real property situated in Malta.

Deductions

Deductible Expenses. Certain alimony payments and school fees are expressly deductible from employment income.

Business Deductions. Self-employed individuals may deduct all expenses incurred wholly and exclusively in the production of income, including capital allowances (tax depreciation) at specified rates.

Rates

Residents. The following tables present the 2006 progressive tax rates for married persons filing jointly, single persons and married persons filing separately.

Married Persons Filing Jointly

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
Lm	Lm	Lm	%
0	4,300	0	0
4,300	6,000	0	15
6,000	7,250	255	20
7,250	8,500	505	25
8,500	10,000	817	30
10,000	—	1,267	35

Single Persons and Married Persons Filing Separately

Taxable Income Exceeding Lm	Taxable Income Not Exceeding Lm	Tax on Lower Amount Lm	Rate on Excess %
0	3,100	0	0
3,100	4,100	0	15
4,100	5,000	150	20
5,000	6,000	330	25
6,000	6,750	580	30
6,750	—	805	35

In addition, permanent residents are taxed at a flat rate of 15% on income that is remitted to Malta. The minimum tax liability for these residents, after double tax relief (see Section E), is Lm 1,800 for each year of assessment.

Individuals who qualify as full-time employees for the purposes of the law or are married to full-time employees may elect to have their part-time income taxed at a flat rate of 15% instead of at the progressive rates listed above. The maximum income to which this special rate may be applied is Lm 3,000.

For a sample tax calculation, see Appendix 2.

Nonresidents. Nonresidents, regardless of whether they are married or single, are subject to tax at the following rates on income arising or received in Malta.

Taxable Income Exceeding Lm	Taxable Income Not Exceeding Lm	Tax on Lower Amount Lm	Rate on Excess %
0	300	0	0
300	1,300	0	20
1,300	3,300	200	30
3,300	—	800	35

In general, if taxable income is paid to a nonresident, a 25% withholding tax must be deducted at source and remitted to the Inland Revenue Department within 30 days. Any tax withheld is credited to nonresident taxpayers in full against their final tax liability for the year. This withholding tax does not apply to dividends paid out of previously taxed profits (see *Investment Income*), to income previously subject to withholding under the FSS (see Section D), or to interest and royalties.

Relief for Losses. Individuals may offset any losses incurred in a trade, business, profession or vocation against other income. These losses may be carried forward for offset against future years' income. Losses may not be carried back. Unabsorbed capital allowances may be carried forward indefinitely to offset income from the same source.

B. Estate and Gift Taxes

Malta does not impose estate or gift tax. However, duty on documents is imposed on heirs upon inheritance of immovable property at a rate of 5% and on shares at a rate of 2%. The same rates of duty apply to transfers of real immovable property and shares, including transfers by gift. Duty on documents at a special rate of 5% is imposed on the transfer of shares of a company if 75% or more of the company's assets consist of immovable property or rights over immovable property.

C. Social Security

Social security is provided by a system of social insurance and a system of social assistance regulated by the Social Security Act.

Contributions. All employed and self-employed persons must pay social security contributions. Employers make social security contributions at a rate of 10% of the basic wage paid to their employees, subject to a minimum amount of Lm 5.79 and a maximum amount of Lm 13.38 per week per employee. Employees make a 10% contribution, subject to the same minimum. The employer deducts this payment before paying the net salary to the employee. The minimum amount for persons under 18 years of age is Lm 2.84 per week. The employer must remit the amount due to the Commissioner of Inland Revenue by the end of the following month in which the wages or salaries are paid.

For self-employed persons, the amounts of social security contributions for 2006 are calculated in the following manner. If the self-employed person's income during the calendar year immediately preceding the contribution year is less than Lm 3,535, a weekly contribution of Lm 10.20 applies. If the income in the preceding year exceeds Lm 3,535, but does not exceed Lm 6,957, an annual contribution rate of 15% of annual income applies. If the income in the preceding year exceeds Lm 6,957, a weekly contribution of Lm 20.07 applies.

Coverage. Maltese citizens receive free services and financial aid benefits for unemployment, illness, work injury, disability, old age, early retirement (at 61 years of age), marriage, maternity, children, widowhood and medical care. All employees who pay a minimum amount of social security contributions are entitled to a basic pension on retirement.

Totalization Agreements. To prevent double taxation and assure benefit coverage, Malta has entered into social security totalization agreements with Australia, Canada, Libya and the United Kingdom.

As a member of the European Union (EU), Malta is governed by EEC 1408/71 regarding the social security exemption system.

D. Tax Filing and Payment Procedures

The year of assessment (tax year) is the calendar year. In the year of assessment, income tax is charged on income earned in the preceding calendar year (the basis year). Recipients of the following types of income are not required to file regular tax returns, but must file a signed declaration by 30 April:

- Employment income subject to withholding under the final settlement system;
- Pensions and other social benefits;
- Dividends from resident companies;
- Investment income on which final tax is withheld at a rate of 15%; and
- Income of up to Lm 3,000 per year from part-time self-employment activities on which tax is withheld at a rate of 15%.

All other individuals must file a self-assessment tax return and pay all tax due by 30 June of the year following the basis year.

Tax liability for employees is paid through the Final Settlement System (FSS) of withholding on salaries and wages.

Self-employed individuals make advance payments of tax, known as provisional tax, in three installments on 30 April, 31 August and 21 December. The amount paid in each installment equals one-third of the total tax liability for the last return submitted to the Commissioner of Inland Revenue. The provisional tax payments are credited against the total tax liability for the year in which they are paid.

Married persons may elect separate taxation, but must nonetheless appoint one spouse to be the responsible spouse for income tax purposes. Any investment or other passive income is included in the taxable income of the spouse with the higher earned income, regardless of which spouse is designated as the responsible spouse.

E. Double Tax Relief and Tax Treaties

Most of Malta's treaties are based on the 1977 Organization for Economic Cooperation and Development (OECD) model convention. Malta's double tax treaties eliminate double taxation through the credit method.

Malta has entered into double tax treaties with the following countries.

Albania	France	Norway
Australia	Germany	Pakistan
Austria	Hungary	Poland
Barbados	India	Portugal
Belgium	Italy	Romania
Bulgaria	Korea	Slovak Republic
Canada	Kuwait	Slovenia
China	Latvia	South Africa
Croatia	Lebanon	Sweden
Cyprus	Libya	Switzerland*
Czech Republic	Lithuania	Syria
Denmark	Luxembourg	Tunisia
Egypt	Malaysia	United Kingdom
Estonia	Netherlands	United States*
Finland		

* Applies only to international shipping and air transport.

Malta has initialed or signed treaties with Greece, Iceland, Ireland, Jordan, Morocco, the Russian Federation, San Marino, Serbia and Montenegro, Singapore, Spain, Thailand, Turkey, Ukraine and the United Arab Emirates.

Other available relief includes commonwealth income tax relief, unilateral relief and a flat-rate foreign tax credit.

F. Temporary Visas

Citizens of the following countries do not require visas to enter Malta:

- British Commonwealth countries;
- United Kingdom dependencies;

- Member countries of the Council of Europe; and
- Countries with which Malta has bilateral agreements or arrangements, including Andorra, Argentina, Chile, Croatia, Czech Republic, Egypt, Estonia, Hungary, Indonesia, Israel, Japan, Korea, Kuwait, Libya, Lithuania, Monaco, Morocco, Poland, Saudi Arabia, Slovak Republic, Slovenia, South Africa, Tunisia, the United States and Uruguay. An agreement signed with Vatican City is not yet in force.

Types of Visas. Single-entry visas are normally granted for one month to those who require visas either for tourist purposes or to attend specific events.

Multiple-entry visas are issued for periods of 3, 6 or 12 months. Similar permits are normally granted by the Commissioner of Police to those who come to Malta frequently, including persons trying to establish businesses in Malta.

Students are issued visas if the Commissioner of Police is confident that they are attending school full-time in Malta. The visa is issued for the length of the academic year.

Transit visas are issued to nationals of states that require visas if the nationals have confirmed tickets to another destination and if they remain in Malta no longer than 24 hours.

Application Procedure. A visa application form may be obtained from immigration officials in Malta or from any embassy or consulate abroad, and must be completed and submitted to the Principal Immigration Officer at least 15 days prior to the applicant's date of departure. The following documents are required with the submission of an application:
- A valid passport;
- Proof of financial means; and
- A completed official visa application form.

Visas are granted at the discretion of the Principal Immigration Officer, who evaluates any special circumstances at the time of application. Ownership of assets in Malta is not a determining factor when a foreign national applies for a visa but, at the discretion of the Principal Immigration Officer, may be considered an advantage.

Visas are issued on the condition that applicants do not engage in any professional activity in Malta.

G. Work Permits

To take up employment in Malta, a foreign citizen must obtain an employment license and a residence document. Work permits are issued in Malta by the Department of Citizenship and Expatriate Affairs and are normally granted as a formality to European Union (EU) citizens. However, for non-EU citizens, work permits are normally granted only to individuals who are able to provide skills or expertise not available in the local market. The Maltese Immigration Police issues a residence document on presentation of the employment license.

Applications for work permits are considered on a case-by-case basis. Work permits are generally valid for one year and are renewable. It takes approximately two months for an employment license to be issued.

H. Residence Permits

An EU citizen may enter, remain and reside in Malta and seek and take up employment or self-employment in Malta.

Subject to limitations based on the grounds of public policy, public security or public health, an EU citizen may enter and exit Malta on the production of a valid identification document and move freely within Malta for a period of three months (or such other period, as may be prescribed), beginning on the date of entry, or such other period as may be prescribed.

If the period of residence of an EU citizen exceeds three (extendable to six) months, or if during such period, he or she takes up employment in Malta, he or she must apply for a residence document. Subject to certain exceptions, the Principal Immigration Officer must issue to the citizen and his or her dependants a residence document.

A national of a state that is not member of the EU or the European Economic Area (EEA) may not enter Malta for a visit with a duration exceeding three months unless he or she satisfies all of the following conditions:
- He or she holds a valid passport;
- He or she holds a valid visa, as required by the Common Consular Instructions;
- Before entry into Malta, he or she submits documents substantiating the purpose and the conditions of the planned visit;
- He or she has sufficient means, both for the period of the planned visit and the return to his or her country of origin, or for traveling to a third state into which his or her admission is guaranteed, or is in a position to acquire such means legally;
- He or she has not been reported as a person to be refused entry; and
- He or she is not considered to be a threat to public policy or national security.

Exceptions to the above rules apply if any of the following circumstances exist:
- The Principal Immigration Officer considers it necessary to admit the individual on humanitarian grounds, in the national interest or in honor of international obligations of the government of Malta.
- A third-party national holds a uniform residence permit or a re-entry visa, or both as may be required, issued by an EU member state. In such case, he or she is permitted to enter Malta for the sole purpose of transit.
- An individual holding a Schengen visa when entering Malta from a Schengen state is returning to a Schengen state, and the validity of the visa covers the period to be spent in Malta and the period for his or her return to the Schengen State from which he or she arrived.
- An individual not returning to a Schengen State has sufficient means and documents to cover his or her stay in Malta and his or her onward journey.

A residence document is valid for a period ranging from one to five years from the date of issuance and, in normal circumstances, it is automatically renewable.

A residence document must specify whether the individual is taking up residence in Malta for a long-term or permanent stay in Malta, work, study or another purpose.

The provisions of the Immigration Regulations do not override the provisions of any law regulating the acquisition of property in Malta by non-Maltese nationals, and a residence document does not, by itself, grant rights to the holder to acquire or own property in Malta over and above the rights granted by the Immovable Property (Acquisition by Non-Residents) Act.

Individuals who have been granted permits under Article 7 of the Immigration Act before 1 May 2004 and individuals who satisfy the conditions of the Residents Scheme Regulations, 2004 (Permanent Residents) are entitled to stay in Malta on indefinite visas if they satisfy certain conditions, primarily of a fiscal nature.

To be eligible to apply for a permanent residence permit, an individual must have an annual income of Lm 10,000 or proven capital of Lm 150,000.

After a permit is granted, a permanent resident must satisfy one of the following requirements:
• Own a house valued at not less than Lm 50,000;
• Own a flat valued at not less than Lm 30,000; or
• Lease or rent premises at not less than Lm 1,800 per year.

I. Family and Personal Considerations

Family Members. The spouse and dependents of a working expatriate must obtain separate work permits to be employed legally in Malta. They must apply for work permits independently of the working expatriate.

Family members of a working expatriate need working permits to reside in Malta.

Marital Property Regime. Couples married in Malta are subject to Malta's community property regime, unless they elect otherwise in an agreement by public deed. Couples who marry outside Malta and subsequently establish a marital domicile in Malta are subject to the community property regime with respect to property acquired after their arrival in Malta.

Under the regime, property acquired before marriage remains separate property, although proceeds from the sale of property acquired before marriage are community property.

Forced Heirship. Under Malta's succession law, a testator who has no ascendants, descendents or spouse may freely dispose of his or her estate. Other testators are required to leave a specified portion (one-fourth, one-third or one-half, depending on the relationship between the deceased and beneficiary and on the number of the heirs) to the above-mentioned heirs.

Drivers' Permits. Expatriates may drive legally in Malta with their home country drivers' licenses for three months. Endorsement of their licenses in Malta enables drivers to drive for one year or for the validity of the foreign licenses.

Malta has driver's license reciprocity with all countries signatory to the Geneva Convention on Road Traffic, 1949.

Returning emigrants who wish to obtain a driver's license in Malta must take a medical exam, and must provide a Maltese passport (or proof of dual citizenship), and a birth certificate from the public registry department in Valletta.

All other foreigners must have work permits, residence permits and freedom of movement to obtain drivers' licenses. A license is granted after the applicant passes a physical driving test and a verbal test. Applicants holding valid foreign licenses are not required to take the tests.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	X	—	(a)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(b)
Housing contribution	X	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	—
Use of car	X	—	(c)
Employer-provided childcare and recreational facilities	—	X	(d)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(e)
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

(a) The employee is taxable on the full amount of salary. However credit or relief against the Malta tax charge is available with respect to tax paid abroad if the employment contract was entered into in Malta.

(b) If the property is owned by the employer and provided free of charge to the employee, the value for each year is determined by applying a 5% rate to the higher of the market value or original cost of the property. If the employer leases the property to the employee, the value of the fringe benefit is the difference between the rent charged and an amount equal to 5% of the higher of the original cost or market value of the property. If the employer leases the property from an unrelated third party, the value of the fringe benefit equals the actual rent charged to the employer, less any rent charged to the employee.
(c) For a car less than six years old that is owned by the employer, the value of the fringe benefit for each year equals 17% of the value of the car. If the maintenance and fuel are paid in full by the employer and if the car value is more than Lm 12,000 (€27,000), the value of the maintenance and fuel equals 10% of the car value. This percentage is reduced to 6% of the car value if the car value is less than Lm 12,000. Therefore, the fringe benefit value to an employee for an employer-owned car for which the expenses are fully paid by the employer is generally 27% of the car value. However, the employee is taxed only on the private-use element of the car. This element is determined by applying the deemed ratio of private use to business use of the car to the fringe benefit value for the car. The Inland Revenue Department establishes the percentages for this ratio. If the car value exceeds Lm 9,000 (€20,000), a percentage of 50% is applied to the fringe benefit value of the car to determine the taxable element.
(d) The providing of recreational or childcare facilities on the business premises of the employer or an associated company for the benefit of the employees is exempt from tax.
(e) This income is taxable only if it is received in Malta.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2006 year of assessment is provided below for an expatriate, who is a resident in Malta for the full 2005 calendar year, is married with two dependent children under 18 years of age and files a joint declaration with a spouse who does not engage in employment activities. During 2005, the expatriate received compensation of Lm 50,000, of which Lm 45,000 was paid in Malta and the balance deposited in a home country bank account and not remitted to Malta. The individual's employer also provided housing at a cost to the company (leased from third party) of Lm 12,000. The expatriate earned dividends from home-country investments of Lm 1,500, of which Lm 1,000 were remitted to Malta. The expatriate was also granted the use of a car valued at Lm 13,000, and expenses relating to such car were fully borne by the employer. The following is the tax calculation.

	Lm	Lm
Calculation of Taxable Income		
Income:		
Salary	50,000	
Taxable value of housing	12,000	
Taxable value of car	1,750	
Investment income received in Malta	1,000	
Taxable income		64,750
Calculation of Tax		
Tax on Lm 4,300 at 0%		0
Tax on Lm 1,700 at 15%		255
Tax on Lm 1,250 at 20%		250
Tax on Lm 1,250 at 25%		313
Tax on Lm 1,500 at 30%		450
Tax on Lm 54,750 at 35%		19,163
Lm 64,750		
Income tax payable		20,431

MAURITANIA

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This chapter was prepared with the assistance of BSD & Associés in Noukachott, Mauritania.

A. Income Tax

Who is Liable. Residents of Mauritania subject to general income tax on their worldwide income. Mauritanian or foreigners are considered to be residents for tax purposes if they have their usual residence in Mauritania. An individual is considered to have his or her usual residence in Mauritania if he or she meets any of the following conditions:

- He or she owns or rents a house in Mauritania;
- He or she is primarily staying in Mauritania;
- He or she performs the most important aspect of his or her professional activities in Mauritania; or
- He or she live outside Mauritania, but are paid by an employer in Mauritania for work performed in Mauritania.

If a foreigner can prove that his or her foreign-source income has already been taxed outside Mauritania, such income is not included in taxable income in Mauritania. Mauritanians and foreigners who are not residents of Mauritania for tax purposes are subject to general income tax on their income derived in Mauritania only.

Income Subject to Tax. Mauritania imposes the following two types of income taxes:

- A general income tax on all income; and
- Scheduled income taxes on specified types of income.

Resident individuals are subject to general income tax on their worldwide general income, which includes the following:

- Self-employment or business income, which is income derived from commercial, noncommercial (for example, accounting, consultancy and private medical services), agricultural and related activities;
- Rental income;
- Salaries and wages if the salary tax was not withheld from the income;
- Investment income (dividends and interest); and
- Capital gains derived by individuals that is not taxed as self employment or business income.

In addition, all of the above types of income are also each subject to a scheduled income tax. As a result, the Mauritanian income tax system is a cumulative system, consisting of a general income tax and scheduled taxes.

For a table outlining the taxability of income items, see Appendix 1.

Scheduled Taxes. The types of income subject to scheduled income taxes are described below.

Employment Income. Gross income from employment includes public and private wages, salaries, perquisites (for example, a house and a car) and related remuneration arising from employment activities performed in Mauritania.

Employment income is subject to salary tax. The rate of salary tax is 15% for salaries of MRO 40,000 or less. The rate is 35% for salaries exceeding that amount.

The following employment income is exempt from tax:
- A fixed amount of MRO 10,000.
- Compensation and allowances paid for individuals performing governmental or local representative duties.
- Up to MRO 10,000 per month for all other compensation and allowances except those for housing and transportation.
- Legal payments for war disability.
- Allowances to war victims.
- Allowances for professional accidents.
- Legal retirement benefits.
- Family allowances (amounts provided for the taxpayer and his or her dependants).
- Perquisites provided by the employer not exceeding 20% of remuneration. Forty percent of the value of perquisites exceeding 20% of remuneration is included in taxable income.

Employers withhold the salary tax monthly. Employment income from which the salary tax is withheld is not included in taxable income for purposes of the general income tax.

Self Employment and Business Income. Self-employment and business income includes the following types of income:
- Commercial or industrial income;
- Agricultural income including profits derived by farmers, stock breeders and forestry operators;
- Income from noncommercial activities; and
- Income from other occupations and business activities not subject to a special tax (that is, occasional activities).

The following expenses are deductible from self-employment and business income:
- General expenses incurred for business purposes, including personnel and social security expenses, rental or leasing expenses, finance charges and certain professional taxes, such as license fees; and
- Depreciation expenses computed using the rates established by the general taxes code.

Taxable income consists of the net profit derived from all activities carried on by the taxpayer, including the capital gains realized on the transfer of business assets. However, these gains are tax-free if the proceeds are reinvested during the following three years in other assets of an enterprise located in Mauritania.

The total amount of self employment and business income is subject to profit tax at a rate of 25%. The individual is responsible for paying the tax on self-employment and business income.

Investment Income. Investment income includes dividends, interest paid by banks on deposits, interest derived from bonds or debentures and directors' fees paid by companies. Investment income is subject to withholding tax at a rate of 10%.

Interest paid by banks on deposits of Mauritanian workers performing their professional activities outside Mauritania is exempt from tax if the total annual amount of the interest does not exceed MRO 1 million.

Rental Income. Rental income is subject to property tax at a rate of 14%. If the renter is an individual, the owner of the property must declare and pay the tax. In all other cases, the tax is withheld at source.

General Income Tax. General income tax is imposed on the sum of the following types of income:
- Employment income not subject to salary withholding tax;
- Self-employment and business income;
- Investment income;
- Rental income; and
- Capital gains.

Employer-Provided Stock Options. Mauritanian tax legislation does not specifically address the treatment of stock options. However, under general principles, all gains related to employment income are subject to salary tax (see *Employment Income*).

Capital Gains or Losses. Capital gains derived from the performance of industrial, professional, commercial, noncommercial agricultural or similar activities are included in self-employment and business income and accordingly are subject to profit tax at a rate of 25%. Capital losses may be carried forward for three years to offset income in the same category. However, capital gains on the transfer of business assets are tax-free if the proceeds are reinvested during the following three years in the assets of an enterprise located in Mauritania.

Deductions. Certain expenses are deductible for general income tax purposes if the following conditions are satisfied:
- They were not taken into account in the calculation of the various categories of income described above;
- They were effectively paid by the taxpayer during the tax year; and
- They are evidenced by documents.

The following are deductible expenses:
- Interest paid on loans to acquire the taxpayer's personal residence in Mauritania;
- Legal severance payments fixed by court decision;
- Proportional taxes paid on specified types of incomes (see *Scheduled Taxes*);
- Voluntary premiums for retirement pensions, up to 6% of net professional income (in this context, net professional income equals general income minus the scheduled taxes paid);
- Life insurance premiums, up to 6% of net professional income; and
- Pensions paid to parents of the taxpayer, up to a total amount of MRO 48,000.

Rates

Rates of Scheduled Taxes. The rates of the scheduled taxes are described in *Scheduled Taxes*.

General Income Tax. General income tax is levied at rates ranging from 5% to 33%. A family coefficient rule reduces the general income tax for families. Under this system, the applicable rates are determined by dividing taxable income by the number of family parts of the taxpayer.

The final tax liability is calculated by multiplying the tax computed for one part by the number of parts claimed. The number of family parts depends on the taxpayer's status, as shown in the following table.

Family Status	Number of Parts
Single, divorced or widower, without children	1
Married, without children	2
Single or divorced with one child	2
Married or widower with one child	2.5
Single or divorced with two children	2.5
Married or widower with two children	3
Single or divorced with three children	3
Married or widower with three children	3.5
Single or divorced with four children	3.5

One-half part is added for each additional dependent child. A disabled child is counted as one part. If the taxpayer has several wives, each of them counts for one part. However, the total number of parts that may be taken into account by any individual may not exceed five.

The following are the rates of general income tax.

Taxable Income Per Part		
Exceeding MRO	Not Exceeding MRO	Rate %
250,000	750,000	5
750,000	1,500,000	15
1,500,000	2,500,000	25
2,500,000	—	33

For a sample tax calculation, see Appendix 2.

B. Other Taxes

Registration Fee. Real estate and related assets transferred among individuals are subject to a registration fee. The rate is 3% if the real estate is used in business. For other real property, the rate is 2.5% to 15%.

Inheritance and Gift Tax. Mauritania does not impose inheritance and gift tax.

C. Social Security

The social security rules require the participation of both employers and employees, without exception.

Employers' and employees' contributions are based on gross salary, up to a maximum salary of UM 70,000. The contribution rates are 1% for employees and 15% for employers.

Employees' contributions are withheld monthly by the employer and must be remitted with the employers' contributions by the 15th day of the following month.

The national social security scheme provides benefits for sickness, maternity, retirement, disability or invalidity (invalidity means a total, partial, permanent or temporary physical incapacity to perform a job as a result of a work accident). To qualify for these benefits, the required contributions must be paid and certain other conditions must be satisfied. The amount of benefits payable depends on the total amount of contributions made on behalf of the employee.

D. Tax Filing and Payment Procedures

As discussed in Section A, certain of the scheduled income taxes are withheld at source.

Taxpayers must make two installment payments of general income tax on 31 March and 30 June, based on the general income tax paid for the previous year. Each installment payment must equal one-third of the previous year's general income tax.

Individuals must file the general income tax return and pay the balance of general income tax due by 1 March following the end of the tax year. However, for individuals engaged in commercial, noncommercial or agricultural activities, the due date for the return is 1 April.

E. Double Tax Relief and Tax Treaties

Mauritania has entered into double tax treaties with France and Senegal.

These treaties provide various types of tax relief. For example, employment income is taxed in the country where the activity is performed, except in a case of a short assignment (less than 181 days in the year).

F. Visas and Related Issues

Rules regarding visas and other immigration matters are based on the principle of reciprocity, unless Mauritania has entered into a bilateral agreement with the relevant jurisdiction.

APPENDIX 1: TAXABILITY OF INCOME ITEMS FOR GENERAL INCOME TAX PURPOSES

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	(a)
Employee contributions to home country benefit plan	—	X	—
Bonus	X	—	—
Retained hypothetical tax	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	X	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—

	Taxable	Not Taxable	Comments
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	—
Capital gain from sale of stock in home country	—	X	—

(a) The salary is not subject to general income tax if the salary tax was withheld monthly.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below. The calculation is based on the following set of facts:

- The husband works for a private company. His monthly salary is subject to salary tax, and his net annual salary is MRO 1,200,000.
- The wife is engaged in the private practice of medicine. Her gross annual profit is MRO 2,000,000.
- They hold some treasury bonds, which earned annual gross interest of MRO 80,000.
- They rent an apartment to a private individual. The gross rental income is MRO 400,000.
- The husband and wife have two dependent children.
- They provide financial assistance to their parents in the annual amount of MRO 120,000.

The following is the tax calculation.

	MRO	MRO
Calculation of Assessable Income		
Income:		
Net annual salary of the husband	1,200,000	
Gross annual profit of the spouse	2,000,000	
Gross rental income	400,000	
Gross bonds interest received during the year	80,000	
Total income		3,680,000
Exclusions and deductions:		
Annual salary	(1,200,000) (a)	
Profit tax paid by the spouse at a rate of 25%	(500,000)	
Rental tax paid at a rate of 14%	(56,000)	
Interest tax paid at a rate of 10%	(8,000)	
Pension paid to parents (maximum amount deductible)	(48,000)	
Total exclusions and deductions		(1,812,000)
Net assessable income		1,868,000
Net assessable income for 1 part (MRO 1,868,000 ÷ 3)		622,666 (b)

	MRO
Calculation of General Income Tax	
Tax for 1 part:	
MRO 622,666 at 5%	31,133.30
Total tax due from family:	
MRO 31,133.30 x 3	93,399.90

(a) The salary is not included for general income tax purposes because salary tax was withheld from the income.
(b) For details regarding the dividing of taxable income into parts, see Section A.

MAURITIUS

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A. Income Tax

Who Is Liable. In general, individuals resident in Mauritius are taxed on their worldwide income. Earned income derived from outside Mauritius is taxed on a remittance basis, and unearned income derived from outside Mauritius is taxed on an arising basis. Resident individuals who are not citizens of Mauritius are exempt from tax on their foreign-source income. Nonresidents are taxed on Mauritian-source income only.

Individuals are considered resident if they meet any of the following conditions:
- They are present in Mauritius for at least 183 days during the tax year, which runs from 1 July to the following 30 June;
- They are present in Mauritius for an aggregate period of 270 days or more during the current tax year and the two preceding tax years; or
- They are domiciled in Mauritius, unless their permanent place of abode is outside Mauritius.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. All income derived from employment is taxable, including salary, bonuses, commissions and fringe benefits. Housing, educational and other allowances are also taxable. Education allowances provided by employers to their employees are taxable, but they may be eligible for relief if the employees are resident in Mauritius.

Any expenditure that is wholly, exclusively and necessarily incurred by an individual to perform the duties of an office or employment are deductible from gross emoluments. Passage benefits provided under a contract of employment are not taxable. Other exempt emoluments include the following:

- The first Rs. 1.4 million of any sum received for severance allowances determined in accordance with the Labor Act;
- Any lump sum or gratuity paid under a pension law;
- The first Rs. 1.4 million of any sum received for retirement allowances by an individual who has attained the applicable age of retirement;
- The portion of emoluments derived by certain expatriates and Mauritian employees from certain companies that will reduce tax liability to 50% of the tax for a maximum period of four income years; and
- Any lump sum received as death benefits, consolidated compensation for death or injury, or a commutation of pension, and paid from either a superannuation fund or personal pension scheme approved by the Commissioner of Income Tax.

Self-Employment and Business Income. Self-employed individuals carrying on a trade, business or profession are subject to tax on their business profits. Expenses are deductible to the extent they are exclusively incurred to produce gross income.

All income derived from business is taxed with other income at the rates set forth in *Rates*.

Investment Income. The first Rs. 100,000 of interest income derived from government securities, bills issued by the Mauritius Civil Service Mutual Aid Association Ltd and fixed deposits or savings accounts held with a bank or other financial institution in Mauritius is tax-exempt. To the extent interest income exceeds Rs. 100,000, it is taxed as ordinary income at the rates set forth in *Rates*. Interest derived by nonresidents on deposits held with Mauritian banks is exempt from tax.

Dividends paid by resident companies are tax-exempt.

Directors' Fees. Directors' fees paid to residents are taxed in the same way as income from employment. Excessive remuneration is considered a distribution, which is fully taxable in the hands of the individual. Directors' fees paid to nonresidents are not taxed.

Capital Gains. Capital gains are not taxable, except those arising from certain sales of land.

Deductions

Standard Deduction. Resident and nonresident individual taxpayers who receive emoluments are entitled to a standard deduction of 15% of their emoluments, up to a maximum of Rs. 135,000 per year.

Individuals who derive income from agriculture may claim a deduction for agricultural income relief. The relief is computed at 15% of the net income derived from agriculture, up to a maximum amount of relief of Rs. 100,000 per year.

Personal Deductions and Allowances. Resident individuals are entitled to the following deductions.

Description of Deduction	Amount of Deduction Rs.
Basic personal deduction*	85,000
Disability of taxpayer or wife	70,000
Dependent spouse	85,000
Dependent children (maximum of three per couple)	30,000
Educational expenses	
Child receiving pre-primary, primary or secondary education	Up to 10,000
Child receiving tertiary education in Mauritius	Up to 80,000
Child receiving tertiary education outside Mauritius	80,000
Contributions to certain funds and schemes	Unlimited
Donations to approved charitable institutions	Up to 40,000
Interest on secured loans to purchase or construct taxpayer's main residence or to finance tertiary education of taxpayer's dependent children	Up to 250,000
Alimony and maintenance	Unlimited
Investment relief of 40% of amount invested (Excess is carried forward to following two income years)	Up to 50,000
Life insurance premiums	Up to 80,000
Retirement pension relief	Up to 75,000
Investment in Retirement Savings Scheme	Up to 50,000
Premiums for, or contributions to, retirement annuity contracts and personal pension schemes	Subject to savings relief (see below)

* Also available to Mauritian citizens who are not resident in Mauritius.

Under savings relief, the total of the following deductions is limited to 20% of the individual's net income:
• Premiums for personal pension plans;
• Premiums for retirement annuities; and
• Contributions to medical expense schemes.

Rates. An individual's income tax liability is determined using the rates indicated in the following table.

Taxable Income		Tax on Lower Amount	Rate on Excess
Exceeding Rs.	Not Exceeding Rs.	Rs.	%
0	25,000	0	10
25,000	50,000	2,500	20
50,000	500,000	7,500	25
500,000	—	120,000	30

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses in any amount may be offset against any source of income, except employment income. Losses may be carried forward indefinitely.

B. Estate and Gift Taxes

No estate tax is levied in Mauritius. Gift tax rates range from 12.5% to 45%.

C. Social Security

Employees in Mauritius are required to contribute to the National Pension Fund, which provides for employees' old-age retirement. For the year ending 30 June 2006, the contribution rate for employees is 3% of gross salary, up to a maximum monthly contribution of Rs. 239.5. For employers, the rate is 6% of gross salary, up to a maximum monthly contribution of Rs. 479 per employee.

D. Tax Filing and Payment Procedures

Employers must withhold taxes on employees' emoluments. Individuals with self-employment or business income must make half-year tax payments based on their income for the preceding six months.

Every taxpayer must file a return by 30 September, stating the amount of all income received during the preceding year ending 30 June. Taxpayers must pay any tax due with the return when filed. They may claim a refund on the annual return for any overpayment of tax.

Married persons are taxed separately.

E. Double Tax Relief and Tax Treaties

Mauritius has entered into double tax treaties with the following countries.

Barbados	Lesotho	Senegal
Belgium	Luxembourg	Seychelles
Botswana	Madagascar	Singapore
China	Malaysia	South Africa
Croatia	Mozambique	Sri Lanka
Cyprus	Namibia	Swaziland
France	Nepal	Sweden
Germany	Oman	Thailand
India	Pakistan	Uganda
Italy	Russian Federation	United Kingdom
Kuwait	Rwanda	Zimbabwe

The agreements are based on the model treaties of the Organization for Economic Cooperation and Development (OECD) and the United Nations (UN).

The treaties provide the following relief:
- Dividends are taxed at a 0% to 15% rate;
- Royalties are taxed at a 0% to 15% rate;
- Income from shipping and air transport operations of enterprises resident in a treaty country is not taxed in Mauritius; and
- Business profits of a nonresident are taxed only if the nonresident operates through a permanent establishment or a fixed base in Mauritius.

Mauritius is negotiating double tax treaties with Canada, the Czech Republic, Greece, Iran and Portugal.

Residents receive a credit for foreign tax paid on foreign-source income. The foreign tax credit also takes into consideration underlying taxes if the recipient owns, directly or indirectly, at least 5% of the shares of the company paying the dividends. The Mauritian tax law also provides for a tax-sparing credit.

Regardless of any tax treaty, royalties and interest paid by a company that holds a Category 1 Global Business License to nonresidents are exempt from tax in Mauritius, and accordingly, are not subject to withholding tax in Mauritius. The exemption does not apply to interest paid to nonresidents carrying on a business in Mauritius.

F. Temporary Visas

Tourists from European Union (EU) member countries and the United States do not need visas for short visits to Mauritius.

A foreign investor applying for permanent residence status (see Section H) may be issued a multiple-entry visa valid for up to one year pending the grant of the permanent resident status.

G. Work Permits and Self-Employment

Work permits and residence permits are required for all foreign nationals who wish to work in Mauritius. The permits are valid for one year and are renewable. Work permits are usually granted to foreign nationals who possess professional and technical qualifications in fields for which locally qualified candidates are not available. Work permits may also be granted to foreign workers in industries for which labor is in short supply.

Application for work permits should be made in Mauritius and must indicate the exact title and duration of the position sought. The employer must submit the following documents with the completed application form:

- Job profile;
- Documentary evidence of academic and professional qualifications and experience;
- Official copy of the applicant's birth certificate or passport details;
- For skilled workers, a copy of the contract between the employer and the worker; and
- A full medical report on the expatriate.

A processing fee of Rs. 200 must be paid on submission of each completed application form. Applications submitted without the fee are not considered.

In general, an applicant may not work while his or her work application and other papers are being processed, except if married to a Mauritian citizen. Application must be made at least two months before the projected date of employment.

Changing employers usually is not permitted. If an employee changes employers, a new application for a work permit must be submitted by the new employer.

Application for renewal of a work permit should be made three months before expiration of the current work permit, and full justification for the continued employment of the expatriate should be given. Even an individual who has worked legally in Mauritius for several years must renew his or her work permit every year.

A foreign national may start a business in Mauritius if he or she obtains prior written permission from the Prime Minister's office.

H. Residence Permits

To obtain a residence permit, an applicant must be able to show sufficient economic means to live in Mauritius. Residence permits are issued for one-year periods and are renewable.

Under the Permanent Residence Scheme, a foreign investor investing at least US$500,000 or the equivalent in any qualifying activity may apply for permanent residence status for the investor, his or her dependent spouse and dependent children under 18 years of age and, under certain conditions, his or her dependent next of kin. Foreign investors and their dependents who are granted permanent residence status do not require work permits.

I. Family and Personal Considerations

Family Members. The working spouse of a work permit holder must file an application independently of the expatriate to obtain a work permit.

Marital Property Regime. At the time of their civil marriage, couples may elect between the community property regime and the separate property regime. They may change regimes during the marriage if they meet certain conditions.

Drivers' Permits. Expatriates may drive legally in Mauritius with their home country drivers' licenses if they have the licenses validated by the traffic authorities. Mauritius does not have driver's license reciprocity with any other country.

To obtain a driver's license in Mauritius, a foreign national must take verbal and practical driving tests.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contribution to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Education reimbursement	X	—	(c)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Moving expense reimbursement	—	X	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Passage benefits	—	X	—
Other Items			
Foreign-source income (earned and unearned)	—	X	(e)
Capital gains	—	X	—

* The bracketed amount reduces taxable income.
(a) This contribution may be eligible for relief if the individual is tax resident in Mauritius. The relief is limited to 20% of the net income of the individual.
(b) If the individual is provided free accommodation and if the employer pays the rent directly to the owner, the accommodation benefit is deemed to be the lower of 12.5% of the emoluments received by the employee or the rent paid by the employer.
(c) If the individual is tax resident in Mauritius, the educational allowance may be relieved in accordance with the following rules:
- If the child receives preprimary, primary or secondary education, the individual may claim a deduction equal to the fees paid, with a maximum deduction of Rs 10,000;
- If the child receives tertiary education in Mauritius, the individual may claim a deduction equal to the fees paid, with a maximum deduction of Rs 80,000; and
- If the child receives tertiary education outside Mauritius, the individual may claim a deduction equal to Rs 80,000.

(d) Documentary evidence to substantiate the relocation expenses must be available.
(e) The Mauritian tax law exempts foreign-source income derived by non-Mauritian citizens who are tax resident in Mauritius. For other resident individuals, foreign earned income is taxed on a remittance basis, while foreign unearned income is taxed on an arising basis. A foreign tax credit is available with respect to foreign-source income.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2006-07 year of assessment (based on the income year ending 30 June 2006) is provided below for an expatriate who is resident in Mauritius for the year ending 30 June 2006 and is married with two dependent children. During the year ending 30 June 2006, the expatriate received compensation of Rs 1,500,000, Rs 1,250,000 of which was paid in Mauritius and the balance deposited in a home country bank account and not remitted to Mauritius. The individual's employer also provides free accommodation and pays a total amount of Rs 250,000 to the landlord for the year ending 30 June 2006. The individual is also provided with a company car during the year ending 30 June 2006. The expatriate earned Rs 400,000 for duties performed wholly outside Mauritius for an employer resident in the expatriate's home country. This amount is remitted to Mauritius. The following is the tax calculation.

	Rs	Rs
Calculation of Taxable Income		
Income:		
Salary	1,500,000	
Car benefit	12,000	
Accommodation benefit (lower of rent paid of Rs 250,000 or 12.5% of sum of salary and car benefit [Rs 1,512,000])	189,000	
Total taxable income		1,701,000
Personal reliefs and deductions:		
Emoluments relief (15% of Rs 1,701,000, up to maximum of Rs 135,000)	(135,000)	
Basic personal deduction	(85,000)	
Deduction for dependent spouse	(85,000)	
Deduction for dependent children	(60,000)	
Total deductions		(365,000)
Chargeable income		1,336,000

Calculation of Tax			**Rs**
Tax on	Rs 25,000	at 10%	2,500
Tax on	Rs 25,000	at 20%	5,000
Tax on	Rs 450,000	at 25%	112,500
Tax on	Rs 836,000	at 30%	250,800
	Rs 1,336,000		
Total tax			370,800

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A. Income Tax

Who Is Liable. Resident individuals are taxed on worldwide income. Nonresidents are taxed on Mexican-source income only.

Individuals who establish their home in Mexico are considered resident in Mexico. If individuals also have a home in another country, they are considered resident in Mexico if their center of vital interests is located in Mexico. An individual's center of vital interests is considered to be located in Mexico in the following circumstances:

- More than 50% of the individual's income in a calendar year is derived from Mexican sources; or
- The center of the individual's professional activities is located in Mexico.

Individuals who cease being residents in Mexico must notify the tax authorities within 15 days before such change in their status and no later than a month following the change of residency. For this purpose, they must designate a legal representative in Mexico.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income includes salaries, wages, directors' fees, bonuses, gratuities, allowances, certain fringe benefits, benefits in kind and employee profit-sharing distributions.

Education allowances provided by employers to their expatriate or local employees are taxable for income tax and social security purposes if the allowances are not generally provided to all the employees under the applicable rules.

Nonresidents who receive salaries paid by resident employers or by employers with permanent establishments in Mexico are subject to withholding tax as described in *Rates*. Salary income and income for personal services paid by a nonresident individual or company are exempt from the withholding tax if the services are not related to the nonresident payer's permanent establishment in Mexico (or the nonresident payer does not have a permanent establishment) and if the services are provided for fewer than 183 days (including Saturdays, Sundays, holidays and vacations). For purposes of this rule, the 183 days need not be consecutive in a 12-month period. If services are provided for more than 183 days, the withholding rates apply.

Self-Employment and Business Income. A self-employed individual who earns income from business activities or professional services, including real estate rental activities, is subject to tax at the rate published by the authorities. The tax is calculated on the net income derived by the individual for each of the months corresponding to the periods to which prepayment applies (see Section D). Self-employed individuals also must pay other taxes, such as value-added tax and asset tax (see Section B).

Professional fees paid by a Mexican resident to a nonresident for services rendered in Mexico are subject to withholding tax at a rate of 25%. If the services are rendered only partially in Mexico, income tax is payable on the portion of the income related to the services rendered in Mexico.

Investment Income. A company that distributes dividends is subject to a 29% withholding tax to the extent the company did not already pay tax on the underlying income. Dividends must be included in a resident's taxable income. The corporate tax paid is credited against the resident's final tax liability. Dividends paid by foreign entities are included in taxable income and taxed at the rates set forth in *Rates*. A 29% tax is levied on dividends received by nonresidents that are paid out of untaxed underlying corporate profits.

For 2006, interest on time deposits with Mexican banks and on publicly issued debentures is subject to a provisional 0.5% withholding tax on the capital invested that originated the interest. Interest derived from investments in other entities (other than publicly issued debentures) is subject to a 20% provisional withholding tax on the nominal interest. Gains derived from the sale of publicly issued debentures are also subject to this tax. Other interest income is included in taxable income and taxed at the rates set forth in *Rates*. Individuals accrue as taxable income the real interest gained during the fiscal year. Real interest is equal to the amount by which interest exceeds the inflationary effects of the tax year. For 2006, interest income received by nonresidents from Mexican banks is subject to a 10% withholding tax. Lower rates may apply under certain tax treaties. Stricter rules have been implemented for Mexican mutual funds. Gains and losses derived from the sale of shares in a fund must be reported in a resident's tax return and treated as interest.

Income received by nonresidents from the rental of real and personal property is subject to a 25% withholding tax. For the taxation of real estate rental income derived by a resident, see *Self-Employment and Business Income*.

Royalties received by nonresidents for the use of trade names, trademarks, patents or certificates of invention are subject to a 25% withholding tax. Fees received by nonresidents for technical assistance and know-how are subject to a 25% withholding tax. Lower rates may apply under certain tax treaties.

Directors' Fees. Directors' fees received by Mexican residents from Mexican or foreign companies are subject to income tax at the rates set forth in *Rates*. Certain requirements must be met for the fees to be fully deductible.

Exempt Income. The following items are excluded from taxable income:
- Indemnities for accidents and illnesses;
- Retirement benefits and pensions provided by public institutions (private retirement plans are partially exempt);
- Reimbursement of medical, dental, hospital and funeral expenses;
- Social security benefits paid by public institutions;
- Savings funds;
- Travel expenses; and
- Social welfare payments.

Certain exemptions are subject to limitations and specific requirements.

Taxation of Employer-Provided Stock Options. Employer-provided stock options are taxed at the time of exercise on the difference between the exercise price and the fair market value of the stock. The income is taxed at the tax rates set forth in *Rates*. Gains derived from the subsequent sale of the shares are subject to tax as capital gains (see *Capital Gains and Losses*).

For stock options granted before 1 December 2004, under transitional rules in the Mexican Income Tax Law, benefits derived from the purchase of shares are determined based on the fair market value of such shares on 31 December 2004. For nonresidents, income equals the total amount obtained in the calendar year in which the option is exercised.

Capital Gains and Losses. In general, gains derived from the sale of shares and real estate are treated as capital gains. Capital gains are not subject to a separate tax, but are included in ordinary income and taxed at the rates set forth in *Rates*. The gain calculation includes adjusting cost for inflation. Gains derived from shares sold on the Mexican stock exchange are tax-exempt. Gains derived from the sale of a personal residence are also tax-exempt.

Capital gains derived from transfers of shares and real estate are taxed using an income-averaging method. The taxable gain is calculated separately for each asset and then divided by the number of years the asset was held, up to a maximum of 20 years. The resulting amount is added to other taxable income. After the graduated marginal tax rates are applied to this total, the average rate is then applied to the balance of the capital gain. Income averaging does not apply to capital gains derived from transfers of real property used in a trade or business; these gains are added to business income.

Although computed the same way, capital losses are treated differently. The tax benefit for the year in which a total loss is incurred is limited to the amount of tax on the total loss, divided by the number of years the underlying asset was held, up to a maximum of 10 years. That amount is deductible from the individual's gain on the sale of other assets or from other income, except salary and business income. The remaining loss may be carried forward for three years, but only against capital gains derived from the sale of shares or real estate.

Nonresident taxpayers deriving capital gains from the disposal of shares or real estate may elect to pay tax on the gross amount at a rate of 25% or to be taxed at a rate of 30% on the net gain. An individual electing the second alternative must designate a legal representative who is a tax resident of Mexico.

Deductions

Personal Deductions and Tax Credits. Resident individuals are granted the following personal deductions:

- Insurance premiums for medical coverage;
- Payments for medical, dental and hospitalization services for the taxpayer and his or her dependents;
- Payments for the school bus transportation of dependent children if required by local law;
- Funeral expenses, limited to annual minimum salary;
- Certain gifts to public works or utilities, charitable or welfare institutions, and promoters of the arts or culture;
- Mortgage interest related to the principal residence;
- Voluntary contributions made to the individual retirement account, limited to five times the annual minimum salary; and
- The local tax paid on salaries if the tax rate is less than 5%.

A tax subsidy of up to P 37,396 per year is available. The amount of the subsidy is determined using a sliding scale, which is affected by the nontaxable fringe benefits granted by the employer (see *Rates*).

Business Expenses. Normal expenses, including salaries, fees, rent, depreciation, interest and other general expenses, may be deducted from the net amount of gross revenue to compute taxable income. Instead of deducting actual expenses, individuals with rental income may elect to deduct an amount equal to 35% of rental income.

Rates

Residents. The monthly income tax rates in the following table are effective from 1 January 2006 and are adjusted when the inflation rate exceeds 10%.

Monthly Taxable Income Exceeding P	Monthly Taxable Income Not Exceeding P	Tax on Lower Amount P	Rate on Excess %
0	496.07	0	3
496.08	4,210.41	14.88	10
4,210.42	7,399.42	386.31	17
7,399.43	8,601.50	928.46	25
8,601.51	—	1,228.98	29

The following table shows the rates for calculating the monthly tax subsidy in 2006.

Monthly Taxable Income Exceeding P	Monthly Taxable Income Not Exceeding P	Subsidy for Tax on Lower Amount P	Rate of Subsidy on Excess over Marginal Tax %
0	496.07	0	50
496.08	4,210.41	7.44	50
4,210.42	7,399.42	193.17	50
7,399.43	8,601.50	464.19	50
8,601.51	10,298.35	614.49	50
10,298.36	20,770.29	860.53	40
20,770.30	32,736.83	2,075.27	30
32,736.84	—	3,116.36	0

The following table sets forth the 2006 annual tax rates for resident individuals.

Annual Taxable Income Exceeding P	Annual Taxable Income Not Exceeding P	Tax on Lower Amount P	Rate on Excess %
0	5,952.95	0	3
5,952.96	50,525.03	178.56	10
50,525.04	88,793.15	4,635.72	17
88,793.16	103,218.11	11,141.52	25
103,218.12	—	14,747.76	29

The maximum tax rate will decrease to 28% in 2007.

For a sample tax calculation, see Appendix 2.

Nonresidents. For salaries paid by resident employers or by employers with permanent establishments in Mexico, the following are the withholding tax rates as of 1 January 2005.

Taxable Income Exceeding P	Taxable Income Not Exceeding P	Tax on Lower Amount P	Rate on Excess %
0	125,900	0	0
125,900	1,000,000	0	15
1,000,000	—	131,115	30

Relief for Losses. Losses incurred in business or professional activities may be carried forward for 10 years against future earnings of the same type of income.

B. Other Taxes

Net Worth Tax. No tax is levied on an individual's net worth. However, a 1.8% minimum tax is imposed on business assets and real estate rented for business activities. This tax may be reduced or eliminated by crediting the income tax paid.

Estate and Gift Taxes. No estate or inheritance tax is levied.

Gifts from direct line (ascendant or descendent) family members are exempt from tax if certain requirements are met.

C. Social Security

Contributions

Social Security. The employee's rate of social security contribution is 3.095% of the integrated salary, which is withheld by the employer from wages. The employer's rate of contribution is approximately 29.33%. The maximum annual contribution for employees is approximately P 12,897 and for employers, P 46,416 (includes the minimum percentage of job hazard) per employee.

Housing Fund. Employers must contribute 5% of salaries (limited to 23 times the minimum wage for the first semester and to 24 times the minimum wage for the second semester) to the Housing Fund, which provides funds for the construction of housing for workers. The maximum annual contribution is approximately P 20,877 per employee.

Mandatory Pension Plan. Employers must contribute 2% of an employee's compensation (limited to 25 times the minimum wage) to a pension trust, which is managed by a bank in the employee's name. The maximum annual contribution is approximately P 8,882 per employee.

Coverage. The social security system in Mexico provides the following benefits:
- Medical assistance in cases of illness, maternity care and accidents;
- Indemnities in cases of temporary disability; and
- Pensions for disability, old age and death.

Medical-assistance benefits extend to the members of an employee's family, including a spouse, parents and children.

D. Tax Filing and Payment Procedures

For individuals, the fiscal year in Mexico is the calendar year. Tax returns must be filed during April, but no later than 30 April of the following year. Taxpayers who receive income from salaries and interest not exceeding P 300,000 are not required to file annual tax returns. However, if the real interest exceeds P 100,000 and taxes were withheld on such interest, the individual must file a return.

Personal income taxes of employed residents and nonresidents are frequently withheld. A resident individual taxpayer may elect to pay the remaining tax due either when the annual return is filed or in installments with interest over a six-month period.

Resident individuals must report in their annual tax returns information regarding charitable contributions, prizes and loans obtained during the calendar year, if such items exceed P 500,000, in aggregate or separately.

In addition, exempt income and nontaxable items must be reported, (such as employer reimbursed travel expenses, income derived from the sale of a principal residence and items listed in Article 109 of the Mexican Income Tax Law) regardless of their amounts. This rule applies to all individuals residing in Mexico, including taxpayers not required to file annual tax returns.

Self-employed individuals must make monthly tax payments. Individuals filing monthly tax returns must open a Mexican bank account to pay their advance tax payments via the internet and electronic transfer.

Employees of foreign companies who work in Mexico must make monthly estimated payments if their companies do not have permanent establishments in Mexico. For such purpose, they must open a Mexican bank account to pay their advance tax payments through an electronic transfer.

Married persons are taxed separately, not jointly, on all types of income. Under the tax regulations, it may be possible to include a spouse's income in the tax return of the spousal resident with the greater amount of income.

E. Double Tax Relief and Tax Treaties

An individual with foreign-source income may take a credit for foreign tax paid in the source country to the extent that the foreign tax paid does not exceed the individual's Mexican tax liability on the foreign-source income.

Mexico has entered into double tax treaties with the following countries.

Australia	Germany	Poland
Austria	Indonesia	Portugal
Belgium	Ireland	Romania
Canada	Israel	Singapore
Chile	Italy	Spain
Czech Republic	Japan	Sweden
Denmark	Korea	Switzerland
Ecuador	Luxembourg	United Kingdom
Finland	Netherlands	United States
France	Norway	

In addition, Mexico has signed double tax treaties with Brazil, Greece, Russia, Thailand, Ukraine and Venezuela, which either await ratification or are not yet in force.

Mexico is currently negotiating double tax treaties with Hungary, Iceland, India, Malaysia, New Zealand, Nicaragua, Panama and the Slovak Republic.

F. Nonresident Permits

All foreign nationals entering Mexico must have either entry permits or visas, depending on the specific circumstances of their stay.

The required documentation may be obtained from Mexican foreign-service offices abroad, including embassies and consulates, and from the immigration authorities in ports of entry. Additionally, certain tourism offices authorized by the Department of the Interior (Secretaria de Gobernación) may issue tourist visas.

Foreign nationals in Mexico are legally classified as nonresidents, residents or permanent immigrants. Nonresidents are those who enter Mexico temporarily; residents are those who intend to reside in Mexico; and permanent immigrants are those who have lived in the country as residents for five years or longer.

Different types of nonresident permits are granted to the following categories of individuals:

- Tourists, who may stay in Mexico for a maximum of six months.
- Individuals in transit, who may stay in Mexico up to 30 days while on their way to another country.
- Visitors, who may or may not be gainfully employed; their visas are valid for 12 months, may be renewed up to four times and permit multiple entries and departures. The visitor category includes foreigners entering Mexico to investigate investment possibilities or make investments; to carry out scientific, technical, advisory, artistic or sports activities; to occupy key posts in companies; or to attend meetings of boards of directors or stockholders.
- Ministers or other religious associates.
- Individuals granted political asylum.
- Refugees.
- Students.
- Distinguished visitors.

G. Work Permits and Self-Employment

Work permits are generally granted for periods of one year; however, they may be extended.

In general, a prospective employee must provide documentation showing that he or she has a position in Mexico and has sufficient resources while working there. Documentation may take the form of an employment contract or a letter from an employer.

The prospective employee must also provide a copy of his or her passport, photos and other identification. The information must be submitted to the immigration department in the state where the prospective employee will live.

Foreign nationals may be self-employed in Mexico. No minimum capital investment is required; however, expatriates must apply for investor status and must be able to show sufficient economic capability and practical experience to undertake a business operation.

H. Residence Permits

Residents. The following individuals are considered residents:

- Individuals of independent means who live on income brought into Mexico from abroad.
- Investors who make capital investments in Mexico in accordance with legal requirements.
- Individuals who exercise their profession and whose professional diplomas are registered with the Department of Public Education.
- Individuals who assume certain positions of responsibility in Mexican companies or institutions.
- Individuals who direct or perform research, impart scientific knowledge, train researchers or perform educational work in the interest of national development.

- Technicians or those who carry out applied research projects or who perform technical or specialized functions that cannot be carried out by Mexican nationals.
- Family members who are economically dependent on their spouses or parents. Foreign sons and brothers of immigrants, permanent residents or Mexicans qualify under this category only if they are minors or if it is proved that they are unable to work or are studying in a stable manner.
- Artists or athletes who perform artistic, sporting or similar activities that are beneficial to the country.
- Foreigners who perform any licit and honest activity, who are assimilated into the national environment or who have had or currently have a Mexican spouse or offspring.

Permanent Immigrants. Immigrants who have been legal residents of Mexico for at least five years may acquire permanent immigration status, granted by the Department of the Interior.

I. Family and Personal Considerations

Family Members. Each family member is issued a separate visa; however, the application forms are frequently included with those of the employee for processing at the same time.

If a family member wishes to work, he or she must separately apply for a work permit.

Drivers' Permits. Foreign nationals may not drive legally in Mexico with their home country drivers' licenses. Mexico does not have driver's license reciprocity with other countries.

If a foreign national residing in the country wishes to obtain a driver's license in Mexico, he or she must present the following items:
- Birth certificate (original and copy);
- Proof of address;
- Identification;
- Blood type;
- Eye examination;
- Written examination;
- Immigration form used to enter the country;
- Passport; and
- One other official piece of identification.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—

	Taxable*	Not Taxable	Comments
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	—	X	(b)
Pension plan contributions	X	—	(a)
Welfare benefits	—	X	(c)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gains, from other assets in home country	X	—	—

* Bracketed amounts reduce taxable income.
(a) If the contributions to the plan were not subject to tax in Mexico at the time of contribution, the retirement and pension payments are taxed to the extent the amount of the contributions exceeds nine times the minimum wage.
(b) The meal expenses must be incurred for company business, such as trips and seminars.
(c) Exempt welfare benefits are limited and certain requirements must be satisfied.

APPENDIX 2: SAMPLE TAX CALCULATION

An individual who is resident in Mexico for all of 2006 receives compensation of P 70,000 per month and an annual bonus of P 190,000. During the year, the individual incurs medical expenses of P 15,000. The following is the annual tax computation for the individual.

	P	P
Calculation of Taxable Income		
Compensation other than bonus (12 x P 70,000)		840,000
Bonus		190,000
Taxable compensation		1,030,000
Deduction for medical expenses		(15,000)
Taxable income		1,015,000
Calculation of Tax Due		
Tax		279,165
Subsidy		(37,396)
Net tax		241,769
Withholding:		
Normal (12 x P 15,918)	(191,016)	
Bonus	(55,100)	
Total withholding		(246,116)
Tax due		4,347

MOLDOVA

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A. Income Tax

Who Is Liable. The following individuals are subject to income tax in Moldova:

- Moldovan nationals on income earned in Moldova, as well as income earned from overseas financial and investment operations;
- Any enterprise with the legal status of an individual, including sole ownerships, limited partnerships, general partnerships and farms; and
- Foreign nationals on income earned in Moldova.

Moldova does not apply different tax rates based on territoriality.

Residents are individuals who meet either of the following conditions:

- They have a permanent domicile in Moldova (includes individuals studying or traveling abroad and Moldovan officials appointed for missions abroad); or
- They live 183 days or more during any fiscal year in Moldova.

Income Subject to Tax. Individuals are subject to tax on their gross income earned in Moldova and on income earned from overseas financial and investment operations, less applicable deductions and other allowances.

Gross income includes the following items:

- Income earned from entrepreneurial, professional and other similar activities;
- Salaries and fees for services rendered by the individual;
- Cash or in kind compensation, other premiums and facilities paid by the employer;
- Interest;
- Capital gains;
- Compensation for temporary disability;
- Royalty and annuities;
- Dividends obtained from nonresident entities;
- Rental income; and
- Revenue earned by lawyers and other professionals, including commissions and other revenues.

Gross income does not include the following items:

- Dividends (except those paid by nonresident entities);
- Amounts received as compensation for illness;
- Compensation received under insurance agreements;
- Damages paid by a third party for accidents and/or permanent disability;
- Compensation for dismissal;
- Alimony and allowances for children;
- Donations and inheritances;
- Reimbursement of expenses incurred to perform an employee's duties;
- Scholarships and grants;
- Lottery prizes;
- Income earned from business patent activity;
- Income earned from selling of secondary raw materials and agricultural goods produced by individuals (an exception applies to income earned by farms and individual enterprises); and
- Compensation for moral damages (includes amounts received as compensation for injuries to honor, dignity and professional reputation).

Employment Income. Taxable compensation includes salaries, cash or in kind compensation, bonuses, rewards, compensations for temporary disability, paid holidays, inflationary allowances and royalties from patents and trademarks. Taxable compensation also includes salaries received by daily/temporary workers, fees and compensation paid to directors and managers of private commercial corporations and fees received by professionals (lawyers, doctors and experts).

The Moldovan tax law does not provide any special rules regarding the taxation of education allowances provided by employers to their employees' children under 18 years old. Such allowances are included in taxable income.

Self-Employment and Business Income. Income earned by individuals authorized to carry out independent activities (traders, craftsmen and family associations) and income earned from self-employment and business activities are subject to income tax.

Directors' Fees. Moldovan tax laws do not specifically address the taxation of directors' fees.

Investment Income. Interest earned by residents on deposits with Moldovan banks and from government securities are not subject to income tax until 1 January 2015.

Taxation of Employer-Provided Stock Options. Moldovan tax laws do not specifically address the taxation of employer-provided stock options.

Capital Gains and Losses. Capital assets for tax purposes include the following:
- Shares and other deeds certifying ownership rights;
- Negotiable paper and bills of exchange;
- Private property not used for business purposes;
- Land; and
- Options for selling capital assets.

The capital gains tax base for any fiscal year equals 50% of any amount of capital gains earned during that fiscal year.

Capital gains are deductible only against capital losses.

Deductions

Deductible Expenses. Individuals may deduct the following expenses:

- Expenses related to entrepreneurial activities (business deductions); and
- Capital losses to the extent of capital gains.

Personal Deductions and Allowances. The amount of income from all sources is reduced by personal deductions and allowances. Each taxpayer is granted a personal deduction of MDL 4,500 per year against taxable income. Certain listed individuals are entitled to a personal deduction amounting to MDL 10,000 per year. These individuals include disabled veterans, parents and spouses of war veterans, and individuals disabled in childhood.

An individual may also benefit from an additional deduction of MDL 4,500 per year if the individual's spouse does not benefit from the individual's personal deduction. A deduction of MDL 840 per year is granted for each dependant, and a deduction of MDL 4,500 per year to support individuals with a permanent disability.

Business Deductions. Expenses incurred in business activities may be deducted from revenue earned, excluding personal and family related expenses.

Rates. The following are the income tax rates in Moldova.

Taxable Income		Rate on
Exceeding MDL	Not Exceeding MDL	Excess %
0	16,200	8
16,200	21,000	13
21,000	—	20

Relief for Losses. Forced losses (*force majeure*) of property and income resulting from the substitution of such property with another property are exempt from tax.

B. Other Taxes

Wealth Tax or Net Worth Tax. Moldova does not impose wealth or net worth taxes.

Property Tax. Tax is imposed on property, including land, buildings, apartments and other real estate. The rate of property tax on buildings, apartments, constructions and other types of premises ranges from 0.1% to 0.3% of the cost, depending on the location of real estate.

Inheritance and Gift Taxes. Moldova does not impose taxes on gifts or inheritances.

C. Social Security

Social security contributions for employees are paid from a remuneration fund and other funds by the employer in an amount of 29%, with 26% contributed by the employer and 3% (limited to 3% of the sum of 3 forecasted average salaries in the economy) contributed by the employee.

D. Tax Filing and Payment Procedures

The tax year in Moldova is the calendar year. Annual tax returns must be filed by individuals whose total annual income tax exceeds the amount of income tax withheld during that year. The annual tax return must be filed with the tax authorities by 31 March of the year following the year reported on. Entities must withhold income tax on a monthly basis.

E. Double Tax Relief and Tax Treaties

Moldova has entered into double tax treaties with the countries listed below. The treaties generally provide for a residency test of 183 days in a fiscal year.

Albania	Georgia*	Poland
Armenia	Germany	Romania
Austria	Greece	Russian Federation
Azerbaijan	Hungary	Slovak Republic*
Belarus	Italy*	Switzerland
Bulgaria	Japan	Turkey
Canada	Kazakhstan	Turkmenistan*
China	Latvia	Ukraine
Czech Republic	Lithuania	Uzbekistan
Estonia	Netherlands	Yugoslavia*
France*		

* Signed, but not yet in force.

F. Temporary Visas

Moldovan embassies and consulates issue visas. Nationals of the Commonwealth of Independent States (CIS) and Romania do not require visas to visit Moldova. Nationals of other countries with an invitation from a Moldovan company, organization or individual should either obtain a visa from a Moldovan consulate or embassy prior to their departure for Moldova, or obtain a visa on arrival at Chisinau International Airport.

Visas are not required for individuals holding diplomatic passports from EU countries, Canada and the United States. Visas for members of official United Nations delegations are free of charge.

A foreign person staying in Moldova for a period longer than three days must register with the relevant local authorities. For this purpose, a request for registration must be submitted to the territorial division of the Informational Technology Department of Moldova within the first three days of the person's stay in Moldova. If such person is staying at a hotel, the hotel's administration is responsible for the registration of the person.

A foreign person intending to stay in Moldova for a period longer than 90 days must submit a request for the issuance of an immigration certificate to the State Service of Migration of Moldova at least one month before the expiration of the 90-day period.

G. Work Permits

Work permits entitle foreign nationals to work under Moldovan employment agreements. The State Service of Migration issues the permits.

H. Residence Permits

The obtaining of an immigration certificate is a prerequisite for eligibility for a residence permit in Moldova. The application for a residence permit must be submitted within three days after the date of issuance of the immigration certificate.

An immigration certificate may be permanent or temporary. The temporary immigration certificate is issued for a one-year period and can be extended for consecutive one-year periods. Notwithstanding the above, an immigration certificate may be issued for a longer period of up to five years if the applicant is holding a managerial position within a Moldovan company or if the applicant is the founder of a Moldovan company using foreign investments of at least US$100,000.

I. Family and Personal Considerations

Family Members. Priority for migration is given to minors who are joining their parents, as well as to the elderly or parents who need assistance if they have no children or guardian abroad.

Children who reach the age of majority and parents under the immigrant individual's care may apply to Moldova for migration if they reside with Moldovan nationals and live permanently in Moldova for at least three years.

Marital Property Regime. All assets acquired by spouses during a marriage are subject to the marital regime of joint ownership. The legal regime of the assets of spouses may be modified by a marriage settlement, which may be concluded before the marriage is registered or anytime during the marriage. In this case, the regime will apply only to the extent it does not contradict the marriage settlement.

Forced Heirship. Under the Moldovan Civil Code, the following are the three categories of rightful heirs:

- First degree heirs: children (including adoptive ones), spouse and parents (including adoptive parents) of the deceased and his or her children born after his or her death;
- Second degree heirs: brothers, sisters and both grandmothers and grandfathers of the deceased; and
- Third degree heirs: aunts and uncles of the deceased.

Heirs of the next degree inherit if the deceased has no heirs of preceding degrees or if the latter rejects their right of heirship. Heirs of the next degree also inherit if the right of heirship was withdrawn from heirs of preceding degrees.

The Civil Code also provides that forced heirs are considered incapable heirs of the first degree. Forced heirs inherit not less than one half of the share to which they would have been entitled in the event of a legal succession, regardless of the provisions in the will.

Property left by deceased persons is distributed according to the laws of the deceased's last domicile. If the last domicile is not known, the property is distributed according to the laws of the place where the assets (or the preponderance of the assets) are located.

Drivers' Permits. Foreign nationals may drive international vehicles in Moldova only if they hold national and international drivers' licenses that adhere to the requirements of the UN Convention on Road Traffic.

Foreign individuals entering Moldova for a six-month stay may use their home countries' drivers' licenses in Moldova. Foreign individuals who live in Moldova or stay in the country for more than six months should exchange their home countries' drivers' licenses for a Moldovan license.

National and international drivers' licenses from countries that are signatories to the UN convention may be exchanged exempt from statutory exams. Drivers' licenses issued by other countries may be exchanged for a Moldovan license after passing the required exams.

MONACO

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A. Income Tax

Who Is Liable. With the exception of certain commercial activities, no personal income tax is levied in Monaco. However, French nationals not residing in Monaco on or before 13 October 1957 are treated as residents of France and are consequently subject to French personal income tax on their worldwide income.

Monaco generally does not tax Monaco-source income received by individuals domiciled outside Monaco, unless the individuals conduct business in Monaco through permanent establishments. However, under the new tax treaty between Monaco and the European Union (EU) for the implementation of the EU savings directive, effective from 1 July 2005, Monaco imposes a withholding tax on interest income paid to individuals resident in a EU member state.

Income Subject to Tax

Employment Income. No personal income tax is levied in Monaco.

Self-Employment and Business Income. Self-employed individuals engaged in a commercial activity in Monaco are subject to income tax at a flat rate of 33 1/3% if more than 25% of their business income is derived from outside Monaco. Self-employed individuals are not subject to income tax if they do not exceed the 25% threshold. Professional activities may be exempt from income tax.

Self-employed individuals with commercial activities must use the accrual method of accounting and include in taxable income all receipts, advance payments, expense reimbursements and investment income directly related to their commercial activities. Capital gains derived from the disposal of business assets are not taxed if the sales proceeds are used for purchasing new qualifying assets within three years after the sale. If the proceeds are not reinvested, the gain is taxed at the standard rate of 33 1/3%.

Investment Income. In general, investment income received by residents or nonresidents is not taxed in Monaco. However, effective from 1 July, 2005, Monaco imposes a withholding tax on interest income paid to individuals resident in EU member states. The tax rate is currently 15% and is levied at source by the bank or other paying agent. A nonresident individual may elect "exchange of information," under which his or her income and particulars are disclosed to the taxing authorities of his or her country of residence, and he or she is exempt from withholding tax in Monaco.

Other types of investment income, such as dividends, remain fully exempt from tax in Monaco (however, see *Self-Employment and Business Income*).

Directors' Fees. Directors' fees are not taxed in Monaco.

Taxation of Employer-Provided Stock Options. Recipients of employer-provided stock options are not subject to income tax at the time of grant or at the time of exercise. However, if the stock option plan is considered additional compensation, social security contributions apply at the time of exercise on the difference between the exercise price and the fair market value of the stock.

Capital Gains. Capital gains are generally not taxable; however, see *Self-Employment and Business Income*.

Deductions. Deductible expenses for commercial activities include the following:
- General business expenses, including personnel expenses, financial charges and self-employed persons' social security contributions;
- Depreciation allowances, which may be computed using the straight-line or declining-balance method over the normal estimated useful lives of the assets; and
- Provisions for losses and expenses.

Relief for Losses. Business losses arising from a commercial activity may be carried forward for five years or carried back for three years.

B. Inheritance and Gift Taxes

Regardless of whether a donor or a decedent was a resident of Monaco, inheritance or gift tax is levied on assets located in Monaco only. Assets located in Monaco include immovable property; ships and cars registered in Monaco; and bank accounts, securities, works of art, jewels, furniture and personal belongings located in Monaco.

The estate tax treaty between France and Monaco provides for a specific set of rules regarding French and Monegasque nationals.

The fair market value of a decedent's estate is subject to inheritance tax. The rates depend on the relationship of the beneficiary to the decedent. The following rates of inheritance tax apply.

Relationship	Rate (%)
Child, grandchild, parents or grandparents	0
Spouse	0
Brother or sister	8
Uncle, aunt, nephew, niece	10
Other relative	13
Nonrelative or entity	16

Gifts are subject to the same tax rates as those applicable to inherited property.

C. Social Security

Coverage. Social security contributions provide benefits for old age, health, unemployment, retirement and family allowance benefits. Work accident coverage is provided by a separate arrangement.

Contributions. Social security contributions are withheld monthly by employers and are calculated on the basis of remuneration paid, including bonuses and benefits in kind. Contributions are approximately 12% to 15% of gross salary for employees and 34% to 40% of gross salary for employers.

Social security contributions are not levied on salaries in excess of the following amounts. These ceilings apply to contributions due from both employers and employees.

Benefit	Salary Ceiling Amount €
Health	79,200
Unemployment	124,272
Old age	45,216
Retirement	248,544

Totalization Agreements. Monaco has entered into social security agreements with France and Italy for retirement and medical expense coverage.

D. Tax Filing and Payment Procedures

The tax year in Monaco is the calendar year. Business income tax returns are due three months after the tax year-end, and the balance of tax due must be paid at that time.

The $33\frac{1}{3}$% profit tax on trade or business income is assessed annually. Advance tax payments must be paid in installments during the tax year. They are due on 20 February, 20 May, 20 August and 20 November. Each payment is equal to one-fifth of the previous year's tax liability.

E. Double Tax Relief and Tax Treaties

A credit is available for foreign taxes paid on income subject to tax in Monaco. The credit may not exceed the tax payable in Monaco on the same income.

Monaco has signed a double tax treaty with France. No reduction of tax on French-source income is provided.

F. Temporary Entry Visas

Monaco offers tourist visas and business visas. Foreign nationals must apply for these visas with the French consulate in their home countries. These visas are valid for a maximum of three months and are renewable for an additional three months.

G. Work Visas and Self-Employment

Both EU and non-EU nationals must obtain work visas, also called long-stay visas (*visa de long séjour*), to work legally in Monaco. Work visas are valid for the length of validity of the coinciding residence permits, which is one year. Non-EU nationals must reside in Monaco to obtain work visas.

To obtain work visas, foreign nationals must file applications with the Monegasque Labor Administration (Office de la Main d'Oeuvre). The foreign national must have a letter of employment (*demande d'autorisation d'embauchage*) signed by both the employee and the employer. The work visa itself is generally issued two to three months after this filing. However, after the *demande d'autorisation d'embauchage* is filed with the Office de la Main d'Oeuvre, the foreign national may begin working immediately.

Work visas are renewed if the coinciding residence permits are renewed. A renewed work visa is valid as long as the residence permit is valid.

A foreign national may start a company or set up a subsidiary of a foreign business in Monaco if he or she obtains permission from the Monegasque authorities. However, it is recommended that the foreign national become a resident of Monaco or at least live in one of the French cities surrounding Monaco.

H. Residence Permits

Immigration into Monaco is controlled by the French and Monegasque authorities. A simplified system applies to nationals of the European Economic Area (EEA), which includes Iceland and Norway in addition to the member countries of the EU. Nationals of the EEA may apply directly to the police in Monaco for long-stay (work) visas and residence permits. Non-EEA nationals must apply to French consulates abroad for long-stay visas and then, on arrival in Monaco, must apply to the Monegasque Police (Direction de la Sureté Publique—Service des Etrangers) for residence permits.

No official quota system exists for immigration into Monaco. However, foreign nationals wishing to reside in Monaco must demonstrate that they have sufficient means to support themselves or that their employer filed a *demande d'autorisation d'embauchage* (see Section G).

Residence permits are valid for one year and may be renewed twice for additional one-year periods. After the third year, a residence permit is granted for three years and is renewable twice. Subsequent residence permits are granted for 10 years. To renew a residence permit, the following items must be provided:

- A work contract that is still in effect or, for nonworkers, a bank affidavit evidencing that the applicant has "enough financial means" to support himself or herself; and

- Proof of residency in Monaco, for example, a bill for rent, electricity or phone service.

I. Family and Personal Considerations

Family Members. Long-stay (work) visas are required for family members accompanying a work- or residence-permit holder to Monaco.

Marital Property Regime. The default marital property regime in Monaco is one of separate property. The law applies only to legally married heterosexual couples. For couples who establish their marital domicile in Monaco but who solemnize their marriage in another country, the regime of the jurisdiction of the first marital domicile applies in the absence of a marriage contract. A further move of the marital domicile to Monaco generally has no impact on the applicable marital regime.

Forced Heirship. Monaco imposes forced heirship rules. The reserved portion of the estate of a parent with one child is 50%; with two children, 66.66%; and with three or more children, 75%. Other rules apply with respect to spouses and parents. These rules may be avoided by nationals of countries whose law recognizes trusts. These nationals may establish a trust under their home country's law by notarial deed in Monaco, and their estates will then devolve according to that law rather than under Monegasque rules.

Drivers' Permits. Nationals from countries that have signed the international driving license agreement with Monaco must exchange their home country drivers' permits for Monegasque permits. Prior to this exchange, foreign nationals must obtain residence permits and pass medical examinations with Monegasque doctors.

MOROCCO

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A. Income Tax

Who Is Liable. Individuals resident in Morocco must pay tax on their employment income, regardless of where the services are performed or the employer is located.

Individuals are considered resident in Morocco if they meet any of the following conditions:

- They maintain their home in Morocco;
- They maintain the center of their activities (vital interests) in Morocco, unless the activity performed is accessory (not the principal source of income);
- They are present in Morocco for at least 183 days during a period of 365 days; or
- They are deemed to be resident in Morocco under the terms of applicable tax treaty provisions.

Nonresidents are subject to tax if they provide services in Morocco.

Income Subject to Tax

Employment Income. Taxable employment income includes total compensation after deductions for employers' social security contributions. Compensation includes bonuses and the market value of fringe benefits, but the following types of income are exempt from income tax:
- Family, state and pension allowances;
- Workers' compensation payments for industrial accidents or death;
- Specific allowances for professional expenses if they are not excessive and are not covered by special reductions;
- Retirement benefits and severance pay;
- Alimony payments received;
- Supplementary pension received if the contributions are not deductible in determining taxable income; and
- Compensation for pregnancy leave.

Self-Employment and Business Income. Self-employed individuals are divided into two taxable categories, depending on the nature of their activities. They may be taxed on commercial and professional income or on agricultural income.

Self-employed individuals involved in commercial or professional activities are taxed in the same manner as corporations. Taxable income is equal to the difference between gross income and expenses incurred for the performance of the activity during the calendar year.

Individuals may elect to use a fixed taxation system (taxation on a deemed-value basis) if annual turnover does not exceed the following amounts:
- DH 2 million for food, craft products or fishing activities;
- DH 1 million for commercial and manufacturing activities other than those listed above; or
- DH 250,000 for service activities.

Income derived from agricultural farms is exempt from income tax until the 2010 fiscal year.

Investment Income. Dividends from Moroccan companies are subject to the tax on income from movable capital. This tax, levied at a rate of 10%, is withheld by the payer. The recipient is not subject to general income tax on the dividend.

Interest from banks or companies paid to Moroccan resident individuals are subject to a 30% final withholding tax. The interest is not subject to any further income taxation. Interest paid by other entities are taxed at the regular rate.

Interest, technical assistance fees, rental fees for equipment and royalties paid to nonresident individuals or foreign entities are subject to a 10% final withholding tax. Dividends paid to nonresidents are subject to a 10% final withholding tax.

Directors' Fees. If a director has managerial powers, directors' fees are considered employment income and are taxed at the usual income tax rates described in *Rates*. Directors' fees derived by individuals who do not hold salaried positions with the company are subject to withholding tax at a rate of 30%, which is not a final tax, and is then reported in the annual tax return and taxed at the regular income tax rates, with deduction of the tax withheld.

Taxation of Employer-Provided Stock Options. Employees exercising stock options may benefit from the difference between the exercise price and the vesting price. Instead of constituting additional salary, the realized profit is composed of an exempt portion and capital gain that is not taxed until the exercise date.

This exemption is subject to the following conditions:
- The difference between the vesting price and exercise price may not exceed 10% of the share value at the date of vesting. Any excess will be considered salary, and will be subject to income tax.
- The sale of the shares may not occur within a five-year nonavailability period measured from the vesting date, and the time between the exercise date and subsequent date of sale may not be less than three years.

Capital Gains. Gains derived from the sale of real property held by an individual are subject to the tax on real estate profits at a 20% rate. The minimum tax is 3% of the transfer price.

Gains derived by residents from the sale of shares are taxed at a rate of 10%.

Capital gains realized on the transfer of business assets, including real property, are taxed at the same rates as ordinary income, but are subject to deductions that vary according to the length of time the assets are held by the business. If the proceeds of a sale are reinvested in the business within three years after the sale, the capital gains are not taxed.

Deductions

Deductible Expenses. The following expenses are deductible:
- Professional expenses if they are not covered by the specific allowances, which are valued at a fixed rate of 17% of gross remuneration up to DH 24,000. A different rate of deduction is permitted for certain occupations, for example, certain insurance company employees are entitled to a 45% deduction.
- Social security contributions.
- Pension contributions withheld from gross wages, although pension contributions paid abroad by foreign nonresident employees may be deducted only up to the amount corresponding to the contribution rate for other company employees.
- Contributions to employer-subscribed group medical insurance.
- Interest payments for the cost of building or renovating a taxpayer's principal residence if the employer withholds them directly from gross remuneration.

Personal Deductions and Allowances. The following tax credits are granted:

- DH 180 for each dependent, up to a maximum of six; and
- 80% of the income tax due on foreign-source retirement pensions received in nonconvertible dirhams.

Business Deductions. In general, deductible expenses for commercial, professional and agricultural activities are similar. They include depreciation and general expenses incurred for business purposes, including personnel and social security expenses, certain taxes, rental and leasing expenses, and financial charges. Depreciation of business assets is deductible if it is recorded annually in the accounts and relates to assets shown in the balance sheet. The rates of depreciation depend on the nature of the activity for which the assets are used.

After net income for each category of income is aggregated, the following expenses are deductible:

- Interest payments, up to 10% of taxable income, on loans taken out by the taxpayer for the acquisition or construction of a home;
- Gifts to charitable organizations known as public utility associations; and
- Contributions to a long-term retirement pension (more than 10 years) payable after 50 years of age, up to 6% of taxable global income.

Rates. Tax liability is determined by multiplying total taxable income by the tax rate for the applicable bracket and then subtracting the deductible amount (see table below). This provides the same tax result as applying the progressive rates for each bracket to taxable income.

The following are the rates of income tax.

Taxable Income		Rate on Total	Deductible
Exceeding DH	Not Exceeding DH	Income %	Amount DH
0	20,000	0	0
20,000	24,000	13	2,600
24,000	36,000	21	4,520
36,000	60,000	35	9,560
60,000	—	44	14,960

Relief for Losses. In general, losses incurred in business and agricultural activities may be carried forward for four years to offset profits from the same category. Losses attributable to the depreciation of assets may be carried forward indefinitely.

B. Estate and Gift Taxes

Estate and gift tax rates range from 0.5% to 5%, depending on the nature of the assets and the relationship between the recipient and the deceased or the donor.

C. Social Security

Social security contributions, which are withheld by the employer, are based on gross compensation paid, including fringe benefits and bonuses.

Employer contributions are paid, and employee contributions are withheld, monthly. The employer must pay 7.50% of gross monthly compensation for family allowances. For death pensions and for daily compensation for illness, disability and pregnancy leave, employers must contribute 8.60%, and employees 4.29%, of monthly compensation, up to DH 6,000. In addition, the employer must pay 1.6% of gross monthly compensation as a contribution to the Moroccan office of staff training.

D. Tax Filing and Payment Procedures

The tax year in Morocco for individuals is the calendar year. Moroccan residents must file annual general income tax returns before 1 April following the close of the tax year, indicating separately their various categories of income. If a taxpayer receives no income other than employment income paid by one employer domiciled or established in Morocco, that taxpayer is not required to file a return. Tax on employment income must be withheld by employers domiciled or established in Morocco. Otherwise, income tax is computed by the tax administration and is payable on receipt of an assessment.

E. Double Tax Relief and Tax Treaties

A taxpayer may deduct the amount of foreign income tax paid from Moroccan income tax payable on the foreign-source income if the individual can document that the foreign tax was paid. This tax credit, however, may not exceed the Moroccan income tax imposed on the income subject to foreign tax.

Morocco has entered into double tax treaties with the following countries.

Bahrain	Hungary	Romania
Belgium	India	Russian Federation
Bulgaria	Italy	Spain
Canada	Korea	Sweden
Denmark	Luxembourg	Switzerland
Egypt	Netherlands	United Arab Emirates
Finland	Norway	United Kingdom
France	Poland	United States
Germany	Portugal	

Morocco has also entered into a tax treaty with the Arab Maghreb Union countries. The Arab Maghreb Union consists of Algeria, Libya, Mauritania, Morocco and Tunisia.

The treaties generally provide the following relief:

- Commercial profits are taxable in the treaty country where a foreign firm performs its activities through a permanent establishment.
- Dividends, interest and royalties are taxable in the treaty country where the beneficiary is a resident. Dividends are also subject to withholding taxes in the treaty country where the payer is a resident. These taxes may be offset against the tax due in the country of the beneficiary's residence.
- Employment income is taxable in the treaty country where the activity is performed, except for income from short-term assignments.

F. Entry and Tourist Visas

Entry visas are required of foreign nationals from certain countries, including Egypt, Iran, Sudan and Syria. Nationals of the

United States and member countries of the European Union (EU) are not required to obtain entry visas. The Ministry of the Interior determines the countries for which entry visas are required.

Generally, tourist visas, valid for a period of three months, are the only type of temporary visa issued in Morocco. The Moroccan embassy or consulate in each country can provide information regarding the documents necessary for a tourist visa.

G. Work Permits and Self-Employment

Foreign nationals may work in Morocco if they fulfill all of the following requirements:

- Obtain a work contract signed by an entity established in Morocco (either a Moroccan company or a fixed place of business of a foreign company);
- Have the contract stamped by the Ministry of Work in Morocco; and
- Obtain a residency card from the police authorities in the area of residence in Morocco. This residency card is renewable annually.

Expatriates may be self-employed if they set up independent companies or businesses in Morocco. Expatriates must have valid work permits and residence permits to be self-employed. The minimum amount of capital required depends on the type of business or company that a foreign national intends to start. For example, a limited liability company requires DH 10,000 as a minimum investment.

H. Residence Permits

Residence permits are issued to foreign nationals for one year and may be renewed an indefinite number of times. The renewed permit is valid for one or two years.

To obtain a residence permit, a foreign national must present a copy of the stamped work contract and an information record card to the police authorities in his or her area of residence in Morocco.

I. Family and Personal Considerations

Family Members. Family members intending to reside with a working expatriate in Morocco must obtain residence cards (see Section G). A working expatriate's spouse or dependents who intend to work in Morocco must independently apply for and receive separate work permits. Children of working expatriates do not need student visas to attend schools in Morocco.

Drivers' Permits. In general, an expatriate may drive with an international driving license for an unlimited length of time. To obtain a Moroccan license, an applicant must pass a physical driving test and a verbal exam.

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A. Income Tax

Who Is Liable. Residents of Mozambique are subject to tax on their worldwide income. Nonresidents are subject to income tax on income arising in Mozambique. Individuals are considered to be resident if they satisfy any of the following conditions:

- They are present in Mozambique for more than 180 days in a tax year, regardless of whether the days are consecutive;
- They are present in Mozambique for less than 180 days in a tax year, but they maintain a residence in Mozambique under circumstances that indicate an intention to maintain and occupy the residence as a permanent residence;
- They perform functions of a public nature abroad for the Republic of Mozambique; or
- They are crew members of a ship or aircraft that are at the service of entities that have their residence, head office or effective management in Mozambique.

Individuals must inform the tax authorities of their residence.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Income tax is levied on employment income paid in cash or in kind.

Directors' Fees. Directors' fees are taxed in the same manner as employment income.

Self-Employment Income. Individuals carrying out business activities independently, providing consulting services or engaging in technical, artistic or scientific projects are subject to tax on income derived from such activities.

Investment Income. Investment income is subject to withholding tax at a rate of 20%. It is included in annual taxable income subject to tax at progressive rates (see *Rates*), and a credit is granted for the tax withheld.

Other Income. Other income is subject to withholding tax. It is included in annual taxable income subject to tax at progressive rates (see *Rates*), and a credit is granted for the tax withheld.

Taxation of Employer-Provided Stock Options. Income derived from employer-provided stock options is taxed in the same manner as employment income.

Capital Gains. Capital gains are subject to withholding tax at a rate of 20%. They are included in annual taxable income subject to tax at progressive rates (see *Rates*), and a credit is granted for the tax withheld.

Capital losses may offset capital gains only.

Exempt Income. The following items are exempt from income tax:
- Meal subsidies not exceeding the minimum salary in force;
- Other allowances to families and similar payments that do not exceed the legally established limits;
- Pensions; and
- Compensation received for the unilateral termination of an employment contract.

Deductions

Deductible Expenses. Expenses that may be deducted include social security contributions, and union contributions.

Personal Deductions and Credits. Each individual may deduct 24 minimum salaries in computing taxable income. Effective from 1 April 2005, the amount of a minimum salary, which changes regularly, is MT 1,277,139 (approximately, US$54).

The following amounts may be claimed as tax credits:
- For each married taxpayer: MT 480,000;
- For each single or judicially separated taxpayer: MT 600,000; and
- For one, two or three or more dependent children: MT 200,000, MT 300,000; and MT 400,000, respectively.

Rates. The following are the tax rates applicable to annual taxable income.

Annual Taxable Income Exceeding MT	Not Exceeding MT	Rate %	Rebate MT
0	28,000,000	10	—
28,000,000	112,000,000	15	1,400,000
112,000,000	336,000,000	20	7,000,000
336,000,000	1,008,000,000	25	23,800,000
1,008,000,000	—	32	94,360,000

For a sample tax calculation, see Appendix 2.

Tax Credits. In addition to the personal tax credits (see *Personal Deductions and Credits*), advance payments of tax and tax withheld at source may be claimed as a credit against annual tax due.

A tax credit is also allowed for foreign taxes paid (see Section E).

Relief for Losses. Losses incurred in business or professional activities may be carried forward and offset against profits from the same type of activities in the following five years. Losses may not be carried back.

Nonresidents. Nonresidents are subject to withholding tax on their income derived in Mozambique. The general rate of withholding tax is 20%. However, the rate is 10% for income derived from artistic work or social entertainment, gambling, competitions, lotteries and similar contests. The withholding tax is final for all income except for property income.

B. Other Taxes

Property Tax. Municipal property tax is paid on an annual basis and is calculated at rates ranging from 0.2% to 1% of the total value of the property. The transfer of immovable property is subject to property transfer tax (SISA) at a rate of 2%.

Inheritance and Gift Taxes. Mozambique imposes inheritance tax and gift tax. Inheritance tax is payable at rates varying from 3% to 30%, depending on the value of the estate and the relationship of the heirs to the deceased. The gift tax rates vary from 1% to 30%.

C. Social Security

Social security contributions are payable monthly on salaries, wages, bonuses and other compensation income, such as productivity premiums and housing allowances. The contribution rates are 4% for employers and 3% for employees. The employer withholds the employee contributions monthly.

D. Tax Filing and Payment Procedures

The tax year in Mozambique for individuals is the calendar year.

Residents who received only employment income and pensions must file their tax returns by 31 March of the following year and pay any balance of tax due by 30 April. Residents earning other income must file their tax returns by 30 April of the following year and pay any balance of tax due by 30 May.

E. Double Tax Relief and Tax Treaties

Resident individuals who derive income abroad may claim a tax credit for foreign tax paid, up to the amount of the tax due on such income in Mozambique.

Mozambique has entered into double tax treaties with Italy, Mauritius, Portugal and the United Arab Emirates.

F. Temporary Entry Visas

A valid passport and entry visa are required to enter Mozambique.

Mozambique offers the following types of temporary visas to foreign nationals:
- Transit visas, which are valid for a maximum of seven days.
- Student visas, which are valid for 12 months and are renewable.
- Tourist visas, which are single-entry visas valid for 30 days. These visas are renewable for up to an additional 90 days.
- Business visas, which are single-entry visas valid for 30 days. These visas are renewable for up to an additional 90 days. In addition, an application may be made for multiple-entry business visas valid for three or six months that are renewable for an equal period. Each entry may not exceed 10 days.
- Residence/work visas, which are provided in the country of origin if the individual will enter Mozambique with the intention of residing or working.

A fee is payable for the issuance of each type of visa.

G. Work Permits and Self-Employment

Foreign nationals must obtain a work permit to work in Mozambique. If foreign nationals are working under an employment contract, they must obtain a work authorization, which is valid for up to two years.

Foreign nationals who are self-employed individuals, shareholders or representatives of shareholders in Mozambique must obtain a work permission, which is also valid for a period of up to two years.

After the period of validity for a work authorization or work permit expires, an individual may reapply for such items.

H. Residence Permits

Temporary residence permits are valid for a maximum period of one year and renewable for one-year periods.

Foreign nationals who reside in the country for more than 10 years may obtain permanent resident status, which is renewable every 5 years.

The following documents must be submitted with the application for residence permit for work:
- Work permit or work authorization issued by the Ministry of Labor;
- Applicant's criminal record; and
- Copy of applicant's passport and four passport-size photos.

I. Family and Personal Considerations

Family Members. Entry visas and residence permits are granted automatically to family members of a foreign national who holds a valid work authorization or permit. However, an expatriate's working spouse must file an application for a residence permit through his or her owner or employer.

Marital Property Regime. The default marital property regime in Mozambique is community property for assets acquired during the marriage. A prenuptial agreement may amend the default regime.

Forced Heirship. Forced heirship rules apply in Mozambique, and a legal share of the estate automatically devolves to the surviving spouse, descendants, ascendants, brothers and their descendants and other relatives.

Drivers' Permits. Expatriates may not drive legally in Mozambique using their home country drivers' licenses. Holders of residence permits must apply for local temporary driving licenses. Mozambique has driver's license reciprocity with Portuguese-speaking countries and with most neighboring countries.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—

	Taxable*	Not Taxable	Comments
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	(a)
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	—
Capital gain from sale of stock in home country	X	—	—

* Bracketed amounts reduce taxable income.
(a) Compensation for the unilateral termination of an employment contract is exempt from tax.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for a single individual who has no dependants and resides in Mozambique for the entire year. The individual works entirely in Mozambique and is paid an annual salary and bonus of MT 1,980,000,000.

The following is the tax calculation.

	MT
Calculation of Taxable Income	
Salary and bonus	1,980,000,000
Social security contribution at a rate of 3% of the salary and bonus	(59,400,000)
Net income	1,920,600,000
Nontaxable income (24 minimum salaries)	(30,651,336)
Taxable income	1,889,948,664
Calculation of Tax	
Tax calculated on MT 1,889,948,664 at 32%	604,783,572
Rebate	(94,360,000)
Tax due	510,423,572
Personal credit	(600,000)
Tax withheld	(512,820,000) (a)
Tax recoverable	(2,996,428)

(a) In the example, it is assumed that the company withheld and paid to the tax authorities the amount of MT 42,735,000 per month.

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A. Income Tax

Who Is Liable. Individuals are taxed on employment and self-employment income at progressive marginal rates. Income tax is assessed only on income from sources within or deemed to be within Namibia and is generally not affected by the residence of the taxpayer.

Income Subject to Tax

Employment Income. Employment income is taxable in Namibia if it arises from a source within, or deemed to be within, Namibia. The place where the services are rendered generally determines the source of remuneration. However, income from services related to employment or a profession in Namibia is deemed to be from a Namibian source, regardless of where services are performed or payment is made. For example, income for services rendered during a temporary absence from Namibia by a person ordinarily resident in Namibia is subject to tax if the services are rendered for or on behalf of a Namibian employer.

Taxable employment income consists of salaries and bonuses, in cash or in kind, and fringe benefits, including the use of company vehicles, free housing and interest-free or low-interest loans.

Self-Employment Income. Capital and exempt receipts and allowable deductions are subtracted from gross income to arrive at taxable self-employment income, which is taxed with other income at the rates described in *Rates*.

Investment Income. Interest and dividends from building societies received by a Namibian resident from anywhere in the world are deemed to be from Namibian sources and are taxable with other income at the rates set forth in *Rates*. An exception is made if the investment originates outside Namibia or is made for a business carried on outside Namibia and if the interest is taxed outside Namibia.

The following income is tax-exempt:
- The first N$500 of interest accruing to each taxpayer from financial institutions in Namibia;

- Interest from stock or securities issued by the government of Namibia or any local authority;
- Interest from deposits in the Namibia Post Office Savings Bank;
- Worldwide dividends accrued on ordinary and preference shares;
- Dividends from special tax-free, indefinite-period shares in any building society on an invested amount of up to N$100,000; and
- One-third of dividends from any other shares in a Namibian building society in Namibia.

Rental income is aggregated with other income and taxed at the rates set forth in *Rates*.

In the absence of an applicable double tax treaty, nonresidents are subject to the following final withholding taxes: a 10% nonresident shareholder's tax (NRST) on dividends declared and a 10.5% tax on royalties paid to nonresidents. No withholding tax is imposed on interest paid to a nonresident, but regular income tax is payable at the rates set forth in *Rates*.

Directors' Fees. Namibian-source directors' fees are subject to tax with other income at the rates set forth in *Rates*. The source of the directors' fees is the location of the head office of the company of which the taxpayer is a director. This rule does not apply to remuneration for special services, which may be sourced where the services are rendered.

Other Income. Partnerships are not treated as separate taxable entities. Partners are taxed on their share of net partnership income.

Taxation of Employer-Provided Stock Options. Namibian tax legislation does not specifically address the tax treatment of employer-provided stock options. In general, options are taxed at the time of exercise on the difference between the exercise price and the fair market value of the stock at the time of exercise.

Capital Gains. Capital gains are tax-exempt in Namibia.

Deductions

Deductible Expenses. Noncapital expenses incurred in the production of income are deductible. An annual deduction of N$30,000 per person is allowed for total contributions made to approved retirement annuity funds, pension funds and provident funds. Donations to registered welfare organizations and approved educational institutions are deductible if the recipient issues to the donor a certificate recording certain specified information.

Business Deductions. Noncapital expenses incurred in producing taxable income are deductible.

Rates. The same progressive tax rates apply to all individuals. Income tax for the tax year ending 28 February 2006 is levied at the following rates.

Taxable Income Exceeding N$	Taxable Income Not Exceeding N$	Tax on Lower Amount N$	Rate on Excess %
0	24,000	0	0
24,000	40,000	0	17.5
40,000	80,000	2,800	29.5
80,000	200,000	14,600	34.5
200,000	—	56,000	35

Relief for Losses. A loss may be carried forward to the next year to be offset against income in that year. If a taxpayer carries a loss forward from the previous year and has no trading activities during a year of assessment, the loss is terminated and may not be carried forward into the following year; otherwise, the loss may be carried forward indefinitely. Losses may not be carried back.

B. Social Security

Employees under 65 years of age who are employed for more than two days a week and all employers are subject to social security contributions. Employees must contribute 0.9% of monthly compensation, subject to a minimum of N$2.70 and a maximum of N$27 per month. Employers must contribute an amount equal to the employee's contribution. Self-employed individuals must contribute 1.8% of monthly compensation, limited to N$54 per month.

In addition, a contribution to the Workers' Compensation Fund must be made for each employee earning less than N$72,000 a year.

C. Tax Filing and Payment Procedures

The tax year in Namibia runs from 1 March to the end of the following February. In general, individuals must file annual tax returns by 30 June, unless an extension is granted. Husbands and wives are taxed separately in Namibia.

The Pay-As-You-Earn (PAYE) wage withholding tax system operates in Namibia. Individuals who earn only remuneration subject to PAYE, who have no more than N$500 in investment income and who are employed by the same employer throughout the tax year are not required to file tax returns. Individuals who earn remuneration that is not subject to PAYE (for example, travel allowances) must calculate their taxable income and tax payable, and must pay the tax owed by 30 June each year.

Individuals deriving annual income of N$5,000 or more that is not subject to PAYE are considered provisional taxpayers and are required to make two provisional payments each year, one on the last weekday in August and one on the last weekday in February. Half of the year's estimated tax is due with the first provisional return, and the balance is due with the second return. Penalties are imposed for underpayment of provisional tax and for late submission of the second provisional tax payment. Taxpayers using the prior-year's assessed income as a base for calculating estimated tax incur no penalties for underpayment of current-year tax liabilities. Any balance due is payable by 30 June each year if the taxpayer's income is received from employment only, for example, director's fees. If the taxpayer receives income from conducting a business, for example, as a sole trader, the balance of tax due is payable by 30 September each year. Interest is payable at an annual rate of 20% per annum, which is calculated daily and compounded monthly, if the final tax payments and the provisional payments are paid after the due dates.

D. Double Tax Relief and Tax Treaties

A tax credit is available for direct tax and withholding taxes paid to foreign jurisdictions. The credit may not exceed the Namibian tax applicable to the underlying income.

Namibia has entered into double tax treaties with Botswana, France, Germany, India, Malaysia, Mauritius, Romania, the Russian Federation, South Africa, Sweden and the United Kingdom. The treaties follow the model treaties of the Organization for Economic Cooperation and Development (OECD).

Namibia is negotiating double tax treaties with Poland, Singapore, Tunisia and Zimbabwe and is renegotiating its existing treaty with the United Kingdom.

E. Entry Visas

All foreign nationals (bona fide tourists or business travelers) must obtain valid entry visas to enter Namibia, with the exception of nationals from the following countries.

Angola	Ireland	Portugal
Australia	Italy	Russian Federation*
Austria	Japan	Singapore
Belgium	Kenya	South Africa
Botswana	Lesotho	Spain
Brazil	Liechtenstein	Swaziland
Canada	Luxembourg	Sweden
Cuba	Malawi	Switzerland
Denmark	Malaysia	Tanzania
Finland	Mozambique	United Kingdom
France	Netherlands	United States
Germany	New Zealand	Zambia
Iceland	Norway	Zimbabwe

* Including the Commonwealth of Independent States of the former U.S.S.R.

The government of Namibia issues visitors' visas, business visas, work permits and temporary or permanent residence permits.

Visitors' visas are issued to foreign nationals who intend to visit Namibia for recreational purposes only and who neither remain permanently nor work in the country. These visas are valid for up to 90 days at a cost of N$138 and must be renewed within two weeks of the expiration date if the individual intends to extend his or her stay in Namibia.

Business visas are issued to individuals who enter Namibia for business purposes but do not undertake employment or establish permanent residence. The visas are issued for up to 90 days at a cost of N$230 and are renewable for one period of an additional 90 days on the approval of the Ministry of Home Affairs. On application, business visas may be granted for multiple re-entry. However, they must be obtained for each entry into the country for business purposes if a multiple re-entry visa was not originally granted.

F. Work Permits and Self-Employment

Foreign nationals may accept employment in Namibia only if they enter the country with work permits and with temporary or permanent residence permits (see Section G).

Work permits are issued to foreign nationals who intend to undertake employment in Namibia and are valid for a period approved by the Ministry of Home Affairs. The cost for a 12-month work permit is N$460. In addition, a N$40 handling fee is charged on all applications. The multiple-entry visa allows an individual to enter and leave Namibia as he or she desires. Applicants may not begin work until they are in possession of valid work permits.

Work permits must be renewed at least three months before their expiration dates. They are valid only for the employment detailed in the application and are not transferable if the holder changes employment. A new permit must be obtained in these instances.

The following items, certain of which are standard forms obtainable from the Ministry of Home Affairs, must be submitted to acquire a temporary work permit:
- An application for a temporary work permit completed by the applicant;
- Application for visa (for purpose of multiple re-entry);
- References from the employer (motivation letter);
- A copy of a marriage or divorce certificate, if applicable;
- A copy of the applicant's passport and two photographs;
- Copies of a diploma indicative of higher education or special training;
- Completed standard medical certificate and radiological report forms obtained from the Ministry of Home Affairs;
- A police clearance certificate;
- A deed of surety completed by the employer promising to reimburse the government of Namibia for all expenses and costs incurred for the repatriation or deportation of the applicant; and
- Proof of advertisement of the job opportunity in the local newspapers, (if applicable).

A foreign national may establish a business in Namibia, but must possess a work permit and a temporary or permanent residence permit before entering the country and beginning a business. To speed up the approval process, applications can be submitted through the Investment Centre.

G. Residence Permits

Temporary residence permits are issued along with work permits and are renewable on the same basis as work permits.

Permanent residence permits are issued to foreign nationals who intend to transfer residency to Namibia for an indefinite period of time, beginning on the date of entrance into Namibia. The cost of this permit is N$7,130. In addition, a N$40 handling fee is charged on all applications.

An applicant for a permanent residence permit must complete a standard application, which must be accompanied by the following items:
- A photograph of the applicant;
- A certified copy of the applicant's original birth certificate;
- Standard medical and radiological reports from all previous countries of residence for longer than 12 months;
- Marriage certificate or a final divorce certificate if applicable;
- A death certificate of a late spouse if applicable;
- A standard questionnaire form obtainable from the Ministry of Home Affairs detailing the training and experience of the applicant;
- Copies of the highest educational, trade or professional certificates obtained;
- The employment offer from the employer; and
- Proof of financial resources if applicants are self-employed or entering into business partnerships.

H. Family and Personal Considerations

Family Members. The working spouse of a work permit holder must file an independent application for a work permit.

Marital Property Regime. Namibia has abolished the marital power provisions and, as a result, each spouse now has equal marital powers. The regime elected by the spouses at the time of marriage governs their conjugal relationship.

Interest income accruing to a jointly held bank account is deemed to belong one-half to each spouse.

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A. Income Tax

Who Is Liable. Residents are subject to income tax in the Netherlands on their worldwide income. Nonresidents are subject to tax on specific Netherlands-source income only.

Residence is determined based on all relevant criteria, including where the individual and his or her family reside, the location of an individual's economic interests, and the nature and length of an individual's stay in the Netherlands.

Nonresident taxpayers may elect to be taxed as a resident taxpayer of the Netherlands. Furthermore, the 30% facility (see *30% Facility*) provides the option to be taxed as a "partial" nonresident taxpayer.

Income Subject to Tax. Netherlands income tax is levied on three categories (boxes) of income. Each box has its own rules to calculate taxable income, its own tax rates and exemptions. In general, negative income from one box may not be offset against positive income from another box.

For a table outlining the taxability of income items, see Appendix 1.

Box 1 Income. Box 1 income includes employment income, business profits and income from a primary residence. Profits received from personal business operations, from independent personal services and from certain shares of partnership income are taxed as business profits.

Tax on income in Box 1 is levied at progressive tax rates, with a maximum tax rate of 52% on income over €52,228 (see *Rates* below). Wage tax is levied throughout the year (pay-as-you-earn) on employment income and directors' fees if a Dutch wage tax withholding agent is available. The wage tax paid serves as an advance payment of the final income tax payable.

Employment Income. Employment income includes salaries, wages, pensions, stock options, bonuses and allowances (for example, home leave and cost-of-living). Housing allowances may be taxable in certain situations. Some allowances for expenses may be paid as a tax-free allowance, subject to certain limitations and restrictions.

A nonresident individual receiving income from employment actually carried on in the Netherlands is subject to Dutch income tax. A nonresident who is employed by a Dutch public entity is also subject to Dutch income tax, even if the employment is carried on outside the Netherlands. A nonresident who is employed by a Dutch employer and is working in the Netherlands for part of the time may be liable to tax in the Netherlands on the full remuneration received from the employer. However, tax treaties generally do not allow the Netherlands to tax income related to non-Dutch workdays.

Self-Employment Income. Annual profit derived from a business must be calculated in a consistent manner and in accordance with sound business practices. Annual profit is reduced by related business expenses, and taxable income is then determined by subtracting the deductions and the personal allowances described in *Deductions and Allowances*.

A nonresident individual earning income from an enterprise carried on through either a permanent establishment or a permanent representative in the Netherlands is subject to Dutch income tax. Profits of a permanent establishment are calculated on the same basis as profits of resident taxpayers.

For the allocation of profit between a foreign head office and a Dutch permanent establishment, the permanent establishment is deemed, in principle, to be a separate entity dealing at arm's length.

Directors' Fees. Directors' fees are treated as ordinary employment income.

A director who is a 5% or greater shareholder is deemed to earn a salary of at least €39,000 a year. A lower amount may be taken into account for shareholders who can prove that their actual salaries at arms' length are less than €39,000. However, if the tax authorities can prove that a salary at arms' length would be higher than €39,000, the director's salary must equal at least 70% of the salary at arms' length and at least as much as the salaries of other nonshareholder directors.

A nonresident receiving income as a director of a company resident in the Netherlands is subject to Dutch income tax. Tax treaties entered into by the Netherlands generally grant the right to tax this income in the resident country of the company that pays the directors' fees.

Income from a Primary Residence. The owner of a primary residence is taxed on the deemed rental value of the residence which is determined based on the so-called "real estate valuation act," which aims to reflect fair market value. For dwellings with a value exceeding €75,000, a rate of 0.6% applies to calculate the deemed rental value, with a maximum deemed rental value of €8,900. The deemed rental value reflects the net income from real property, that is, the deemed rental income less certain deductible expenses. Mortgage interest paid for the acquisition, maintenance or improvement of a primary residence is fully tax deductible from the deemed rental value and other Box 1 income. In general, the acquisition of a primary residence cannot be fully financed by a mortgage if a capital gain on the previous primary residence was realized. In principle, income from a second residence or rental income is taxed as Box 3 income.

Box 2 Income. Box 2 income includes profits from a substantial shareholding, which is a shareholding of at least 5% of a certain class of shares of a company resident in or outside the Netherlands. Both capital gains and regular income (dividends) are taxed. Tax is levied at a fixed rate of 25%.

Nonresidents are taxable on capital gains and regular income from a substantial interest of a company resident in the Netherlands.

Box 3 Income. Box 3 income includes income from savings and investments. The average value in a calendar year of a taxpayer's net value of savings and investments, including shares and bank accounts (excluding the value of loans) is deemed to yield income at a rate of 4%. This income is taxed at a fixed rate of 30%. Specific exemptions apply for certain assets, including art and certain life insurance policies. A general exemption of €19,698 applies for each resident taxpayer.

Nonresidents are only taxable on the net value of real estate located in the Netherlands or on profit rights in an enterprise resident in the Netherlands.

A dividend withholding tax is imposed on dividends paid by resident companies to resident or nonresident recipients. The withholding tax rate is 25%, unless reduced or eliminated by an applicable tax treaty. Resident individuals may credit domestic withholding tax against their total income tax due. A credit may be granted against Dutch income tax for foreign taxes paid on dividends and interest.

A 25% withholding tax is levied on dividends derived by nonresidents, unless the rate is reduced by an applicable double tax treaty. Nonresident taxpayers cannot credit the Dutch dividend withholding tax against the final income tax payable. No further tax is imposed unless the shares constitute a substantial interest, in which case, income tax may be levied and dividend withholding tax may be credited.

Interest and royalties derived by a nonresident are not subject to withholding tax. However, interest is included in taxable income if the recipient holds a substantial interest in the payer.

Taxation of Employer-Provided Stock Options. Stock options are taxed at the moment of exercise. The taxable gain arising at exercise is the fair market value of the shares on the exercise date less the exercise price. Specific transitional rules apply to stock options granted or vested before 1 January 2005.

Capital Gains. Capital gains generally are exempt from tax. However, exceptions apply at the applicable 2006 tax rates indicated in the following table.

Taxable Gains	Rate*
Capital gains realized on the disposal of business assets (including real estate) and on the disposal of other assets that qualify as income from independently performed activities	Normal rates apply
Capital gains on liquidation of a company	Normal rates apply
Capital gains derived from the sale of a substantial interest in a company (that is, 5% of the issued share capital)	25%

* For normal rates, see *Rates* below.

Nonresidents are subject to income tax at normal rates on capital gains derived from the disposal of business assets and on capital gains derived from transfers of shares in a domestic corporation if the shares constitute a substantial interest.

Deductions and Allowances

Deductible Expenses and Tax-Free Allowances. Taxpayers may claim the following deductions and allowances:

- Deduction for mortgage interest for the acquisition, maintenance or improvement of the taxpayer's primary residence.
- Deduction for certain life insurance premiums that entitle individuals to annuity payments. The amount depends on the available pension rights of the individual.
- Deduction for alimony payments.
- Deduction for extraordinary expenses exceeding a certain threshold, including medical expenses, support provided to direct relatives and qualifying gifts.

- Under certain conditions, a moving allowance, up to a maximum of €5,445, may be granted besides reimbursing for the actual cost to transport the goods. If the employer does not reimburse the employee for the moving costs, these amounts are not deductible by the employee.
- Depending on the distance, an allowance for commuting expenses may be granted for private transportation, subject to certain limitations. Commuting expenses for public transportation may be reimbursed in full. Commuting expenses may not be deducted.

The deductions listed above for alimony payments, extraordinary expenses and gifts are not available to nonresidents. Under certain circumstances, a tax-free allowance for extraterritorial cost may also be available (see *30% Facility*) for qualifying expatriates.

30% Facility. Expatriates in the Netherlands may qualify for a special tax facility, the 30% facility. This facility enables an employer to pay an employee a tax-free allowance of up to 30% of present employment income and a tax-free reimbursement of school fees for children attending international schools. On request, the employee may be considered a nonresident taxpayer of the Netherlands for certain items of income (partial nonresident status). The maximum term for the 30% facility is 120 months. To qualify for the 30% facility, certain conditions must be met, including the following:

- The employee must be recruited or assigned from abroad to work in the Netherlands;
- Dutch wage tax must be withheld; and
- The employee must have specific expert knowledge that is scarce in the Dutch labor market.

By definition, employees in the middle or higher management of a company are considered "specialists" if they are transferred on a temporary basis to the Netherlands within an international group (job rotation) and have been working for the group for a minimum of two-and-a-half years.

The tax-free allowance is intended to cover "extraterritorial costs." As a result, these costs may only be reimbursed exempt from tax to the extent the amounts exceed the 30% tax-free allowance.

Rates. The rates applicable to income from Box 1, effective from 1 January 2006, are set forth in the following table.

Taxable Income			National Insurance Premium		Total Rate	
Exceeding €	Not Exceeding €	Rate of Tax %	Under Age 65 %	Age 65 or Older %	Under Age 65 %	Age 65 or Older %
0	17,046	2.45	31.7	13.8	34.15	16.25
17,046	30,631	9.75	31.7	13.8	41.45	23.55
30,631	52,228	42.00	0	0	42.00	42.00
52,228	—	52.00	0	0	52.00	52.00

Income from Box 2 is subject to tax at a rate of 25%. Income from Box 3 is subject to tax at a rate of 30%.

For a sample tax calculation, see Appendix 2.

Personal Tax Credits. Personal tax credits are fixed amounts that directly decrease the income tax payable.

The personal tax credits consist of a general credit for every taxpayer (€1,990), an employment credit for recipients of income from profits and employment (up to €1,357) and other credits, such as for children, single parents and senior citizens.

The personal tax credit is limited if a taxpayer is not insured under one or more of the national insurance schemes: General Old Age Pension Act (AOW), Surviving Dependent's Benefits Act (ANW) or Exceptional Medical Expenses Act (AWBZ). This is particularly important for senior citizens who no longer have to pay AOW contributions. Their personal tax credits are approximately half of the amounts referred to above. Their senior citizen's credit and supplementary senior citizen's credit are not restricted. In addition, the personal tax credit may generally not exceed tax payable plus national insurance contributions, and therefore cannot result in a refund.

Relief for Losses. Individual taxpayers may carry losses related to Box 1 back for three years or forward for eight years. In general, positive income of one box may not be offset by negative income of another box.

B. Other Taxes

Net Worth Tax. The net worth tax was abolished, effective from 1 January 2001.

Inheritance and Gift Taxes. Inheritance and gift taxes are levied on all property inherited from or donated by an individual who was a resident or deemed to be a resident of the Netherlands at the time of death or donation. Dutch individuals who emigrate from the Netherlands are deemed to be resident in the Netherlands for 10 years after emigration. A gift made by a former Dutch resident, regardless of nationality, who left the Netherlands less than one year before making the gift is subject to Dutch gift tax. Tax is levied on an heir or a gift recipient, regardless of his or her place of residence.

Inheritance and gift tax rates range from 5% to 68% of the value of a taxable estate or donation after deductions, depending on the applicable exemptions and the relationship of the recipient to the deceased or donor.

Nonresidents inheriting assets from an individual who was a resident or a deemed resident of the Netherlands at the time of death are subject to inheritance taxes. To provide relief from double taxes, the Netherlands has entered into inheritance tax treaties with Austria, Finland, Israel, Sweden, Switzerland, the United Kingdom (including Northern Ireland) and the United States. A treaty with France has been signed, but it has not yet been ratified. Relief may also be available if no treaty applies.

C. Social Security

Contributions. The Social Security Acts can be classified into two categories, National Insurance Acts and Employee Insurance Acts. National Insurance Acts provide benefits to all Dutch residents. National Insurance contributions are payable on taxable income of up to €30,631 and are not deductible for tax purposes. The maximum annual national insurance contribution payable by an employee is €6,603 (after credit). Employee Insurance Acts provide additional benefits for wage earners. Employee Insurance contributions (excluding health insurance) per employee are approximately €1,492 for the employee and €4,610 for the employer.

The following National Insurance Acts contribution rates apply in 2005:

- 17.9% for the General Old Age Pension Act (AOW);
- 1.25% for the Next of Kin Act (ANW);
- 12.545% for the Exceptional Medical Expenses Act (AWBZ); and
- 0% for the General Family Allowances Act (AKW), which is financed by the government.

The table below presents the 2005 Employee Insurance Acts contribution rates for employers and employees.

Benefit	Employer %	Employee %
Disablement Insurance Act	5.40	0
Unemployment Insurance Act	3.45	5.20

As a result of the privatization of the Sickness Benefits Act, an employer must pay 70% of an employee's salary for a one-year period if the employee cannot perform his or her duties because of an illness. To cover its obligations under the act, an employer may obtain private insurance or establish a reserve.

Effective from 1 January 2006, every individual with social insurance in the Netherlands must take out a new individual health insurance policy. Every individual aged 18 and older pays a standard contribution averaging €1,015. In addition to the standard contribution, an income-related contribution is payable at a rate of 6.5% on income, with a maximum contribution of €1,950. Employers are required to reimburse employees in full for this contribution, and the reimbursement is taxable in the hands of the employee as employment income. Resident individuals who are not socially insured in the Netherlands must register with a care insurer in the Netherlands to retain their right to medical care.

Totalization Agreements. Nonresidents earning income from Dutch employment are, in principle, subject to Dutch National Insurance and Employee Insurance contributions. As a result, they may be subject to social security taxes both in their home country and in the Netherlands.

To provide relief from double social security contributions and to assure benefit coverage, the Netherlands has concluded totalization agreements with several countries. Most agreements apply for a period ranging from 12 months to 5 years, while others apply for an unlimited period. Some agreements with time limits may be renewed. The Netherlands has totalization agreements with the following jurisdictions.

European Economic Area	Croatia	New Zealand
Australia	Cyprus	Serbia and Montenegro
Bosnia-Herzegovina	Israel	Tunisia
	Korea (South)	

Canada	Macedonia	Turkey
Cape Verde	Morocco	United States
Chile		

D. Tax Filing and Payment Procedures

The tax year in the Netherlands is the calendar year. Income tax returns relating to a calendar year must be filed before 1 April of the following year, unless an extension is obtained.

Employers withhold tax and national insurance premiums (combined) on wages from employees under the Pay-As-You-Earn (PAYE) system. For most people, the wage tax is not only an advance payment of income tax and national insurance premiums, but it is also the final payment. Any additional income tax and national insurance premiums due must normally be paid within two months after receipt of an assessment rather than when filing the tax return.

Employee insurance contributions are also withheld by the employer.

Married persons are taxed separately on employment and business income. Two partners may elect for the following categories of income and deductions to be attributed to a particular partner: income from home ownership; profits from a substantial shareholding; nursery costs; and personal deductions. Nonresidents may not make this election unless they opt to be taxed as Netherlands residents.

The Income Tax Law includes the term "partner." A partner is understood to mean the spouse or registered partner of a taxpayer, provided he or she is not permanently separated. Unmarried adults who live together for more than six months in a calendar year and are registered at the same address with the municipal authorities may elect annually to be treated as partners for tax purposes. Partner status provides the following advantages:

- Eligibility for several business-related facilities (working partners' deduction and transfer of a business or a part thereof without tax consequences).
- The option of allocating the yield assessment base for capital yield tax (Box 3) and the joint elements of income to both partners at their discretion. Joint elements of income include taxable income from home ownership, taxable income from a substantial business interest, exceptional expenses, and deductible gifts and donations.
- An increase in the personal tax credit for a partner without income or with low income to the aggregate of the general credit, employment credit, child credit, supplementary child credit and combination credit applying to this partner. As an exception to the general rule, in this case, the tax credit is refundable in part or in full. However, the payment may not exceed tax and national insurance contributions payable by the other partner.

A nonresident taxpayer may not be a partner, unless he or she elects to be taxed as a resident of the Netherlands.

Inheritance tax returns normally must be filed within eight months after the date of death. Gift tax returns should be filed within two months after the date of donation.

E. Double Tax Relief and Tax Treaties

The Decree for the Avoidance of Double Taxation provides proportional relief from Dutch income tax on foreign-source Box 1 income taxed in the country of source and applies in the absence of an applicable tax treaty.

Most double tax treaties concluded by the Netherlands provide for double taxation relief, regardless of whether the income is subject to income tax abroad. The relief is usually calculated in accordance with the following simplified formula.

$$\frac{\text{Foreign-source Box 1 income}}{\text{Worldwide Box 1 income}} \times \text{Tax on worldwide income} = \text{Amount deducted from Dutch tax}$$

The relief must be calculated separately for each box of income.

The Netherlands has entered into double tax treaties with the following countries.

Albania	Indonesia	Portugal
Argentina	Ireland	Romania
Armenia	Israel	Russian Federation
Aruba	Italy	Singapore
Australia	Japan	Slovak Republic
Austria	Kazakhstan	South Africa
Azerbaijan	Korea	Spain
Bangladesh	Kuwait	Sri Lanka
Belarus	Latvia	Suriname
Belgium	Lithuania	Sweden
Brazil	Luxembourg	Switzerland
Bulgaria	Macedonia	Taiwan
Canada	Malawi	Thailand
China	Malaysia	Tunisia
Croatia	Malta	Turkey
Czech Republic	Mexico	Uganda
Denmark	Moldova	Ukraine
Egypt	Mongolia	USSR (a)
Estonia	Morocco	United Kingdom
Finland	Netherlands Antilles	United States
France	New Zealand	Uzbekistan
Georgia	Nigeria	Venezuela
Germany	Norway	Vietnam
Greece	Pakistan	Yugoslavia (b)
Hungary	Philippines	Zambia
Iceland	Poland	Zimbabwe
India		

(a) The Netherlands honors the USSR treaty with respect to all the former republics of the USSR with which the Netherlands has not entered into new tax treaties.
(b) The Netherlands honors the Yugoslavia treaty with respect to the republics of Bosnia-Herzegovina, Montenegro, Serbia and Slovenia.

F. Temporary Permits

Nationals of many foreign countries may not enter the Netherlands unless they have valid passports and visas. Visas may be obtained from the Dutch embassy or consulate abroad.

Individuals coming to the Netherlands on vacation, to visit family or on business may stay for a maximum period of 90 days if they have valid passports or other travel documents, as well as visas if required, and if they can prove that they have sufficient financial means to stay in, and to leave, the Netherlands. If these conditions are satisfied, a (temporary) residence permit (see Section G) is not required.

G. Residence Permits

Foreign nationals wishing to stay in the Netherlands for a period of more than three months may obtain a residence permit under any of the following circumstances:

- International agreements require permitting entry, for example, to nationals of European Union (EU) countries and to nationals of European Free Trade Association (EFTA) countries participating in the European Economic Area (EEA) agreement;
- The presence of the foreign national is in the national interest; or
- Permission is granted on humanitarian grounds.

In principle, a foreign national wishing to stay in the Netherlands for a period of more than three months must apply for a temporary residence permit (Machtiging tot voorlopig verblijf, or MVV) at a Dutch embassy or consulate in the country where he or she resides before coming to the Netherlands. Prior to submitting an application for a temporary residence permit, the Dutch authorities may need to approve the foreign national's birth certificate and, if applicable, marriage certificate. Such additional procedures and approval depend on the country of the foreign national's birth or marriage. These procedures can be time consuming and applicants should check the requirements at an early stage. In principle, the foreign national may not stay in the Netherlands during the application process.

Nationals of the following countries do not need temporary residence permits: EU member countries; EEA countries (Iceland, Norway and Liechtenstein); Australia; Canada; Japan; Monaco; New Zealand; Switzerland; and the United States.

A foreign national admitted to the Netherlands for longer than three months must register with the Immigration Department of the Town Hall within three days after his or her arrival in the Netherlands to apply for a residence permit. To do so, he or she must bring his or her passport, two color photographs, proof of health insurance, a rental contract, a copy of the work permit, his or her official birth certificate and marriage certificate and, if applicable, a contract of employment. If the employee already has a temporary residence permit, he or she may generally exchange it for a residence permit if circumstances have not changed. A fee of €430 must be paid to process the application.

Foreign nationals who want to live in the Netherlands must satisfy all of the following conditions before they are issued residence permits:

- They must have sufficient means of financial support.
- They must not represent a threat to public order or national security.
- They must have already found work for which a work permit has been, or will be, issued. However, employers of European (EU, EEA and Switzerland) employees are not required to obtain work permits. Transitional rules apply to employees from eight of the new EU member countries (see Section H).

Although European nationals do not, in principle, need residence permits to stay in the Netherlands, it is advisable for them to apply for residence permits to show certain authorities that they are staying in the Netherlands legally.

A non-European residence permit must be renewed every year. A foreigner who needs a temporary residence permit to enter the Netherlands and who has not extended his or her residence permit within six months after its expiration must return to his or her former country of residence to reapply for a temporary residence permit before re-entering the Netherlands.

If a foreign national has held a residence permit for five years, he or she may apply for a permanent residence permit.

H. Work Permits and Self-Employment

In principle, all non-European (EU, EEA and Switzerland) nationals who wish to be employed in the Netherlands need Dutch work permits. The current law in the Netherlands seeks to limit the possibilities of Netherlands employers' hiring non-European personnel.

Transitional rules apply for employees from eight of the new Central and Eastern European members of the EU. The transitional rules apply from 1 May 2004 through 1 May 2006. During this transitional period, employees from the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia will continue to need a work permit. An exception can be made for those sectors and professions in which a shortage of Dutch or other European employees exists or threatens to exist. The Center for Work and Income determines each three months the sectors and professions for which this exception applies. For applications based on the exception, the Center for Work and Income determines only whether the work conditions and work requirements are in accordance with Dutch law. The work permit is granted within one or two weeks.

Employers who want to hire foreign nationals must request work permits from the Center for Work and Income. If a work permit is not requested, the employer is subject to a fine of €8,000 per illegal foreign national.

Grounds for Refusal. A work permit is not granted if one of the following compulsory grounds for refusal is met:

- The vacancy may be filled by a suitable unemployed person with greater priority. Top priority is given to qualified unemployed Dutch people and to qualified unemployed individuals in European countries.
- The vacancy has not been registered with the Center for Work and Income for at least five weeks before the work permit request (unless it either qualifies as an international assignment within a group or involves specified functions, see below).
- A residence permit has not been requested or was not granted.
- The employer does not pay at least the minimum monthly wage for an adult.
- A foreign national performing the labor is not in the best interest of the Netherlands.

Certain exceptions may be made for specific situations, for example, in the case of a transfer of an employee within an international group. For these positions, suitable unemployed individuals with greater priority do not need to be sought in the European labor market. To qualify for the exception, the following conditions must be satisfied:

- The employee must have been employed by the group prior to his or her assignment in the Netherlands.
- The employee must earn an annual gross salary of at least €50,000.
- The employee must be appointed to a key position in a Dutch company. This means that he or she must be ranked at the management level and have specific skills or expertise integral to the company's existence.
- The worldwide turnover of the group must be at least €50 million per year.

The work permit application may be denied on other grounds in addition to the compulsory refusal grounds. The following are additional refusal grounds (not limited):

- The employer does not make enough effort to find labor within the European labor market.
- The conditions of employment are substandard compared to those of other employers in the same position, and therefore no one from the European labor market is available to work under such conditions.
- The foreign national does not meet specified age limits (minimum 18 years of age, maximum 45 years of age). Only if it is common to hire persons who are older than 45 years of age for certain positions is the recruitment of persons of such age allowed.
- Labor to fill the vacancy will be available in the European labor market within a reasonable time because education programs will be completed.

Exceptions. Work permits are not required in certain specific situations, including the following:

- The foreign national (and his or her partner) has a residence permit for a knowledge migrant (see *Knowledge Migrants*).
- The employee has his or her permanent residence outside the Netherlands and the employee works only occasionally (for a maximum period of 12 weeks in 36 weeks) in the Netherlands. The employee's employment in the Netherlands must involve installing or repairing machinery delivered by an employer located outside the Netherlands, and installing and amending software, including providing or operating the machinery and software.
- The employee works for no longer than four subsequent weeks in a period of 13 months in the Netherlands for the purpose of attending business meetings or entering into agreements with companies on behalf of a principal located outside the Netherlands.

Students. For students who have residence permits to study in the Netherlands, a vacancy need not be registered with the Center for Work and Income if either of the following conditions is met:

- The work permit is requested for seasonal work to be performed in the months of June, July and August; or
- The work is for no more than 10 hours per week.

For all other student employment, the normal conditions for a work permit should be met.

Period of Validity. After the conditions for the issuance of a work permit are met, the permit may be issued for different periods of time. The work permit is issued for the period of the relevant activity, up to a maximum of three years. After this three-year period, the employee may qualify for an endorsement on his or her residence permit, stating that he or she is allowed to perform labor and is no longer required to have a work permit. The Center for Work and Income also grants a restricted work permit for a maximum period of one year. This work permit is issued if reservations exist with respect to the work permit, for example, if it is doubtful that the employer made enough effort to find someone in the European labor market, but it is also unclear whether anyone is available in this labor market.

Population Registrar. In addition to registration with the Immigration Department of the Town Hall, a foreign employee must report his or her home address in the Netherlands to the Population Registrar in the town where he or she is residing. A legalized birth certificate and, if applicable, a marriage certificate, are required. For certain countries, only an apostille stamp is accepted.

Self-Employment. A self-employed person does not need a work permit. However, if a self-employed foreign national applies for a residence permit, the Immigration Department asks the Ministry of Economic Affairs whether the self-employed person is allowed to work in the Netherlands.

Knowledge Migrants. The Dutch government has adopted a new regulation, which is effective from 1 October 2004, to attract highly skilled foreign employees, known as knowledge migrants, to the Netherlands.

An employer is not required to apply for a work permit on behalf of the knowledge migrants who earn an annual gross salary €45,495 or more. Knowledge migrants aged under 30 years must earn at least €33,363. The salary levels are adjusted annually. The employer only needs to apply for a residence permit on behalf of the employee at the Immigration and Naturalization Service (IND).

Before the employee can apply for a residence permit, the employer must sign an agreement with the IND in which it commits herself to take full responsibility for the employee, and the IND commits itself to grant the residence permit within two weeks. The residence permit is granted for a maximum period of five years under the restriction "knowledge migrant".

Football players, spiritual leaders and clerics are excluded from the knowledge migrant's category.

I. Family and Personal Considerations

Family Members. Dutch law provides for the unification of families. For individuals who plan to bring their spouses and children under 18 years of age to the Netherlands, proof of sufficient means of subsistence and acceptable accommodation is necessary. The partner of an individual who has a work permit and who qualifies as an international transfer (see Section H) may also be granted a work permit. The partner's work permit is a dependent work permit, which means it is granted for the same period as the work permit of the international transfer. In addition, the partner of a knowledge migrant may work in the Netherlands without a work permit. As a result, the partner of a knowledge migrant is only required to hold a residence permit.

Marital Property Regime. The default marital property regime in the Netherlands is one of community property. Various alternatives are possible and must be notarized. Changing the marital property regime after the marriage is solemnized is more expensive and requires court approval to ensure that creditors are not affected by the change.

In principle, the community property law applies only to married heterosexual couples, but homosexual couples may form a "registered partnership," to which a deemed community property regime applies. Other couples who are not married may make similar arrangements, but the consequences are less extensive than for married couples (for example, with respect to heirship). If the marital property regime of expatriates working in the Netherlands becomes relevant, the tax authorities respect the regime or the arrangements in the country where they were married.

In addition to potential gift and inheritance tax consequences, community property law may also affect an individual's personal income tax liability. This is generally the case only for nonresidents who have Dutch-source income taxable in the Netherlands, for example, income from Dutch real estate. If married, this income is allocated between the spouses based on the applicable marital property regime. Under community property, the allocation is 50% to each spouse. If a loss is incurred, it may be carried back or carried forward. If one spouse has no positive income to offset the loss, the carryover does not result in a tax benefit. Therefore, under certain circumstances, Dutch expatriates working abroad may prefer to change their marital property regime. For tax residents, no personal income tax consequences result from the marital property regime.

Forced Heirship Rules. Parents may disinherit their children. However, a child may always claim his or her legal portion of the estate.

Drivers' Permits. Residents of the Netherlands are generally required to have a Dutch drivers' license to operate a motor vehicle. Persons holding drivers' licenses issued in other EU-member countries are entitled to drive in the Netherlands with their foreign licenses for one year after registering as Dutch residents. If these individuals register their drivers' licenses with the municipality in their place of residence, their licenses remain valid in the Netherlands for up to 10 years after the original date of issue. Holders of drivers' licenses issued in countries outside the EU may drive in the Netherlands with their foreign licenses for a period of six months after registering as Dutch residents. Upon expiration of this period, the person must either take a driving test in the Netherlands to acquire a Dutch drivers' license or exchange his or her foreign license for a Dutch one.

To exchange a foreign driver's license, an individual must be a resident of the Netherlands and have a valid residence permit. The driver's license must be issued in a period of one year when the individual was a resident for at least six months of the country that issued the license. In addition, the driver's license must be valid at the time the application for exchanging the license is made. Exchanging a valid foreign license is possible if it is issued by one of the following countries: EU or EEA countries, Aruba, Jersey, Isle of Man, Monaco, Netherlands Antilles or Switzerland. Drivers' licenses issued by Andorra, Israel, Japan, Singapore or Taiwan may only be exchanged if the licenses apply to a limited number of categories. Generally, the procedure for exchanging the drivers' license is as described below concerning expatriates who are eligible for the 30% facility. If an individual has a license that may not be exchanged, he or she may take a special driving test that accounts for driving experience.

An exception applies to expatriates who are eligible for the 30% facility (see Section A). These expatriates and their family members may request an exchange form for their foreign drivers' licenses at the local municipal office where they reside in the Netherlands. In addition to a fully completed form, applicants must submit the following items:
- A copy of a statement issued by the tax office in Heerlen proving that the expatriate or other family members are entitled to benefit from the 30% facility;
- The original valid foreign drivers' license;
- An extract from the Population Registrar (see Section H), proving the foreigner is registered and stating his or her address in the Netherlands;
- A statement of capability; and
- Two identical, recent passport photographs.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	—	X	(c)
Hardship allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other allowances	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(d)
Tax reimbursement (current and/or prior including interest, if any)	X	—	—
Value of meals provided	X	—	—

	Taxable*	Not Taxable	Comments
Other Items			
Worldwide personal income (interest and dividends)	X	—	(e)
Capital gain from sale of personal residence	—	X	—
Capital gain from sale of stock	—	X	(f)

Note: In certain cases, exceptions may exist.

* Bracketed amounts reduce taxable income.

(a) The contribution is taxable unless the individual reaches an agreement with the tax authorities stating that the foreign plan is comparable to a Dutch qualified pension plan.

(b) The allowance may be reimbursed tax-free during the first two years if the allowance relates to housing costs incurred outside the city of residence. The allowance is probably taxable if the employee benefits from the 30% tax facility (see Section A). If the 30% tax facility does not apply, other typical costs for international employees (extraterritorial costs) can also be reimbursed tax-free.

(c) Education reimbursement is not taxable if the individual is covered by the 30% facility. School fees, including cost of transportation for children attending an international primary or secondary school, may be reimbursed tax-free up to the amount of the actual costs.

(d) The reimbursement of moving expenses resulting from the transfer of an employee, including actual transportation costs, and a general moving allowance of up to 12% of the employee's salary are not taxable, up to a maximum amount of €5,445.

(e) The income is taxable only to residents, generally in Box 3 (see Section A). It is generally not taxable for residents and nonresidents covered by the 30% facility.

(f) The gain is taxable if the shareholder is a substantial shareholder.

APPENDIX 2: SAMPLE TAX CALCULATIONS

Sample tax calculations are set forth below for a single expatriate who does not benefit from the 30% facility and for one who does benefit from such facility.

Without 30% Facility

A single expatriate who is assigned to the Netherlands earns gross employment income of €7,500 per month in 2006. The individual occupies a home owned by the individual, which on the basis of the real estate valuation act has a value of €200,000. The purchase of the home was financed with a mortgage loan of €200,000 bearing interest at a rate of 5%. The following is the 2006 tax computation for the expatriate.

	€
Taxable income from employment	90,000
Contribution for health insurance (ZVW)	1,951
Employee insurance contributions	(1,493)
Fiscal wages	90,458
Deemed rental value	1,200
Interest paid on mortgage loan	(10,000)
Taxable income (Box 1)	81,658
National insurance contributions and income tax	35,824
Tax credit	(3,347)
National insurance contributions and income tax due	32,477

With 30% Facility

A single expatriate is assigned to the Netherlands and benefits from the 30% facility. For 2006, the expatriate receives gross employment income of €7,500 per month, including the 30% tax-free allowance, from a Dutch employer. The other information mentioned in the example above also applies to this expatriate.

	€
Employment income (including 30% tax-free allowance)	90,000
Contribution for health insurance (ZVW)	1,951
Employment insurance contributions	(1,493)
Net employment income	90,458
30% facility	(27,137)
Fiscal wages after application of 30% facility	63,321
Deemed rental value	1,200
Interest paid on mortgage loan	(10,000)
Taxable income	54,521
National insurance contributions and income tax	21,712
Tax credit	(3,347)
National insurance contributions and income tax due	18,365

NETHERLANDS ANTILLES

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Netherlands Antilles

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A. Income Tax

Who Is Liable. Residents are taxable on worldwide income. Nonresidents are taxable on income derived from certain Netherlands Antilles sources only. A resident individual who receives income, wherever earned, from former or current employment is subject to income tax in the Netherlands Antilles.

Residence is determined based on an individual's domicile (the availability of a permanent home) and physical presence, and on the location of an individual's vital personal and economic interests.

Income Subject to Tax

Employment Income. Taxable employment income consists of employment income, including directors' fees, less itemized and standard deductions and allowances (see *Deductions*), pension premiums and social security contributions, whether paid or withheld.

Education allowances provided by employers to their employees' children 18 years of age and under are generally taxable for income tax and social security purposes. However, allowances provided to an employee who qualifies as an expatriate are not taxable for income tax purposes, up to an amount of ANG 25,000 per child per year.

A nonresident individual receiving income from former or current employment carried on in the Netherlands Antilles is subject to income tax and social security contributions. Wage taxes and social security contributions are withheld from an individual's earnings. However, if the individual's stay does not exceed three months, the individual may request an exemption from the withholding requirement. A nonresident who is employed by an Antillean public entity is subject to tax on income, even if the employment is carried on outside the Netherlands Antilles.

A nonresident receiving income as a managing or supervisory director of a company resident in the Netherlands Antilles is subject to Antillean income tax and social security contributions.

Self-Employment and Business Income. Residents are subject to tax on worldwide self-employment and business income, as well as on income derived from a profession. Nonresidents are taxed on income derived from a profession practiced in the Netherlands Antilles for a period exceeding three months.

Annual profit derived from a business must be calculated in accordance with sound business practices that are applied consistently. Taxable income is determined by subtracting from annual profit the deductions and personal allowances specified in *Deductions*.

A nonresident individual earning income from activities carried on in the Netherlands Antilles through a permanent establishment or a permanent representative is subject to Antillean income tax. Profits of a permanent establishment are calculated in the same manner as profits of resident taxpayers.

For purposes of allocating profit between a foreign head office and a Netherlands Antilles permanent establishment, the permanent establishment is deemed to be a separate entity dealing at arm's length. Occasionally, allocation problems are resolved by applying the cost-plus method, then adding a percentage of certain expenses, to determine gross income.

Income from Periodical Allowances. Resident individuals are subject to tax on worldwide periodic allowances, including old-age pensions, alimony payments and disability allowances. In general, periodic allowances are taxable if the allowances exceed their purchase price, and if the purchase price has nor could have been deducted from the Netherlands Antilles income.

Income from Substantial Business Interests. Resident individuals are taxed on dividend income and capital gains derived from substantial business interests at a fixed rate of 19.5% (including surtaxes). An interest of at least 5% in the issued share capital of a company, a right to acquire such interest and a corresponding profit sharing right qualifies as a substantial business interest.

Nonresident individuals are taxed on dividend income and capital gains derived from substantial business interests in companies that are resident in the Netherlands Antilles. In the event of emigration to the Netherlands Antilles, a step-up in basis facility is available to determine the cost of a substantial business interest. In the event of emigration from the Netherlands Antilles, the tax authorities may impose (emigration) income tax based on the difference between the fair market value upon emigration and the fair market value upon establishing residence. However, this tax need not be paid if certain conditions are met. If a pensioner or retiree emigrates within eight years after establishing residence, this emigration income tax will not be imposed.

Investment Income. Dividends, interest and rental income derived from domestic and foreign sources, less deductions, are generally subject to tax as ordinary income at the rates set forth in *Rates*. For portfolio investments and investments in passive companies, a fictitious yield at a rate of 4% must be reported annually based on the fair market value of the investments at the beginning of the calendar year. Interest income received from local bank accounts is taxed at a rate of 6.5% (including surtaxes).

Nonresident individuals are taxed on dividends received from resident companies. They are also taxed on interest income derived from debt obligations if the principal amount of the obligation is secured by mortgaged real estate located in the Netherlands Antilles. Nonresident individuals are taxed on rental income derived from real estate located in the Netherlands Antilles or from the rights to such property.

In general, no withholding taxes are levied on dividends, interest and royalties earned by nonresidents. However, after the implementation of the European Union (EU) Directive on the Taxation of Savings Income in the Netherlands Antilles, withholding tax is imposed on interest payments received by individuals resident in EU member states and paid by a paying agent established in the Netherlands Antilles.

Directors' Fees. Directors' fees are treated in the same manner as ordinary employment income and are taxed with other income at the rates set forth in *Rates*. If paid by a Netherlands Antilles company, directors' fees are subject to withholding for wage taxes and for national and social security insurance contributions.

Capital Gains. Capital gains are generally tax-exempt. In the following circumstances, however, capital gains may be subject to income tax at normal or special rates.

Type of Income	Rate (%)
Capital gains realized on the disposal of business assets and on the disposal of other assets if qualified as income from independently performed activities	Up to 49.4
Capital gains on the liquidation of a company or on the repurchase of shares by the company in excess of the average paid-up capital (nonsubstantial interest)	Up to 49.4
Capital gains derived from the sale of a substantial interest in a company	19.5

Capital gains are generally tax-free. However, nonresidents may be subject to income tax on capital gains derived from the disposal of business assets or of shares in a Netherlands Antilles resident corporation if the shares constitute an equity interest of 5% or more.

Deductions

Deductible Expenses. A resident taxpayer is entitled to more deductions than a nonresident taxpayer.

A fixed deduction of ANG 500 may be deducted from employment income. Certain limited actual employment-related business expenses incurred may be fully deducted if they are substantiated, and if they exceed ANG 1,000 annually.

Among the allowable deductions for nonresident taxpayers are employment expenses, and pension and social security premiums.

Personal Deductions and Tax Credits. Deductions for residents include the following items:
• Mortgage interest paid that is related to the taxpayer's dwelling (limited to ANG 27,500 annually);
• Interest paid on consumer loans (limited to ANG 2,500, or ANG 5,000 if married, annually);
• Life insurance premiums that entitle taxpayers to annuity payments, up to a maximum of ANG 1,000;
• Alimony payments;
• Extraordinary expenses, including medical expenses and support for up to second-degree relatives, in excess of certain threshold amounts; and
• Qualifying gifts in excess of certain threshold amounts.

The following personal tax credits may be deducted from actual income tax due:
• Standard tax credit (ANG 1,191);
• Marriage tax credit (if the spouse's taxable income does not exceed ANG 795);
• Old age tax credit (ANG 600); and
• Child tax credit (ANG 42, ANG 53, ANG 212 and ANG 424, depending on the number of children, and the children's age, residence and education).

The tax credits must be multiplied by the 30% surtax.

Business Deductions. In general, business expenses are fully deductible. However, the deduction of certain expenses is limited. In addition, the following deductions are available for self-employed persons:
• Accelerated depreciation of fixed assets at a maximum rate of 33 1/3%; and
• An investment credit of 8% (12% for new buildings) for acquisitions of, or improvements to, fixed assets in the year of investment and the immediately following year (this credit is a deduction from taxable income).

Rates

Residents and Nonresidents. Resident and nonresident individuals are subject to income tax at the same progressive rates.

Effective from 1 January 2006, the following are the individual income tax rates and tax brackets.

Taxable Income Exceeding ANG	Not Exceeding ANG	Tax Due ANG	Tax Including 30% Surtax ANG	Rate on Excess %	Rate Including 30% Surtax %
0	23,000	0	0	10	13
23,000	34,000	2,300	2,990	16	20.8
34,000	48,000	4,060	5,278	21	27.3
48,000	72,000	7,000	9,100	27	35.1
72,000	101,000	13,480	17,524	32	41.6
101,000	—	22,760	29,588	38	49.4

Pensioners and Retirees. Pensioners and retirees are subject to an Antilles income tax rate of 10% on all foreign source income if certain conditions are met. These conditions include the following:

- The applicant must not have been a resident of the Netherlands Antilles for the past five years;
- The applicant must at least be 50 years of age; and
- The applicant must acquire a house for personal use with a value of at least ANG 450,000.

In addition, an election can be made annually to fix the foreign-source taxable income at ANG 500,000 (approximately US$280,000). This amount is taxed at the ordinary personal income tax rates.

Relief for Losses. Individual taxpayers may carry losses forward for five years.

B. Inheritance and Gift Taxes

Inheritance and gift tax is levied on all property bequeathed or donated by an individual who is a resident or deemed to be a resident of the Netherlands Antilles at the time of death or donation. For individuals who are nonresidents at the time of death or donation, inheritance and gift tax is levied on real estate located in the Netherlands Antilles only. The tax is payable by the heir or the recipient of the gift, regardless of his or her place of residence.

Inheritance and gift tax rates range from 2% to 24% of the value of the taxable estate or the donation, less deductions. The rates vary, depending on the applicable exemptions and the relationship of the recipient to the deceased or the donor. In general, the following rates apply.

Relationship of Recipient	Rate (%)
Spouse or child	2 to 6
Brother or sister	4 to 12
Parent	3 to 9
Niece, nephew or grandchild	6 to 18
Other	8 to 24

C. Social Security

All resident individuals must make social security contributions. The contributions provide benefits under the General Old Age Pension Act (AOV), the General Widows and Orphans Act (AWW) and the General Insurance Extraordinary Sickness Act (AVBZ). Premiums are paid partly by the employer if an individual is employed. For AOV and AWW, employers contribute 6% of salary, up to a certain maximum amount (ANG 2,609 for 2006), and employees contribute 5%, up to a certain maximum amount

(ANG 2,421 for 2006). For AOV and AWW, self-employed persons pay a total of 11% of earnings, up to a certain maximum amount (ANG 5,328 for 2006). For AVBZ, employers contribute 0.5% of salary; employees, 1.5% of salary; self-employed persons, 2% of earnings; pensioners, 1.5% of pension income; and individuals with annual taxable income of less than ANG 5,900 as well as unemployed persons receiving social aid from the government, 1% of income. The rates of contributions for AVBZ are applied to taxable income, up to a certain maximum amount (for 2005, ANG 349,284). The threshold for years after 2005 has not yet been set.

The total rate of required health insurance contributions for employees and self-employed individuals amounts to 12.5%. The contributions are partly paid by the employer (8.3%), partly by the employee (2.1%) and partly by the government (2.1%). No contributions are payable if the threshold is reached (ANG 4,036 per month for 2006). The rate of required disability insurance contributions for employees and self-employed individuals varies between 0.5% and 5%, depending on the applicable risk category; the contribution is fully payable by the employer.

In general, nonresidents earning income from employment in the Netherlands Antilles are subject to social insurance contributions.

D. Tax Filing and Payment Procedures

Employers must file wage withholding tax returns monthly. For most employees, wage withholding tax is the final tax. Individuals earning business or self-employment income must make payments during the year based on estimated taxable income. The income tax returns for the calendar year must be filed within two months after the issuance of the tax return forms, unless extensions for filing are obtained. Any additional income tax to be paid is normally due within two months after the date of the final assessment.

If both spouses earn income, married persons are taxed separately on the following types of income:

- Employment income;
- Self-employment and business income;
- Substantial business interest income; and
- Certain periodic allowances, including old-age pensions, alimony and disability allowances.

Investment income, including rental income, dividends and interest on bonds, is included in the taxable income of the spouse who has the higher individual income or, if both spouses earn the same amount of individual income, in the taxable income of the older spouse. Personal deductions are to be claimed by the spouse with the higher individual income, or if both spouses earn the same amount of individual income, by the older spouse.

Social security contributions are withheld by the employer. Individuals receiving other types of income must pay social security contributions within two months after the date of an assessment.

An inheritance tax return normally must be filed within three months after the date of death (six months after the date of death if the decedent died abroad). A gift tax return should be filed within three months after the gift is made. Both inheritance and gift tax must be paid within one month after the date of assessment.

E. Double Tax Relief and Tax Treaties

The Netherlands Antilles has entered into double tax treaties with the Netherlands and Norway. These treaties apply to taxes on income, capital, inheritances and gifts. If no treaty applies, in general, foreign taxes paid may be deducted from taxable income as expenses.

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A. Income Tax

Who Is Liable. Resident individuals are subject to income tax on worldwide income. Nonresident individuals pay tax on New Zealand-source income only.

Individuals are considered resident in New Zealand for tax purposes if they meet either of the following conditions:
- They have a permanent place of abode in New Zealand, regardless of whether they also have a permanent place of abode outside New Zealand; or
- They are physically present in New Zealand for more than 183 days in any 12-month period.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Gross income includes all salaries, wages, bonuses, retirement payments and other compensation. Employer-paid items, including hardship allowances, taxes, moving expenses, meals, temporary and permanent housing, and tuition for dependent children, are generally included in gross income.

Other employer-paid items, including automobiles, employees' education expenses, medical insurance premiums, private or government pension plan contributions, life insurance premiums and imputed interest on below market rate loans, are generally excluded from employees' gross income. However, employers are subject to either withholding tax or fringe benefit tax on pension contributions and to fringe benefit tax on the other items. Reimbursements for business expenses are not taxable to the employee.

The New Zealand tax authorities have traditionally allowed a formula for calculating the taxable value of employer-provided housing. This formula was generally reasonably favorable and often resulted in a value that was significantly less than the market rental value of the property. The New Zealand tax authorities are now less generous. However, a benefit must still be a benefit for a tax cost to arise. As a result, if the expatriate fully maintains a house in his or her home country and does not rent the house out, no taxable benefit is deemed to arise.

Income from personal services (salary and wages) provided by a nonresident in New Zealand is generally not taxable if the nonresident is physically present in New Zealand for less than 92 days. This period is often extended to 183 days by double tax treaties. In general, these rules do not apply to nonresident entertainers or nonresident contractors, who are normally subject to withholding tax on all income. However, nonresident contractors may be exempt from withholding tax if either of the following applies:

- They are eligible for total relief from tax under a double tax treaty and they are physically present in New Zealand for 92 days or less in any 12-month period; or
- The total amount of contract payments made for the contract activities is NZ$15,000 or less in any 12-month period.

Self-Employment and Business Income. The rules discussed for residents and nonresidents under *Employment Income* also apply to self-employed persons.

Self-employed persons are subject to tax on profits derived from any business activity, including the sales of goods, services and commissions.

A partnership must submit an income tax return setting forth the amount of profit or loss shared among the partners, but income tax is not assessed on the partnership. Each partner must file a separate tax return for all income, including his or her share of partnership income.

Nonresident entertainers are subject to withholding tax at a rate of 20%. Nonresident contractors are subject to withholding tax at a rate of 15% for income from contract services.

Directors' Fees. Directors are generally taxed as self-employed persons. No special provisions apply other than a requirement to deduct withholding tax at a rate of 33%.

Attribution Income from Personal Services. Personal services income earned through an interposed entity, including a company or trust, may be attributed to the individuals performing the services and taxed at the personal tax rates. This attribution may occur if the individual and interposed entity are associated persons and the services are supplied to a single or limited number of clients. Attribution will not apply if both the individual and interposed entity are nonresidents.

Investment Income. Dividends received from a New Zealand resident company may have imputation credits attached. The imputation credit represents tax paid by the company on the underlying profit from which the dividends are paid that is passed on to the shareholder. A resident shareholder is assessed on the combined amount of the dividend plus the imputation credit, and receives a tax credit for the amount of the imputation credit. Nonresidents do not receive a tax credit for the amount of the imputation credit. Other credits may arise with respect to the branch equivalent tax paid or foreign dividend withholding payments made by the company issuing the dividend.

Dividends and interest paid by a New Zealand resident company to a New Zealand resident individual are generally subject to an interim tax through a resident withholding tax (RWT) deduction.

Certain types of interest are exempt from RWT, including interest payable on trade debts or interest received under a hire-purchase agreement. Also exempt are payments made to entities or persons holding valid certificates of exemption, including banks, building societies, money lenders, and local or public authorities, and to persons whose total gross income is expected to exceed NZ$2 million in the next accounting year.

The rates of RWT are 19.5% of gross interest and 33% of gross dividends, reduced by the amount of the imputation credit attached to the dividend. The rate increases to 39% of gross interest if the recipient does not provide a tax identification number. Recipients who provide tax identification numbers may elect to have RWT deducted from interest at a rate of 33% or a rate of 39%. The recipient includes the gross interest and dividends in his or her gross income and receives a credit for RWT.

Nonresidents are subject to withholding tax at a rate of 30% for dividends. This rate is reduced to 15% to the extent that cash dividends are fully imputed or fully credited under the dividend-withholding-payment regime or conduit tax relief system or to the extent that imputation credits are passed on through the payment of supplementary dividends under the foreign investor tax credit regime. The rate is reduced to 0% to the extent that non-cash dividends are fully imputed.

Nonresidents are subject to withholding tax at a rate of 15% for interest and royalties.

Nonresident withholding tax is a final tax on dividends, cultural royalties and interest paid to nonrelated persons. It is a minimum tax on noncultural royalties and on interest paid to related persons. Nonresident withholding tax rates may be reduced under New Zealand's double tax treaties.

As an alternative to nonresident withholding tax on interest, if the borrower and lender are not related persons and if the interest is paid by a person registered as an approved issuer with respect to a registered security, the interest is subject only to an approved issuer levy of 2% of the interest actually paid. The New Zealand government pays the 2% levy on interest paid on its loans from nonresidents that meet these criteria.

The foreign investor tax credit provisions reduce the effective rate of New Zealand tax imposed on dividends received by a nonresident investor from a New Zealand company. To the extent a New Zealand company is owned by nonresident investors and imputation credits are attached to dividends paid, the company may claim a partial refund or credit of its New Zealand company tax liability. The company then passes on the refund or credit to the nonresident investors through a supplementary dividend. If nonresident investors are residents of treaty countries, the effective rate of tax on fully imputed dividends received is 33%, which is the same effective rate that applies to resident investors. Although the same result could be achieved through a 0% rate of withholding on imputed dividends, this rather complicated mechanism is intended to allow nonresident investors to claim a full tax credit in their home countries for New Zealand nonresident withholding tax.

Attributed Income from Controlled Foreign Investments. Under the controlled foreign company (CFC) and foreign investment fund (FIF) regimes, New Zealand residents may be taxed on income attributed to them that is derived by foreign entities in which they hold an interest. These regimes may apply to interests in companies and unit trusts, in foreign superannuation schemes and foreign life insurance policies. Several exceptions apply, including exemptions for investments in companies and unit trusts in "grey list" countries (Australia, Canada, Germany, Japan, Norway, the United Kingdom and the United States); individuals holding FIF investments that cost less than NZ$50,000 in total; certain interests in employment-related foreign superannuation schemes and qualifying foreign private annuities; and an exemption period for foreign superannuation and life insurance interests held before the individual becomes a New Zealand resident. The duration of the exemption is three to four years, depending on the date in an income year on which the individual first became a resident.

Trust Income. Trust income is taxed in New Zealand if it is sourced in New Zealand, if it is derived by a trustee or a beneficiary who is resident in New Zealand, or if a settlor of the trust (generally any person that provides some benefit to the trust) is a New Zealand resident. If the income is vested in, paid to or applied for the benefit of a beneficiary, the income is taxable to that beneficiary at the applicable marginal tax rate. Otherwise, trust income is taxable to the trustee or, if the trustee is not resident in New Zealand, then to any New Zealand-resident settlor at a rate of 33%. Certain distributions from offshore trusts to New Zealand beneficiaries may be taxable at a higher rate of 45%, even though legally they may be considered distributions of capital. Beneficiary income derived by New Zealand-resident minors (younger than 16 years of age on the trust's balance date) is generally taxable at a rate of 33%.

Taxation of Employer-Provided Stock Options. In New Zealand, any benefit conferred under an agreement to sell or issue shares to an employee is taxable to the employee as remuneration. The benefit is calculated as the difference between the fair market value of the shares on the day they are acquired and the amount paid for the shares.

Individuals resident in New Zealand who exercise share options are subject to tax on the difference between the strike price and the fair market value of the shares on the date of exercise. The liability arises in the income year in which the options are exercised.

Capital Gains and Losses. New Zealand has no general capital gains tax, but profits from the sale of real and personal property may be subject to regular income tax under either of the following circumstances:

- The taxpayer's business consists of dealing in that real or personal property; or
- The taxpayer's dominant purpose at the time of acquisition was to sell the property at a later date.

An accrual taxation system applies to New Zealand resident individuals who are parties to various types of financial arrangements, including debts and debt instruments. Under the accrual system, foreign exchange variations related to the financial arrangements are included in calculations of income and expenditure. A cash-basis system may be adopted by individuals deriving income and incurring expenditure of less than NZ$100,000 from financial arrangements in an income year and by individuals with financial arrangements valued at NZ$1 million or less. For the cash basis to apply, the cumulative difference between the actual income and expenditure and the notional income and expenditure on an accrual basis must be less than NZ$40,000.

The accrual taxation regime does not apply to nonresidents, unless the transaction involves a business they carry on in New Zealand.

Deductions

Deductible Expenses. No deductions are allowed against income from salary or wages, except for tax return preparation fees and premiums for loss of earnings insurance if the insurance proceeds would be taxable.

Personal Deductions and Allowances. Taxpayers are entitled to a low-income tax rebate on income of up to NZ$9,500. This rebate decreases gradually to ensure that the effective tax rate on income of up to NZ$9,500 remains at 15%. The rebate phases out for income exceeding NZ$9,500 and is eliminated completely if income exceeds NZ$38,000.

Taxpayers with dependent children may be entitled to weekly amounts of family support and an independent family tax credit if gross income does not exceed specified amounts.

Family support, rebates and special exemptions are generally not available to nonresidents.

Business Deductions. Expenses necessary to produce gross income are deductible. However, only 50% of specified business entertainment expenses incurred by self-employed individuals is deductible.

Rates. The rates of tax applied to taxable income for both resident and nonresident individuals are set forth in the following table.

Taxable Income		Tax on Lower	Rate on
Exceeding NZ$	Not Exceeding NZ$	Amount NZ$	Excess %
0	38,000	0	19.5
38,000	60,000	7,410	33
60,000	—	14,670	39

Married persons are taxed separately, not jointly, on all types of income.

For withholding tax rates, see *Investment Income*.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Business losses may be offset against a taxpayer's other net income in the year when the loss is sustained. The balance of any loss may be carried forward and offset against future net income of the taxpayer.

B. Estate and Gift Taxes

Estate duty is not levied in New Zealand.

Gift duty is imposed on every dutiable gift. Dutiable gifts consist of property in New Zealand and all property wherever situated if, at the time of the gift, the donor was domiciled in New Zealand.

The rates of gift duty that apply to the aggregate value of gifts made within a 12-month period are set forth in the following table.

Value of Gifts		Tax on Lower	Rate on
Exceeding NZ$	Not Exceeding NZ$	Amount NZ$	Excess %
0	27,000	0	0
27,000	36,000	0	5
36,000	54,000	450	10
54,000	72,000	2,250	20
72,000	—	5,850	25

C. Social Security

New Zealand does not have a social security system requiring compulsory contributions from employees. However, under the Injury Prevention, Rehabilitation and Compensation Act 2001, levies are payable by employers, employees and self-employed people to fund the comprehensive no-fault accident compensation scheme, which covers all accidents at home and at work. The levies are payable on income of up to NZ$94,226. For employers and self-employed people, the rate of the levy depends on the relevant industry classification. For employees, the rate of the levy is 1.2%.

New Zealand has entered into reciprocal social security agreements with Australia, Canada, Denmark, Ireland, Jersey, Greece, Guernsey, the Netherlands and the United Kingdom.

D. Tax Filing and Payment Procedures

The tax year in New Zealand runs from 1 April to 31 March of the following calendar year. Salary and wage earners generally have tax deducted from their salaries at source under the Pay-As-You-Earn (PAYE) system. Income tax on other income is generally due on 7 February (7 April if on a tax agency list) following the end of the fiscal year.

Individuals must file tax returns by 7 July following the end of the income year or the following 31 March if on a tax agency list.

Certain taxpayers must pay advance payments of provisional tax at four-month intervals during the fiscal year. These taxpayers are generally those whose previous year's tax liability on income from which no tax was withheld is greater than NZ$2,500. Interest may be imposed if provisional tax paid is less than the final income tax payable for the year.

A nonresident individual must file an income tax return showing all taxable New Zealand-source income, except income subject to a final nonresident withholding tax.

E. Double Tax Relief and Tax Treaties

If a New Zealand resident derives income from a foreign country, foreign income tax paid on that income is allowed as a credit against income tax payable in New Zealand. The credit is limited to the amount of tax payable in New Zealand on the same foreign-source income.

New Zealand has entered into comprehensive double tax treaties with the following countries.

Australia	Indonesia	Singapore
Belgium	Ireland	South Africa
Canada	Italy	Spain*
Chile*	Japan	Sweden
China	Korea	Switzerland
Denmark	Malaysia	Taiwan
Fiji	Netherlands	Thailand
Finland	Norway	United Arab Emirates
France	Philippines	United Kingdom
Germany	Poland*	United States
India	Russian Federation	

* This treaty is not yet in force

F. Temporary Visas

In general, all visitors to New Zealand must have visas to enter the country, although exceptions exist. Visitors' visas are not required for nationals from Australia, the United Kingdom, the United States and other countries with which New Zealand has visa-waiver agreements for visits of three months or less.

Visitor visas are issued to foreign nationals who intend to visit New Zealand for recreational purposes. These visas generally are valid for a maximum of 9 months within an 18-month period.

Student visas are issued to foreign nationals who undertake studies in New Zealand. The duration of the visa depends on the length of the study program.

Business visitors are issued visas for no longer than three months in any one year. If a longer period is required, the individuals must apply for work visas.

Working holiday schemes are open to citizens from the following countries that are 18 to 30 years of age.

Argentina	Hong Kong	Netherlands
Belgium	Ireland	Singapore
Canada	Italy	Sweden
Chile	Japan	Taiwan
Denmark	Korea	United Kingdom
Finland	Malaysia	United States
France	Malta	Uruguay
Germany		

Application for visas should be made at the New Zealand embassy or consulate in the home country or nearest the home country.

Visitors on a valid visitor's visa may apply for resident permits in New Zealand (see Section H).

The following documents are required from the applicant when he or she applies for visitors' and work visas (see Section G):
- Passport or equivalent documents;
- Proof of financial means of support;
- Proof of no criminal record, at the discretion of the New Zealand authorities; and
- Proof of all statements made for claiming points under New Zealand's immigration points system.

In addition, every applicant must pass a medical examination.

G. Work Visas and Self-Employment

Work visas are generally issued to individuals who have an offer of employment for which they are qualified and for which no qualified New Zealander is available. If an employment offer is made to a senior executive of a multinational company, no search for eligible New Zealanders is required.

Work visas are valid for a maximum of three years and are renewable if the first visa was granted outside New Zealand and, in cases involving expatriates employed by multinational companies, if the company agrees to extend the secondment.

Special rules exist for certain categories of people, including the fiancé(e)s of New Zealand citizens and residents, entertainers, athletes and professional coaches.

All immigrants planning to seek employment in New Zealand are advised to have their qualifications evaluated by the New Zealand Qualifications Authority. This process takes four to eight weeks and requires a fee. Professionals are advised to contact individual professional bodies for information on required foreign qualifications and New Zealand training.

Self-employed persons may apply for authorization under the entrepreneur business investment category. Self-employment is employment in a business in New Zealand that the applicant has established or purchased or in which he or she has made a substantial investment. Positions paid by retainer or commission are not considered self-employment.

The application procedures for work visas are similar to those for visitors' visas (see Section F). The time delay for receiving a work visa varies with each application, but generally the process takes from six to eight weeks.

H. Residence Permits and Visas

Resident permits are issued to foreign nationals who intend to establish permanent residence in New Zealand. Resident permit holders must obtain returning resident visas to enter or re-enter New Zealand. Individuals interested in these permits and visas should obtain further information.

I. Family and Personal Considerations

Family Members. The spouse and children of an expatriate are issued visitors' visas. If a spouse wishes to work, he or she must apply for a work visa independently.

Drivers' Permits. Foreign nationals visiting New Zealand from Australia, Canada, Fiji, Germany, the Netherlands, South Africa, Switzerland, the United Kingdom and the United States may drive legally using their home country drivers' licenses for up to 12 months. Visitors holding international drivers' licenses may also drive in New Zealand for up to 12 months. Visitors without overseas or international drivers' licenses must apply for a New Zealand license before driving in New Zealand.

Foreign nationals in New Zealand must obtain New Zealand drivers' licenses within a year.

Applicants are required to pass a theoretical test and take a practical driving test to obtain a New Zealand driver's license. Applicants with valid drivers' licenses from EU countries, Australia, Canada, Norway, South Africa, Switzerland or the United States may be exempt from the practical test. Generally, a physical examination is not required.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(b)
Housing contribution	(X)	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	—	X	(c)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of temporary accommodation	—	X	(d)
Provision of motor vehicle	—	X	(c)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	(e)

* Bracketed amounts reduce taxable income.

(a) Employee contributions are made out of after-tax income.
(b) Under certain circumstances, employer-provided housing may be valued at less than fair rental value (see Section A).
(c) The item is not taxable to employee, but the employer is subject to Fringe Benefit Tax on the item.
(d) Temporary accommodation for the settling-in period is not taxable.
(e) Capital gains on government securities, municipal bonds and debentures (that is, interest-bearing investments) are taxable if the individual is resident in New Zealand. Gains include realized exchange-conversion gains. Gains on company shares are not taxable unless the shares are held for trading.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation is provided below for the 2005-06 income year for an expatriate who is married with two dependent children and is resident in New Zealand. During the 2005-06 income year, the expatriate received compensation of NZ$150,000, NZ$50,000 of which was paid in New Zealand and the balance deposited in a foreign bank account and not remitted to New Zealand. The expatriate has regional employment responsibility and worked 20 days outside of New Zealand during the income year. The individual's employer provided housing to the expatriate at a cost to the company of NZ$30,000 (the market value is also NZ$30,000). The expatriate earned dividends from foreign investments of NZ$3,000, NZ$1,000 of which were remitted to New Zealand.

	NZ$
Calculation of Taxable Income (a)	
Salary	150,000
Taxable value of housing	30,000
Dividends from foreign corporations	3,000 (b)
Total income	183,000
Deductions	(0)
Taxable income	183,000
Calculation of Income Tax	
Tax on NZ$38,000 at 19.5%	7,410
Tax on NZ$22,000 at 33%	7,260
Tax on NZ$123,000 at 39%	47,970
NZ$183,000	
Income tax payable	62,640

(a) If the expatriate was a nonresident, 20/365 of his or her earnings would not be taxable in New Zealand, and the foreign dividends would also not be taxable. Otherwise, everything else in the calculation would remain the same.
(b) The foreign dividends are taxable, regardless of whether they were remitted to New Zealand. If withholding tax was deducted at source from the foreign dividends, it would be creditable against the New Zealand tax.

NICARAGUA

Country Code 505

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Please direct all inquiries regarding Nicaragua to the persons listed below in the San José, Costa Rica office of Ernst & Young. All engagements are coordinated by the San José, Costa Rica office.

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A. Income Tax

Who Is Liable. Resident and nonresident individuals, regardless of their nationality, are taxed on their income earned in Nicaragua. Foreign-source income is not taxed.

Individuals are considered resident if their nationality is Nicaraguan or if they have a resident migratory status (permanent or temporary) that allows them to work in Nicaragua.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Annual income in excess of C$500,000 is taxable, including salary, pensions, bonuses, premiums, commissions and allowances (for example, housing and educational allowances). However, Christmas bonuses and severance payments are not taxable.

Self-Employment and Business Income. Income derived from self-employment or from a trade or business is subject to taxation.

Investment Income. Dividends paid or credited by local companies to resident or nonresident individuals are not subject to tax if the company distributing the dividends has already paid the corresponding income tax at the corporate level. Royalties from franchises are subject to a 21% withholding tax. Professional technical advice and similar payments are subject to a 10% withholding tax.

Directors' Fees. Directors' fees paid to resident and nonresident individuals are subject to withholding tax at a rate of 10% for resident individuals and 20% for nonresident individuals.

Capital Gains. Capital gains are included in taxable income. Capital losses are deductible only if they relate to the generation of taxable income.

Deductions

Personal Deductions and Allowances. The only allowable personal deductions are social security contributions.

Business Deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. Employment, self-employment and business income earned by resident individuals is taxable at the following rates for the period of 1 July 2005 through 30 June 2006.

Annual Taxable Income		Tax on	Rate on
Exceeding C$	Not Exceeding C$	Lower Amount C$	Excess %
0	50,000	0	0
50,000	100,000	0	10
100,000	200,000	5,000	15
200,000	300,000	20,000	20
300,000	500,000	40,000	25
500,000	—	90,000	30

Withholding tax is imposed on nonresidents at a rate of 20% on salaries, other remuneration, pensions, commissions, directors' fees and similar compensation items.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Self-employed individuals may carry forward their losses for up to three years.

B. Social Security

Social security contributions are levied on salaries at a rate of 15% for employers and 6.25% for employees. The maximum monthly salary subject to employer and employee social security contributions is C$37,518. In addition, each employer is subject to an additional 2% contribution for professional training equal to 2% of employees' compensation.

C.Tax Filing and Payment Procedures

The normal tax year runs from 1 July through 30 June. However, in certain specified circumstances, taxpayers may elect a special tax year.

Employers are responsible for withholding income taxes and social security contributions from the employees' salaries on a monthly basis. Employees are not required to file an annual income tax return if their only source of income is employment compensation.

Returns must be filed and any tax liabilities due must be paid by 30 September of the year following the tax year. Self-employed individuals and individuals with a trade or business are required to pay installments of advance income tax.

D. Double Tax Relief and Tax Treaties

Nicaragua has not entered into tax treaties with any other countries.

E. Immigration and Visa Requirements

Immigration and visa requirements generally are amended constantly in Nicaragua. Consequently, it is suggested that foreigners wishing to come to Nicaragua seek professional legal advice before entering the country. Foreigners may apply for local residency with the General Direction of Migration and Foreigners (Dirección General de Migración y Extranjería) if certain requirements are met.

F. Work Permits

Foreigners must apply for a work permit to work in Nicaragua. After the required documents are filed with the immigration authorities, it takes approximately one month to obtain the permit. Work permits are valid for one year and are renewable for a similar time period.

G. Family and Personal Considerations

Family Members. Spouses of foreigners who are granted work permits in Nicaragua automatically receive the same treatment as the original permit holder.

Children of expatriates may use the granted immigration status to attend school in Nicaragua.

Drivers' Permits. Foreigners may drive legally in Nicaragua for the duration of their visa. After that period expires, resident foreigners must obtain a Nicaraguan drivers' license.

Nicaragua does not have driver's license reciprocity agreements with any other country.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Not Taxable*	Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement	X	—	—
Value of meals provided	X	—	—
Value of lodging provided	X	—	—
Pension from retirement	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gains from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* The bracketed amount reduces taxable income.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample annual tax computation for a married resident individual.

Calculation of Net Income	**C$**
Cash salary	45,000
Housing	10,200
Car allowance	10,000
Home maintenance allowance	2,000
Other allowance	5,000
Social security (C$37,518.00 at 6.25%)	(2,344.88)
Monthly net income	69,855.12
Annual taxable net income (C$69,855.12 x 12)	838,261.44
Calculation of Income Tax	
Tax on C$500,000	90,000
Tax on C$338,261.44 at 30%	101,478.43
Annual income tax	191,478.43
Monthly income tax (C$191,478.43 ÷ 12 months)	15,956.54

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A. Income Tax

Who Is Liable. Residents are generally subject to tax on their worldwide income. However, foreign earnings derived by Nigerian residents are exempt from tax if the earnings are repatriated into Nigeria in convertible currency through a domiciliary account with an approved Nigerian bank. Income earned by a Nigerian from employment with the Nigerian government is considered Nigerian-source income, even if services are performed abroad. Nonresidents are subject to tax on Nigerian-source income only.

Individuals are considered residents if they are in one of the following categories:

• Nigerians residing in Nigeria, regardless of their length of stay;
• Expatriate employees of a resident company who are present in Nigeria for employment purposes; or
• Expatriate employees of a nonresident company who are present in Nigeria for more than 183 days in a 12-month period.

Income Subject to Tax

Employment Income. Taxable income includes salaries, wages, fees, allowances and pensions from past employment, as well as other gains or profits from employment, such as gratuities, bonuses, premiums, benefits and other perquisites. Rent paid by an employer directly to an employee's landlord for housing is tax-exempt.

Gratuities paid to an employee who has worked for 10 or more years are fully exempt from tax. Compensation for loss of office is also fully exempt from tax.

Self-Employment and Business Income. Every resident individual who carries on a trade, business, profession or vocation is subject to tax on income derived from activities in and outside Nigeria. Self-employment income derived by nonresidents is subject to tax in Nigeria if the trade, business, profession or vocation is carried on even partly in Nigeria.

Partners are taxed on their shares of partnership income, regardless of whether the income is distributed.

For both residents and nonresidents, a 5% tax is withheld from contract payments, construction-related activities and commissions, as well as from consulting, professional, management and technical fees. The recipient must include the income in his or her tax return, but may claim a credit for the tax withheld.

Taxable income is calculated by deducting allowable expenses and losses from gross income. Resident and nonresident self-employed individuals are taxed at the rates set forth in *Rates*.

Investment Income. A withholding tax of 10% is imposed on dividends, interest, royalties and income from the rental of movable or immovable property. For nonresidents, the withholding taxes are final taxes. For residents, the withholding taxes on dividends and interest are final taxes, but the withholding taxes on royalties and rent are treated as advance tax payments.

Investment income earned abroad and brought into Nigeria through the Central Bank of Nigeria, or through any other authorized dealer appointed by the Minister of Finance, is exempt from tax.

Directors' Fees. Companies paying directors' fees must withhold tax on the fees at a rate of 10%. For a resident, final tax is assessed when the individual files a tax return including income from all sources. For nonresidents, the 10% withholding tax is a final tax.

Capital Gains. Capital gains consist of the disposal proceeds of an asset, less its cost and disposal expenses. Capital gains are taxed separately from ordinary income at a rate of 10%.

Amounts derived from the disposition of the following capital assets are taxable:
• Land and buildings;
• Options, debts and other property rights;

- Any currency other than Nigerian currency;
- Any form of property created by the disposing person or otherwise coming to be owned without being acquired; and
- Movable assets including motor vehicles.

If these assets are located in Nigeria, they are taxable in Nigeria, regardless of where the beneficial owner is resident. Assets located outside Nigeria are taxable in Nigeria if the beneficial owner is resident in Nigeria or if he or she is a foreigner who is present in Nigeria for a period, or for an aggregate of periods, exceeding 182 days within a tax year. Capital gains derived from the disposal of capital assets located outside Nigeria, and administered by a trustee of a trust or settlement with a seat of administration outside Nigeria, are taxable if the seat of administration is transferred to Nigeria during the year of assessment and if the disposal of the asset occurred while the seat of administration was in Nigeria. For capital assets located outside Nigeria, a capital gains tax is levied on the proportionate amount of gain remitted to or received in Nigeria. For example, if 40% of the sales proceeds is remitted to Nigeria, 40% of the capital gain is subject to tax in Nigeria.

The taxation of gains accruing from the disposal of trade or business assets, including real property, may be deferred if the assets are replaced within one year before or after disposal.

Deductions

Deductible Expenses. The following expenses are deductible from employment income:

- Dues paid to professional organizations whose membership is vital to the individual's employment;
- Contributions to the Nigeria Social Insurance Trust Fund;
- Voluntary contributions to an approved pension fund, up to 10% of total income; and
- Mortgage interest, including interest on a loan to develop an owner-occupied residential house.

Personal Allowances. Nigeria provides the following personal allowances.

Type of Allowance	Amount of Allowance
Personal allowance	₦ 5,000 plus 20% of basic salary
Alimony	₦ 300
Child allowance (up to 4)	₦ 2,500 each
Dependent relative allowance (up to 2)	₦ 2,000 each
Life insurance premiums (self or spouse)	No limit
Deduction for an equity shareholding in a company established exclusively for research and development	Up to 25% of total income
Deduction for donations to approved research institutions and centers	Up to 10% of taxable income

An allowance for a child may not be claimed by more than one taxpayer. However, a husband and wife may make separate claims for other allowances.

The following additional allowances, up to specified limits, are exempt if paid to employees. The allowances are also available to self-employed persons.

Type of Allowance	Maximum Annual Amount of Allowance
Housing allowance	₦ 150,000
Transportation allowance	₦ 20,000
Meal allowance	₦ 5,000
Utility allowance	₦ 10,000
Entertainment allowance	₦ 6,000
Leave grant	10% of basic salary
Compensation for loss of office	Actual amount paid

Business Deductions. Expenses are deductible if they are reasonable and are incurred wholly, exclusively and necessarily in producing income. Expenses of a capital, private or domestic nature are not deductible.

Allowable expenses include the following:
- Interest on money borrowed and employed as capital in acquiring income;
- Rental payments on business premises;
- Repair and maintenance expenses;
- Salaries, wages, allowances, utility costs and insurance premiums; and
- Bad debts.

Any loss incurred in a previous year is deductible from the income of the same trade or business for up to four years.

Rates. The following rates apply to residents and nonresidents.

Taxable Income Exceeding ₦	Taxable Income Not Exceeding ₦	Tax on Lower Amount ₦	Rate on Excess %
0	30,000	0	5
30,000	60,000	1,500	10
60,000	110,000	4,500	15
110,000	160,000	12,000	20
160,000	—	22,000	25

Individuals whose annual taxable income is ₦ 30,000 or less are subject only to minimum tax at a rate of 0.5%.

Relief for Losses. Business losses of a self-employed person may be carried forward for four years. Loss carrybacks are not allowed.

B. Inheritance and Gift Taxes

Nigeria does not impose inheritance and gift tax.

C. Social Security

Contributions. Effective from 1 January 2005, employers and employees must each make mandatory minimum contributions to the Nigerian Pension Scheme of 7.5% of the total income of employees. Total income equals the sum of basic salary and housing and transport allowances.

Contributions are not mandatory for expatriates who contribute to similar funds in their home countries and who will subsequently derive benefits from those programs.

Totalization Agreements. To prevent double taxation and to assure benefit coverage, Nigeria has entered into social security totalization agreements with Belgium, the Czech Republic, France, Pakistan and the United Kingdom.

D. Tax Filing and Payment Procedures

The federal government is responsible for enacting individual income tax legislation. The Internal Revenue office in each state administers and collects taxes from taxable residents. The federal government collects taxes from the armed forces, police personnel and External Affairs Officers, as well as tax levied on nonresidents for income derived from Nigeria.

The tax year in Nigeria is the calendar year. Income tax is assessed on employment income on a current-year basis. Tax on income from a trade, business, profession or vocation is assessed on a preceding-year basis, except for the first three and the last two years of assessment. The basis period is the financial year chosen for the trade, business, profession or vocation. Investment income and other income are also assessed on a preceding-year basis.

An individual with employment, business or other income must file a tax return within 21 days after the publication of a notice by the tax authorities in the *Gazette* or daily newspapers. This generally occurs in January. Individuals with annual taxable income of ₦ 30,000 or less are not required to file tax returns.

Like residents, nonresidents must account for all income in their tax returns, and they may claim a credit for most taxes withheld.

Tax on employment income is paid by withholding from salary under the Pay-As-You-Earn (PAYE) system. For other income, at least one-half of the tax due must be paid within two months after receipt of the tax assessment notice, and the remainder is payable by 14 December.

Married persons are taxed separately, not jointly, on all types of income.

E. Double Tax Relief and Tax Treaties

Foreign tax paid on income brought into Nigeria through the Central Bank of Nigeria, or through any other authorized dealer approved by the Minister of Finance, may be credited against tax payable in Nigeria on the same income.

Nigeria has entered into double tax treaties with Belgium, Canada, Czechoslovakia (applicable to the Czech and Slovak Republics), France, the Netherlands, Pakistan, the Philippines, Poland, Romania and the United Kingdom.

F. Temporary Visas

Business and visiting visas are issued to bona fide businesspeople and tourists by Nigerian missions abroad. They entitle any businessperson or tourist to stay in Nigeria for up to three months. The period may be extended for an additional three months, for a maximum total period of six months, with the permission of the Comptroller-General of the Nigeria Immigration Service if genuine reasons support the extension. Entry visas are issued for a single entry into Nigeria.

Transit visas are issued to those passing through Nigeria who expect to stay in the country for up to seven days. Those in direct transit or whose transition period does not exceed 48 hours do not need transit visas. If they wish to leave the precincts of the airports, however, they must deposit their travel documents with immigration officials at the airports.

G. Work Visas and Self-Employment

The presence and employment of expatriates in Nigeria are restricted. Government regulations and policies allow the presence and employment of expatriates whose entry will benefit Nigeria and not compromise the security of the country. The Nigeria Immigration Service of the Federal Ministry of Internal Affairs processes applications for entry into Nigeria and for employment of expatriates in Nigeria.

Temporary employment visas are granted to expatriates on short visits to undertake specialized jobs. These applications are made in Nigeria directly to the Comptroller-General of the Nigeria Immigration Service by companies and organizations responsible for bringing in the expatriates. Specific information about the expatriate and the nature of the job must be furnished.

The following documents are required for application for temporary employment visas:

- A telex from the Comptroller-General of the Nigeria Immigration Service approving the grant of visa; and
- Proof of financial means or written confirmation by the Nigerian company that it will provide financing and be responsible for any necessary immigration responsibilities for the journey.

Companies that require the services of foreign nationals for permanent employment must apply to the relevant federal government authority regarding the expatriate quota for specific positions. Before the authorities approve expatriate quota positions for a company, the following conditions are considered:

- The technical nature of the job;
- The academic qualifications, professional expertise and years of experience of the expatriate who will occupy the position; and
- A job description of the position, showing that local labor cannot easily be found.

Foreign nationals taking up employment in Nigeria are divided into the following categories for visa application purposes:

- Those taking up employment with government departments, corporations and institutions of higher learning. This category is not subject to expatriate quota restriction.
- Those taking up employment with partially government-owned organizations and private sector companies and organizations. This category is subject to expatriate quota restrictions.
- Short-term visitors undertaking such specialized jobs as constructing or repairing machinery, auditing accounts and conducting feasibility studies or training courses. These visitors are

generally eligible for temporary employment visas. Jobs lasting three to six months do not require employers to place the temporary workers on their quota lists.

Expatriates entering Nigeria for employment under the first two categories above should apply for entry visas through Nigerian missions abroad. The Nigerian missions may issue entry permits and subject to regularization (STR) visas (see Section H).

Applications of expatriates who wish to work with companies and organizations that are subject to quota restriction must be accompanied by the employee's credentials approved by the relevant Nigerian mission abroad.

Applications for STR visas must be supported with the following documents, duly stamped by the Nigerian embassy in the home country of the expatriate applicant:

- Three copies of the visa and entry permit application form (Form IMM/22);
- Three copies of the résumé and diploma;
- A copy of the letter of employment offer;
- A copy of the letter of acceptance of the employment offer;
- A copy of the company's business permit featuring approved expatriate quota positions;
- An extract of minutes of the meeting at which the appointment was made if the position is in management; and
- A copy of the company's letter to the Nigerian embassy in the applicant's home country confirming the employment.

STR visas usually are granted for three months and may be extended. The required documents must be approved and endorsed by the Nigerian embassy abroad and sent to the Nigerian company for processing a combined expatriate residence permit and alien's card (CERPAC). It usually takes one to two weeks to obtain a combined residence permit and alien's card from the Nigeria Immigration Service following the submission of all necessary documents.

Multiple-entry visas may be issued to businesspeople after their arrival in Nigeria. Companies or organizations in Nigeria must apply for multiple-entry visas on behalf of their expatriate employees and accept immigration responsibility for them. To receive multiple-entry visas, expatriate employees must already possess residence permits allowing them to reside and work in Nigeria. Employers should note that possession of a residence permit is not a guarantee for re-entering Nigeria. It is therefore necessary for expatriate residents in Nigeria to obtain re-entry permits prior to leaving Nigeria.

Re-entry visas are issued on application to the Comptroller-General of the Nigeria Immigration Service to any expatriate residing in Nigeria. Re-entry visas are valid for one year and may be issued for single or multiple entries if the expatriate quota is still valid.

Expatriates may transfer from one company to another if the prior consent of the Comptroller-General of the Nigeria Immigration Service is obtained. To obtain consent, the previous employer should signify in writing that he or she has no objection to the change of employment, and the employee should apply for the transfer to the Comptroller-General of the Nigeria Immigration Service. If the applicant is a married woman, her husband must give his consent in writing. A valid expatriate-quota position for the applicant must be available.

Foreign nationals may establish businesses in Nigeria and own up to 100% of the share capital of their companies. Companies that are partly or wholly owned by foreign nationals must be registered with the Nigerian Investment Promotion Commission or the Federal Ministry of Internal Affairs after incorporation.

H. Residence Permits

Expatriates properly employed in Nigeria are issued Form A combined expatriate residence permits and aliens' cards, which are issued for a maximum period of one year and are renewable annually if the employer's expatriate quota remains valid. If the quota is valid for less than one year, a residence permit is issued for the duration of the quota's validity.

The STR visa, generally issued by a Nigerian embassy abroad, enables a foreigner applying for permission to work in Nigeria to come to the country and to apply for a combined expatriate residence permit and alien's card at the Nigeria Immigration Service. Application for a residence permit must be made within three months after arrival.

The Nigerian embassy abroad determines whether a physical examination is needed for the applicant to obtain a residence permit. A physical examination is not necessary to obtain a residence permit if an expatriate arrives on an STR visa.

I. Family and Personal Considerations

Family Members. Dependants of expatriates are issued Form B combined expatriate residence permits and aliens' cards (CERPAC), which are renewable annually. Family members of expatriates must produce evidence of their relationships, including marriage certificates and birth certificates. Dependants with Form B residence permits may not automatically take up paid employment. Children are permitted to attend public or private schools.

A dependant granted a Form B combined expatriate residence permit and alien's card may be employed by a Nigerian company if he or she is at least 18 years of age and if the company interested in employing him or her has approved vacant expatriate quota positions. An application is forwarded by the Nigerian company to the Nigeria Immigration Service with copies of the résumé and academic professional certificates of the dependent applicant. If the Nigeria Immigration Service considers the applicant qualified and suitable for employment by the company, a Form A combined expatriate residence permit and alien's card is issued to the spouse or child and the Form B residence permit issued earlier is withdrawn.

Dependants of an expatriate resident in Nigeria who do not have Form B residence permits may visit Nigeria with a visiting visa for not longer than three months. The visiting visa is renewable.

Drivers' Permits. Foreign nationals are not permitted to drive legally in Nigeria with their home country drivers' licenses. They must have international drivers' licenses or prove that they have applied for Nigerian drivers' licenses.

Nigeria does not have drivers' license reciprocity with any other country. Foreign nationals must apply for Nigerian drivers' licenses after obtaining their residence permits.

The following documents must be submitted with an application form and payment of the necessary fee to obtain a drivers' license:

- A copy of the residence permit;
- A copy of the foreign driving license;
- Two passport-size photographs;
- The applicant's blood group; and
- Evidence of good eyesight.

No actual driving test is required of a license applicant. However, a physical examination is conducted if considered necessary by the issuing authority.

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A. Income Tax

Who Is Liable. Commonwealth of the Northern Mariana Islands (CNMI) residents are subject to tax on their total income regardless of source. An individual who is not a U.S. citizen or permanent resident or a CNMI resident is subject to tax on income from sources within the CNMI only.

Foreign nationals who are not lawful U.S. permanent residents (who do not hold U.S. immigrant visas) are considered CNMI

residents under a "substantial presence" test if they meet either of the following conditions:
• They are deemed to be present in the CNMI for at least 31 days during the current year.
• They are deemed to have been present for at least 183 days during a test period of three consecutive years, including the current year, using a formula weighted as follows:

Current year	100.00%
1st preceding year	33.33%
2nd preceding year	16.67%

Among the exceptions to the substantial presence test are the following:
• An individual may claim to be a nonresident of the CNMI in the year of departure by having a "closer connection" to a foreign country.
• Under certain circumstances, it may be beneficial to be considered a resident of the CNMI for income tax purposes. If certain conditions are met, an individual may elect to be a resident in the year of arrival (first-year election) for tax purposes.

For tax years ending after 22 October 2004, citizens and permanent residents of the United States are considered bona fide residents of the CNMI if they satisfy both of the following conditions:
• They are physically present in the CNMI for 183 days or more during the tax year; and
• They do not have a tax home outside the CNMI during the tax year and do not have a closer connection to the United States or a foreign country.

The CNMI, part of the post-World War II Trust Territory of the Pacific Islands, is now a self-governing commonwealth in political union with, and under the sovereignty of, the United States. Because of this connection with the United States, U.S. citizens and permanent residents with CNMI income are taxed somewhat differently from nonresidents. In addition to its wage and salary tax and earnings tax system, the CNMI has adopted the U.S. Internal Revenue Code (IRC) as its income tax law, with "CNMI" substituted for all references to "United States." U.S. citizens and permanent residents who are bona fide residents of the CNMI must file their individual tax returns with the CNMI instead of with the U.S. Internal Revenue Service (IRS).

Income Subject to Tax. A nonresident alien is subject to CNMI tax on income that is effectively connected with a CNMI trade or business and on CNMI-source gains, profits and fixed or determinable, annual or periodical income (generally includes investment income, dividends, interest and rental income).

Employment Income. A two-tier tax system applies to all employees in the CNMI, one under the IRC and the other under the CNMI wage and salary tax and earnings tax laws.

Under the IRC, gross income and deductions in the CNMI are determined as they are in the United States. Taxable income from personal services includes all cash wages, salaries, commissions and fees paid for services performed in the CNMI, no matter where the payments are made. In addition, taxable income includes the value of an employee's expenses paid by the employer and the fair-market value of noncash goods and services provided by the employer, including housing and vehicles.

Under the CNMI wage and salary tax and earnings tax rules, taxable income is determined as in the preceding paragraph, except that reasonable travel and per diem allowances furnished by the employer are excluded.

Individuals are subject to the earnings tax on nonbusiness income earned in the CNMI. Examples of nonbusiness income include gain from the sale of personal property; one-half of the gain from the sale of real property located in the CNMI; gross gambling winnings; and all other CNMI income, except retirement plan income, alimony, social security or unemployment compensation.

A nonresident alien who performs personal services as an employee in the CNMI any time during the tax year is considered to be engaged in a CNMI trade or business. A limited exception to this rule applies to a nonresident alien performing services in the CNMI if the services are performed for a foreign employer, if the employee is present in the CNMI for no more than 90 days during the year and if compensation for the services does not exceed US$3,000.

Compensation is considered to be from a CNMI source if it is paid for services performed in the CNMI, regardless of where the income is paid or received. If income is paid for services rendered partly in the CNMI and partly in a foreign country, and if the amount of income attributable to services performed in the CNMI cannot be accurately determined, the CNMI portion is determined based on a workday ratio.

Educational allowances provided by employers to their local or expatriate employees' children 18 years of age and under are taxable for income tax and social security tax purposes.

Self-Employment and Business Income. Every CNMI resident who operates a business is taxable on the worldwide income of the business. Nonresidents are taxable on business income derived from CNMI sources only. Nonresidents are taxed on income effectively connected with a CNMI trade or business after related deductions at the graduated rates of tax set forth in *Rates*. The rules for the computation of an individual's taxable income from a business are similar to the U.S. rules. An individual's self-employment income is combined with income from other sources and is subject to individual income tax at the rates discussed in *Rates*. The rebate provisions described in *Rates* also apply to income tax on self-employment income. Business gross revenue tax (see Section B) also applies on income earned by an individual in connection with a business in the CNMI.

Investment Income. In general, dividend and interest income earned by residents is taxed at the ordinary rates.

However, dividends received by individuals from domestic corporations and "qualified foreign corporations" are treated as net capital gains that are subject to the capital gain tax rates for both the regular tax and alternative minimum tax. Consequently, dividends are taxed at a 15% (5% for taxpayers with income in the lower brackets). To qualify for the 15% tax rate, the shareholder must hold a share of stock of the payer of the dividend for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date.

Nonresident alien individuals with investment income are subject to special rules. Investment income received by nonresidents from CNMI sources is ordinarily taxed at a flat rate of 30% of gross income, which may be withheld by the payer. The nonresident alien must then file an individual tax return to obtain the 90% rebate (see *Rates*). Portfolio interest from the sale of stock in a CNMI company is exempt from the 30% tax. An election to tax rental income on a net basis is available.

Directors' Fees. In general, directors' fees are considered earnings from self-employment. The business gross revenue tax (see Section B) applies to directors' fees earned in the CNMI.

Capital Gains and Losses. Net capital gain income is taxed at ordinary rates, except that the maximum marginal rate of tax for long-term gains (gains on assets held longer than 12 months) is 15%. Net capital gain is equal to the difference between net long-term capital gains and short-term capital losses. Short-term capital gains are taxed at ordinary income tax rates. For treatment of capital losses, see *Relief for Losses*.

When the IRC took effect in the CNMI on 1 January 1985, a provision was adopted to exempt pre-1985 appreciation of CNMI property from income tax. For the purposes of determining gains and allowances for depreciation and amortization, the basis of CNMI real and personal property is the greater of the basis determined under the IRC or the fair-market value as of 1 January 1985. Fair-market value may be established either by independent appraisal or by discounting the ultimate sales price back to 1 January 1985, using discount factors specified in the tax regulations. Rates published by the IRS are currently used.

In general, capital gains received by nonresidents from the sale of stock in a CNMI company are exempt from the 30% tax that applies to investment income received by nonresidents. Gains from sales of CNMI real property interests, however, are generally considered to be "effectively connected income," and special complex rules apply.

Deductions. Deductions and personal exemptions are allowed under the same rules that apply in the United States.

Rates. Taxes on income derived within the CNMI by CNMI residents are low, but their computation is complicated. The following factors affect the amount of taxes paid: the wage and salary tax, earnings tax and business gross revenue tax (see Section B); the tax under the IRC; and a rebate, usually at a rate of 90%, of the excess of taxes under the IRC over the combined total of wage and salary tax earnings tax and business gross revenue tax (see *Credit and Rebate* below).

Wage and Salary Tax and Earnings Tax. The following wage and salary tax and earnings tax rates apply to total taxable income in the CNMI.

Total Taxable Income Exceeding US$	Not Exceeding US$	Rate on Total Taxable Income %
0	1,000	0
1,000	5,000	2
5,000	7,000	3
7,000	15,000	4
15,000	22,000	5
22,000	30,000	6
30,000	40,000	7
40,000	50,000	8
50,000	—	9

Individual Income Tax. Under the IRC, the applicable CNMI tax rate, like the U.S. rate, depends on whether an individual is married and, if married, whether the individual elects to file a joint return with his or her spouse. Certain individuals also qualify to file as a head of household. For 2006, the graduated tax rates listed below apply in the CNMI.

Married Filing Joint Return

Taxable Income Exceeding $	Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
0	15,100	0.00	10
15,100	61,300	1,510.00	15
61,300	123,700	8,440.00	25
123,700	188,450	24,040.00	28
188,450	336,550	42,170.00	33
336,550	—	91,043.00	35

Single Individual

Taxable Income Exceeding $	Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
0	7,550	0.00	10
7,550	30,650	755.00	15
30,650	74,200	4,220.00	25
74,200	154,800	15,107.50	28
154,800	336,550	37,675.50	33
336,550	—	97,653.00	35

Head of Household

Taxable Income Exceeding $	Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
0	10,750	0.00	10
10,750	41,050	1,075.00	15
41,050	106,000	5,620.00	25
106,000	171,650	21,857.50	28
171,650	336,550	40,239.50	33
336,550	—	94,656.50	35

Married Filing Separate Return

Taxable Income Exceeding $	Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
0	7,550	0.00	10
7,550	30,650	755.00	15

Married Filing Separate Return

Taxable Income Exceeding $	Taxable Income Not Exceeding $	Tax on Lower Amount $	Rate on Excess %
30,650	61,850	4,220.00	25
61,850	94,225	12,020.00	28
94,225	168,275	21,085.00	33
168,275	—	45,521.50	35

The brackets of taxable income are indexed annually for inflation.

The preceding rates are used to compute an individual's regular federal tax liability. The IRC also imposes an alternative minimum tax (AMT) at a rate of 26% on alternative minimum taxable income (AMTI) in excess of the exemption amount, up to US$175,000, and at a rate of 28% on AMTI exceeding US$175,000 above the exemption amount. The primary purpose of the AMT is to prevent individuals with substantial economic income from using preferential tax deductions, exclusions and credits to substantially reduce or to eliminate their tax liability. The higher of the regular tax and the AMT is the final tax liability.

Credit and Rebate. The income tax, wage and salary tax, earnings tax and business gross revenue tax (see Section B) are applied against the same income, but two provisions in the CNMI laws provide substantial tax benefits. To avoid double taxation, the law provides a credit against income tax for the wage and salary tax, earnings tax and business gross revenue tax paid on income earned in the CNMI. If income tax on CNMI income exceeds the sum of wage and salary tax, earnings tax and business gross revenue tax, part of the excess income tax is rebated. The following are the rebate percentages.

Excess Income Tax Exceeding US$	Excess Income Tax Not Exceeding US$	Rebate on Lower Amount US$	Rebate on Excess %
0	20,000	0	90
20,000	100,000	18,000	70
100,000	—	74,000	50

Income earned by CNMI residents from foreign sources is subject to the full amount of income tax under the IRC. A special rule prevents U.S. residents from taking advantage of the rebate by changing their residence to report gains derived on the sale of U.S. property or stock in U.S. companies on their CNMI tax return.

Relief for Losses. Business losses not used in the year incurred may be deducted from taxable income earned in the two years preceding the year of loss or in the subsequent 20 years. The carryback period is temporarily extended to five years for losses arising in tax years ending in 2001 and 2002.

Capital losses are fully deductible from capital gains. However, net capital losses are deductible against other income only up to an annual limit of US$3,000. Unused capital losses may be carried forward indefinitely.

No deduction is allowed for operating or capital losses incurred before 1 January 1985.

Passive losses, including those generated from limited partnership investments or real estate rentals, may be offset against passive income only. Limited relief is available for individuals who actively participate in real estate rental activities. Losses from such activities may offset up to US$25,000 of other income. This offset is phased out for taxpayers with adjusted gross income from US$100,000 to US$150,000, and special rules apply to married individuals filing separate tax returns. Unused losses may be carried forward indefinitely to offset net passive income in future years. Any remaining loss may be used in full when a taxpayer sells the investment.

B. Other Taxes

Business Gross Revenue Tax. The following table presents the brackets and rates for the business gross revenue tax.

Gross Revenue		Rate on Total
Exceeding US$	Not Exceeding US$	Gross Revenue %
0	5,000	0
5,000	50,000	1.5
50,000	100,000	2
100,000	250,000	2.5
250,000	500,000	3
500,000	750,000	4
750,000	—	5

Manufacturers, ocean shippers and wholesalers are taxed at a maximum rate of 2%.

The business gross revenue tax on income earned in the CNMI may be credited against income tax paid on income earned in the CNMI. The rebate provisions described in Section A also apply to income tax on business income.

Estate and Gift Taxes. Non-U.S. citizens and U.S. citizens who receive their citizenship by birth or naturalization in the CNMI are subject to U.S. estate and gift taxes on assets located in the United States only, not on those located in the CNMI. U.S. citizens other than those who receive their citizenship by birth or naturalization in the CNMI are subject to U.S. estate and gift taxes on all of their assets, including those located in the CNMI.

The CNMI imposes an estate tax that applies only to estates that have U.S. estate tax liability. The CNMI estate tax equals the lesser of the amount of the foreign death tax credit allowed under Section 2014 of the United States Internal Revenue Code, or the amount derived by multiplying the U.S. estate tax less any allowable credits by the quotient of the value of the property situated in the CNMI, divided by the value of the gross estate.

C. Social Security

The CNMI is covered by the U.S. social security system. For 2006, the old-age, survivor and disability insurance component (6.2%) of the social security tax applies to only the first US$94,200 of an employee's wages. The health insurance component (1.45%) applies to all wages. For additional details, see the Social Security section of the U.S. chapter in this book.

U.S. Social Security tax (FICA) is imposed on compensation for services performed within the CNMI, regardless of the citizenship or residence of the employee or employer. (Filipino and Korean nonresidents are exempt from FICA under treaty provisions). CNMI and foreign employers are responsible for withholding CNMI income and social security taxes from payments to nonresident alien employees.

D. Tax Filing and Payment Procedures

CNMI income tax returns are filed under the rules of the United States, but they are filed with the CNMI government instead of with the IRS. Residents of the CNMI report their U.S. income on their CNMI returns, and residents of the United States report their CNMI income on their U.S. returns. Income taxes withheld on CNMI wages may offset CNMI income tax liability reported on a U.S. return, and taxes withheld on U.S. wages may offset U.S. income tax liability reported on a CNMI return. Estimated tax payments are filed with the CNMI or the United States, depending on where the taxpayer resides the day the payment is due. Self-employment taxes are paid to the IRS.

Nonresidents must file tax returns if they are engaged in a trade or business in the CNMI, even if they earn no income from the business. Individuals not engaged in a CNMI trade or business must file returns if they have any CNMI-source income on which all of the tax due is not withheld. If all of the tax is withheld, the returns must be filed to obtain the 90% rebate. Nonresident employees subject to CNMI income tax withholding must file tax returns by 15 April. Other nonresidents must file returns by 15 June.

E. Double Tax Relief and Tax Treaties

Foreign tax credits offset CNMI taxes on foreign income in the same manner as in the United States. However, none of the U.S. double tax treaties applies to the CNMI, and the CNMI has no double tax treaties of its own.

F. Entry Permits

A U.S. citizen may enter the CNMI without restriction. However, all others must adhere to certain requirements to enter the CNMI. These requirements vary according to the purpose of entry.

An application for a tourist visa must include a valid passport and a round-trip or onward-trip ticket, with a valid visa to a subsequent destination if different from the applicant's home country. If the length of stay in the CNMI is 30 days or less, authorization for the visit is given at the visitor's point of entry. Long-term tourist entries, valid for 60 days, must be obtained if a foreign national plans to stay more than 30 days.

Regular-term business entry permits provide their holders with one continuous stay of 90 days for purposes of conducting such short-term business activities as sales and consulting. The holder is permitted multiple visits totalling no more than 90 days within one 12-month period to the CNMI. The application fee is US$100.

G. Work Permits and Self-Employment

Under Public Law 11-6 (27 March 1998), the CNMI placed a moratorium on the hiring of nonresident workers. The law does not specify the duration of the moratorium. Nonresident workers currently employed in the CNMI may be renewed or transferred to new employment. They may also be replaced, but the law specifies stringent conditions to ensure that the worker being replaced has permanently departed the CNMI. These restrictions reverse prior policy, which allowed for liberal importation of alien labor.

In addition to the exemptions for renewal, transfer and replacement, the CNMI government may grant exemptions from the moratorium for positions in "major new tourist-oriented development" projects and in the "delivery of critical services", for example, healthcare professionals, educators and scientists, to the extent that such skilled professionals are not readily available in the local population.

Any individual who is not a resident worker, who is at least 18 years of age and who is capable of performing services or labor desired by an employer is considered a nonresident worker and may apply for a nonresident work permit.

Before filing an application to employ a nonresident worker, an employer must determine that sufficient resident workers are not available to fill the particular vacancy. The employer must obtain job-vacancy advertisement approval from the Department of Labor and Immigration, advertise the job vacancy for three weeks, arrange the necessary documents with the employee and submit them to the government within 60 days of advertising. After the vacancy is justified, the applicant must submit a one-year employment contract to the Chief of Labor for review and approval. A valid passport, medical statement, travel documents and contract from the employer are required by the government. The Chief of Labor also requires a surety bond equal to a minimum of one month's pay for each employee, in addition to the cost of one airline ticket to the point of hire specified in the employment contract, and at least US$2,000 for medical expenses. The government processing usually takes at least four to six weeks.

The above procedures are not necessary for hiring U.S. citizens.

Long-term business entry permits are issued to foreign national investors in an approved investment as determined by a review committee. The committee considers the following factors:

- The amount of capital (a minimum of US$150,000 for a private enterprise and US$250,000 for a public enterprise);
- The type of enterprise proposed;
- The reputation and experience of the foreign investor;
- The employment opportunities to be created; and
- The demand for the proposed enterprise, contribution to the social and economic systems, and environmental impact.

The initial term of validity is two years for long-term business entry permits, which may be renewed on approval by the review committee. The application fee is US$500.

A foreign investor and his or her family may enter or exit the CNMI without limitation on frequency or duration. However, the holder of a long-term business entry permit does not receive permanent residence status or U.S. or CNMI citizenship for himself or herself or for his or her family.

H. Residence Permits

The requirements necessary to obtain a residence permit in the CNMI are the same as those in the United States. Please refer to *Residence Permits* in the United States chapter.

I. Family and Personal Considerations

Family Members. No entry permit is issued to an immediate relative of a nonresident worker during the period the worker resides in the CNMI, unless all of the following conditions are met:

- The foreign national is a relative of certain professional, managerial or technical personnel;
- The worker is paid at least US$20,000 per year; and
- A bond is posted guaranteeing eventual expatriation of all family members who enter the CNMI.

This type of permit is valid for one year of employment and is renewable annually.

Drivers' Permits. To obtain a driver's license in CNMI, an individual must be at least 16 years of age. An eye test, a road sign test, a traffic law test, a test of ability to read simple English and a driving test must be taken. A local CNMI driver's license is valid for a three-year period and is renewable. The application fee is US$15.

The following foreign nationals are not required to obtain a CNMI driver's license:

- Active-duty military personnel stationed in the CNMI who carry valid home country licenses;
- Individuals with valid drivers' licenses from one of the United States or U.S. territories (for up to 30 days after arrival in the CNMI);
- Active-duty military personnel operating military or federal government vehicles; and
- Individuals with valid international drivers' licenses for up to one year after their arrival if they remain tourists.

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A. Income Tax

Who Is Liable. Individuals resident in Norway are subject to tax on their worldwide income. Nonresidents are taxable on Norwegian-source income only. Wages and remuneration may be considered Norwegian-source even if an employer has no permanent establishment in Norway.

Individuals present for a period or periods exceeding in aggregate 183 days in any 12-month period are considered to be resident for tax purposes. After emigrating from Norway, an individual continues to be considered a resident for tax purposes if the individual, or someone closely related to him or her, maintains a home in Norway. After emigrating from Norway, an individual who does not maintain a home in Norway is considered to be a resident if the individual stays in Norway for more than 61 days per income year.

Notwithstanding the conditions mentioned above, an individual who has been resident in Norway for more than 10 years is considered to be resident for tax purposes in the three-year period after emigration and for as long as he or she maintains a home in Norway or stays in Norway for more than 61 days during a year.

Special rules may apply to individuals working on the Norwegian Continental Shelf.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income generally includes salaries and wages, bonuses, directors' fees, benefits in kind, annuities and pensions, whether the benefit is earned over a period of time, occasionally or on a single occasion. Most allowances and fringe benefits are considered taxable income.

Nonresidents are subject to tax at various rates on income earned from work carried out in Norway and on wages earned on ships registered with the Norwegian common shipping register.

Self-Employment and Business Income. Residents are subject to tax on worldwide self-employment and business income. Nonresidents are subject to tax if they engage or participate in business or other economic activities carried on or administered in Norway. Furthermore, persons with assets in Norway in the form of real property or tangible assets are subject to tax on income derived from such assets at the ordinary 28% rate described in *Rates*. Special rules may apply to shipping activities.

The special tax regime for active owners is abolished, effective from 1 January 2006.

A partnership model has been introduced for partnerships that are subject to the so-called net-assessment. As a result, the model applies to general partnerships (ANS), limited partnerships (KS), silent partnerships (IS) and shipping partnerships (Partsrederier).

Partners are subject to a 28% tax on all income, regardless of distribution, and to an additional tax of 28% on distributed profits. To compensate for the initial 28% tax, only 72% of the distributed profits is taxable. In addition, only the distributed profit exceeding a risk-free interest on the capital invested in the partnership is taxable. The Department of Finance determines the risk-free interest each year. For 2006, the rate is 2.1%. Such partnership taxation ensures the same level of taxation on both retained and distributed profit as in limited companies. The maximum marginal tax rate for distributed income is 48.16% [0.28 + (0.72 x 0.28)].

The partnership model applies to all partners, regardless of whether the partners are active. However, partners, other partners who are individuals, are not subject to additional taxation at distribution under the exemption method.

For self-employed individuals, all business profits exceeding a risk-free interest on the capital invested are taxed as personal income.

Taxable personal income serves as the basis for levying both personal income tax (top tax) at a rate of up to 12% and the social security contribution at a rate of 10.7%. It also entitles an individual to pension points in the social security system.

Nonresidents are also subject to tax at the same rates that apply to residents on the following amounts:

- Income from, and capital invested in, activities carried on or managed either in Norway or on the Norwegian Continental Shelf;
- Income derived from providing employees for principals who are carrying on activities in Norway;
- Income derived from, and capital invested in, real and movable property located in Norway; and
- Fees paid to foreign entertainers and artists for performances in Norway.

Nonresidents may also be subject to Norwegian taxes if they participate as general partners or limited partners in businesses carried on in Norway. For example, a leasing business with property in Norway is taxable, even if the activity is not carried out through a fixed place of business in Norway.

Investment Income. Interest, rental income and royalties are subject to tax with other ordinary income at a rate of 28%.

For dividends received by shareholders who are individuals, a shareholders' model has been introduced. Under the shareholders' model, dividends exceeding a risk-free return on the investment (the cost base of the shares) are taxed as general income when distributed to individual shareholders. Taking into account the company taxation of 28%, the total maximum marginal tax rate on dividends is 48.16% (0.28 + [0.72 x 0.28]). The part of the dividend that does not exceed a risk-free return on the investment is not taxed on the hands of the shareholder, and is consequently subject only to the company taxation of 28%. If the dividend for one year is less than the calculated risk-free interest, the tax-free surplus amount can be carried forward to be offset against dividends distributed in a subsequent year or any capital gain derived from the alienation of the shares on which the dividend is paid.

The shareholders' model applies to dividends received by Norwegian individuals and to individuals resident in other European Economic Area (EEA) states who are subject to Norwegian withholding tax.

Nonresidents are subject to a 25% withholding tax on dividends paid by Norwegian companies, unless a lower treaty rate applies. Withholding tax is not imposed on interest and royalties paid to nonresidents.

Directors' Fees. Nonresident and resident directors are taxed on directors' fees from Norwegian companies. Directors' fees are taxed in the same manner as employment income.

Taxation of Employer-Provided Stock Options. Stock options provided by employers to employees are taxed at the date of exercise as income from employment.

The taxable value at the date of exercise is the fair market value of the shares at the date of exercise, less the exercise price and any other costs incurred by the employee related to the grant of the options or the conversion of the options to shares.

Capital Gains and Losses. Capital gains derived from disposals of business assets, including real property, are subject to ordinary income tax at a rate of 28%.

Capital gains derived from disposals of shares are taxable as ordinary income at a rate of 28%, and capital losses derived from disposals of shares are deductible against ordinary income. However, the taxable gain may be reduced by any unused tax-free amount with respect to dividends received (see *Investment Income*).

Effective from 2006, Norway imposes an exit tax on latent capital gains on shares based on the value of the shares on the date the individual is no longer regarded as being a tax resident of Norway under Norwegian domestic tax law. This exit tax is imposed with respect to shares in Norwegian and foreign companies. For expatriates who are present in Norway less than 10 years but more than 183 days, the exit tax is imposed in accordance with the following rules:
- If the expatriate left Norway before 31 December 2005: no exit tax is imposed;
- If the expatriate leaves Norway in the period of 1 January 2006 through 31 March 2006, the exit tax is calculated based on value of shares on the date of emigration; and
- If the expatriate leaves Norway in the period of 1 March 2006 through 31 December 2006, the exit tax is calculated based on the value of shares at 31 December 2006.

The tax is calculated but no tax is payable if the following conditions are satisfied:
- The individual moves to a country within the European Union (EU)/EEA, or the individual moves to a country outside the

EU/EEA (for example, Canada, Switzerland or the United States) and gives adequate security for the tax; and
- The individual does not sell the shares within a period of five years after tax emigration from Norway.

The tax becomes payable if the shares are sold within five years after emigration. Norway does not give credit for foreign capital gains tax and, as a result, double taxation is a probable outcome.

The tax probably also applies to pension savings in the forms of share investments.

The gain derived from the sale of a personal residence is not subject to tax if the owner lived in the residence for at least 12 months during the 24 months before the sale. Otherwise, the gain derived from the sale of a private residence is subject to ordinary income tax, and losses are deductible from ordinary income.

Nonresidents are taxed on capital gains from capital assets located in Norway only.

Deductions

Deductible Expenses. The following expenses are deductible in calculating the ordinary income tax base if the 10% standard deduction for expatriates on temporary stay in Norway is not claimed:
- Within certain limits, costs of home leave if the individual is working and temporarily living abroad;
- Premiums paid to pension plans with Norwegian insurance companies, within certain limits;
- Alimony; and
- Interest on debts, except debts related to real property situated abroad.

The 10% standard deduction applies for a maximum of two income years, and only up to a maximum of NOK 40,000 each year. In addition, the 10% standard deduction for nonresidents does not apply to directors' fees received from Norwegian companies.

Personal Allowances. In calculating ordinary income tax for 2006, individuals are allowed a standard minimum allowance of 34% of gross compensation, up to a maximum of NOK 61,100 and down to a minimum of NOK 4,000. This allowance is reduced proportionately if the individual is taxable in Norway for only part of the fiscal year.

Business Deductions. To be deductible for tax purposes, items must be included in the statutory financial statements. In principle, all expenses for earning, securing or maintaining income, with the exception of gifts and entertainment expenses, are deductible. Valuation and depreciation rules for individuals earning self-employment or business income are the same as those for corporations.

Rates

Personal Income Tax. Personal income tax (top tax) is levied on income from employment and pensions, and no deductions are allowed. The top tax rates for 2006 are set forth in the following tables.

Taxable Income Exceeding NOK	Not Exceeding NOK	Rate %
0	394,000	0
394,000	750,000	9
750,000	—	12

Ordinary Income Tax. A 28% ordinary income tax (county municipal tax, municipal tax and state tax) is levied on taxable net income from all sources after taxable income is reduced by NOK 35,400 for individuals without dependants, and by NOK 70,800 for individuals with dependants.

If an individual is taxable in Norway for part of a fiscal year only, the income brackets and excludable amounts are reduced proportionately.

For a sample tax calculation, see Appendix 2.

Relief for Losses. In general, losses may be carried forward for 10 years.

B. Other Taxes

Wealth Tax. A municipal wealth tax is levied at a rate of 0.7% on taxable net assets exceeding NOK 200,000. In addition, a national wealth tax is levied on taxable net assets at the following rates for 2006.

Taxable Net Assets Exceeding NOK	Not Exceeding NOK	Rate %
0	200,000	0
200,000	540,000	0.2
540,000	—	0.4

Inheritance and Gift Taxes. Inheritance and gift taxes are paid on all inheritances and gifts received from resident decedents and donors. Real estate and related assets in Norway are subject to this tax, regardless of the donor's residence or citizenship. Gifts and inheritances received from a spouse are not subject to the inheritance or gift tax. Neither inheritances nor gifts, with a few exceptions, are subject to income tax.

Inheritance and gift tax is calculated separately on a progressive scale for inheritances and gifts received from each donor. The first NOK 250,000 received from each donor is tax-free. Gifts received over several years and any inheritance received are aggregated to determine the tax-free portion and the progressive rates.

The following table lists the rates of inheritance and gift tax for 2006.

Amount of Inheritance or Gift Exceeding NOK	Not Exceeding NOK	From Parents %	From Others %
0	250,000	0	0
250,000	550,000	8	10
550,000	—	20	30

To prevent double taxation, Norway has entered into inheritance tax treaties with Denmark, Finland, Iceland, Sweden, Switzerland and the United States.

C. Social Security

Contributions. Employers and employees, as well as self-employed individuals, must make social security contributions. Contributions are payable on all taxable salaries, wages and allowances and, for self-employed individuals, on personal income.

For employees, contributions are withheld by employers together with income tax, and the total amount is paid to the tax authorities. Employers' contributions, payable bimonthly, are deductible for income tax purposes. Employees' and self-employed individuals' contributions are not deductible. The 2006 contribution rates are 7.8% of salary for employees and 10.7% for self-employed persons. In 2006, the employer's contribution is 14.1%. In certain municipalities, the rate for employers is lower.

Expatriates and foreign employers of employees working in Norway are subject to these contributions if an exemption (or reduction) is not available under a social security convention between Norway and the country where the expatriate or the employer is domiciled.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Norway has entered into social security agreements with the following countries.

Austria (a)	Greece (a)	Portugal (a)
Belgium (a)	Hungary (a)	Serbia and Montenegro
Canada (b)	Iceland (a)	Slovak Republic (a)
Chile	Ireland (a)	Slovenia (a)
Croatia	Italy (a)	Spain (a)
Cyprus (a)	Latvia (a)	Sweden (a)
Czech Republic (a)	Liechtenstein (a)	Switzerland
Denmark (a)	Lithuania (a)	Turkey
Estonia (a)	Luxembourg (a)	United Kingdom (a)
Finland (a)	Malta (a)	United States
France (a)	Netherlands (a)	
Germany (a)	Poland (a)	

(a) EEA countries' agreement.
(b) Separate agreement with Quebec.

D. Tax Filing and Payment Procedures

Income tax, as well as wealth tax on net taxable assets, are assessed for a fiscal year ending 31 December. For most individuals resident in Norway who do not have trading income, annual tax returns must be submitted by 30 April in the year following the income year. An extension of one month normally may be obtained. Self-employed individuals and certain categories of foreign employees must file their returns by 31 March, with a possible extension of one month.

Married persons are taxed separately or jointly, whichever method yields the more favorable result for the taxpayer.

Individuals who are self-employed or who have income from sources other than salaries, wages and similar compensation, receive from the assessment office an individual estimate of taxes to be paid during the tax year. These estimated taxes are due in four equal installments on 15 March, 15 May, 15 September and 15 November. Assessments are normally made in the third quarter of the year following the income year. At the time of assessment, an individual receives a tax computation showing total assessed taxes compared to taxes paid. Any amount of tax overpaid is refunded to the taxpayer, and any tax due is payable in two equal installments.

Taxes are withheld by employers from salaries, wages and other remuneration paid to employees. Nonresidents earning employment income are subject to Pay-As-You-Earn (PAYE) withholding on their compensation. Nonresident employees who do not give their employers their tax-deduction cards issued by the tax authorities are subject to 50% withholding. Employees who present their tax-deduction cards are eligible for the reduced rate specified in the cards. The withholding taxes are preliminary payments and are credited to the taxpayers when tax returns are filed.

E. Tax Treaties

Norway's double tax treaties generally follow the Organization for Economic Cooperation and Development (OECD) model. Norway has entered into double tax treaties with the following countries.

Albania	Greenland	Poland
Argentina	Hungary	Portugal
Australia	Iceland	Romania
Austria	India	Russian Federation
Azerbaijan	Indonesia	Senegal
Bangladesh	Ireland	Sierra Leone
Barbados	Israel	Singapore
Belgium	Italy	Slovak Republic
Benin	Jamaica	Slovenia
Brazil	Japan	South Africa
Bulgaria	Kazakhstan*	Spain
Canada	Kenya	Sri Lanka
Chile	Korea	Sweden
China	Latvia	Switzerland
Côte d'Ivoire	Lithuania	Tanzania
Croatia	Luxembourg	Thailand
Cyprus	Malawi	Trinidad and Tobago
Czech Republic	Malaysia	Tunisia
Denmark	Malta	Turkey
Egypt	Mexico	Uganda
Estonia	Morocco	Ukraine
Faroe Islands	Nepal	United Kingdom
Finland	Netherlands	United States
France	Netherlands Antilles	Venezuela
Gambia	New Zealand	Vietnam
Germany	Pakistan	Zambia
Greece	Philippines	Zimbabwe

* The treaty is effective from 1 March 2006 for taxes on capital, interest and royalties. It will be effective from 1 March 2007 for other taxes.

F. Temporary Visas

Norway has a closed-border policy with strict immigration controls that are highly regulated. All foreign nationals, except EEA countries, must have visas to enter Norway. Entrance for short-term visits—tourist visits, family visits, official assignments, business trips, study visits and certain other purposes no longer than three months—is allowed on a tourist visa.

All foreign nationals (except Nordic nationals) who wish to enter Norway must also carry valid passports or other identification officially recognized as valid travel documents.

Norway entered into the Schengen Agreement on 25 March 2001. Under the agreement, no passport controls apply to pass borders within the Schengen area. Passport controls will apply to pass the Schengen area's outer border, both to enter and depart the area. Non-EEA nationals are subject to extended controls, that is, a search of the Schengen Information System to determine whether the individual is registered with a denial to enter. As a general rule, under the agreement, visas issued by Norwegian authorities are valid to enter the entire Schengen area. Likewise, visas issued by other Schengen countries are valid to enter Norway.

Norway has concluded agreements on visa-free entry for short-term visitors with approximately 60 countries. Citizens of these countries are not required to obtain visas to enter Norway for short-term visits. Other exceptions to the visa requirement may exist. For further details, contact a Norwegian foreign service mission or the Directorate of Immigration.

G. Work and Residence Permits and Self-Employment

Foreign nationals who intend to stay in Norway longer than three months, or who want to work in Norway, must apply for residence permits or work permits prior to entering Norway.

Residence and work permits are granted only if a particular reason for living or working in Norway exists—for example, for a family reunification, a cultural exchange or a specific need in the Norwegian employment market that cannot be met by the domestic workforce. Anyone who applies for a work permit must receive a concrete offer of employment in advance. The applicant must also have adequate income, must be able to support himself or herself while in Norway, and must have a place to live at a fixed address in Norway for the period covered by the application.

EEA nationals have the right to seek work in Norway, which is part of a joint European employment market. EEA nationals who take up residence or work in Norway or who intend to be self-employed or provide services in Norway for periods exceeding three months must have residence permits, which also grant them the right to work. Separate transitional rules apply to nationals of the new EU member states, except for Cyprus and Malta.

Application Process. The work permit application must be submitted from abroad before entering Norway. A first-time work permit or residence permit must be granted before an applicant may enter Norway. Nationals from EEA-member countries are exempt from this rule and may apply for first-time residence permits after entry.

Applicants should contact a Norwegian foreign-service mission (embassy or consulate) to obtain application forms. The foreign service mission can provide information about documents that must be included with the application. The application should be delivered to the foreign service mission in an applicant's home country or the country where an applicant held a work or residence permit for the last six months.

The foreign service mission sends the work or residence permit application to the Directorate of Immigration, which decides whether to grant the permit. After the application is considered, the applicant is informed of the results by the foreign service mission where the application was submitted.

A foreign national who is given a work or residence permit is normally asked by the police to submit to medical clearance before the permit is stamped in the passport by the police. A foreign national must take a tuberculosis test within a week after arrival in Norway.

Exempt Categories. The following categories of individuals are exempt from the requirement to have residence and work permits when entering and working in Norway:
- Nationals of another Nordic country.
- Personnel on foreign rail, air, bus or truck services working internationally, and necessary watchmen and maintenance personnel on ships laid up in Norway.
- Journalists, foreign newspaper staff, and radio or television teams on assignment in Norway who are paid by foreign employers. These persons do not need work permits, but must have residence permits. A residence permit may be granted for up to two years.

The following foreign nationals are exempt from the work permit requirement for employment situations lasting up to three months:
- Commercial travelers, business travelers or both.
- Research workers, lecturers and others invited to Norway by educational or research institutions for professional or charity reasons.
- Technical experts, technicians, consultants or instructors. The purpose must be to install, check, repair or maintain machines or technical equipment or to provide information on their use.
- Employees in private households or foreign nationals who are staying in Norway on visits.
- Professional athletes attending sports engagements in Norway.
- Civil servants who are paid by their own countries.

Residence Permits. A residence permit is normally issued for five years. Most of these permits are renewable. Renewable permits often constitute grounds for settlement permits.

A foreign national who, for the last three years, has resided continuously in Norway with a residence or work permit, without restriction, has the right to a settlement permit. A settlement permit grants the holder the right to live and work in Norway on a permanent basis. It confers extended protection against being expelled from the country.

Self-Employment. A non-EEA foreign national must obtain residence and work permits to be self-employed in Norway. EEA foreign nationals need neither permit for self-employment.

If the firm is a limited liability company, then NOK 100,000 must be invested as share capital. Otherwise, no minimum amount of capital is necessary for self-employment.

H. Family and Personal Considerations

Family Members. Family members of a foreign national who has a residence permit in Norway have certain privileges concerning the right to receive their own residence permits.

Close relatives of a person in Norway may receive residence permits in connection with family reunions, which are granted primarily to the spouse and to children younger than 18 years of age. In general, the person who is granted a residence permit for family reunification must be guaranteed sufficient economic support. If the conditions for family reunification are satisfied, work permits are usually granted to persons older than 18 years of age, regardless of whether they have received job offers.

In general, an application for family reunification should be submitted from abroad. EEA nationals employed in Norway may normally be accompanied by a spouse, children or parents. The family member must apply for a residence permit, which normally is granted. Application may be made after arriving in Norway if the family member is an EEA national.

Drivers' Permits. Foreign nationals may drive in Norway with their home countries' drivers' licenses under the following circumstances:

- To drive a car with foreign license plates, the foreign drivers' license must be valid for at least one year; and
- To drive a car with Norwegian license plates, the foreign drivers' license must be valid for at least three months.

After the end of the allowed periods, a foreign license must be changed to a Norwegian driver's license. A theoretical and a practical test may be required. The expatriate must apply for a Norwegian driver's license at the *Biltilsynet* office in the county where he or she lives within one year of arriving in Norway. If an application for a driver's license is made later than this time, it is difficult to obtain a driver's license. In general, to obtain a driver's license in Norway, an individual must attend an authorized driving school and take both theoretical and practical lessons.

A driver's permit issued by another EEA country is accepted on an equal basis with a Norwegian driver's license.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(a)
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	(a)
Education reimbursement	—	X	(b)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(a)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—

	Taxable*	Not Taxable	Comments
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	—	X	(c)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(d)
Capital gain from sale of personal residence in home country	X	—	(e)
Other capital gains in home country	X	—	(f)

* Bracketed amounts reduce taxable income.

(a) Different rules apply to individuals from EU/EEA countries and to individuals from other countries. If a resident individual is considered to be a commuter within the EU/EEA, the housing and home-leave allowances are not taxable. Other resident individuals are subject to tax on these allowances. Nonresident individuals receive such allowances tax-free. For the definition of a resident individual, see Section A. The 15% standard deduction cannot be claimed if the allowances are considered to be tax-free. A housing contribution reduces the taxable benefit for the employee.

(b) If the employer reimburses the employee directly for the education fees, the reimbursements are taxable as compensation. If the employer pays the fees directly to the school on the employee's behalf, it has been accepted that the payments are not taxable.

(c) If the employee is away from home overnight on a business trip and if his or her meals are provided by the employer, the employee is not subject to tax on the value of the meals. This rule applies regardless of whether the employer reimburses the cost of the meals based on the receipt for the meals or on standard government rates.

(d) Foreign-source personal ordinary income is taxable if the expatriate is resident in Norway under Norwegian tax law and relevant tax treaties.

(e) A capital gain derived from the sale of a personal residence in Norway is taxable if the individual has not lived in and owned the home for at least one of the preceding two years. A capital gain derived from sale of a house in the individual's home country may be tax-free if certain conditions are met.

(f) Capital gains derived from sales of foreign shares are taxable in Norway if the individual is resident in Norway at the time of sale. Capital gains derived from sales of Norwegian shares, options, partnership shares and capital fund bonds of Norwegian financial institutions are taxable in Norway if these items are sold within five years after the year the taxpayer was last resident in Norway, unless a tax treaty provides otherwise.

APPENDIX 2: SAMPLE TAX CALCULATION

The example below shows the approximate 2006 tax liability for a taxpayer who has annual gross earnings in 2006 of NOK 300,000, NOK 500,000 or NOK 1,000,000. The taxpayer has a dependent spouse. He or she is assumed to be present in Norway for 12 months during the tax year and to be entitled to the 10% standard deduction. Social security contributions are not included.

The following is the tax calculation.

	NOK	NOK	NOK
Local Income Tax			
Gross income	300,000	500,000	1,000,000
10% standard deduction	(30,000)	(40,000)	(40,000)
Personal expense deduction	(61,100)	(61,100)	(61,100)
Personal exemption	(70,800)	(70,800)	(70,800)
Net taxable income	138,100	328,100	828,100
Total local net tax (28%)	38,668	91,868	231,868

	NOK	NOK	NOK
Top Tax			
Gross income	300,000	500,000	1,000,000
Total top tax	0	9,540	62,040
Total Tax			
Total local and top tax	38,668	101,408	293,908

OMAN

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A. Income Tax

Oman does not levy personal income taxes.

Sole proprietors are taxed on Omani-source income. The first RO 30,000 of a sole proprietor's net taxable income is exempt from tax. Amounts in excess of RO 30,000 are subject to tax at a rate of 12%. Only an Omani national or, under certain circumstances, a national of a Gulf Cooperation Council (GCC) member country may operate a business as a sole proprietor in Oman.

Partnerships are taxed at corporate rates. To transact business in Oman, partnerships must have at least one Omani partner and must be registered with Omani authorities.

No special rules apply to capital gains. Capital gains are taxed as part of regular income.

Profits on the sale of investments and securities listed on the Muscat Securities Market (MSM) are exempt from tax.

Education allowances provided by employers to their expatriate or local employees' children 18 years of age and under are not taxable for income tax and social security purposes.

B. Other Taxes

Oman does not levy net worth, estate or gift tax.

C. Social Security and Vocational Training Levy

Under the social security law, the government, employers and employees must make contributions to a pension fund. The rates, based on each employee's basic salary, are 2% for the government, 9.5% for employers and 6.5% for employees. In addition, employers must contribute an amount equal to 1% of an employee's basic salary to cover the risks of occupational injuries and diseases. No ceiling applies to the amount of wages subject to social security contributions.

Social security taxes currently apply to Omani employees only.

A vocational training levy (VTL) must be paid by private sector employers in Oman with respect to their expatriate employees. The VTL rate is RO 200 (US$520) once every two years for each expatriate employee.

D. Tax Treaties

Oman has entered into double tax treaties with Algeria, Canada, China, France, India, Italy, Lebanon, Mauritius, Pakistan, South Africa, Tunisia, the United Kingdom and Yemen. Oman has ratified double tax treaties with Egypt, Iran, the Russian Federation, Seychelles, Singapore, South Korea, Sudan and Thailand, but these treaties have not yet been ratified by the other countries. As a result, the treaties are not yet in force. Oman has also signed double tax treaties with Brunei Darussalam, Germany, Kazakhstan, and Syria, but these treaties have not yet been ratified.

E. Visit Visas

All foreign nationals must obtain valid entry visas to enter Oman, with the exception of Gulf Cooperation Council (GCC) nationals from Bahrain, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates. However, foreign nationals who have been residents of any GCC country for two years and whose residence permits are valid for another six months may obtain entry visas on arrival in Oman.

Normal Visit Visas. Several different types of normal visit visas are issued based on the characteristics of a visit, including visas for businesspersons, tourists, family members of resident permit holders and those making official or personal visits to Oman. Normal visit visas are valid for six months from the date of issuance. Stays are limited to one month from the date of entry, except for family visit visas, which are valid for three months. The fee for obtaining a normal visit visa is RO 6. Copies of the relevant pages from the passport and two passport-size photographs are required to obtain a normal visit visa.

Citizens from countries mentioned in List #1 issued by the immigration authorities, such as Austria, France, Germany, Italy, the United Kingdom and the United States, may obtain single-entry visit visas on arrival at all ports-of-entry into Oman. Nationals of countries mentioned in List #1 may also obtain single-entry visit visas by applying to Omani diplomatic missions and commercial representation offices. Missions and offices can issue these visas without obtaining the approval of the Directorate General of Passports and Residency in Muscat. The validity period of an applicant's passport must be at least six months.

Citizens from countries mentioned in List #2 issued by the immigration authorities, such as Egypt, India, Iran, Morocco and

Tunisia, may obtain single-entry visit visas only on arrival in Oman at air-entry points by filing the visa application form. This visa is issued either individually or as part of a group of visas. The visa is issued only to individuals who purchase in their home countries a complete tourist package from specified tourist companies that are approved by Ministry of Commerce and Industry. The package must include accommodation and an air ticket using one of the national airlines, which are Oman Air and Gulf Air.

Citizens of countries on the above lists can obtain multiple-entry visit visas. This visa is issued on arrival at all land-, sea- and air entry points after filing the visa application form. It is also possible to obtain the visa through Oman diplomatic and commercial missions or through the Directorate General of Passport and Residency and its sections in the Royal Oman Police (ROP) headquarters in the regions. The validity period for the applicant's passport must be at least one year. It is not possible to extend the length of the visa.

Citizens of countries not appearing on the above lists may apply for express visas, which can generally be obtained within 24 hours (see *Express Visas*).

A penalty of RO 10 per day is imposed if an individual stays in the country beyond the validity period of a visa.

Express Visas. Express visas are for business visits only and can generally be obtained within 24 hours. The visas are valid for entry within two weeks from the date of issuance, and stays are limited to three weeks. The fee for express visit visas is RO 7, and a copy of the relevant pages from the foreign national's passport must be presented, together with a letter from the sponsor and the relevant application form.

F. Employment Visas and Self-Employment

Employment Visas. The employer must obtain an employment visa for an expatriate employee's entry into Oman. The process of application requires a labor clearance from the Ministry of Social Affairs, Labor and Vocational Training. The ministry reviews the labor clearance request from the employer and considers whether the job requires an expatriate employee.

An employment visa is valid for six months from the date of issue, and stay is limited to two years from the date of entry. Employment visas cost RO 7. The following documents must accompany the application:

- Copy of relevant pages from the applicant's passport;
- Original certificate of health fitness from approved medical centers in the applicant's home country (applies only to nationals from Bangladesh, India, Indonesia, Nepal, Pakistan, Philippines and Sri Lanka);
- Two passport-size photos;
- A letter from the sponsor; and
- A valid labor clearance from the Ministry of Labor, which may be granted only if the company has met the Omanization target.

Obtaining an employment visa takes approximately one week. An applicant may not work in Oman until all papers are completely processed.

Individuals holding employment visas in Oman must not stay outside Oman for more than six months. However, this rule does not apply to family members of the employment visa holder.

The following foreign nationals may be denied visas:
• Persons with Israeli entry permits in their passports;
• Persons previously banished from Oman;
• Persons not fulfilling the health conditions determined by the Ministry of Health;
• Persons blacklisted by their previous employers;
• Persons deemed harmful to the public order or to the country's best interests; and
• Persons having worked in certain positions, for example, police or government workers in Oman who may not re-enter Oman for at least two years.

Resident Cards. An expatriate in Oman must have a resident card which is issued by the Directorate General of Civil Status. This card must be obtained within 30 days after entry into Oman. The card is valid for two years from the date of issuance. A fee of RO 10 is charged on renewal of the card.

It is possible to change employers after an applicant has received a resident card. However, the initial employer must provide a letter stating no objection to the change, or the expatriate must remain outside Oman for a minimum period of two years. This rule has been revoked but, at the time of writing, a formal notification had not yet been issued.

Investors' Visas. Foreign nationals may obtain an investor's visa under certain circumstances. The investor or his partner must obtain the Ministry of Commerce and Industries approval of the investment in Oman. Investors' visas are valid for a period of two years. The fee for obtaining an investor's visa is RO 7.

Self-Employment. Foreign nationals, except nationals of GCC-member countries, may not start businesses in Oman. However, an individual holding a business visa may conduct business through a company that includes Omani shareholding.

Only an Omani and, in certain circumstances, a national of one of the GCC-member countries may own land or buildings in Oman.

A foreign company is allowed to set up a subsidiary headed by a foreigner; however, certain rules limit the extent of foreign shareholding.

G. Residence Permits

Employees must obtain residence permits, which are valid for two years. Residence permits are applied for by the employer in Oman. Residence permits are renewable for an additional two years.

To obtain a residence permit, the employee must have a valid resident card (see Section F) and an employment visa endorsed in his or her passport.

H. Family and Personal Considerations

Family Members. Applications for family-joining visas must be sponsored by an Omani national or a company with commercial registration in Oman. The recipient must be either the spouse, child or close dependant of the holder of a valid resident card and residence permit.

The following documents are required to apply for a family-joining visa:

- A marriage certificate (if applicable) endorsed by the employee's country's embassy and the Ministry of Foreign Affairs in Oman;
- For parents only, a declaration letter from the embassy for the employee's country in Muscat stating that the employee, and not the sponsoring company, is responsible for the employees' parents during the period of the parents' stay in Oman;
- Original certificate of health fitness from approved medical centers in the applicant's home country (applies only to nationals from Bangladesh, India, Indonesia, Nepal, Pakistan, Philippines and Sri Lanka);
- A copy of the employment contract endorsed by the Ministry of Social Affairs and Labor;
- A copy of the resident card;
- A guarantee of moral character from the employer and the employee;
- A copy of the relevant pages of the applicant's passport;
- Two passport photos; and
- A fee of RO 7.

Drivers' Permits. Foreign nationals with visit visas may drive rental cars in Oman using their home country drivers' licenses for a period of three months. For most Western countries and all GCC-member countries, license holders may exchange their licenses for Omani drivers' licenses. Oman has driver's license reciprocity with most countries.

To obtain a local Omani driver's license, an applicant must pass an eyesight test, a road test, a verbal test, a slope test and a parking test. Once obtained, an Omani driver's license is valid for a term of 10 years. Certain fees must be paid to obtain and renew a driver's license.

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A. Income Tax

Who Is Liable. Taxation in Pakistan is based on an individual's residential status and not on his or her nationality or citizenship.

Expatriates who stay in Pakistan for 182 days or more in a tax year (1 July to 30 June) are residents for tax purposes. Residents of Pakistan are taxed on their worldwide income regardless of where it is received, while nonresidents are taxed on their Pakistan-source income only. Foreign-source income of an individual who is a resident solely by reason of his or her employment in Pakistan and who is present in Pakistan for a period or periods not exceeding in aggregate three years is exempt from tax unless such foreign-source income is brought into or received in Pakistan by the individual. A resident is exempt from Pakistan tax on foreign-source salary if he or she has paid foreign income tax on such salary income.

Income Subject to Tax

Employment Income. Income from salary is Pakistan-source income if it is earned in Pakistan, regardless of where it is received. Consequently, an expatriate is taxable on such income in Pakistan, regardless of his or her residential status. Taxable income includes directors' fees and all remuneration for employment, subject to allowances and additions for certain non-cash benefits.

Employer contributions to recognized retirement benefit funds, including provident funds (up to certain limits), gratuity funds and superannuation pension funds, do not constitute taxable income for an employee. A gratuity is a lump-sum payment made to an employee at the time of separation from the employer. A gratuity fund is a separately administered fund created for the purpose of making gratuity payments to employees. If they exceed certain specified limits, gratuity payments from unapproved gratuity funds are taxable when received by employees.

Employees who earn annual salaries of less than Rs. 600,000 may receive reimbursement for certain expenses, including medical expenses, utilities and airfare for personal travel, subject to provisions in their employment contracts. Some of these reimbursements are tax-exempt. Medical expense reimbursements are 100% tax-exempt. Utilities are tax-exempt, up to 10% of basic salary. Airfare is tax-exempt, within specified limits. Housing allowances, up to 45% of basic salary is tax-exempt if rent-free accommodation is not provided by the employer.

Rent-free accommodation provided by an employer is tax-exempt if the fair market rent does not exceed 45% of basic salary. If the fair market rent exceeds 45% of basic salary, the excess amount is added to the employee's income, subject to a maximum addition of 15% of basic salary. If the rent-free accommodation is furnished, a notional amount of 15% of basic salary is added to the employee's income exceeding the amount added for unfurnished accommodation.

For employees who earn an annual salary of Rs. 600,000 or more, the entire salary amount, including allowances and benefits, is subject to tax, with the following exceptions:

- Housing allowance up to 45% of basic salary is exempt, subject to a maximum of Rs. 270,000 per year.
- Reimbursement of medical expenses is 100% exempt if paid in accordance with the terms of the employment agreement. If not provided for in the employment agreement, a medical allowance up to a maximum of 10% of basic salary is exempt.

- A utilities allowance of up to 10% of basic salary is exempt.
- For employer-provided automobiles partly for personal use, the amount added is 5% of the following:
  - The cost of acquisition of the automobile to the employer; or
  - If the automobile is leased by the employer, the fair market value of the automobile at the commencement of the lease.
- For employer-provided rent-free accommodation, the following amounts are added:
  - For unfurnished accommodation, the amount added ranges from Rs. 27,000 to Rs. 462,000, depending on the size and location of the accommodation.
  - For furnished accommodation, an additional amount of 15% of the basic salary exceeding the amount added for unfurnished accommodation is added.
  - For accommodation provided at a concessional rate, the amount added is computed according to the amount relevant for unfurnished or furnished accommodation, reduced by any payment made by the employee.

Self-Employment and Business Income. All individuals who are self-employed or in business are taxed on their business income.

All income received in Pakistan is subject to tax, unless specifically exempt. Residents are taxed on their worldwide income, while nonresidents are taxed on their Pakistan-source income only.

Investment Income. Dividend income is subject to a final tax of 10%, which is withheld at source.

Interest and profit/loss sharing income from investments and deposits, unless otherwise exempt from tax, is taxed at the normal rates and subject to withholding tax at a rate of 10%. Interest on government securities is taxed at normal rates and is also subject to a 10% or 20% withholding tax.

Income from prize bonds is subject to a final withholding tax at a rate of 10%. Income from raffles, lotteries and crossword puzzle games is subject to a final withholding tax at a rate of 20%.

Nonresidents are subject to tax on investment income as described in *Rates*.

Taxation of Employer-Provided Stock Options. Legislation taxes an employee on stock options granted by an employer or the employer's associate. The grant of an option or a right to acquire shares at a future date does not constitute income at the date of grant. If an option to purchase shares is exercised by the employee, the difference between the market value of the shares on the date of exercise and the amount paid by the employee is subject to tax.

Capital Gains and Losses. In general, capital gains resulting from the disposal of capital assets, other than depreciable assets, receive favorable tax treatment if the assets are held longer than 12 months prior to disposal. For assets held longer than 12 months, 25% of the gain is deducted from the capital gain subject to tax. The resulting taxable capital gains are subject to tax at the normal rates.

These provisions do not apply to capital gains derived from transfers of public company shares or of real property. Capital gains on shares of public companies are exempt from income tax until 30 June 2007. Capital gains on real property are not subject to income tax. However, provincial governments levy stamp duties on transactions involving real property.

Capital losses may offset capital gains only.

Deductions

Deductible Expenses. Resident taxpayers may deduct expenditure for medical services from total income up to the lesser amount of 10% of the total income or Rs. 30,000 if the expenses are supported by proper invoices.

Muslim taxpayers may deduct *zakat* paid (see Section B).

Allowances. An individual may claim a tax credit for charitable donations, including donations in kind, made by him or her to any of the following:
- A board of education or any university in Pakistan established by or under a federal or provincial law;
- An educational institution, hospital or relief fund established or run in Pakistan by the federal government, provincial government or a local authority; or
- A nonprofit organization.

To compute the above tax credit, the average rate of tax is applied to the lesser of the following amounts: the amount of the donation; the fair market value of property donated; or 30% of the taxable income of the donor.

An individual is entitled to an allowance, on investments made in the following shares:
- New shares offered to the public by a public company listed on the stock exchange; and
- Listed shares sold by the Privatization Commission of Pakistan.

Shares acquired by the taxpayer must be held for at least 12 months from the date of acquisition. If the shares are disposed of within 12 months, the tax relief is recaptured in the year when the shares are sold.

To compute the above tax credit, the average rate of tax is applied to the lesser of the acquisition cost of the shares, Rs. 150,000 or 10% of the taxable income of the investor.

Certain resident individuals are entitled to an allowance with respect to premiums paid in an approved pension fund under the Voluntary Pension System Rules, 2005. This allowance is available to individuals who have obtained a valid National Tax Number and are not entitled to benefit under any other approved employment pension or annuity scheme:

To compute the above tax credit, the average rate of tax is applied to the lesser of the following amounts: the premium paid; Rs. 500,000; or 20% of the taxable income of the individual.

A taxpayer may claim an allowance with respect to any mark-up paid on a loan meeting either of the following conditions: it is sanctioned and advanced on or after 1 July 2001 by a scheduled bank under a house finance scheme approved by the State Bank of Pakistan (SBP) or by a non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan; or it is advanced by the government, a local authority, a statutory body or a public company listed on a Stock Exchange of Pakistan. To qualify, the following conditions must be fulfilled:

- The loan must be used for the construction or acquisition of a house; and
- The mark-up is not claimed as a deduction in computing income from residential property.

To compute the above tax credit, the average rate of tax is applied to the lesser of the mark-up paid, Rs. 500,000 or 40% of the taxable income of the individual.

Business Deductions. In general, taxpayers may deduct all expenses (excluding personal or capital expenditures) incurred in carrying on a business in Pakistan. Depreciation on fixed assets used in a business is allowed at specified rates.

Rates

Residents. If more than 50% of an individual's income is derived from employment, the following tax rates apply to income other than certain investment income described in *Investment Income*.

Total Income		Tax on Lower	Rate on
Exceeding Rs.	Not Exceeding Rs.	Amount Rs.	Excess %
0	100,000	0	0
100,000	200,000	0	3.5
200,000	400,000	3,500	12
400,000	700,000	27,500	25
700,000	—	102,500	30

For individuals who are self-employed, the following tax rates are applicable to their income other than certain investment income described in *Investment income*.

Total Income		Tax on Lower	Rate on
Exceeding Rs.	Not Exceeding Rs.	Amount Rs.	Excess %
0	100,000	0	0
100,000	150,000	0	7.5
150,000	300,000	3,750	12.5
300,000	400,000	22,500	20
400,000	700,000	42,500	25
700,000	—	117,500	35

Special tax rates apply to a taxpayer who has taxable income from agriculture in excess of Rs. 80,000. The following tax rates apply to these taxpayers.

Total Income		Tax on Lower	Rate on
Exceeding Rs.	Not Exceeding Rs.	Amount Rs.	Excess %
0	150,000	0	7.5
150,000	300,000	11,250	12.5
300,000	400,000	30,000	20
400,000	700,000	50,000	25
700,000	—	125,000	35

Effectively, this means that although agricultural income is not subject to income tax, individuals with agricultural income in excess of Rs. 80,000 and other taxable income pay tax on their nonagricultural income at slightly higher rates as compared to individuals who do not have agricultural income.

A rebate of 50% of the tax payable is available to taxpayers 65 years of age or older whose total income is Rs. 400,000 or less.

Income received by residents in Pakistan for technical or consulting services rendered outside Pakistan under an agreement is exempt from tax.

Nonresidents. Nonresidents are taxed on Pakistani-source employment, self-employment and business income at the rates outlined for residents.

Nonresidents are subject to withholding tax at source on income at the following rates.

Type of Income	Rate (%)
Salary	Average rate of tax on salary
Dividends	10
Interest on deposits maintained with banking companies, finance societies or corporate bodies (excluding trusts) in Pakistan	10
Interest on bonds, certificate debentures and instruments issued by banking companies, finance societies, local authorities or corporate bodies (excluding trusts) formed in Pakistan	10
Interest on securities of the federal or provincial governments or on securities other than debentures of local authorities, Pakistani corporate bodies (including trusts) or companies formed outside Pakistan	10 or 20
Fees for technical services	15
Prizes from prize bonds, raffles, lotteries and crossword puzzles	10 or 20
Payments to nonresidents for:	
Execution of contracts or subcontracts for construction, assembly or installation projects, including contracts for rendering supervisory activities with respect to such projects	6
Rendering of services other than under contracts for technical services	6
Execution of services contracts through a permanent establishment	5
Execution of other contracts valued up to Rs. 30 million	5
Execution of other contracts valued in excess of Rs. 30 million	6
Brokerage fee or commission	5 or 10
Export sales proceeds, on receipt	0.75 to 1.5
Imported goods	6

Interest income subject to 10% or 20% withholding is taxed at the employment income tax rates described for residents, with the amount withheld allowed as a credit. The other withholding taxes on nonresidents are final taxes.

Relief for Losses. Business losses, other than losses arising out of speculative transactions, may be carried forward to offset profit in the following six years. Unabsorbed depreciation may be carried forward indefinitely.

B. Other Taxes

Net Worth Tax. Net worth tax has been abolished.

Zakat. *Zakat,* an Islamic wealth tax on specified assets, is levied at a rate of 2.5%. This tax applies only to Muslim citizens of Pakistan.

Estate and Gift Taxes. Pakistan does not levy estate and gift taxes.

C. Social Security

Pakistan offers benefits to employees for death, disability, injury, medical expenses and pensions, as well as academic scholarships for workers' children. Employees earning less than Rs. 3,000 a month are generally covered by these benefits, with employers making contributions to the government at the following rates.

Benefit	Employer Contribution
Employees' Old Age Benefits	5% on monthly salaries of Rs. 3,000 or less; Rs. 150 per month on monthly salaries in excess of Rs. 3,000
Provincial Employees' Social Security	7% on monthly salaries of Rs. 3,000 or less
Workers' Children (Education)	Rs. 100 annually

Pakistan has not entered into any social security totalization agreements.

D. Tax Filing and Payment Procedures

The tax year in Pakistan for all individuals is from 1 July to 30 June. Individuals must obtain special permission from the Central Board of Revenue in Pakistan to select a different accounting year-end. All individuals must file tax returns by 30 September following the tax year-end.

Employers must withhold taxes from the salaries of their employees.

Advance tax is payable if total assessed income for the preceding year exceeded Rs. 200,000. Individuals other than employees must pay advance tax in four equal installments on 15 September, 15 December, 15 March and 15 June. The advance tax is based on the amount of tax assessed for the most recent tax year. Tax due after adjustment for both advance tax payments and tax paid at source must be paid with the tax return.

E. Double Tax Relief and Tax Treaties

Under Pakistani tax law, residents are taxed on worldwide income. However, a tax credit is generally granted for income from sources outside Pakistan (from both treaty and nontreaty countries), at the lower of the average foreign tax paid or the average Pakistani tax attributable to the foreign income.

Pakistan has entered into double tax treaties with the following countries.

Austria	Kenya	Saudi Arabia
Azerbaijan	Korea	Singapore
Bangladesh	Kuwait	South Africa
Belgium	Libya	Sri Lanka
Canada	Malaysia	Sweden
China	Malta	Switzerland
Denmark	Mauritius	Tajikistan
Egypt	Nepal	Thailand
Finland	Netherlands	Tunisia
France	Nigeria	Turkey
Germany	Norway	Turkmenistan
Hungary	Oman	United Arab Emirates
Indonesia	Philippines	
Ireland	Poland	United Kingdom
Italy	Portugal	
Japan	Qatar	United States
Kazakhstan	Romania	Uzbekistan

This list does not include treaties that relate only to shipping and air transport.

Most of these treaties exempt from Pakistani tax any profits or remuneration received for personal services performed in Pakistan in an assessment year if one or more of the following conditions are satisfied:

- The individual is present in Pakistan for less than a specified period (usually not in excess of 183 days);
- The services are performed for, or on behalf of, a resident of the other country;
- The profits or remuneration are subject to tax in the other country;
- If self-employed, the individual has no regularly available fixed base in Pakistan;
- The remuneration is paid by, or on behalf of, an employer who is not a resident of Pakistan; and
- The remuneration is not borne by a permanent establishment or a fixed base maintained by the employer in Pakistan.

F. Tourist and Business Visas

All foreign nationals must obtain valid entry visas to enter Pakistan, with the exception of nationals of Tonga and Trinidad and Tobago. Nationals of the following countries may enter Pakistan without obtaining entry visas from the Pakistani consulates in their home country if their stays in Pakistan do not exceed the period specified. If they stay in Pakistan for longer than the periods specified below, however, they must obtain valid visas in Pakistan.

Country	Duration of Stay
Hong Kong	One month
Iceland	Three months
Maldives	Three months
Nepal	One month
Western Samoa	One month
Zambia	Three months

Tourist Visas. A tourist visa is issued to a foreign national who intends to visit Pakistan for recreational purposes but who intends neither to immigrate to Pakistan nor to enter into remunerated activities.

A tourist visa is valid for a maximum period of 90 days. If a foreign national wishes to extend his or her stay in Pakistan beyond three months, he or she must apply to the Ministry of Interior at Islamabad to obtain an extension of the visa.

Tourist visas generally are not granted to nationals of the following countries: Algeria, Bangladesh, Bhutan, India, Iraq, Israel, Libya, Nigeria, Serbia, Somalia, Sri Lanka, Sudan, Tanzania, Uganda and Yemen, nor to members of the Palestinian Liberation Organization. However, temporary visas may be issued to nationals of these countries for certain specific reasons, including visiting relatives or attending weddings or funerals.

Business Visas. Business visas are issued to foreign nationals who intend to visit Pakistan to conduct business activities. A business visa allows a foreign national to undertake any activity deemed necessary for the purposes of his or her visit, including establishing business contacts and attending meetings. In general, a multiple-entry visa is issued for business purposes, which allows a foreign national an unlimited number of entries into the country. Business visas of foreign national employees and investors may be converted into work visas during the individuals' stay in Pakistan with the permission of the Ministry of Interior of Pakistan.

Business persons from specified countries who have substantial investment in Pakistan or who want to establish business offices in Pakistan are granted multiple-entry business visas (nonreporting; that is, registration is not required with the police or other administrative bodies) for durations of up to five years. These visas are granted within 24 hours by the Pakistan missions abroad. The following are the relevant countries.

Australia
Austria
Argentina
Bahrain
Belgium
Brazil
Brunei Darussalam
Canada
Chile
China
Czech Republic
Denmark
Finland
France
Germany
Greece
Hong Kong
Hungary
Iceland
Indonesia
Iran
Ireland
Italy
Japan
Korea (South)
Kuwait
Luxembourg
Malaysia
Mexico
Netherlands
New Zealand
Norway
Oman
Poland
Portugal
Qatar
Russian Federation
Saudi Arabia
Singapore
Slovak Republic
South Africa
Spain
Sweden
Switzerland
Thailand
Turkey
United Arab Emirates
United Kingdom
United States

Application Requirements. An individual applying for a business visa must submit the following documents:
- A valid passport or equivalent document.
- Certificate of immunization, if required.

- Health declaration form.
- Proof of financial resources.
- Proof that the applicant has no past criminal record (if required by the visa-issuing authority).
- One of the following letters:
  - — Recommendation letter from the Chamber of Commerce and Industry of the respective country of the foreigner;
  - — Invitation letter from a business organization recommended by the concerned trade organization association in Pakistan;
  - — Recommendation letter by Honorary Investment Counselors of the Board of Investment (BOI); or
  - — Recommendation letter from Pakistani commercial officers posted in Pakistan high commissions, embassies and consulates-general abroad.

Duration. A business visa for investors is usually valid for up to five years. Business visas may be renewed for up to five years. No limit is specified for the number of times a visa may be renewed.

Concessions. To encourage investment and to promote trade in the country, the government of Pakistan has liberalized Pakistan's visa policy. The following are the principal features of the policy:

- Businesspersons from specified countries (see the list following the next paragraph) who have substantial investment in Pakistan or who want to establish business offices in Pakistan are granted multiple-entry business visas for durations of up to five years within 24 hours on production of any of the following documents:
  - — Recommendation letter from the Chamber of Commerce and Industry of the respective country of the foreigner;
  - — Invitation letter from a business organization recommended by the concerned trade organization or association, in Pakistan;
  - — Recommendation letter from the Honorary Investment Counselors of BOI; or
  - — Recommendation letter from Pakistani commercial officers posted in Pakistan high commissions, embassies or consulates-general abroad.
- The policy that allowed businesspersons from the listed countries that do not have Pakistani embassies 30-day landing permits on arrival at Pakistani airports is temporarily suspended.
- Multiple-entry resident visas are issued for a period of three years to nationals of all countries (except those countries that are not recognized by Pakistan) who bring into the country at least US$200,000.
- Pakistani businesspersons interested in inviting foreign national entrepreneurs from countries other than the countries listed after the next paragraph for the promotion of trade and industrial cooperation may issue sponsor visas through the Chambers of Commerce and Industry at Islamabad, Karachi, Lahore, Peshawar and Quetta. The Chambers of Commerce and Industry then informs the Ministry of Interior, and the visas are granted to the foreign investors for a one-month period.
- Pakistani missions abroad can issue multiple-entry visas for up to five years to businesspersons and investors from the listed countries with substantial investment in Pakistan.

Investors from the following countries enjoy the above concessions.

Australia	Hungary	Portugal
Austria	Iceland	Qatar
Argentina	Indonesia	Russian Federation
Bahrain	Iran	Saudi Arabia
Belgium	Ireland	Singapore
Brazil	Italy	Slovak Republic
Brunei Darussalam	Japan	South Africa
Canada	Korea (South)	Spain
Chile	Kuwait	Sweden
China	Luxembourg	Switzerland
Czech Republic	Malaysia	Thailand
Denmark	Mexico	Turkey
Finland	Netherlands	United Arab Emirates
France	New Zealand	United Kingdom
Germany	Norway	United States
Greece	Oman	
Hong Kong	Poland	

Missions are authorized to issue entry visas with a one-month duration to genuine businesspersons of countries not contained in the above list (excluding those countries not recognized by Pakistan) from applicant's own country. The mission must be located in the applicant's home country or place of legal residence. The entry visa must be approved by the ambassador, the high commissioner or head of the mission based on either of the following criteria:

- The applicant is part of a company of international repute; or
- The applicant satisfies the condition described above for valid sponsorship from Pakistan.

Visas on Arrival. Businesspersons from certain developed countries are allowed nonreporting visas on arrival (VOA) for 30 days on production of any of the following documents:

- Recommendation letter from chamber of commerce and industry from the country of the foreigner;
- Invitation letter from business organization recommended by the concerned trade organization or association, in Pakistan;
- Recommendation letter by Honorary Investment Counselors of BOI; or
- Recommendation letter from a Pakistani commercial officer posted in a Pakistani high commission, embassy or consulate-general abroad.

VOAs may be granted to businesspersons from the following countries.

Australia	Germany	Netherlands
Austria	Greece	Portugal
Belgium	Hong Kong	Singapore
Brazil	Ireland	Spain
Canada	Italy	Sweden
China	Japan	Switzerland
Denmark	Korea	Turkey
Finland	Luxembourg	United Kingdom
France	Malaysia	United States

G. Work Visas and Self-Employment

Work Visas. To work in Pakistan, a foreign national must obtain a work visa. A work visa is issued to a foreign national who comes to Pakistan to work under a contract with a local entity, a branch or subsidiary of a foreign entity, or the Pakistan government.

Application Requirements. An employer who wishes to employ a foreign national must submit to the Board of Investment (BOI) in Islamabad the following documents for a work visa:

- A completed application in the prescribed form;
- A copy of the prospective employee's passport;
- Details of qualification and experience;
- Five passport-size photographs;
- Comprehensive *curriculum vitae* of the individual;
- Photocopy of passport including the page bearing a business visa, visit visa or multiple-entry visa, if any, obtained from a Pakistani embassy abroad; and
- The amount of gross salary in U.S. dollars and overseas allowance, if any.

If satisfied, the BOI sends the application to the Ministry of Interior, which then instructs the embassy in the foreign national's country of residence to issue a work visa within 30 days from the date of submission of the application to the BOI.

An applicant may not work in Pakistan while his or her work application and other papers are being processed. The applicant must have all documents completed before legally beginning work in the country.

If an applicant arrives in Pakistan on a business visa and subsequently decides to work in the country, he or she must obtain a work visa from the Ministry of Interior. The business visa needs to be converted to a work visa, and the work visa is stamped on the applicant's passport. This conversion can be accomplished in Pakistan without the individual leaving the country. Foreigners with a work visa are exempt from registration with the police except for Indians and foreigners of Indian origin.

Duration. A work visa is valid for a period of up to five years or for the valid term of the applicant's passport. The relevant Pakistani mission abroad grants the work visas. Extensions of work visas must be authorized by the Ministry of Interior and endorsed by the Regional Passport Office of the city where the expatriate employee works.

A work visa for employees is valid for the duration of the employee's contract. A work visa may be renewed either by the applicant in his or her home country or by the applicant's employer at the Ministry of Interior at Islamabad. The renewal is normally granted for a one-year period if the employment contract is also renewed.

Self-Employment. A foreign national may start a business or establish a subsidiary headed by a foreign national in Pakistan if all the legal requirements for setting up a company are completed.

The prospective business or subsidiary may be operated in collaboration with the public or private sector, or it may be a wholly owned foreign subsidiary, subject to the conditions specified by the State Bank of Pakistan.

Foreign nationals may own immovable property in Pakistan, subject to the prior permission of the Home Department of the government of Pakistan.

H. Application for Citizenship by Investors

To encourage foreign investment in Pakistan, the government allows foreign investors to apply for Pakistani citizenship. Nationals of countries recognized by Pakistan may receive Pakistani citizenship by making a one-time investment of at least US$750,000 in tangible assets and US$250,000 (or the equivalent in a major foreign currency) in cash on a nonrepatriable basis (that is, the funds may not be taken out of Pakistan). The amount must be brought into Pakistan through normal banking channels, must be converted into rupees and may not subsequently be remitted through the free market. Citizenship is also subject to the fulfillment of the general conditions for Pakistani citizenship.

I. Family and Personal Considerations

Family Members. Family members of working expatriates may reside with the expatriates in Pakistan. Family members must obtain their own work visas if they plan to work in Pakistan or stay in Pakistan with their family.

Children of expatriates do not need student visas to attend school in Pakistan.

Drivers' Permits. Expatriates may not drive legally in Pakistan with their home country drivers' licenses. However, they generally may drive legally in Pakistan with international drivers' licenses.

Pakistan does not have driver's license reciprocity with any other country. Therefore, a home country driver's license may not be automatically exchanged for a Pakistani driver's license.

To obtain a driver's license in Pakistan, an applicant must submit an application form, a copy of his or her passport, a copy of his or her foreign driver's license and two passport-size photographs to the license-issuing authority. The license-issuing authority then examines all the documents and, at its discretion, may grant exemption to the applicant. If the license-issuing authority grants an exemption to an applicant, the applicant is issued a driver's license in one day on payment of the required fee. If the license-issuing authority does not grant an exemption, an applicant must acquire a learner's permit. About six weeks after obtaining a learner's permit, an applicant must take physical and verbal tests. If the applicant passes the tests, a driver's license is issued on payment of the required fee.

J. Other Matters

Overstay Surcharge. An overstay surcharge is imposed on foreigners who overstay the duration of their visas.

The following are the amounts of the surcharge for foreign nationals other than Indian nationals and nationals of Pakistani origin.

Period of Overstay	Overstay Surcharge (US$)
Up to 2 weeks	0
More than 2 weeks and up to 1 month	20
More than 1 month and up to 3 months	50
More than 3 months and up to to 1 year	100

In addition to imposing the above surcharge, the Ministry of Interior may exercise its powers of externment and any of its other powers with respect to the overstaying individual. No surcharge is imposed on holders of diplomatic passports.

The following are the amounts of the surcharge for foreign nationals of Pakistani origin.

Period of Overstay	Overstay Surcharge (US$)
Up to one month	0
More than 1 month and up to 6 months	10
More than 6 months and up to 1 year	20
More than 1 year	40 per year

In addition to imposing the above surcharge, the Ministry of Interior may exercise its powers of externment (deportation) and any of its other powers with respect to the overstaying individual. No surcharge is imposed for children up to 12 years of age, and a 50% surcharge is imposed for children over 12 years of age, but not older than 18 years of age.

For Indian nationals, Rs. 20 per day is imposed for any period of overstay.

Indians Working for Certain International Organizations and Multinational Companies. Indian passport holders working for the World Bank, Asian Development Bank, International Monetary Fund, the United Nations or multinational companies may obtain a visa under an expedited procedure from the respective Ambassador to Pakistan after clearing with the link offices (the office of the employer of the Indian national).

PALESTINE

Country Code 972

(From within the Middle East: Country Code 970)

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A. Income Tax

Who Is Liable. Unless otherwise stated in the law, income tax in Palestine is imposed on all income realized by any individual in Palestine.

A non-Palestinian national is considered resident for tax purposes if he or she resides in Palestine for a total period of at least 183 days in a calendar year.

Income Subject to Tax

General. As stated in *Who Is Liable*, all income derived by individuals from Palestinian sources is subject to tax unless otherwise provided in the law.

Investment Income. Cash dividends paid to residents and nonresidents from shares of Palestinian companies are exempt from tax if corporate income tax is paid on the distributed funds before or at the time of distribution.

Interest income is generally taxable, unless it relates to public debt, in which case it is exempt from tax.

Rental income is treated as ordinary income and is taxed at the rates set forth in *Rates*.

Capital Gains and Losses. Capital gains, which are gains resulting from irregular sales of real estate or securities, are exempt from income tax. Capital losses are not deductible.

Deductions

Personal Deductions and Allowances. Nationals and foreigners who are considered residents are granted the following annual deductions.

Allowance	US$
Residency allowance	3,000
Family allowance for each dependant	500
Higher education allowance for each family member	2,500
Rent allowance	2,000
Building or purchase of a house (one-time allowance)	5,000

Allowances are also granted for the following: properly documented medical expenses paid by the taxpayer for himself or herself or for his or her dependants; amounts paid for retirement plans, medical insurance and social security; and other payments approved by the Minister of Finance.

Total personal deductions for a year may not exceed the lower of US$12,000 or the amount of taxable income.

Business Deductions. All business expenses incurred in generating income are deductible. However, certain limitations apply to training, entertainment and head office expenses.

Rates. Personal income is subject to income tax at the following rates:

Annual Taxable Income		
Exceeding US$	Not Exceeding US$	Rate %
0	10,000	8
10,000	16,000	12
16,000	—	16

Nonresident individuals are subject to withholding income tax at a rate of 16% (see *Withholding Tax*).

For a sample tax calculation, see Appendix 1.

Withholding Tax. All payments to nonresident individuals are subject to income tax at a rate of 16% of the gross amount paid.

A 16% withholding income tax is imposed on payments exceeding US$350 made by specified bodies including the government and shareholding companies. Under the income tax law, a lower rate may apply to specified payments.

Relief for Losses. Losses may be carried forward and deducted from future profits for five years if the individual maintains proper accounting records. Losses cannot be carried back.

B. Property Tax

Tax. Property tax is levied at a rate of 17% of the assessed rental value of real property. Real property is assessed every five years.

C. Tax Filing and Payment Procedures

The tax year in Palestine is the calendar year. Tax returns must be filed in Arabic using a prescribed form within three months after the end of each fiscal year. The total amount of tax due must be paid at the time the return is filed.

Married persons are taxed jointly on all types of income.

The tax regulations provide incentives to taxpayers who make advance tax payments. These taxpayers are entitled to the following credits:
- 10% on payments made in the first and second month after the fiscal year-end; and
- 8% on payments made in the third month after the fiscal year-end.

In addition, special incentives are granted to taxpayers who file their tax returns within the following specified periods:
- Within the first month after the fiscal year-end: 6%;
- Within the second month after the fiscal year-end: 4%; and
- Within the third month after the fiscal year-end: 2%.

D. Foreign Tax Relief

Palestine has not entered into any tax treaties with other countries.

E. Temporary Visas

All visitors must obtain entry visas to visit Palestine. Nationals of Canada, the United States and Western European countries may obtain a three-month temporary visa at the time of entry.

An exit visa may be required, at a fee that depends on the port of exit.

F. Work Permits

Individuals of all nationalities must apply for working permits if they want to work in Palestine. Work permits are issued by the Ministry of National Economy.

An applicant may not begin working in Palestine before obtaining a work permit. Work permits may not be transferred from one employer to another; therefore, if an employee changes employers, the previous work permit is cancelled, and the worker must apply for a new permit.

Foreign investors may engage in almost any type of economic activity. Palestine does not limit foreigners' investments, except for certain sectors, including energy, manufacturing of firearms, oil and gas, which require prior approval. Non-Palestinian ownership in any project of up to 49% does not require approval from the Ministry of National Economy. Approval is required for any level of ownership in excess of 49%.

G. Residence Permits

Permanent residence is granted to investors in accordance with the investment incentive laws.

H. Family and Personal Considerations

Family Members. The spouse of a foreign national with a work permit does not automatically receive the same type of work permit as the primary applicant. He or she must file independently for a work permit to work in Palestine.

Drivers' Permits. Foreign nationals in Palestine on tourist visas may drive legally in Palestine with their home countries drivers' licenses. Western European and U.S. nationals may usually automatically exchange their home countries drivers' licenses' for a Palestinian drivers permit.

APPENDIX 1: SAMPLE TAX CALCULATION

A sample tax calculation for 2006 is provided below for an expatriate who is a resident of Palestine for all of 2006 and is married with three dependent children. One of the children is a university student and the other two children are under 18 years old. During 2006, the employee receives a salary of US$24,000 and a bonus of US$3,000. The employee pays annual rent in the amount of US$3,000. The following is the tax calculation.

	US$	US$
Calculation of Taxable Income		
Income:		
Salary	24,000	
Bonus	3,000	
Total income		27,000
Personal allowances:		
Residency	(3,000)	
Family (4 × US$500)	(2,000)	
Higher education	(2,500)	
Rent (maximum amount)	(2,000)	
Total personal deductions		(9,500)
Taxable income		17,500
Calculation of Tax		
Tax on US$10,000 at 8%		800
Tax on US$7,500 at 12%		900
US$17,500		
Income tax payable		1,700

PANAMA

Country Code 507

PANAMA	**GMT -5**

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A. Income Tax

Who Is Liable. Resident and nonresident individuals are taxed on their Panamanian-source income regardless of the nationality of the individual and the location of the payment of the income. For tax purposes, the nationality of the individuals is irrelevant. Individuals are considered resident for tax purposes if they reside or work in Panama for more than 180 days in a calendar year.

Under a recently enacted tax reform, all income derived from personal services rendered in Panama or abroad is considered Panamanian-source income if the individual is physically present in Panama for more than 70% of the total days in a calendar year. Consequently, an individual may not allocate any workdays abroad. For purposes of the 70% test, the days spent outside of Panama related to non-income producing activities are not included in the calculation. This includes vacation and other days not related to income-producing activities (for example, a course taken abroad or a trip abroad not related to the business of the taxpayer).

The reform also provides that if services provided outside of Panama are not related to the economic activities of the taxpayer in Panama, the income is not considered taxable. This measure covers income not related to the primary business activity of the employee. Such income may still be excluded even if the taxpayer meets the 70% test in Panama. As a result of this exclusion, the reform does not implement a complete system of worldwide taxation.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income includes wages, salaries (including salaries in kind), bonuses, pensions, directors' fees, profit-sharing, severance payments, seniority premium payments and other remuneration for personal services.

Education allowances are considered to be taxable salary and, consequently, they are subject to income tax and social security contributions, provided they are granted to employees children under the age of 18 years old.

Amounts received by the taxpayer for representation expenses are subject to withholding tax at a rate of 10%. In addition, effective from 1 June 2006, representation expenses are subject to social security contributions at a rate of 25%.

Self-Employment and Business Income. Profits derived from business, commercial and agricultural activities in Panama are subject to tax. Farming income is exempt from tax if gross sales are less than B/. 150,000.

If self-employment and business income is received in addition to employment income, the total income is taxed at the rates listed in *Rates*.

Investment Income. Panamanian-source dividends earned by residents and nonresidents are subject to a final 10% withholding tax. The tax rate is 20% for dividends paid on bearer shares.

Interest income and royalties derived from Panamanian sources are subject to tax at a rate of 15%. However, interest is exempt from tax if it is earned with respect to any of the following:
- Savings or time-deposit accounts maintained in banking institutions established in Panama;
- Government securities; or
- Loans granted to finance the construction of "socially-required housing," as certified by the Ministry of Housing.

Foreign-source dividends, interest and royalties are exempt from tax. Royalties received or earned by foreign persons from businesses established in the Colon Free Zone (a duty-free zone) are exempt from tax.

Stock Option Plans. In principle, the benefit derived from stock option plans granted by the employer is subject to tax at the time of sale of the shares. However, gains derived from sales of shares issued by companies registered on the Panama Stock Exchange are exempt from tax.

Capital Gains and Losses. Capital gains are generally taxed at the ordinary income tax rates. However, capital gains on shares held for more than 24 months are subject to tax at a rate of 10%. In addition, gains derived from the sale of real estate are subject to tax at a rate of 10% if the sale was not made in the ordinary course of trade or business for the taxpayer. Otherwise, the gains are subject to the ordinary income tax rates.

The seller may deduct the following amounts from the sales price:
- The original cost of the property;
- The cost of any improvements to the property; and
- Expenses incurred in the sale.

Any losses incurred on sales of real estate may be offset only against gains derived from sales of real estate during the same tax year. Excess losses may not be carried forward to the following tax year.

Deductions

Deductible Expenses. Individuals may deduct the following from gross taxable income:
- Mortgage interest related to loans for a principal residence, up to B/. 15,000 a year;
- Interest paid on educational loans;

- Donations up to US$50,000 if made to charitable organizations recognized by the tax authorities;
- Medical expenses incurred in Panama and not reimbursed by insurance;
- Medical and hospitalization insurance premiums (excluding payments or withholdings for social security);
- Certain investments in tourism;
- Contributions up to 10% of gross salary to pension plans; and
- Payments or withholdings with respect to educational tax.

Personal Deductions and Allowances: Individuals are entitled to a B/. 800 deduction (B/. 1,600 when filing jointly with the spouse) and to a B/. 250 deduction for each dependant.

Recipients of severance and seniority premium payments on termination of employment are entitled to a deduction at a rate of 1% of the payments for each complete year of service with the same employer. In addition, B/. 5,000 may be deducted from the payments.

Nonresidents may not claim any deductions or personal exemptions.

Business Deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. For 2006, employment income is taxable at the following rates.

Taxable Income Exceeding B/.	Taxable Income Not Exceeding B/.	Tax on Lower Amount B/.	Rate on Excess %
0	9,000	0	0
9,000	10,000	0	73
10,000	15,000	730	16.5
15,000	20,000	1,555	19
20,000	30,000	2,505	22
30,000	—	4,705	27

Withholding tax is levied on the income of nonresidents at a rate of 15% plus the applicable educational tax. For a sample tax calculation, see Appendix 2.

Relief for Losses. Self-employed individuals incurring a loss in a tax year may deduct 20% of the loss in each of the five subsequent tax years. However, the deduction is limited to 50% of taxable income in each subsequent tax year, and any nondeductible amount may not be carried forward.

B. Other Taxes

Estate or Gift Taxes. Panama does not impose estate or gift taxes.

Real Property Tax. A real property tax applies to land, buildings and other permanent structures located in Panama. These properties are subject to tax at the following progressive rates.

Tax Base Exceeding US$	Tax Base Not Exceeding US$	Rate %
0	30,000	0
30,000	50,000	0.7
50,000	75,000	0.9
75,000	—	1

Education tax. Education tax is imposed on employers and employees. The rates are 1.5% for employers and 1.25% for employees.

C. Social Security

For 2006, social security contributions are levied on salaries, at a rate of 11% for the employer and 7.25% for the employee. Contributions are computed based on an employee's gross compensation. No ceiling applies to the amount of remuneration subject to social security contributions. In addition, an employer must pay workers' compensation insurance at rates that vary from 1% to 7%, depending on the type of business and risk in which the employer is engaged.

Panama has not entered into any social security agreements with other countries.

D. Tax Filing and Payment Procedures

Employers are responsible for withholding income taxes and social security contributions from an employee's salary on a monthly basis. Employees are not required to file an annual income tax return if their only source of income is employment compensation. Nonresidents are not required to file tax an annual income tax return if their income tax liability has been satisfied through withholding at source.

By 31 March of each year, employers must file an annual form providing all information on taxes withheld from employees. Individuals earning more than one salary or receiving other taxable income not subject to withholding tax must file a sworn annual income tax return. If individuals earn taxable income from their own business, they must file annual income tax returns, even if the net result for the period is a loss.

The ordinary tax year is the calendar year. Tax returns are due on 15 March of the year following the tax year. The regulations provide for an extension of up to two months to file an income tax return if the estimated tax liability is paid by the original due date of the return. Any payment due when the return is filed is subject to interest at a rate of 2% above the local bank interest rate. Tax returns are filed on forms or diskettes provided by the Ministry of Finance and Treasury. Tax returns can also be filed through the internet.

An estimated income tax return, which constitutes a section of the annual return, must be filed by all taxpayers who are required to file annual returns. Estimated tax is payable by 30 June or in equal installments on 30 June, 30 September and 31 December of the fiscal year. If the actual taxable income is lower than estimated income, any overpaid tax is applied toward the following year's estimated income tax liability. This regulation does not apply to businesses located in the Colon Free Zone.

Married persons are taxed jointly or separately, at the taxpayers' election, on all types of income.

For taxpayers with taxable income exceeding B/. 60,000, the estimated tax equals the higher of the following: the tax calculated under the Alternative Calculation Method, which provides that a rate of 6% be applied to gross income; and the tax calculated by applying the ordinary tax rates to estimated taxable income.

E. Double Tax Relief and Tax Treaties

Panama has not entered into tax treaties with any other countries.

F. Work Permits

All foreign nationals must obtain special tourist cards or tourist visas to enter Panama. Tourist cards may be obtained through the travel agency and tourist visas through a Panamanian consulate office.

Under international conventions, citizens of the following countries do not need tourist visas to enter Panama: Austria; Chile; Costa Rica; El Salvador; Finland; Germany; Honduras; the Netherlands; Spain; Switzerland; the United Kingdom; and Uruguay.

Reciprocity is granted to nationals of those countries that do not require visas for Panamanians.

A foreign national may work in Panama only if he or she has entered the country under either a residence visa or a special temporary visitor's visa. These visas must be requested directly from the Department of Immigration and Naturalization in Panama. Visas are valid for one year and are renewable for additional one-year periods for up to five years if the same status is maintained.

Special temporary visitors' visas may be obtained by international executives of companies that have Panamanian operations and by press correspondents.

G. Work Permits

Under Panamanian labor law, the following foreign nationals may be granted work permits:
- Foreign nationals married to Panamanian citizens;
- Foreign nationals who have resided in Panama for 10 or more years;
- Foreign nationals who work as executives for companies established in the Colon Free Zone; and
- Foreign nationals who are experts or technicians in a particular field.

Work permits are valid for one year and may be renewed indefinitely, except for experts and technicians who may renew their work permits for a maximum period of five years. Labor contracts must be for a specific term not exceeding one year, and may be renewed for additional one-year periods.

Employers must obtain an authorization from the Ministry of Labor and Social Welfare before hiring foreign nationals. Work permits are granted to foreign nationals only if the number of foreign national employees in a given company does not exceed 10% of Panamanian employees; for foreign experts and technicians, the percentage is 15%.

H. Residence Visas

A foreign national with a residence visa transfers his or her residence to Panama for an indefinite period of time. The foreign national may be employed as a professional by a Panamanian employer, may establish a business, or both, as of the date he or she obtains the visa. A work permit is also required.

I. Family and Personal Considerations

Family Members. Spouses of foreigners that are granted work permits in Panama do not automatically receive the right to work in Panama and must apply for an independent visa or work permit.

Drivers' Permits. Foreigners may drive legally in Panama using their home country drivers' licenses for up to 90 days. After the period expires, resident foreigners must obtain a Panamanian driver's license. This period is equal to the maximum term granted for a tourist visa.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(a)
Value of meals provided	—	X	—
Value of lodging provided	X	—	—
Pension plan contributions	X	—	—
Welfare benefits	—	X	—
Car provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Foreign capital gain from sale of stock in home country	—	X	—

(a) This item is taxable if the employer treats it as a nondeductible expense for tax purposes.

APPENDIX 2: SAMPLE TAX CALCULATION

An expatriate resident in Panama is married with two children, and is the sole wage earner of the family. A tax calculation for the individual is shown below.

Calculation of Taxable Income	B/.	B/.
Salary		100,000
Deductions:		
Joint filing	(1,600)	
Dependants (2 x B/. 250)	(500)	
Medical insurance premiums	(2,000)	
Medical and dental expenses not covered by insurance	(1,000)	
Education tax	(2,500)	
Total deductions		(7,600)
Taxable income		92,400

Calculation of Tax		
Tax on B/. 30,000		4,705
Tax on B/. 62,400 at 27%		16,848
B/. 92,400		21,553

PARAGUAY

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On 5 July 2004, Congress approved Law No. 2421/04, which introduced a new personal income tax, effective from 1 January 2006. This chapter discusses personal income tax measures contained in Law No. 2421/04 and related rules.

A. Income Tax

Who Is Liable. Law No. 2421/04, which was enacted on 5 July 2004, introduced a personal income tax, effective from 1 January 2006.

In general, the personal income tax is imposed on Paraguayan-source income derived by individuals and certain other income (see *Income Subject to Tax*).

Income Subject to Tax

Employment Income and Other Amounts Received for Services. Employment income, directors' fees, management remuneration and all other remuneration for personal services performed in Paraguay is subject to personal income tax in Paraguay and, in certain cases, value-added tax (VAT) at a rate of 10%.

Investment Income. Under Law No. 2421/04, 50% of dividends received from companies subject to corporate income tax in Paraguay is subject to personal income tax.

Interest, commissions and capital yields will be subject to personal income tax.

Self-Employment and Business Income. A productive unit owned by a single individual and registered in the Income Tax Office as a sole proprietorship that uses capital and labor is subject to corporate income tax.

Exempt Income. The following items are exempt from the new personal income tax:
- Income earned by diplomats, consulate agents and foreign government representatives, only if reciprocity exists;
- The beneficiaries of severance payments in the case of death or total or partial incapacity, illness, maternity, accidents or dismissals;
- Retirement income received from companies established in Paraguay if the individual contributed to entities specified in Paraguayan laws;
- Exchange-rate differences resulting from deposits in national or foreign entities, as well as the valuation of the patrimony;
- Interest payments and other benefits derived from investments, deposits and certificates of deposits in local financial entities governed by Law No. 861, as well as from cooperatives; and
- Income received from investments in securities and other debt instruments of local companies whose shares are traded on the Asuncion Stock Exchange.

Capital Gains. Capital gains derived from the occasional sale of real estate or from transfers of certain specified capital interests are subject to personal income tax.

Fifty percent of the capital gains derived from the sale of one parcel of real estate per year is subject to personal income tax.

Deductions. All expenses incurred, by an individual in Paraguay are deductible if they are supported by documentation that complies with the tax rules. Deductible expenses include the following:
- Medical and dental insurance premiums;
- Social security contributions;
- Pension plan contributions; and
- Family and amusement expenses.

Under Law No. 2421/04, individuals may also deduct from annual taxable income a specified portion of savings deposits maintained for more than three years.

Rates. The personal income tax rate is 10% for individuals earning more than 10 minimum salaries (approximately US$1,250) per month. This rate will be reduced to 8% in 2007. Beginning in 2007, the tax threshold of 10 minimum salaries per month will be reduced one minimum salary each year until it reaches 3 minimum salaries in 2013.

Relief for Losses. Under Law No. 2421/04, losses may be carried forward five years.

B. Social Security

Social security tax is levied on employee compensation. Employees pay contributions at a rate of 9% (11% for banking employees), and employers at a rate of 16.5% (17% for banks), on employees' salaries.

Under Law No. 2421/04, personal services that are not subject to social security tax will be subject to value-added tax at a rate of 10%.

C. Tax Filing and Payment Procedures

The tax year in Paraguay is the calendar year.

Individuals must file a tax return by June of the year following the tax year.

D. Tax Treaties

Paraguay has entered into double tax treaties related to corporate international freight with Argentina, Belgium, Chile, Germany and Uruguay. These treaties do not apply to personal income tax.

E. Temporary Permits

All foreign nationals wishing to enter Paraguay must obtain visas. Individuals may enter under tourist visas, temporary visas or permanent residence permits.

Tourist visas are valid for 90 days and are renewable.

Temporary visas allow their holders to reside in Paraguay; they are valid for a period of one year and may be renewed for a period of up to six years. The following documents are required to obtain a temporary visa:

- An identity document or passport from the country of origin;
- A certificate from the police department of the country of origin;
- A birth certificate;
- A marriage or marriage dissolution certificate if applicable;
- A health certificate;
- Four passport photos; and
- A work contract or professional degree.

F. Work Permits

All foreign nationals must obtain work permits and residence permits to work legally in Paraguay. Work permits are valid as long as the corresponding residence permits are valid.

Work permits may be renewed an unlimited number of times. Renewed permits are valid for the same amount of time as the corresponding residence permits.

The approximate time for obtaining work permits after all appropriate documents are filed is six to eight weeks.

G. Residence Permits

Permanent residence permits are valid indefinitely. Permanent residence permits may be renewed as long as a foreign national visa holder maintains a contract with his or her employer. To apply for permanent residence in Paraguay, an applicant must provide the above documentation and open a bank account with a local bank, depositing at least US$5,000 or the equivalent in other currency.

An individual with temporary residence must renew his or her work permit each year; however, a permanent residence permit needs to be renewed only every 10 years.

H. Family and Personal Considerations

Family Members. Family members of a working expatriate must have separate permits to reside in Paraguay with the expatriate. However, the family members may file jointly with the working expatriate for residence permits. If the spouse or dependants of a working expatriate wish to work in Paraguay, they must obtain separate work permits. The dependants of a working expatriate may attend schools in Paraguay without student visas.

Drivers' Permits. Foreign nationals may not drive legally in Paraguay with their home country drivers' licenses. Paraguay does not have driver's license reciprocity with any other country.

To obtain a local driver's license, an applicant must provide a copy of the home country driver's license and take a physical examination.

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A. Income Tax

Who Is Liable. Individuals resident in Peru are taxed on their worldwide income. Nonresidents are taxed on their Peruvian-source income only.

Residency of foreign citizens is established on 1 January of the calendar year subsequent to the foreign citizen's continuous presence in Peru for a minimum of two calendar years, with absences of no longer than 90 days each year, or at the voluntary request of the foreign citizen after a continuous presence in Peru for at least six months. Foreign citizens who elect to be treated as resident must inform their employers of their election. If they are not employed, they must register in the National Register of Taxpayers to be treated as resident. Peruvian citizens who leave Peru regain residency status on the first day of the first calendar year after their return to Peru, unless they return temporarily and live in Peru for less than six months in total during the year of their return.

Income Subject to Tax

Employment Income. Tax is imposed on all remuneration received by an employee in the form of salaries, bonuses, living and housing allowances, tax reimbursements, benefits in kind and any other fringe benefits at the rates set forth in *Rates*.

Salaries and remuneration received by nonresidents for services provided in Peru are taxed at a rate of 30%.

Self-Employment and Business Income. Taxable self-employment income includes fees from independent professional, artistic and scientific activities, and from skilled occupations carried out by individuals, and is taxed at the rates set forth in *Rates*. Taxable income for self-employed persons is gross income less an amount equal to 20% of gross income, up to a maximum of S/.81,600, which is equal to 24 annual tax units (ATUs, see *Rates*).

Nonresidents are allowed a deduction equivalent to 20% of gross income received as remuneration for services as an independent professional. As a result, they are subject to an effective withholding tax rate of 24%.

Business income includes profits from personal business and is taxed at a rate of 30% of net income. For information regarding the deductibility of expenses, see *Deductions*.

Directors' Fees. Directors' fees are included in taxable income and are subject to tax at the rates set forth in *Rates*. In addition, directors' fees are subject to a 10% withholding tax, which may be taken as a credit against a director's income tax liability.

Investment Income. Dividends and other forms of profit distributions, as well as remittances of net profits by branches, are subject to a 4.1% withholding tax if paid to resident individuals or to nonresident individuals or entities.

For residents, interest on deposits in Peruvian banks, as well as interest from bonds issued by the government or by a Peruvian corporation through a public offer, is exempt from income tax. Other interest and royalties must be included in taxable income.

For nonresidents, interest and royalties are subject to final withholding tax at a rate of 30%.

Income from the rental of real estate received by residents is taxed as ordinary income at the rates set forth in *Rates*. A deduction of 20% of gross rental income is permitted. Extraordinary losses not covered by insurance are deductible.

Income from the rental of real estate received by nonresidents is subject to an effective final withholding tax at a rate of 24%.

Capital Gains. Capital gains derived from the sale of real estate (except for real estate occupied as dwellings) are considered ordinary income, which is subject to income tax at the rates described in *Rates*. Capital gains derived by individuals from sales of shares that are not considered habitual activities are exempt. In determining whether sales of shares are habitual activities, the quantity and frequency of the transactions are considered.

Gains derived from personal property sales are not considered to be capital gains.

Deductions. Individuals receiving business income may deduct expenses incurred to earn the income or maintain the source of income. In addition, individuals earning business income may deduct donations to public agencies and nonprofit organizations certified by the Ministry of Economy and that are dedicated to educational, social welfare and other similar activities. This deduction may not exceed 10% of net business income after losses carried forward are applied.

Individuals earning employment and self-employment income may deduct from taxable income the first S/.23,800 of income earned, which is equivalent to 7 ATUs (for information regarding ATUs, see *Rates*).

Rates. For resident employees, the tax rates are applied on a progressive scale expressed in ATUs, as set forth in the table below. ATUs are established by the government at the beginning of each year. For 2006, one ATU equals S/.3,400 (approximately US$1,000).

Taxable Income		Rate on
Exceeding ATU	Not Exceeding ATU	Excess %
0	27	15
27	54	21
54	—	30

Relief for Losses. No relief is provided for nonbusiness losses incurred by individuals. However, individuals may select between the following two systems to carry forward losses related to business income:
- Carrying forward losses to the following four consecutive years; or
- Carrying forward losses indefinitely, subject to an annual limit equal to 50% of the taxpayer's taxable income in each year.

Such losses may not be carried back.

B. Other Taxes

Property Tax. Property tax is imposed on urban and rural property and is payable by the property owners. The tax is administered and collected by the district municipality where the property is located. The property tax base equals the total value of the taxpayer's property in every district jurisdiction. To determine the total value of the property, land tariff values and construction official unitary values in force as of 31 October of the preceding year and the depreciation tables formulated by the National Council of Valuation must be applied. Property tax is levied at progressive rates ranging from 0.2% to 1%.

Vehicle Tax. Vehicle tax is imposed on automobiles, vans, buses and station wagons that are less than three years old. The tax is payable by the vehicle owners. If the ownership of the vehicle is transferred, the new owner becomes the taxpayer from 1 January of the year after the transfer. The tax base equals the original value on acquisition or importation of the vehicle, which cannot be lower than the value approved by the Ministry of Economy and Finance. Vehicle tax is levied at a rate of 1%. The amount of tax cannot be less than 1.5% of one ATU as of 1 January of the year in which the tax is payable.

Tax on Financial Transactions. A 0.08% tax is generally imposed on debits and credits in Peruvian bank accounts.

C. Social Security

Employees must contribute 13% of their salaries and wages to the Oficina de Normalizacion Previsional (ONP) government sponsored pension fund. Under an alternative system, employees may contribute an average of 12.91% of their salaries and wages to the Private Pension Funds Trustee (AFP). These amounts must be withheld by employers under both the ONP and AFP. Employers must contribute to the Health Care Fund at a rate of 9%.

D. Tax Filing and Payment Procedures

Employers must withhold income tax monthly from salaries of employees. A 10% tax must also be withheld on fees paid for independent professional services that are provided to legal entities as payment toward the professional's annual income tax.

The tax year is the calendar year. Individual tax returns for residents and nonresidents must be filed with the tax office by 31 March, and any balance due must be paid at that time.

Married persons are taxed separately. However, for rental income derived from properties held in common, they may elect to be taxed jointly.

Individuals earning only employment income are not required to file tax returns.

E. Double Tax Relief and Tax Treaties

A tax credit is granted for taxes paid or withheld abroad, within certain limits. Under a treaty with Bolivia, Colombia, Ecuador and Venezuela (signatories to the Andean Pact), income earned in those countries is excluded from taxable income in Peru to avoid double taxation. Peru has also entered into double tax treaties with Canada, Chile and Sweden.

F. Temporary Visas

In general, all foreign nationals must obtain visas to enter Peru; however, citizens of the countries listed below may enter the country for tourist, cultural or sporting purposes without visas for 90-day periods, which may be extended three times (a 30-day extension each time) within a calendar year. Foreign nationals of the countries listed below need valid passports only to apply for extensions.

Andorra	Guatemala	Panama
Antigua and Barbuda	Guyana	Papua New Guinea
	Haiti	Paraguay
Argentina	Honduras	Philippines
Australia	Hong Kong	Portugal
Austria	Iceland	St. Kitts and Nevis
Bahamas	Indonesia	St. Lucia

Barbados	Ireland	St. Vincent and the Grenadines
Belgium	Israel	Samoa
Belize	Italy	San Marino
Bolivia	Jamaica	Singapore
Brazil	Japan	Solomon Islands
Brunei	Kiribati	South Africa
Canada	Korea	Spain
Chile	Liechtenstein	Suriname
Colombia	Luxembourg	Sweden
Cook Islands	Malaysia	Switzerland
Costa Rica	Malta	Taiwan
Denmark	Marshall Islands	Thailand
Dominican Republic	Mexico	Tonga
Ecuador	Micronesia	Trinidad and Tobago
El Salvador	Monaco	Tuvalu
Fiji	Nauru	United Kingdom
Finland	Netherlands	United States
France	New Zealand	Uruguay
Germany	Nicaragua	Vanuatu
Greece	Niue	Vatican City
Grenada	Norway	Venezuela
	Palau	

Foreign nationals may enter Peru with temporary visas, which allow entry and stays for up to 90 days and are renewable, or with residence visas, which allow entry and stays for up to one year and are renewable. Temporary visas are issued to individuals with tourist, transient, business, artistic and crew member status.

The granting of a visa is subject to the judgment of the Peruvian Consular Office. The essential requirements are a passport and evidence of transitory status.

Temporary visas include the following:
- Business visas, granted to foreign nationals who enter Peru temporarily to carry out business activities that do not generate Peruvian-source income and who do not intend to establish permanent residence. These foreign nationals are permitted to sign agreements and undertake transactions. This visa is valid for up to 90 days and is renewable only once for an additional 30-day period within a calendar year.
- Work visas, granted to foreign nationals who come to work in Peru and have employment agreements approved by the labor authorities. This visa is valid for up to 90 days and is renewable for up to one year.
- Independent visas, granted to foreign nationals who enter the country to carry out activities related to foreign investments. These foreign nationals practice their own professions in independent ways or earn personal income. This visa is valid for up to 90 days and is renewable for up to one additional year.
- Official visas, granted to foreign nationals who are recognized as official visitors by the Ministry of Foreign Affairs and are subject to special regulations. This visa is valid for up to 90 days and is renewable.
- Diplomatic and consular visas, which are valid for up to 90 days and are renewable.
- Tourist visas, granted to foreign nationals who visit Peru for recreational purposes and who do not intend to immigrate or

to enter into remunerated activities. This visa is valid for up to 90 days and may be extended twice for 30-day periods and, in exceptional cases, for an additional 30-day period within a calendar year. A foreign national who is in Peru on a tourist visa must leave the country to change his or her migratory status.
- Transient visas, granted to foreign nationals in transit to other countries. This visa is valid for up to 2 days and is renewable up to 15 additional days.
- Student visas, granted to foreign nationals who enter Peru to study in educational institutions recognized by the Peruvian government and who do not generate Peruvian-source income, except for professional practices or vacation jobs duly approved by a corresponding policy-making body. This visa is valid for up to 90 days and is renewable up to one year.
- Artist visas, granted to foreign nationals who enter Peru with the purpose of carrying out approved remunerated artistic or performance-related activities and who do not intend to establish a permanent residence in Peru. This visa is valid for up to 90 days and is renewable twice for additional periods of 30 days each within a calendar year.

G. Work Visas and Self-Employment

Domestic and foreign companies established in Peru may employ foreign nationals up to a maximum of 20% of the total personnel of a company. Salaries paid to foreign nationals may not exceed 30% of the total payroll. Specialists or management personnel of a new industry may be exempt from these limits.

The following individuals are not considered foreign nationals for purposes of hiring foreign personnel:
- Foreigners with Peruvian spouses, children or siblings;
- Foreigners who have immigrant visas;
- Foreigners whose country of origin has a treaty of double nationality with Peru;
- Personnel from foreign transport enterprises that operate under a foreign flag;
- Personnel from foreign enterprises or multinational banks;
- Foreign personnel under bilateral or multilateral agreements honored by the Peruvian government who render services in the country;
- Foreign investors, regardless of whether they have waived the right to repatriate capital investments or profits, if an investment of no less than S/.16,500 (approximately US$4,855) is maintained throughout the term of their contracts; and
- Artists, athletes and, in general, those who work in public events in the country for a maximum of three months during a calendar year.

The following documents must be submitted to obtain a work visa:
- An application addressed to the Ministry of Labor;
- Sworn declaration from the employer attesting that the employment agreement complies with the limits set under the law for hiring foreign personnel;
- Employment agreement;
- Professional degree and study certificates, duly legalized by the corresponding authority; and

- Certified photocopy of the return tickets of the foreign national and accompanying family members, guaranteeing their return to their country of origin.

Employment agreements are approved by the Ministry of Labor within five days after the documents are submitted. The hired person may begin to work after immigrant status is obtained.

A foreign national with a valid work visa may change employers after notifying the Ministry of Labor.

Employees of foreign companies may also obtain work visas if a services agreement with a Peruvian company is approved by the migration authorities and filed, and if a document in which the foreign company assigns the employee to Peru is legalized and filed.

Self-employed foreign nationals are not required to obtain work permits in Peru, but must obtain an independent visa.

H. Residence Visas

Foreign nationals holding the following visa status may receive residence visas:
- Diplomatic, consular and official visa holders may obtain residence visas valid for a specific period established by the Ministry of Foreign Affairs.
- Student, work and independent visa holders may obtain residence visas valid for up to one year, which are renewable.

I. Family and Personal Considerations

Family Members. Every foreign national's migratory status extends to his or her family members, including a spouse, children younger than 18 years old, single daughters, parents and other dependants.

Drivers' Permits. Foreign nationals may drive legally in Peru with their home country drivers' licenses for the first six months after their arrival in Peru. Peru does not have driver's license reciprocity with other countries.

However, nonresident foreign nationals may obtain, from the automobile club of their countries of origin, international drivers' licenses, which are valid for one year and are renewable.

To obtain a Peruvian driver's license, an applicant must take a written test, a physical test and a practical driving exam.

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A. Income Tax

Who Is Liable. Resident citizens are subject to tax on worldwide income. Nonresident citizens, resident aliens and nonresident aliens are subject to tax on income from Philippine sources.

Residence is determined by the length and nature of an individual's stay in the Philippines. A person who comes to the Philippines for a definite purpose that is promptly accomplished is not deemed to be resident, but a person who comes for a definite purpose requiring an extended stay exceeding two years risks being considered resident. Aliens who reside in the Philippines with the intention to remain permanently are considered resident. Aliens who acquire residence in the Philippines remain residents until they depart with the intention of abandoning that residence.

Nonresident aliens are classified as either engaged or not engaged in trade or business in the Philippines. A nonresident alien who stays in the Philippines for more than a total of 180 days during any calendar year is deemed to be engaged in trade or business in the Philippines; any other nonresident alien is deemed to be not engaged in trade or business in the Philippines.

Income Subject to Tax. Gross income includes compensation, income from the conduct of a trade, business or profession, and other income, including gains from dealings in property, interest, rent, dividends, annuities, prizes, pensions and partners' distributive shares.

The following income items are excluded from gross income and are, therefore, exempt from taxation:
- 13th month pay, productivity incentives, Christmas bonuses and other benefits, up to an aggregate of P 30,000;
- Proceeds of life insurance policies;
- Amounts received by an insured as a return of premium;
- Gifts, bequests and devises;
- Compensation for injuries or sickness from accident or health insurance or under the Workers' Compensation Acts;
- Income exempt under treaty provisions;
- Retirement benefits received pursuant to certain laws or under a reasonable private benefit plan;
- Amounts received as a consequence of separation from service as a result of death, sickness, physical disability or any cause beyond the control of the employee;
- Social security benefits, retirement gratuities and other similar benefits received by resident or nonresident citizens of the Philippines or aliens who come to reside permanently in the Philippines from foreign government agencies and other public or private institutions;
- Payments or benefits due or to become due to individuals residing in the Philippines under U.S. laws administered by the U.S. Veterans Administration;
- Benefits received from or enjoyed under the social security systems;

- Prizes and awards in recognition of religious, charitable, scientific, educational, artistic, literary or civic achievement, as well as awards in authorized sports competitions;
- Mandated contributions to the government and private social security systems and housing fund;
- Gains from the sale of bonds, debentures or other certificates of indebtedness with a maturity of longer than five years; and
- Gains from redemptions of shares in a mutual fund.

The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income includes all remuneration for services performed by an employee for his or her employer under an employer-employee relationship. The name by which compensation is designated is immaterial. It includes salaries, wages, emoluments and honoraria, allowances, commissions, fees including director's fees for a director who is also an employee of the firm, bonuses, fringe benefits, taxable pensions and retirement pay and other income of a similar nature. Emergency cost-of-living allowances received by employees are also included in their compensation income.

Employment income received for services provided in the Philippines is subject to tax in the Philippines regardless of where the compensation is paid. Remuneration for services remains classified as compensation even if paid after the employer-employee relationship is ended.

Taxable employment income equals employment income less personal and additional exemptions and allowable deductions for health insurance premiums (see *Deductions*). Nonresident aliens not engaged in trade or business in the Philippines as well as alien individuals employed by regional or area headquarters and regional operating headquarters of multinational companies, offshore banking units, and petroleum service contractors and subcontractors are taxed on their gross income without the benefit of the personal and additional exemptions.

Fringe benefits are any goods, services or other benefits granted in cash or in kind by employers to employees (except rank-and-file employees, as defined) such as, but not limited to, the following:

- Housing;
- Expense account;
- Any vehicles;
- Household personnel, such as maids, drivers and others;
- Interest on loan at less than market rate to the extent of the difference between the market rate and actual rate granted;
- Membership fees, dues and other expenses borne by the employer for the employee in social and athletic clubs or other similar organizations;
- Expenses for foreign travel;
- Holiday and vacation expenses;
- Educational assistance to the employee or his dependants; and
- Life or health insurance and other nonlife insurance premiums or similar amounts in excess of the amounts allowed by law.

Under the tax law, the following fringe benefits are exempt from tax:

- Fringe benefits that are authorized and exempt from tax under special laws;
- Contributions of employers for the benefit of employees to retirement, insurance and hospitalization benefit plans;
- Benefits granted to the rank-and-file employees (as defined), regardless of whether they are granted under a collective bargaining agreement;
- *De minimis* benefits (see below);
- Fringe benefits required by the nature of, or necessary to, the trade, business or profession of the employer; and
- Fringe benefits granted for the convenience or advantage of the employer.

De minimis benefits are items furnished or offered by employers to their employees that are of relatively small value and are offered or furnished by the employers as a means of promoting the health, goodwill, contentment, or efficiency of their employees. Under Filipino law, *de minimis* benefits are exempt from income tax. *De minimis* benefits, include, but are not limited to, the following:

- Monetized unused vacation leave credits of private employees not exceeding 10 days during the year and the monetized value of the leave credits paid to government officials and employees;
- Annual medical benefits not exceeding P 10,000;
- Employees' achievement awards, subject to certain conditions;
- Gifts given during Christmas and major anniversary celebrations not exceeding P 5,000 per employee per year; and
- Daily meal allowance for overtime work not exceeding 25% of the basic minimum wage.

Fringe benefits are subject to fringe benefit tax (FBT) if the cost of the benefit is borne or claimed as expense by the Philippine entity and if the recipient of the benefit is a non-rank-and-file employee. If the cost is not borne by the Philippine entity or if it is received by a non-rank-and-file employee, the benefit is classified as compensation income subject to income tax. *De minimis* benefits are expressly exempt from both FBT and income tax. With respect to the other exemptions, the rules state that the exemptions relate to FBT. However, in view of the nature of these exempt benefits, it may be argued that the benefits are also exempt from income tax.

Business Income. Gross income from the conduct of a trade or business or the exercise of a profession may be reduced by certain allowable deductions and by personal and additional exemptions (see *Deductions*). However, an individual who has both compensation and business income may claim personal and additional exemptions only once.

Resident or local suppliers of goods and services, including nonresident aliens engaged in trade or business in the Philippines, are subject to a 1% creditable expanded withholding tax on their sales of goods and to a 2% creditable expanded withholding tax on their sales of services. Expanded withholding tax is a withholding tax that is prescribed for certain payers and that is creditable against the income tax due of the payee for the relevant tax quarter or year.

Professional fees are to subject to a 15% creditable expanded withholding tax if such fees for the year exceed P 720,000. Otherwise, the rate is 10%.

Directors' Fees. Directors' fees derived by individuals who are employees of the same company are taxed as income from employment and are subject to creditable withholding tax on wages. Directors' fees derived by individuals who are not employees of the same company are included in the recipients' business income and are subject to a creditable withholding tax. The rate of the withholding tax is 15% if the gross income for the current year exceeds P 720,000. Otherwise, the rate is 10%. Directors' fees derived by nonresident aliens deemed to be not engaged in a trade or business are subject to a final withholding tax at a rate of 25%.

Investment Income. In general, interest on peso deposits and yields, or any other monetary benefit derived from deposit substitutes, trust funds and similar arrangements, is subject to a final 20% withholding tax. However, interest on certain long-term deposits or investments evidenced by qualifying certificates is exempt from the final 20% withholding tax. Final tax is imposed at rates ranging from 5% to 20% on the income from long-term deposits if the investment is withdrawn before the end of the fifth year. Interest received by a resident on foreign-currency deposits is subject to a final 7.5% withholding tax. Interest received by a nonresident on foreign-currency deposits is exempt from tax.

Cash or property dividends actually or constructively received by citizens and resident aliens from domestic corporations, as well as a partner's share in the after-tax profits of a partnership (except a general professional partnership), are subject to final withholding tax at a rate of 10% in 2000. Nonresident aliens engaged in a trade or business in the Philippines are subject to final withholding tax on these types of income at a rate of 20%. For nonresident aliens not engaged in a trade or business in the Philippines, investment income is generally taxed at a rate of 25%, except for gains from sales of real estate and sales of shares of domestic corporations.

Rental income is considered business income and is taxed at the rates set forth in *Rates*.

Taxation of Employer-Provided Stock Options. In general, employer-provided stock options are taxable to the employee as additional compensation at the time the option is exercised. The excess of the fair market value of the stocks over the option price (this excess is known as the "spread") is taxable income. If the employee is a resident Philippine national, the additional income, together with income from other sources, is subject to the regular graduated tax rates (see *Rates*).

Income realized by a resident alien individual from the exercise of employer-provided stock options is taxed at the same graduated rates as those for resident citizens. A nonresident alien not engaged in a trade or business in the Philippines is subject to a flat tax at a rate of 25% on such income. Alien individuals are subject to Philippine income tax on their Philippine-source income only; therefore, only income derived from stock options related to services rendered in the Philippines is taxable in the Philippines.

A recently issued tax ruling classified the spread as a taxable fringe benefit subject to fringe benefits tax (FBT). The ruling was based primarily on the fact that the stock option plan is made available to selected senior personnel of the company (consisting primarily of managers, directors and heads of the corporate divisions and groups). Under ruling, a stock option may be considered a taxable fringe benefit subject to FBT if it is granted to selected individuals occupying managerial and supervisory positions. FBT is payable by the employer. The ruling did not contemplate a situation in which the stock option is granted to all employees, including those who are not at the managerial level. As a result, it is possible that a different ruling will be issued under a different set of facts regarding a stock option plan.

Capital gains derived from the sale of shares in a nonlisted domestic corporation are taxed at a rate of 5% on the first P 100,000 and at a rate of 10% on the excess over P 100,000. The amount of the taxable gain is the excess of the sale price over the cost of the shares to the employee.

Gains derived from the sale of listed shares are exempt from capital gains tax. However, a percentage tax is imposed at a rate of 0.5% on the gross selling price of the shares.

Gains derived by resident citizens from the sale of shares in a foreign corporation are taxed as capital gains, subject to the regular income tax rates.

Capital Gains and Losses. In general, capital gains and losses are included in an individual's regular taxable income and are subject to tax at the graduated rates set forth in *Rates*. The gain is the excess of the amount realized from the disposal of the asset over the adjusted basis. If the asset is held for 12 months or less prior to disposal, the entire gain or loss is reported. For assets held longer than 12 months, 50% of the gain or loss is reported. The holding period rules do not apply to capital gains derived from the sale of real property in the Philippines or shares of stock in a domestic corporation (see below).

Capital losses are deductible only to the extent of capital gains. Losses carried over are treated as short-term capital losses. Losses incurred from wash sales of stocks or securities are not deductible, unless incurred by a dealer in the ordinary course of business. This rule does not apply to shares of stock in a domestic corporation or to sales of real property described below.

A final tax of 6% is imposed on capital gains derived from transfers of real property located in the Philippines. The tax is based on the higher of the gross sales price and the fair market value.

Capital gains derived from the sale of shares in a domestic corporation not listed or traded on a local stock exchange are subject to capital gains tax at rates of 5% on the first P 100,000 and 10% on the excess. Capital gains on the sale of shares in a domestic corporation that is listed on and traded through a local stock exchange are exempt from capital gains (income) tax, but the sale is subject to a 0.5% stock transaction tax on the gross sales price.

Deductions

Personal Deductions. Citizens and resident aliens are allowed the following personal exemptions:

- P 20,000 for single or legally separated married individuals without dependents;
- P 25,000 for heads of families (unmarried or legally separated individuals with one or more parents, brothers or sisters, or legitimate, natural or legally adopted children, who are living with them and dependent on them for their chief support if the

dependents are 21 years old or younger, unmarried, not gainfully employed or, regardless of age, incapable of self-support because of a mental or physical defect); and
- P 32,000 for each married individual who derives gross income.

For a married individual or head of family, an additional exemption of P 8,000 is allowed for each dependent, up to four. Only one of two spouses may take these exemptions. The husband is deemed the proper claimant of additional exemptions, unless he waives his right in favor of his wife. For legally separated spouses, additional exemptions may be claimed only by the spouse who has custody of a child, and the total deductions claimed by both spouses must not exceed the maximum allowable exemption amount.

A nonresident alien engaged in a trade or business in the Philippines is entitled to a personal exemption of an amount equal to the exemptions allowed under the income tax law of the country where he or she is a subject or citizen, to citizens of the Philippines not residing in that country; however, the exemption may not exceed the amounts listed above.

Deductible Expenses and Standard Deductions. Individuals with only compensation income may deduct from their gross compensation health insurance premiums, of up to P 2,400 per year if the family's aggregate income is P 250,000 or less for the tax year.

In addition to personal and additional exemptions and deductions for health insurance premiums, individuals who earn income from a trade, business or the practice of a profession may deduct expenses incurred in connection with their trade, business or profession subject to Philippine income tax. These expenses include ordinary and necessary business or professional expenses, interest expense, taxes, losses, bad debts, depreciation, charitable contributions, contributions to a pension trust, and research and development. Alternatively, a taxable individual (except a nonresident alien) may elect a standard deduction of 10% of gross income in lieu of the itemized deductions.

Rates. Net taxable compensation and business income of resident and nonresident citizens, resident aliens, and nonresident aliens engaged in a trade or business are consolidated and taxed at the following graduated rates.

Net Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
P	P	P	%
0	10,000	0	5
10,000	30,000	500	10
30,000	70,000	2,500	15
70,000	140,000	8,500	20
140,000	250,000	22,500	25
250,000	500,000	50,000	30
500,000	—	125,000	32

Aliens employed by regional or area headquarters (RHQs) and regional operating headquarters (ROHQs) of multinational companies, offshore banking units and petroleum service contractors and subcontractors, regardless of their residency, are subject to tax at a preferential rate of 15% on gross income. In addition, the same tax treatment applies to Filipinos employed and occupying the same position as the aliens employed by these entities. Such

Filipino employees may elect to be taxed at the 15% rate on gross income or at the graduated rates of 5% to 32% on net taxable income, even if the employees are paid less than the equivalent of US$12,000 a year. (Under Article 59 of Executive Order (EO) No. 226, alien employees of RHQs and ROHQs in the Philippines who are issued a multiple-entry special visa must work exclusively for the Philippine RHQ or ROHQ and must be paid the equivalent of US$12,000 per year. Republic Act No. 8756, which amended EO No. 226, provides that the same tax treatment applies to Filipinos employed in the same positions as aliens employed by multinational companies, but does not mention that Filipinos must be paid at least US$12,000 per year.)

In calculating the FBT, the monetary value of the benefit is taken into consideration. The monetary value depends on the type of benefit granted, as well as on the manner in which the benefit is extended to the employee. For example, if the employer purchases a motor vehicle for the use of the employee (who is assumed to be a non-rank-and-file employee), the value of the benefit is the acquisition cost of the vehicle. The monetary value of the fringe benefit is the entire value of the benefit (meaning the entire acquisition cost). If the employer leases and maintains a fleet of motor vehicles for the use of the business and the employees, the value of the benefit is the amount of rental payments for motor vehicles not normally used for sales, freight, delivery, service and other nonpersonal uses. The monetary value of the benefit is 50% of the value of the benefit (rental payment). The Philippines' Bureau of Internal Revenue (BIR) has issued specific regulations on the treatment of fringe benefits.

After the monetary value is determined, it is then grossed up and subjected to the applicable FBT rate.

The FBT rates and the gross-up factors are shown in the following table.

Type of Employee	FBT Rate %	Factor Used in Determining the Grossed-Up Monetary Value %
Resident citizen, resident alien or non-resident alien engaged in a trade or business in the Philippines	32	68
Nonresident alien not engaged in a trade or business in the Philippines	25	75
Alien employed by or Filipino employee occupying a managerial or technical position in regional or area headquarters of multinational companies, offshore banking units and petroleum contractors and subcontractors	15	85

Although the FBT is a tax on the employee, the actual payment of the tax is borne by the employer. This method is used to ensure that all benefits received by employees are subject to tax. During the deliberations of the Philippine Congress regarding the adoption of the FBT, it noted that many executives were able to avoid taxation by being paid fringe benefits rather than straight salaries. The collection of FBT from employers is intended to plug this loophole.

For nonresident aliens engaged in a trade or business in the Philippines, dividends, shares in profits of partnerships taxed as corporations, interest, royalties, prizes in excess of P 10,000 and other winnings are subject to final withholding tax at a rate of 20% of the gross amount. Royalties on musical compositions, books and other literary works are subject to a final withholding tax at a rate of 10%. Nonresident aliens are taxed on capital gains derived from sales of real property or shares in domestic corporations in the manner discussed in *Capital Gains and Losses*.

Nonresident aliens not engaged in a trade or business in the Philippines are subject to a final withholding tax of 25% on gross income, including fringe benefits, from all sources in the Philippines. However, capital gains derived from sales of real property or from sales of shares in domestic corporations are subject to the same tax rates imposed on citizens and resident aliens.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Under certain circumstances, self-employed persons may carry forward business losses for three years, unless a 25% change in the ownership of the business occurs. Carrybacks are not permitted.

B. Estate and Gift Taxes

Estate Tax. An estate tax is imposed at graduated rates ranging from 5% to 20% on the transfer of a decedent's net estate valued in excess of P 200,000. Citizens, regardless of whether resident at the time of death, and resident aliens are taxed on their worldwide estates.

For estate tax purposes, only that part of a nonresident alien decedent's estate located in the Philippines is included in the taxable estate. Under specified conditions, deductions may be permitted for certain items, including expenses, losses, indebtedness, taxes and the value of property previously subject to estate or gift tax or of property transferred for public use.

The net estate is computed by deducting the following amounts from the total value of a decedent's real or personal, tangible or intangible, property, wherever situated:

- Allowable expenses, losses, indebtedness and taxes;
- The value of property transferred for public use;
- The value of property subject to estate or gift tax (subject to special rules) within five years prior to a decedent's death;
- The value of the family home, not exceeding P 1 million; and
- The amount received from the decedent's employer as a result of the death of the employee.

In addition, estates of residents or citizens are entitled to a standard deduction of P 1 million as well as a deduction of up to P 500,000 for medical expenses incurred by the decedent within one year prior to death.

Estate tax rates are set forth in the following table.

Value of Total Net Estate		Tax on	Rate on
Exceeding P	Not Exceeding P	Lower Amount P	Excess %
0	200,000	0	0
200,000	500,000	0	5
500,000	2,000,000	15,000	8
2,000,000	5,000,000	135,000	11
5,000,000	10,000,000	465,000	15
10,000,000	—	1,215,000	20

To prevent double taxation of estates, the Philippines has concluded an estate tax treaty with Denmark.

Gift Tax. Residents and nonresidents are subject to gift tax, which is payable by the donor on total net gifts made in a calendar year. Citizens, regardless of whether resident at the time of a gift, and resident aliens are subject to gift tax on worldwide assets. Nonresident aliens are subject to gift tax on their Philippine assets only.

The table below presents the gift tax rates. These rates apply to relatives by consanguinity, up to the fourth degree of relationship in the collateral line. Other donees and beneficiaries are considered strangers and are taxed at a flat rate of 30%.

Value of Total Net Gifts		Tax on	Rate on
Exceeding P	Not Exceeding P	Lower Amount P	Excess %
0	100,000	0	0
100,000	200,000	0	2
200,000	500,000	2,000	4
500,000	1,000,000	14,000	6
1,000,000	3,000,000	44,000	8
3,000,000	5,000,000	204,000	10
5,000,000	10,000,000	404,000	12
10,000,000	—	1,004,000	15

C. Social Security

Contributions. All individuals working in the Philippines must pay social security contributions. The employee's contribution is approximately 3.39% of salary and is withheld by the employer. The employer's contribution is approximately 6.24% of employees' salaries. Self-employed persons must be covered. The minimum monthly salary subject to social security contributions is P 1,000. The maximum monthly contributions are P 920 for employers and P 500 for employees, which apply to employees receiving monthly compensation of P 14,750 or more.

Bilateral Social Security Agreements. The Philippines has entered into bilateral social security agreements with Austria, Belgium, Canada, France, Quebec, Spain, Switzerland and the United Kingdom.

D. Tax Filing and Payment Procedures

The tax year in the Philippines is the calendar year. An income tax return must be filed, and the tax due paid, on or before 15 April for income derived in the preceding year. If tax due exceeds P 2,000, it may be paid in two equal installments, the first at the time of filing the return and the second by 15 July following the end of the tax year.

Employers must withhold tax on the compensation of their employees. The tax withheld may be credited against tax due on the return. Individuals whose only income is salary income not exceeding P 60,000 that has been subject to withholding are not required to file tax returns.

Individuals deriving business income may credit against income tax due the creditable expanded withholding tax withheld from the income by the payers of the income (see Section A).

Although spouses may compute their individual income tax liabilities separately based on their respective total taxable incomes, they must file joint returns. Employment income earned by either spouse that does not exceed P 60,000 is not reported, even if the combined employment income of both spouses totals more than P 60,000.

A separate return must be filed, and any tax due paid, within 30 days after each sale of shares not traded on a local stock exchange; a final consolidated return must be filed by 15 April for all stock transactions of the preceding year. For a sale of real property, a separate return must be filed, and any tax due paid, within 30 days after each sale.

The Bureau of Internal Revenue (BIR) has implemented a "hassle-free" method of filing individual income tax returns (BIR Form 1700). Under certain circumstances, this method recognizes the employer's annual information return (BIR Form No. 1604CF) as the "substitute" income tax return filed by the employee, because the employer's return contains the information included in an income tax return ordinarily filed by the employee. Under "substituted filing," an individual taxpayer who is required under the law to file an income tax return does not need to personally file an income tax return, and the employer's filed annual information return is considered the "substitute" income tax return of the employee. On or before 31 January of the year following the tax year, the employer must issue BIR Form 2316 to the employee. The employer and employee must certify the lowest portion of the BIR Form 2316 for substituted filing, under the penalty for perjury.

For income subject to final withholding tax, the taxpayer is not required to file a tax return. The withholding agent is responsible for reporting the income and remitting the tax withheld.

E. Double Tax Relief and Tax Treaties

Foreign taxes paid or incurred in connection with a taxpayer's profession, trade or business may be deducted from gross income, subject to exceptions. Alternatively, citizens and, if reciprocity requirements are met, resident aliens may claim credit for income, war profits and excess profits tax due to any foreign country; the credit may not exceed the Philippine income tax payable on the same income multiplied by a fraction, the numerator of which is taxable income from foreign countries and the denominator of which is worldwide taxable income.

The Philippines has entered into double tax treaties with the following countries.

Australia	India	Russian Federation
Austria	Indonesia (c)(g)	Singapore
Bahrain	Israel	Spain
Bangladesh	Italy	Sri Lanka (c)
Belgium	Japan	Sweden
Brazil	Korea	Switzerland
Canada	Malaysia	Thailand (b)(h)
Chile (c)(d)	Netherlands	Turkey (b)
China	New Zealand (f)	United Arab Emirates (c)
Czech Republic	Nigeria (c)	United Kingdom
Denmark	Norway	United States
Finland (c)(f)	Pakistan	Vietnam
France	Poland (a)	Yugoslavia (c)
Germany (e)	Qatar (c)	
Hungary	Romania	

(a) This treaty has been ratified, but it has not yet entered into force.
(b) Pending signature.
(c) Pending ratification.
(d) Shipping only.
(e) The Philippines and Germany are renegotiating this treaty.
(f) A protocol amending the tax treaty has been signed, but it has not yet been ratified.
(g) The treaty with Indonesia has been renegotiated, but the renegotiated treaty has not yet been ratified.
(h) The treaty with Thailand has been renegotiated, but the renegotiated treaty has not yet been signed.

The Philippines is negotiating tax treaties with Brunei Darussalam, Kuwait, Myanmar, Oman, Papua New Guinea, Saudi Arabia (air transport only) and Tunisia.

F. Types of Visas

In general, a foreign national applying for any kind of visa to enter the Philippines is required to submit a report from a medical examination conducted by a duly authorized physician. The medical examination report is acceptable only if submitted to the quarantine officer at the port of entry, within six months from the date of examination, together with the visa application. A medical certificate or clearance is issued by the Bureau of Quarantine. Foreign nationals who apply for visas in their home country and who undergo their medical examinations abroad must submit the results to the quarantine office.

In general, foreign nationals who are not classified as restricted or high-risk may visit the Philippines without obtaining visas prior to departure if they have valid passports and onward tickets or confirmed travel tickets for a return journey. These foreign nationals are allowed initial stays of 21 days as tourists, and the visa may be extended if the total extension does not exceed one year. Restricted or high-risk nationals are allowed a total extension of up to six months. Foreign nationals arriving in the Philippines are granted one of the types of visas described below.

Unless specifically exempted by law, all foreign nationals seeking employment in the Philippines, whether residents or nonresidents, must secure Alien Employment Permits from the Department of Labor and Employment (DOLE). This rule applies to nonresidents who are already working in the Philippines, to nonresidents who were admitted under nonworking visas and are seeking employment, and to missionaries or religious workers who intend to engage in gainful employment. Executives of area or regional headquarters and offshore banking units are exempt from the Alien Employment Permit (AEP) requirement (see Section G).

Nonimmigrant Visas. A foreign national may be granted a nonimmigrant visa as provided in Section 9 of the Philippine Immigration Act under the following categories of admission status.

Temporary Visitor's Visa under Section 9(a). Temporary visitor's visas are available to individuals coming to the Philippines for business, pleasure or health reasons. Restricted nationals may not enter the Philippines unless they obtain entry visas from a Philippine consulate before coming to the Philippines. On entry, they are allowed an initial period of stay of up to 21 days, which may be extended to a period of up to 6 months. Unrestricted nationals are not required to obtain entry visas, and their initial stay of 21 days may be extended up to 1 year. Business visitors are foreign nationals who intend to engage in commercial, industrial or professional commerce or in any other legitimate activity if the activity is of a temporary nature (for example, attending conferences or conventions, negotiating contracts, or attending educational or business meetings). Writers, lecturers and theatrical performers are considered business visitors. Foreign nationals seeking employment of any kind in the Philippines do not qualify as temporary visitors for business, even if they intend to stay for a few months only.

Visitors who come for pleasure include tourists, those visiting relatives or friends, those who come for recreational and amusement purposes, and professional athletes who compete for prizes if they do not receive compensation or salary for their services.

Foreign nationals requiring medical treatment in the Philippines are also classified in the Section 9(a) category.

Transient's Visa under Section 9(b). Section 9(b) of the Philippine Immigration Act defines a transient as a person passing in transit to a destination outside the Philippines. Transient visas may be obtained at Philippine consulates abroad.

Seamen's Visa under Section 9(c). Seamen and airmen may enter the Philippines as vessel or aircraft crew members only if their names appear on a crew list visa or if they possess an individual seamen's visa.

International Treaty Trader/Investor under Section 9(d). A treaty trader visa is granted to a foreign national coming to the Philippines solely to carry on substantial trade between the Philippines and his or her home country, or to direct and develop the activities of an enterprise in the Philippines in which he or she has invested, pursuant to the provisions of a treaty of commerce or navigation. An individual is considered a treaty investor if the individual seeks to enter the Philippines solely for the purpose of developing and directing the operations of an enterprise in the Philippines and if either of the following requirements is satisfied:
- The individual has invested in the enterprise, or is in the process of investing, a substantial amount of capital; or
- The employer of the individual has invested, or is actively in the process of investing, a substantial amount of capital in the enterprise, such employer is a foreign person or organization of the

same nationality as the individual, and the individual is serving in an overall supervisory or executive capacity.

For purposes of the above rule, a substantial amount of investment is at least US$30,000 for individuals and at least US$120,000 for corporations.

Treaty trader visas currently are granted only to nationals of Germany, Japan and the United States.

Diplomatic Visa under Section 9(e). Pursuant to international conventions and bilateral agreements, the government of the Philippines accords varying degrees of privileges and immunities to various categories of foreign government officials coming to the country for official purposes.

Officials of the United States and its specialized agencies may be issued 9(e) visas, regardless of the officials' citizenship or nationality. Officials of the United Nations and other international organizations may be granted diplomatic visas under Section 9(e) on the basis of United Nation's laissez passer.

Nonimmigrant Student Visa under Section 9(f). Foreign nationals may secure student visas from the Philippine mission in their home country or they may apply to the Philippine Bureau of Immigration to change or convert their admission status to Section 9(f). Foreign nationals with 9(f) visas may not change or convert their visas to another category unless they first depart from the country.

A student visa holder may not work or engage in any trade or occupation in the Philippines unless the completion of the degree requires it.

Prearranged Employee Visa under Section 9(g). Prearranged employment visas under Section 9(g) are issued to foreign nationals coming to the Philippines to engage in any lawful occupation, whether for wages or salary or for another form of compensation, if bona fide employer-employee relations exist. These visas may also be granted to qualified dependants of the foreign nationals. Persons coming to perform unskilled manual labor in pursuance of a promise or offer of employment, express or implied, are not permitted to enter the Philippines.

The issuance of a prearranged employee visa depends on the grant of an Alien Employment Permit by the Department of Labor and Employment (see Section G). It takes approximately two to four months to process the 9(g) visa. To enable the foreign employee to immediately begin performing his or her functions, a Provisional Permit to Work (PPW) may be applied for with the Bureau of Immigration. This grants the visa applicant the authority to work while his or her visa application is pending. A PPW is valid for two months, and may be extended for an additional two months.

Prearranged work visas may be renewed annually for a total period not exceeding five years. However, if the petitioning company shows just cause, the 9(g) visa may be extended beyond five years. However, an extension beyond five years requires the issuance of an Alien Employment Permit.

Special Nonimmigrant Visa. The Philippine Immigration Act, specifically Section 47(a)(2), as well as several special laws, provides for special nonimmigrant visas. These types of visas grant the holder multiple-entry privileges, and in some cases, exemption from registration requirements of the Bureau of Immigration.

47(a)(2) Visa. Acting through the appropriate government agencies, the President may allow the entry of foreign personnel for the following enterprises:

- Oil-exploration companies;
- Philippine Economic Zones Authority (PEZA)-registered enterprises; and
- Board of Investment-registered enterprises.

PD 1034 Visa. A PD 1034 visa is granted to foreign personnel of entities licensed by the Central Bank of the Philippines (Bangko Sentral ng Pilipinas) to operate as offshore banking entities, as well as to the foreign employees' qualified dependants.

EO 226 Visa. An EO 226 visa is granted to foreign personnel of regional or area headquarters or regional operating headquarters of multinational companies. The visa is valid for three years and may be extended for an additional three years. Foreign nationals admitted under this type of visa and their family members are granted incentives under the omnibus investment laws, including exemption from the payment of all fees imposed under immigration laws, and from requirements for all types of clearance required by government departments or agencies, except on final departure from the Philippines.

Special Resident Visa. Several types of special resident visas may be issued, including those described below.

Special Investors Resident Visa. Qualified foreign nationals who are at least 21 years old, except nationals of Cambodia, North Korea and other restricted countries, may obtain a probationary special investor resident visa (SIRV) on proof of an inward remittance of US$75,000 or its equivalent in acceptable foreign currency. On investment in specified areas, the probationary SIRV visa is converted to an indefinite visa and remains in force for as long as the investment exists.

An investor may apply for an SIRV at the Philippines consulate in his or her home country or place of residence. If the foreign national is already in the Philippines, he or she may apply to the Board of Investment for a change of visa status to special investor resident.

Special Investor Resident Visa in Tourist-Related Projects and Tourist Establishments. Foreign nationals who invest an amount equivalent to US$50,000 in a tourist-related project or in any tourist establishment are eligible to apply for SIRVs. To obtain this type of visa, a foreign national must prove that he or she has remitted the required amount in an acceptable foreign currency to the Philippines through the Philippine banking system. A holder of an SIRV is entitled to reside in the Philippines while his or her capital remains invested. However, if the holder withdraws the investment, the SIRV expires automatically. An SIRV holder must submit an annual report to prove that he or she has maintained the investment in the Philippines.

Foreign nationals wishing to obtain SIRVs must apply to the Philippine consulate in their home country or place of residence. An investor who is already in the Philippines must apply to the Department of Tourism (DOT). The Bureau of Immigration issues the visa on DOT approval.

Special Resident Retiree's Visa. To obtain a special resident retiree's visa, age and minimum deposit requirements must be satisfied. Foreign nationals who are at least 35 years old but less than 50 years old are required to make a minimum deposit of US$75,000. For those 50 years and older, a deposit of US$50,000 is required.

Subic Special Investor's Visa. A Subic special investor's visa entitles a qualified investor, as well as his or her spouse and dependent children under 21 years old, to indefinite resident status in the Subic Bay Freeport Zone and to multiple entries into the Philippines if the individual makes an investment of at least US$250,000 or its equivalent in acceptable foreign currency in the Subic Bay Freeport Zone.

Subic Special Work Visa. A Subic special work visa (SSWV) may be issued to qualified foreign nationals who are employed by Subic enterprises for a period not exceeding two years. The visa is extendible every two years. An SSWV is also issued to the applicant's spouse and unmarried children below 21 years of age if they accompany the foreign national to the Subic Bay Freeport Zone within six months after the foreign national is admitted to the zone as an SSWV holder.

Temporary Work Permit. The Subic Bay Metropolitan Authority (SBMA) may issue a temporary work permit (TWP) to foreign expatriates in order to immediately legalize a foreign national's status as an investor or worker in the Subic Bay Freeport Zone. The permit is issued while the foreign national's investor or work visa application is still in process. It is valid for three months and may be extended every three months, subject to a maximum total extension of one year.

Special Subic Retiree's Visa. A special Subic retiree's visa may be issued to a retired foreign national and his or her qualified dependants if the national receives a pension of at least US$50,000 per year. A person is considered retired if he or she is over 60 years old and if he or she is no longer working or self-employed, or worked for compensation for fewer than 750 hours during the year preceding the year of the visa application.

Special Industrial Training Permit. A foreign national entering the Philippines to undertake noncompetitive industrial training may be issued a special industrial training permit (SITP). Approval of the application for an SITP must be secured by the host firm prior to the industrial trainee's entry into the country. The training should be for a short period of time and should last only as long as necessary to afford the trainee basic technological know-how. An SITP is valid for up to three months and may be extended in certain justifiable cases. An SITP may not be converted into another type of visa.

Immigrant Visa. An immigrant is defined as a foreign national admitted to the Philippines either as a quota (not in excess of 50 per nationality per calendar year) or nonquota (without numerical limitation) immigrant.

Immigrant status may be acquired on application before a competent consular office abroad or by direct application for a change or admission status before the Bureau of Immigration. As a matter of policy, immigration visas are issued to nationals or subjects of countries that grant similar privileges to Filipino citizens.

An applicant for quota immigrant status must clearly and beyond doubt demonstrate that his or her special qualification will advance the national interest of the Philippines. A minimum capitalization of US$40,000 in a viable and acceptable area of investment is required of each quota immigrant applicant.

The Philippines may grant the status of nonquota immigrant to the following categories of people:
- Foreign nationals who are legally married to Filipino citizens;
- Children of foreign nationals who were born during the temporary visits of their parents abroad and whose mothers were previously admitted for permanent residence;
- Children born subsequent to the issuance of viable immigrant visas of the accompanying parents;
- Women who were citizens of the Philippines who lost their citizenship, and their unmarried children younger than 21 years of age if accompanying or following their mothers;
- People previously lawfully admitted for permanent residence returning from temporary visits abroad for unrelinquished residence in the Philippines; and
- Natural born citizens of the Philippines who were naturalized in foreign countries and who are returning to the Philippines for permanent residence, their spouses and their minor children.

On registration, quota and nonquota immigrants are issued Alien Certificates of Registration (ACR) and Immigrant Certificates of Residence (ICR) by the Bureau of Immigration.

G. Alien Employment Permit

Unless specifically exempted, all foreign nationals desiring to work in the Philippines must obtain an Alien Employment Permit (AEP) from the DOLE. AEPs are normally valid for one year, but may be extended annually to cover the foreign national's length of employment, up to a maximum of five years.

Applications for AEPs may be filed with the Philippine embassy or consular office nearest to the foreign national. Local employers who desire to employ a foreign national must apply for the AEP on the foreign national's behalf with the regional office of the DOLE having jurisdiction over the employee's place of work.

The petitioning company must prove that the foreign national possesses the required skills for the position. Educational background, work experience and other relevant factors are considered in evaluating the application. The petitioning company must prove that no Filipino is available who is competent, able and willing to do the specific job and that the employment of the foreign national is in the best interest of the public.

The requirement with respect to the Understudy Training Program (UTP) has been eliminated.

H. Family and Personal Considerations

Family Members. The family members, spouses and unmarried dependent children under 21 years of age of visa holders in the following categories do not need student visas or special study permits:

- Permanent foreign residents (immigrants);
- Holders of Sec. 9(d) or 9(g) or 47(a)(2) visas;
- Foreign diplomatic and consular missions personnel;
- Personnel of duly accredited international organizations;
- Holders of special investor resident visas (SIRVs); or
- Holders of special resident retirees' visas (SRRVs).

Marital Property Regime. Before 3 August 1998, property relations between a future husband and wife were governed by any of the following: marriage settlement, the provisions of the Philippine Civil Code or custom. In a marriage settlement, the future spouses agree to absolute community of property, conjugal partnership of gains, complete separation of property or any other property regime. Absolute community is a property regime under which all property of the spouses—present and future, movable and immovable, however acquired—form a single patrimony. Conjugal partnership of gains is a regime under which everything earned during the marriage belongs to the conjugal partnership, but the spouses retain ownership of their respective separate property. Whichever regime the spouses adopt may not be altered after the marriage is solemnized and continues to apply until the marriage is dissolved. In the absence of a marriage settlement or if the settlement is void, the system of conjugal partnership of gains applies.

Effective from 3 August 1998, future spouses may elect a marital property regime of absolute community, relative community, complete separation of property or any other regime in a written marriage settlement to govern their property relations. In the absence of a marriage settlement or if the property regime elected is void, the system of absolute community of property applies.

Philippine family law is binding on citizens of the Philippines, even if they marry and establish their residence abroad. Foreign nationals are not governed by these laws, regardless of where their marriage is solemnized and where they reside.

Forced Heirship. Under the succession rules in the Philippine Civil Code, an estate is divided into the legitime and the free portion. The legitime is the part of a decedent's entire estate that must be reserved for compulsory heirs. The distribution of the inheritance among the heirs may be effected by a will or by law.

The system of forced heirship in the Philippines applies only to citizens of the Philippines. In general, issues related to succession are regulated by the national law governing the deceased.

Drivers' Permits. Foreign nationals may drive legally in the Philippines with their home country drivers' licenses for 90 days from the time of their entry into the country. An application for conversion of the home country driver's license to a Philippine driver's license may be made at the Philippine Land Transportation Office.

An applicant must pass a written examination, an actual driving test and a drug test. After completion of the examinations, the applicant is issued a driver's license receipt, which serves as a temporary driver's license and is valid for 60 days. Thereafter, a driver's license is issued to the applicant. A driver's license is valid for three years and expires on the holder's third birth date following the date of issuance.

An expatriate intending to secure an international driver's permit must submit additional documents to the Land Transportation Office.

The Philippines does not have driver's license reciprocity with other countries.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

In the Philippines, employee benefits are classified into income benefits and fringe benefits. Income benefits are taxable to the individual. Fringe benefits tax (FBT) is imposed on fringe benefits granted to non-rank-and-file employees. However, this tax is borne by employers. Fringe benefits are not included in the taxable income of non-rank-and-file employees.

FBT is computed based on the grossed-up monetary value of the benefit.

The table below shows the most common income items received by a foreign employee while on assignment in the Philippines.

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	(a)
Employer contributions to home-country benefit plan	—	X	(b)
Employee contributions to home-country benefit plan	X	—	(a)(c)
Employee contributions to home-country benefit plan shouldered by employer	X	—	(a)(c)
Bonus	X	—	(a)(d)
Allowances	X	—	(a)(e)
Moving and related expenses with respect to travel to and from a Philippines assignment	—	X	(f)(g)
Housing unit	X	—	(f)(h)
Housing maintenance expenses	X	—	(f)
Motor vehicle use	X	—	(f)
Home leave, holiday or vacation expenses	X	—	(f)
Emergency leave	X	—	(f)
Spouse or partner allowance	X	—	(a)
Children's education	X	—	(f)
Driver's services	X	—	(f)
Property management fee	X	—	(a)(i)
Stock options	X	—	(a)(j)

	Taxable	Not Taxable	Comments
Tax-balancing settlement	X	—	(a)(k)
Philippine taxes borne by employer	X	—	(a)(l)
Medical benefits	—	X	(d)(m)
Life, health or other insurance	—	X	(n)
Membership dues and fees for social and athletic clubs and similar organizations	X	—	(f)
Airfare for foreign business travel	—	X	(d)(o)
Other Items			
Sale of property located outside the Philippines	X	—	(a)(p)
Sale of shares	—	—	(a)(q)

(a) This item is classified as an income benefit.
(b) These contributions do not constitute taxable income to the employee if the employee does not actually or constructively receive the contributions. In cases involving employer contributions to foreign retirement and pension funds, the Philippine tax authorities have determined that employer contributions to these funds are not taxable to expatriate employees. However, the Philippine entities were not allowed to deduct the contributions in their corporate income tax returns.
(c) The contributions are considered income benefits, regardless of whether the plan is shouldered by the employer.
(d) The first P 30,000 is exempt from tax.
(e) Allowances are not taxable if it is shown by substantial proof that the allowances were used for ordinary and necessary business purposes.
(f) This item is classified as a fringe benefit.
(g) This item is taxable compensation to the employee if it is given in cash and if it is not subject to "proper liquidation." In this context, "proper liquidation" means that the amount received from the employer is used for ordinary and necessary trade, business or profession expenses, and are fully substantiated by proper documentation.
(h) The value of the unit is not taxable if it is used temporarily (not exceeding three months) or if the unit is located adjacent to the business premises (within 50 meters from the perimeter of the business premises).
(i) Property management fees are expenses incurred by the employer for the maintenance of the employee's home country residence that the employee has left as a result of his or her Philippines' assignment. Because this fee is normally provided in the form of a cash allowance, it is considered as an income benefit.
(j) The taxability of stock options arises on exercise and applies only to income pertaining to services in the Philippines. In a tax ruling issued on 16 June 2005, the Philippine tax authorities characterized stock option income as a fringe benefit subject to FBT. Before this ruling, the tax authorities had issued rulings characterizing stock option income as compensation income. However, these rulings were issued before the introduction of the FBT in the Tax Code. However, in practice, the tax authorities have always treated option income as compensation income. As a result of the issuance of the ruling of 16 June 2005, an issue now exists as to whether a change in the characterization of stock option income has occurred. It can be contended that if the factual setting of a particular company's plan can be differentiated from the factual circumstances of the plan that was the subject of the 16 June 2005 ruling, the stock option income is subject to income tax rather than to FBT. However, this is subject to obtaining a confirmatory tax ruling.
(k) This is similar to tax equalization.
(l) This item is taxable when the employer makes the payment.
(m) Medical benefits paid by the employer are not taxable to the employee if they do not exceed P 10,000 per year for benefits granted to the employee or P 125 per month for benefits granted to a dependant of the employee. Amounts in excess of these thresholds may still be exempt from tax if the total of the

excess amount, the 13th month pay and other benefits does not exceed P 30,000.

(n) Life, health or other insurance is not taxable if it is provided as group insurance.
(o) The airfare is not taxable if the employee travels in economy or business class. Thirty percent of the cost of first-class airplane tickets is taxable.
(p) A sale of property outside the Philippines by a resident or nonresident alien is not taxable in the Philippines.
(q) A sale of shares by a non-Filipino national or a nonresident Filipino national is not taxable if the shares are of a foreign corporation and if the sale occurs outside the Philippines. However, a sale of shares of a foreign corporation that occurs in the Philippines is taxable. The amount of the taxable gain depends on how long the employee has held the shares. If the employee held the shares for more than 12 months, only 50% of the gain from the sale of the shares is taxable. However, if the shares have been held for a shorter period, the full amount of the gain is taxable. Capital losses incurred on sales of the shares are deductible against capital gains derived from sales of shares. The taxable amount is included in the employee's taxable income.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample 2005 tax calculation is provided below for an expatriate who is classified under Philippine tax rules as a resident of the country and is married with two "dependent" (as defined in the Tax Code) children. For 2005, the expatriate received the following compensation items.

	P
Salary	5,000,000
Bonus	1,000,000
Stock option income	750,000
Allowances	120,000
Total	6,870,000

All of the stock option income relates to the expatriate's Philippine assignment. For purposes of the calculation, the stock option income is assumed to qualify as compensation income rather than as a fringe benefit. The expatriate's contributions to the Philippine social security system and related government agencies totaled P 10,200 for the year and were borne by the employer. All of the fringe benefits were subject to fringe benefits tax. The following is the income tax computation for the expatriate.

	P
Calculation of Net Taxable Income	
Total income	6,870,000
Add:	
Employer-borne contributions	10,200
Gross income	6,880,200
Less:	
Employer-borne contributions	(10,200)
Nontaxable bonus	(30,000)
Gross taxable income	6,840,000
Less:	
Personal exemption (married)	(32,000)
Additional deduction (for children)	(16,000)
Net taxable income	6,792,000
Calculation of Tax	
Tax on P 500,000	125,000
Tax on P 6,292,000 at 32%	2,013,440
P 6,792,000	
Total tax due	2,138,440

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Because of the rapidly changing economic and political situation in Poland, readers should obtain updated information before making decisions.

A. Income Tax

Who Is Liable. Residents are taxed on worldwide income. Non-residents are taxed on Polish-source income only.

Individuals who have their permanent place of living in Poland are generally considered Polish tax residents and are taxed on worldwide income. Individuals who do not have their permanent place of living in Poland are taxed in Poland only on Polish-source income.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable compensation includes salaries, bonuses and other compensation from employment exercised in Poland, regardless of whether paid in cash or in kind.

Education allowances provided by employers to their local and expatriate employees' children 18 years of age and under are taxable for income tax and social security purposes.

Self-Employment and Business Income. Taxable self-employment income consists of income from self-employment activities after the deduction of allowable expenses. Self-employment income is taxed with other income at the progressive rates set forth in *Rates*.

Under certain circumstances, self-employment income may be taxed at a 19% flat rate (the difference between earnings and tax-deductible costs equals taxable income). Real estate rental income may be taxable as self-employment income or may be treated as a separate source of income.

Directors' Fees. In general, directors' fees paid to residents are taxed with other income at the rates set forth in *Rates*. Directors' fees paid to nonresidents are subject to a final withholding tax of 20%.

Investment Income. Interest income derived in Poland (except for interest derived from loans connected with business activities) and income derived from capital (investment) funds in Poland are generally taxed at a flat rate of 19%. Dividends from Poland are generally taxed at a flat rate of 19%. Interest on personal bank account deposits is taxed at a flat tax rate of 19%. In principle, all of these taxes are withheld at source.

Income from the rental of real estate is taxed with other self-employment income at the progressive rates set forth in *Rates*. Rental income may also be taxed at a flat rate of 8.5%, up to the annual ceiling of €4,000, with a 20% rate applying to such income exceeding that limit. For the taxation of real estate sales, see *Capital Gains* below.

Taxation of Employer-Provided Stock Options. In general, employer-provided stock options are taxed at the time of exercise on the difference between the exercise price and the fair market value at the date of exercise. This amount is taxed at the standard progressive tax rates; however, this amount may be tax-exempt for individuals granted the right to obtain newly issued shares by a resolution of the shareholders' meeting.

At the time the shares are sold, an amount equal to the sale price decreased by the exercise price and by the amount of the taxable income recognized at the time of exercise is taxed at a 19% rate.

Capital Gains. Capital gains derived from the sale of real estate are taxed at a flat rate of 10% on the sale price. However, if the sale of real estate occurs more than five years after the end of the calendar year in which the real estate was acquired or built (six months for other property, counted from the end of the month in which the property was acquired), the proceeds of the sale are not subject to tax.

Income from the sale of shares (unless the income is received in a business activity) is subject to tax at a 19% rate.

Deductions

Deductible Expenses. A limited number of deductions and credits are allowed, and only a few apply to nonresidents.

Contributions for scientific, charitable, educational, religious, health and environmental protection purposes, or to cultural institutions are deductible from income, up to 6% of the annual income. Expenses incurred to pay interest on a mortgage are deductible from income within certain limits. Expenses up to PLN 760 incurred with respect to Internet access in the place of residence are deductible from income.

Personal Deductions and Allowances. Small personal deductions or allowances may be claimed in calculating income tax.

Business Deductions. Self-employed individuals may deduct most costs directly related to generating business income, unless they are subject to lump-sum taxation (see *Rates*).

Rates. Income tax for 2006 is levied at the rates set forth in the following table.

Taxable Income Exceeding PLN	Taxable Income Not Exceeding PLN	Tax on Lower Amount PLN	Rate on Excess %
0	37,024*	0	19
37,024	74,048	6,504.48	30
74,048	—	17,611.68	40

* Tax on this bracket is calculated at 19% and then reduced by PLN 530.08.

Income from an undisclosed source is separately taxed at a rate of 75%.

Different types of taxation of self-employment income exist in Poland. In general, self-employment income is taxed together with other income at the rates set forth above. Under certain circumstances, self-employment income may be taxed at a 19% flat rate (the difference between earnings and tax-deductible costs equals taxable income). In addition, if self-employment income did not exceed €250,000 in the preceding year, lump-sum taxation at rates ranging from 3% to 20% may apply. However, individuals who render independent personal services or intangible services, among other services, are not subject to lump-sum taxation.

Nonresidents are subject to a final withholding tax of 20% on fees received for membership on management boards granted under a resolution passed at the shareholders' meeting and on income derived from commission, service and management contracts, interest, copyrights, trademarks, designs and know-how.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses from self-employment activities may offset income only from the same source. Unused losses may be carried forward for the following five years. However, not more than 50% of the original amount carried forward may be offset against profits in each of the following five years. Consequently, part of the benefit of the losses carried forward may be forfeited if a taxpayer has insufficient profit from a particular income source.

B. Inheritance and Gift Tax

Individuals who receive inheritances or gifts are subject to tax based on the net value (value less encumbrances) of the property received. Residents are subject to inheritance and gift tax on worldwide assets. Nonresidents are subject to inheritance and gift tax on assets located in Poland only.

Tax rates are progressive and range from 3% to 20% for 2006, depending on the type of property received and on the recipient's relationship to the donor or the deceased. For inheritances, the recipient of the property is obligated to pay the tax due. For gifts, both the donor and the recipient are jointly responsible for payment of the tax due.

C. Social Security and Health Care Taxes

Social Security. Social security contributions are paid partly by the employer and partly by the employee. Contributions are levied at the following rates calculated on the employee's gross remuneration.

Type of Contribution	Rate (%)
Retirement insurance	19.52
Disability insurance	13.00
Sickness insurance	2.45
Industrial injuries insurance	0.90 to 3.60*

* The rate depends on the employer's type of business activity.

Contributions for retirement and disability insurance are paid half by the employer and half by the employee. The employee pays the entire sickness insurance contribution, and the employer pays the entire industrial injuries insurance contribution. The maximum annual base for calculating retirement and disability contributions is 30 times the projected national average monthly remuneration for that year (PLN 73,560 for 2006).

As a result of Poland's accession to the European Union (EU), it is covered by the EU social security regime, which is principally provided in EC Regulation 1408/71.

Health Care System. Contributions to the health care system are levied at a rate of 8.75% on the employee's assessment base, which is gross remuneration after deduction of the employee's contributions to retirement, disability and sickness insurance. Health care contributions are partially (7.75% of the health care base) deductible for personal income tax purposes.

D. Tax Filing and Payment Procedures

The tax year in Poland is the calendar year. By 30 April following the close of the tax year, taxpayers must file tax returns and pay any difference between total tax payable and advance payments. Married persons who are Polish tax residents may be taxed jointly, if certain conditions are met.

Income tax is generally withheld directly by employers on behalf of employees and remitted to the tax office within 20 days after the end of the month in which the income is paid or made available to the employee. Self-employed individuals and expatriates on temporary assignments to Poland who are paid from abroad must make advance tax payments and file tax returns each month, and must file annual tax reconciliations stating their income received and the advance tax paid by 30 April of the following year.

E. Double Tax Relief and Tax Treaties

Poland has entered into double tax treaties with the countries listed below. Most of the treaties follow the Organization for Economic Cooperation and Development (OECD) model convention.

Albania	Iran (a)	Romania
Algeria (a)	Ireland	Russian Federation
Armenia	Israel	Singapore
Australia	Italy	Slovak Republic
Austria	Japan	Slovenia
Azerbaijan	Jordan	South Africa
Bangladesh	Kazakhstan	Spain
Belarus	Korea	Sri Lanka
Belgium	Kuwait	Sweden

Bulgaria	Kyrgyzstan	Switzerland
Canada	Latvia	Syria
Chile	Lebanon	Tajikistan
China	Lithuania	Thailand
Croatia	Luxembourg	Tunisia
Cyprus	Macedonia	Turkey
Czech Republic	Malaysia	Ukraine
Denmark	Malta	USSR (b)
Egypt	Mexico	United Arab Emirates
Estonia	Moldova	United Kingdom
Finland	Mongolia	United States
France	Morocco	Uruguay (a)
Georgia (a)	Netherlands	Uzbekistan
Germany	Nigeria (a)	Vietnam
Greece	Norway	Yugoslavia
Hungary	Pakistan	Zambia (a)
Iceland	Philippines	Zimbabwe
India	Portugal	
Indonesia		

(a) Treaties have been signed or initiated, but are not yet in force.
(b) Poland honors the USSR treaty with respect to the former republics of the USSR that have not entered into double tax treaties with Poland.

F. Temporary Permits

Any individual without Polish citizenship is considered a foreign national. Foreign nationals may remain in Poland with valid passports or visas usually for periods of no longer than three months. Visas may be obtained in any Polish consulate abroad. Foreigners entering Poland with a visa or under the "visa-free" movement regulations may not stay in Poland for a total of more than three months during any six-month period, counting from the date of entry. A foreigner who wishes to stay in Poland for longer than three months must apply for a temporary residence permit and demonstrate good cause for an extended stay. Good cause includes, but is not limited to, the grant of an employment permit or the performance of other work in Poland. Temporary residence permits are, in principle, valid for a period of up to two years.

Within two days after arrival in Poland, an individual is expected to register with the municipal office in the district of his or her intended residence. The registration is usually effected by the hotel where the person is staying.

For EU citizens, temporary residence permits are required for stays longer than three months. These permits are available immediately for a five-year period for EU citizens who are working or intend to work or perform business activity in Poland for period exceeding 12 months or who are covered by health insurance and have sufficient financial resources for their stay in Poland. Permanent residence permits for EU citizens are called "EU citizen cards." The requirement described above does not apply to EU citizens who work or run business activity in Poland and who retain their permanent place of residence abroad and return there at least once a week.

G. Residence Permits

Foreign individuals intending to stay in Poland permanently may obtain permanent residence cards, which entitle them to permanent domicile in Poland. In general, a foreign individual may obtain a permanent residence card if he or she satisfies the following conditions:

- He or she resides in Poland at least five years;
- He or she has accommodations in Poland;
- He or she has financial resources to live in Poland; and
- He or she can prove his or her economic or personal relations with Poland.

Permanent residence cards are issued by the *voivod* in the district where the applicant intends to reside permanently. The Commandant of Voivod Police must give his or her opinion on the suitability of the applicant before the card is granted.

A person with a permanent residence card is treated as a Polish citizen for purposes of labor regulations and does not need a work permit or permission to undertake employment in Poland.

The permanent residence card is considered the foreigner's identity card in Poland.

H. Work Permits and Self-Employment

Polish law concerning the employment of expatriates is subject to frequent change. The law is intended to protect the internal market and to limit the employment of expatriates. Foreign nationals wishing to take up employment with a Polish company must obtain a work permit.

Citizens of Finland, Greece, Ireland, Portugal, Spain, Sweden and the United Kingdom, as well as of the new EU countries are exempted from the requirement of obtaining a work permit in Poland. Work permit procedures have been simplified for citizens of Denmark, Italy, the Netherlands and Norway. The reciprocity rule applies to the other old EU member states.

In addition, EU citizens who were working in Poland before 1 May 2004 on the basis of work permits valid for at least 12 months or who were granted work permits after that date for at least 12 months are allowed to continuously work in the Poland market on the basis of such work permits.

All foreigners working in Poland under an employment contract or a civil-service contract, or on secondment, must obtain work permits. This rule does not apply to citizens of EU countries that have removed restrictions on their labor markets. A work permit is required regardless of who is paying the salary of the foreigner for work performed in Poland. Foreigners, excluding EU citizens, who are on the board of directors of companies based in Poland also must obtain work permits.

Secondments. Foreign individuals are frequently seconded to Poland to perform services, based on service agreements between foreign employers and Polish companies.

The foreign employer must apply to the regional administration (*voivod*) office in the district where the service contract is executed for a permit pledge before commencing services in Poland. The foreign employer must provide the *voivod* with the service agreement and details of the individuals concerned. A permit pledge is issued by the *voivod* after it analyzes the local labor market conditions. Permit pledges are issued to foreign individuals with the specific qualifications required for the performance of the services set out in the service agreements. This permit pledge may be valid for a period of the term of the foreigner's visa or temporary residence card, that is, for up to two years, with the possibility of an extension. On the basis of this permit pledge, a foreigner may apply for a visa at the Polish consulate in his or her place of residence. The final step, the issuance of a work permit to take up employment, is granted after the applicant obtains the visa or temporary residence permit.

Work Permits. Before issuing a permit pledge and work permit, the *voivod* evaluates documents concerning the company in which the foreign individual intends to work and scrutinizes information on the individual, the position he or she is offered and the remuneration. The employer must submit a short and well-supported explanation of the reasons why the company wishes to employ this person rather than a Polish citizen. The relevant documents (diploma and degree) confirming the foreign national's qualifications for the post should also be submitted. An individual who is unable to produce the necessary documentation may encounter difficulties in obtaining a work permit pledge. The employer must file an advertisement with the municipal labor office, describing the position being offered and the skills required. The *voivod* issues a work permit pledge only after being informed by the local labor office that no Polish applicants applied for the position. For certain positions, this opinion from the local labor office is not required.

Both the work permit pledge and work permit may be revoked if any of the following occurs:
- The recipient performs activities contrary to those set out in the permit;
- The recipient loses certain qualifications required for the performance of the job (for example, a driver's license is withdrawn); or
- The recipient acting on behalf of the employer in labor law matters grossly and persistently breaches the labor law rules.

The administrative fee for obtaining the work permit to take up employment is equivalent to one month's minimum wage, as announced every quarter by the Ministry of Labor and Social Policy.

Self-Employment. Self-employed foreign nationals may obtain visas or temporary residence permits. EU citizens may obtain residence permits called "EU citizen cards."

I. Family and Personal Considerations

Family Members. Family members of expatriate applicants who obtain work or business visas or residence cards of the EU citizens may receive visas as accompanying persons. These visas or residence cards of the EU citizens may be issued for a period no longer than the period of validity of the primary applicant's visa or residence card of the EU citizen.

Marital Property Regime. A community property regime applies in Poland to married couples. Under the regime, property acquired before the marriage or during the marriage for proceedings received as an equivalent for the property acquired before the marriage remains separate. Couples may amend or elect out of the regime by a notarized agreement.

Forced Heirship. Under Polish inheritance law, specified legal heirs, including descendents, surviving spouse and parents, are entitled to a legal portion of an estate if certain conditions are met.

Drivers' Permits. Foreign individuals may drive legally in Poland with their home country drivers' licenses or international drivers' licenses for a period of six months. After an individual has been in Poland for six months, he or she may apply for a Polish license.

Members of the diplomatic corps often enjoy special privileges with respect to drivers' licenses.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	(b)
Retained hypothetical tax	(X)	—	(c)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	(c)
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowances	X	—	(b)
Premium allowances	X	—	(b)
Home-leave allowances	X	—	—
Other compensation income	X	—	(b)
Moving expense reimbursement	—	X	(d)
Tax reimbursement:			
Current gross-up	X	—	—
One-year rollover	X	—	—
Deferred compensation	—	X	(e)
Value of meals provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(f)
Capital gain from sale of personal residence in home country	—	X	(f)
Capital gain from sale of stock in home country	—	X	(f)

* Bracketed amounts reduce taxable income.
(a) The deductibility of employee contributions from compensation depends on the character of the contributions.
(b) If received by nonresident expatriates, only the portion of the remuneration connected with work in Poland is taxable.
(c) Hypothetical tax and housing contributions are not taxable if the amount of tax or housing contributions is not placed at the expatriate's disposal.

(d) Actual moving expenses reimbursed by the employer are not taxable compensation within certain limits.
(e) Deferred compensation is not taxable until it is paid. However, if the compensation vests before payment, it may be taxable at an earlier date.
(f) If the individual is a nonresident of Poland, the tax base is limited to Polish-source income. As a result, the item is tax-free in Poland.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation is provided below for a nonresident expatriate who is married without children and worked the entire year in Poland. For purposes of the calculation, the health care contribution is not taken into account.

	PLN
Gross employment income earned by one individual of the married couple after deduction of Polish social security tax	175,000.00
Income tax:	
On first PLN 74,048	17,611.68
On PLN 100,952 at 40%	40,380.80
Total tax liability (rounded)	57,992.00

PORTUGAL

Country Code 351

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A. Income Tax

Who Is Liable. Residents of Portugal are subject to tax on their worldwide income. Nonresidents are subject to personal income tax on income arising in Portugal.

An individual is considered resident in Portugal if, among other conditions, he or she meets any of the following conditions:
• He or she stay in Portugal for more than 183 days in a calendar year;
• He or she has a dwelling in Portugal, which may imply his or her intention to use it as his or her habitual residence; or
• The individual's spouse is resident in Portugal.

Effective from 2006, if a spouse does not meet the first condition stated above and if he or she submits proof that no connection exists between the majority of his or her economic activities and Portugal, he or she is deemed to be a nonresident of Portugal. However, his or her spouse residing in Portugal is deemed resident and taxed under rules applicable to split couples.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Personal income tax (IRS) is imposed on the earned income of employed individuals.

Business and Professional Income. Taxable income includes all earned income of a professional individual, including commissions and profits from a trade. Business and professional income is taxed at the personal income tax rates listed in *Rates*.

Directors' Fees. Directors' fees are taxed in the same manner as income from employment.

Investment Income. A withholding tax of 20% is imposed on interest income derived from public company bonds and state bonds and on bank interest. Dividends paid by resident companies are subject to a 20% final withholding tax. However, if an election is made, dividends can be included in taxable income in the tax return, and taxed at the rates set forth in *Rates*, with credit given for the tax withheld. Withholding taxes are final on bank interest; interest from public company bonds, bills or other paper; and public debt. The taxpayer may elect to include these items in taxable income, with a credit given for the tax withheld. A 50% relief applies to dividends received from resident companies subject to corporate tax or from European Union (EU) companies that fulfill the requirements of the EU Parent-Subsidiary Directive.

Other investment income is taxed at the personal income tax rates described in *Rates*.

Rental income and royalties are subject to a 15% withholding tax. Maintenance, repair expenses and municipal property tax may be deducted from gross rental income if actually incurred and properly documented. Rental income and royalties are taxed at the personal income tax rates set forth in *Rates*, with a credit available for the withholding tax.

Capital Gains and Losses. Taxable capital gains that are not specifically exempt or taxed separately are taxed at the ordinary rates listed in *Rates*. No withholding tax applies. In general, gains derived from sales of the following assets are taxed at the personal income tax rates set forth in *Rates*:
- Real estate and associated rights;
- Industrial or intellectual property, including trademarks and registered designs, if the seller is not the original owner; and
- A taxpayer's property transferred to the taxpayer's business (however, this gain may be deferred, see below).

Capital gains derived from sales of the following assets are exempt from tax:
- Bonds and debentures;

- Securities acquired before 1 January 1989;
- Shares of stock companies held for more than 12 months, unless the principal assets of the company are, directly or indirectly, Portuguese immovable property or rights attached thereto;
- Real estate, except land for construction, owned prior to 1 January 1989; and
- A personal residence if the proceeds are reinvested in another personal residence in Portugal within 24 months after the sale or 12 months prior to the sale.

The following capital gains benefit from special tax treatment:
- Gains derived from the sale of real estate or associated rights, excluding real estate used in a trade or business, are taxed only to the extent of 50% of the gain.
- Gains derived from transfers of a taxpayer's property to the taxpayer's business are deferred until a subsequent disposition of the property occurs, and only 50% of the gain is taxed.
- Gains derived from the sale by nonoriginal owners of copyrights, patents and various other types of intellectual property are taxed only to the extent of 50% of the gain.
- Gains derived from the disposal of securities (including autonomous warrants and shares of stock companies held for less than 12 months) and derivative financial products are subject to tax at a rate of 10%, if an exemption does not apply.
- Gains derived by nonresidents from the disposal of securities are subject to tax at a rate of 10%. An exemption may apply under domestic rules or an applicable double tax treaty.

In calculating the capital gain derived from the sale of real estate, the purchase price is indexed by an official government coefficient to account for inflation.

Capital losses may offset capital gains only.

Taxation of Employer-Provided Stock Options. Income derived from employer-provided stock options is taxed in the same manner as employment income (see *Employment Income*).

Deductions

Deductible Expenses. For 2006, employees may deduct 72% of 12 times the minimum salary (€3,334.18). Social security contributions in excess of 72% of 12 times the minimum salary are deductible without limitation.

Personal Deductions and Allowances. Resident taxpayers may deduct required pension contributions and alimony, with no limit.

For 2006, individuals may credit the following against their tax liability:
- €231.54 for each single individual or €192.95 for each married individual.
- €154.36 for each child.
- €212.25 for each ascendant who lives with the taxpayer and does not receive income above the minimum social security retirement pension. This credit is increased to €323 if only one such ascendant lives with the taxpayer.
- For expenses that are exempt from value-added tax (VAT) or are subject to VAT at a rate of 5%, 30% of unreimbursed medical expenses of the taxpayer and the taxpayer's dependants and

interest paid on loans incurred to pay these medical expenses. For such expenses subject to VAT at a rate higher than 5%, the credit is limited to the higher of 2.5% of the expenses or €59 if a medical prescription is obtained (the credit is allowed only if a medical prescription is obtained).
- 30% of interest, amortization of loan principal and charges on loans for the acquisition or improvement of a Portuguese residence or the rental payments made to the owner of the Portuguese residence, limited to €562.
- 30% of education expenses of the taxpayer and the taxpayer's dependent children, limited to €617.44 (for single or married taxpayers). The limit is increased by €115.77 for each dependant if education expenses are incurred for a total of 3 or more dependants.
- 25% of life insurance, medical insurance and personal accident premiums, limited to €59 for single taxpayers and to €118 for married taxpayers.
- 25% of donations to the state or municipalities, increased by 20%, 30% or 40%, depending on the type of the beneficiary entities.
- 25% of donations to religious institutions, public utility collectives, schools, museums, libraries, cultural associations, and philanthropic and charitable institutions, increased by 30%, with the credit limited to 15% of the total tax liability.
- Advance personal income tax payments and taxes previously deducted at source.

Business and Professional Deductions. Professionals and individuals carrying on a business may be taxed under one of the following two regimes: the simplified regime; and the organized accounting regime.

Business and professional income may be taxed under the simplified regime if the taxpayer does not choose to use and is not required to use organized accounting and if the annual turnover does not exceed €149,739.37 for sales of shares or €99,759.08 for other revenue from the activity.

Under the simplified regime, taxable income is calculated by applying predefined coefficients, which vary depending on the activity's sector, to gross income. These coefficients are not yet defined; currently, taxable income is determined by applying 0.2 to the amount of sales, and 0.65 to other income. The resulting amount may not be lower than €2,701.30 and it is subject to tax at normal rates. No activity-related expenses are deductible from the resulting amount.

The simplified regime continues to apply during a three-year period, unless the individual elects to switch to the organized accounting regime. The simplified regime ceases to apply if the qualifying limits are exceeded for two consecutive years or by more than 25% during a single year.

The organized accounting regime provides for the deduction of activity-related expenses. Taxable income is calculated using the corporate tax rules, with additional limitations imposed on the deduction of the following expenses:
- Travel expenses exceeding 10% of gross business and professional income are not deductible; and

- Amounts booked as remuneration paid to the self-employed individual, or to his or her spouse or dependent children who render services to the business, are not deductible.

If a professional's house is partially used as an office, the professional may deduct certain expenses, including rent, water and telephone costs, and depreciation, up to 25% of the total amount of expenses incurred.

Certain expenses are taxed autonomously, triggering an additional tax burden. These expenses include the following:
- Confidential or undocumented expenses: not tax-deductible and are subject to a surcharge of 50%;
- Entertainment expenses: the amount that is deductible from gross business or professional income is subject to a 5% surcharge;
- Expenses related to cars, recreational boats, aircrafts and motorcycles: the amount that is deductible from gross business or professional income is subject to a 5% surcharge;
- Per diems and expenses related to the use of personal car by the employee for the company's business: taxed at 5% if such expenses were not charged to clients or taxed as employment income; and
- Payments to nonresident entities that are subject to a favorable tax regime: if it cannot be proved that these expenses relate to operations effectively performed, that the payments are normal for the type of activity and that the amount is not unreasonable, the tax deduction is denied and a 35% surcharge is imposed on the amount.

Rates. The following personal income tax rates apply for 2006.

Taxable Income Exceeding €	Taxable Income Not Exceeding €	Tax on Lower Amount €	Rate on Excess %
0	4,451	0	10.5
4,451	6,732	467.36	13
6,732	16,692	763.89	23.5
16,692	38,391	3,104.49	34
38,391	55,639	10,482.15	36.5
55,639	60,000	16,777.67	40
60,000	—	18,522.07	42

For sample tax calculations, see Appendix 2.

Relief for Losses. Losses from business or professional activities may be carried forward and offset against profits from activities of the same type in the following six years. Losses may not be carried back.

B. Inheritance and Gift Taxes

Inheritance and gift taxes were eliminated, effective from 1 January 2004. However, stamp duty at a rate of 10% applies if the beneficiary is an individual (except for the spouse, ascendants and descendants who benefit from an exemption), or corporate tax applies at a rate of 25% (plus a municipal surcharge of 10% in the case of residents or permanent establishments) if the beneficiary is a collective person.

Specific rules apply to determine whether an asset is deemed to be located in Portugal for inheritance and gift purposes.

C. Social Security

Contributions. Social security contributions are payable on all salaries, wages, regular bonuses and other regular income, excluding lunch subsidies. No ceiling applies to the amount of wages subject to social security contributions for employers or employees (however, see below for the rule regarding members of a company's government body). The employer's share is 23.75%, and the employee's share is 11%, of salaries. An employer must deduct an employee's contribution and pay the total amount to the tax authorities by the 15th of the following month.

A self-employed individual engaged in a business or professional activity is subject to monthly social security contributions calculated on a base preselected by the individual, which varies between 1.5 and 12 times the monthly minimum national salary. Currently, the monthly minimum national salary is €385.90. Self-employed individuals may reduce their contribution bases without restriction. However, they may increase their contribution bases by only one bracket only once a year as long as they are younger than 55 years of age. The following are the contribution rates for self-employed individuals:

- 25.4% for the compulsory coverage only (retirement, disability, death and old age); or
- 32% for compulsory coverage plus coverage for professional sickness and illness and other family benefits.

Members of a company's governing bodies (management, supervisory and general meeting) are usually subject to social security contributions based on actual compensation. For contribution purposes, the actual compensation base must equal at least one monthly minimum national salary and may not exceed 12 times the monthly minimum national salary, although in certain circumstances, no maximum is imposed. The rates are 10% for individuals and 21.25% for companies.

Totalization Agreements. Foreigners who work temporarily (up to two years) in Portugal and who contribute to a compulsory social security scheme in their country of origin are not subject to Portuguese social security contributions. To provide relief from double social security taxes and to assure benefit coverage, Portugal has entered into totalization agreements, which generally apply for a period of 12 months, with the following jurisdictions.

Andorra	Germany	Quebec
Argentina	Greece	Slovak Republic
Australia	Hungary	Slovenia
Austria	Iceland	Spain
Belgium	Ireland	Sweden
Brazil	Italy	Switzerland
Canada	Latvia	United Kingdom
Cape Verde	Liechtenstein	(Guernsey,
Chile	Lithuania	Herm,
Cyprus	Luxembourg	Isle of Man,
Czech Republic	Malta	Jersey and
Denmark	Morocco	Jethou)
Estonia	Netherlands	United States
Finland	Norway	Uruguay
France	Poland	Venezuela

D. Tax Filing and Payment Procedures

Tax on income shown in the table below is withheld at source. The withholding taxes for residents are considered advance payments of tax, except for withholding on interest derived from specified sources (see footnotes).

Type of Taxable Income	Withholding Tax Rates Residents %	Withholding Tax Rates Nonresidents %
Employment income	(a)	25 (b)
Directors' fees and similar fees	(a)	25 (b)
Business and professional services income	10/20	15/25 (b)
Royalties and copyright income	15	15 (b)
Commissions	20	15 (b)
Bank deposit interest	20 (c)	20 (b)
Income from life insurance policies	20 (c)	20 (b)
Interest from state bonds	20 (c)	20 (b)
Dividends	20	20 (b)
Gains arising on "swaps," other credit operations and other financial instruments	20 (c)	20 (b)
Income from the use or concession of equipment	15	15 (b)
Rentals	15	15
Pension	(a)	25 (b)
Other investment income (including other interest)	15	20 (b)

(a) Withholding taxes deducted at progressive rates according to levels of income.
(b) This is a final withholding tax; income need not be declared.
(c) Income may be declared at the option of the taxpayer.

Married taxpayers who are not legally separated are assessed on their combined income. Tax is calculated on one-half of the income, and twice that amount constitutes the IRS tax liability. This method may apply to unmarried couples living together if an election is made and certain requirements are met.

The tax year in Portugal is the calendar year. Residents, as well as nonresidents who have filing obligations, with only employment income or pension income must file their tax returns by 15 March of the following year. Residents, as well as nonresidents who have filing obligations, with other income must file their returns by the end of April. Any balance of tax due or excess tax paid is payable or refundable when the Portuguese tax authorities issue the respective tax assessment.

Nonresidents who receive rental income from Portugal or who realize a capital gain in Portugal must file tax returns by the end of April of the year following the year of receipt.

E. Double Tax Relief and Tax Treaties

Residents who receive foreign-source income are entitled to a tax credit equal to the lower of the foreign tax paid or the Portuguese tax payable on such income. The credit may be carried forward for five years and applies to income derived from treaty and non-treaty countries; however, for treaty countries, the credit is limited to the amount of tax payable in the country of source.

Brokers resident in countries with which Portugal has concluded double tax treaties are exempt from tax on commissions received from Portuguese entities. This exemption also applies to income from business and professional services. Specific forms are required to qualify for the exemption.

Social security contributions and other deductible expenses (see Sections A and C) incurred overseas may be deducted if properly documented.

Portugal has entered into double tax treaties with the following countries.

Austria	Iceland	Pakistan*
Belgium	India	Poland
Brazil	Ireland	Romania
Bulgaria	Italy	Russian Federation
Canada	Korea (South)	Singapore
Cape Verde	Latvia	Slovak Republic
China	Lithuania	Slovenia
Cuba	Luxembourg	Spain
Czech Republic	Macau	Sweden
Denmark	Malta	Switzerland
Estonia	Mexico	Tunisia
Finland	Morocco	Ukraine
France	Mozambique	United Kingdom
Germany	Netherlands	United States
Greece	Norway	Venezuela
Hungary		

* This treaty is not yet in force.

F. Temporary Visas

All foreign nationals wishing to enter Portugal must possess identifying documents. EU nationals may enter with either passports or identity cards. Non-EU nationals must have valid passports to enter for short stays. Entry visas are required for non-EU nationals from countries with which Portugal has no reciprocal agreement regulating the rights of entry.

The government of Portugal issues the following types of visas through its embassies or consulates located abroad:

- Transit visas: Holders of transit visas may enter Portugal when in transit to another country that has granted admission to the individual. These visas are valid for five days.
- Temporary stay visas: Temporary stay visas allow their holders to enter Portugal to receive medical treatment, escort a family member to Portugal to receive medical treatment or to take a course. These visas are valid for up to one year.
- Study visas: Holders of study visas may attend courses, perform scientific research to obtain a degree and obtain training in Portugal. These visas are valid for up to one year.
- Short-term visas: Short-term visas allow their holders to enter Portugal if other types of visas are not applicable. These visas are valid for up to one year.

- Residence visas: Residence visas allow their holders to enter Portugal for the purpose of requesting residence permits (see Section H). These visas are valid for six months.
- Work visas: Work visas allow their holders to work in Portugal (see Section G).

G. Work Visas and Self-Employment

EU nationals may undertake employment without permission. All other foreign nationals who wish to work in Portugal must apply for work visas. A non-EU national may not engage in employment until a work visa is issued.

Work visas allow their holders to engage in dependent employee, self-employed, or sporting- or entertainment-related professional activities.

In granting work visas, consideration is given to the type of work proposed, the availability of local and EU workers capable of performing the work, the level of salary and the availability of accommodations. Work visas granted to conduct dependent employment activities are valid for up to one year, and may be extended for an additional one-year period. The duration of the employment for which the visa is requested should not exceed an initial two-year period. Visas must be renewed by the visa holders' employers in January of each year.

The application procedure for a work visa is similar to the procedure for a residence visa, except that the applicant must possess a signed, fixed-term promissory labor agreement with a Portuguese employer. The promissory labor agreement must be registered with the Minister of Labor and must prove that the company requires the foreign national for a fixed period.

In addition to an application, the following documents, all of which must be translated into Portuguese, must be provided to the authorities to obtain a work visa:
- Passport copies;
- Photographs;
- A medical certificate;
- Details of a criminal record (if applicable);
- Proof of financial means; and
- A signed promissory labor agreement.

To change jobs after a work visa has been issued, a new employment contract must be registered and approved.

With the exception of certain sensitive industries, setting up a business in Portugal, either as a single proprietor or as a company, is not restricted. Portuguese commercial law does not prohibit foreign residents or nonresidents from serving as directors of Portuguese companies.

H. Residence Permits

Non-EU nationals wishing to take up residence in Portugal must apply for residence permits. Applicants must initially apply for residence visas at the Portuguese consulates in their home countries (see Section F).

Temporary residence permits are valid for two years, and may be renewed for an additional two-year period. Permanent residence permits must be renewed every five years.

EU nationals may apply for residence permits, which are valid for an initial period of five years.

I. Family and Personal Considerations

Family Members. The working spouse of a work visa holder does not automatically receive a work visa; an independent work visa application must be filed. For non-EU nationals, the work visa application must demonstrate financial means and adequate accommodation.

Marital Property Regime. The default marital property regime in Portugal is a system of community property for assets acquired during the marriage, except inherited assets. A prenuptial agreement may amend the default regime.

Portuguese marital property regimes apply only to assets in Portugal owned by persons married under Portuguese law. Unmarried heterosexual couples who live together for two or more years are treated as married for certain purposes. A partner in such a relationship may have the right to occupy a property owned by the other partner, but not the right of ownership.

The concept of establishing a marital domicile in Portugal does not exist.

Forced Heirship. Forced heirship rules apply in Portugal, and a legal share of an estate automatically devolves to a surviving spouse, descendents and other relatives.

Drivers' Permits. EU nationals may drive legally in Portugal with their home country drivers' licenses. Non-EU nationals may drive legally using their home country drivers' licenses in Portugal for six months. After six months, a non-EU national must obtain a local Portuguese driver's license by submitting a copy of the home country driver's license, two photographs and an identification card. An applicant must also take a medical examination.

Portugal does not have driver's license reciprocity with any countries other than EU-member states.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Stock option income	X	—	—
Employer-provided housing	X	—	(b)
Housing allowance	X	—	—
Housing contribution	(X)	—	—
Cost-of-living allowance	X	—	—
Education reimbursement	X	—	(c)
Hardship allowance	X	—	—
Severance pay	X	—	(d)
Premium allowance	X	—	—

	Taxable*	Not Taxable	Comments
Home-leave allowance	X	—	(e)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(f)
Value of meals provided	—	X	—
Company car	X	—	(g)
Per diem reimbursements	—	X	(h)
Interest-free loans	—	X	(i)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	(j)
Capital gain from the sale of stock in home country	X	—	(k)

* The bracketed amounts reduces taxable income.

(a) Contributions made by employers to pension plans and for insurance are taxable if they represent a vested and individualized right (benefit) for the employee.

(b) Housing provided by the employer is taxed. If a house is maintained by the employer to accommodate temporarily assigned employees (short-term, generally up to 60 days), customers, suppliers and similar persons, income related to housing need not be declared because it can be argued that the company has elected to provide the housing as an alternative to hotel accommodations.

(c) Professional training expenses borne by the company with respect to employees are not taxable if such training is rendered by the company, a government body or a recognized entity carrying out this activity. The reimbursement of school fees and boarding fees for spouse and children is taxable. However, if the fees are documented, they can be partially deducted for computation of the personal income tax (IRS).

(d) Severance pay is taxable to the extent that it exceeds:

$$\frac{\text{Last 12 months regular taxable compensation}}{12} \times 1.5 \times \text{number of years of employment}$$

If within 24 months, the employee begins new employment directly or indirectly with his or her former employer or with a group entity, the exemption does not apply. The exemption also does not apply if the employee has used the same benefit within the preceding five years.

(e) A home-leave allowance supported by proper documents that prove the actual expenses disbursed is not taxable. Otherwise, it is taxable.

(f) Tax reimbursements are taxable in the year received.

(g) The private use of a company car is taxable if the car results in costs to the company and if a written agreement allocating the car is entered into between the company and the employee. If tax is due, the taxable amount equals 0.75% of the acquisition or production cost of the car, multiplied by its number of months of use of the car. Reimbursement for the use of the employee's car for company business is tax-free, up to a limit of €0.36 per kilometer.

(h) Per diem allowances of a fixed amount may be granted tax-free to an employee who is away from his normal place of work, up to €57.98 or €137.58 (for traveling within Portugal or abroad, respectively).

(i) The difference between the actual rate of interest paid and that payable at the officially published rate is taxable as employment income. However, because the latter rate has not yet been published, no tax has been levied on this kind of benefit. An exclusion from taxation applies to loans that are used by an employee for the acquisition of a permanent home if the amount does not exceed €134,675.43 and if the interest rate is not lower than 65% of the rate of reference. Forgiveness of such a loan results in the amount written off being treated as employment income.

(j) The capital gain is not taxable if the sale proceeds are reinvested in another personal or family residence located in Portugal (purchase, improvement or construction) within a 24-month period following the sale, or during the 12-month period preceding the sale.

(k) Capital gains from shares are generally taxed at a 10% rate. However, they are exempt from tax if the shares were held for more than 12 months. Reporting is required.

APPENDIX 2: SAMPLE TAX CALCULATIONS

The following are sample tax calculations for a single individual, married individual with no children and a married individual with two children.

Single

A single expatriate arrives in Portugal on 1 January 2006 for a temporary assignment that is expected to last three years. It is assumed that the expatriate makes social security contributions in his home country. It is further assumed that his home country has entered into a totalization agreement with Portugal or that the relevant EU directive applies to the contributions. As a result, such contributions are exempt in Portugal.

In February 2006, the expatriate sells shares from a company in his home country, which has not entered into a double tax treaty with Portugal. He held the shares for less than 12 months.

The annual taxable income for the expatriate includes employee compensation of €10,000 received in Portugal and €17,000 received in his home country. The expatriate's other item of income is derived from the sale of shares. The shares were purchased for €50,000 on 1 March 2005, and were sold on 1 February 2006 for a price of €75,000. The commission paid to the broker on the sale was €1,500.

The following is the tax calculation.

Calculation of Tax on Earned Income	€
Gross earned income	27,000.00
Maximum earned income allowance	(3,334.18) (a)
Taxable earned income	23,665.82
Tax on the following:	
Lower amount of €16,692	3,104.49
Excess of €6,973.82 at 34%	2,371.10
Tax due	5,475.59
Less: tax credit (includes mortgage payments/housing rent)	(793.54)
Tax on earned income	4,682.05
Calculation of Tax on Capital Gains	
Sales proceeds	75,000 (b)
Less:	
Cost	(50,000)
Commission	(1,500)
Taxable profit	23,500
Tax on €23,500 at 10%	2,350

Calculation of Total Tax Liability	€
Tax on earned income	4,682.05
Tax on capital gains	2,350.00
Total tax liability	7,032.05

(a) This deduction is replaced by the actual social security payments if higher.
(b) If the shares had been held for more than 12 months, the gain would be exempt. However, reporting would be required.

Married and No Children

An expatriate and his wife arrive in Portugal on 1 January 2006 for a temporary assignment expected to last three years. It is assumed that only one spouse earns income. It is further assumed that his home country has entered into a totalization agreement with Portugal or that the relevant EU directive applies to the contributions. As a result, such contributions are exempt in Portugal. The same amounts as in the first example apply, except that compensation is €53,000. The following is the calculation.

Calculation of Tax on Earned Income	€
Gross earned income	53,000.00
Maximum earned income allowance	(3,334.18)*
Taxable earned income	49,665.82
Income splitting (€49,665.82 ÷ 2)	24,832.91
Tax on the following:	
Lower amount of €16,692	3,104.49
Excess of €8,140.91 at 34%	2,767.91
Tax due for one person	5,872.40
Tax due for both persons (€5,872.40 x 2)	11,744.80
Less:	
Tax credit (includes mortgage payments and housing rent)	(947.90)
Tax on earned income	10,796.90

Calculation of Total Tax Liability	
Tax on earned income	10,796.90
Tax on capital gains (same as in first example)	2,350.00
	13,146.90

* This deduction is replaced by the actual social security payments if higher.

Married and Two Children

An expatriate, spouse, and their two children are sent to Portugal on 1 January 2006 for a temporary assignment expected to last three years. It is assumed that only one spouse earns income. It is further assumed that his home country has entered into a totalization agreement with Portugal or that the relevant EU Directive applies to the contributions. As a result, such contributions are exempt in Portugal. The same amounts as in the first example apply, except that compensation is €105,000. The following is the calculation.

Calculation of Tax on Earned Income	€
Gross earned income	105,000.00
Maximum earned income allowance	(3,334.18)*
Taxable earned income	101,665.82
Income splitting (€101,665.82 ÷ 2)	50,832.91

	€
Tax on the following:	
Lower amount of €38,391.00	10,482.15
Excess of €12,441.91 at 36.5%	4,541.30
Tax due for one person	15,023.45
Tax due for both persons (€15,023.45 x 2)	30,046.90
Less:	
Tax credit (includes mortgage payments and housing rent)	(1,256.62)
Tax on earned income	28,790.28

Calculation of Total Tax Liability

Tax on earned income	28,790.28
Tax on capital gains (same as in first example)	2,350.00
	31,140.28

* This deduction is replaced by the actual social security payments if higher.

PUERTO RICO

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A. Income Tax

Who Is Liable. Residents of Puerto Rico are subject to Puerto Rican tax on their worldwide income. Nonresidents are taxed only on their income from Puerto Rican sources and on income treated as effectively connected with the conduct of a trade or business in Puerto Rico. As a general rule, nonresident U.S. citizens are taxed on their Puerto Rican-source income only. Most residents of Puerto Rico are U.S. citizens but are not subject to U.S. federal income tax under Internal Revenue Code (IRC) Section 933, except on income derived from sources outside Puerto Rico.

For purposes of U.S. taxation, under the American Jobs Creation Act of 2004 (AJCA), which was enacted on 22 October 2004, an individual is considered to be a resident of Puerto Rico if he or she satisfies all of the following conditions:

- He or she is present for at least 183 days during the year in Puerto Rico. This determination is made under the substantial presence test.
- He or she does not have a tax home outside Puerto Rico during the tax year.
- He or she does not have a closer connection to the United States or a foreign country than to Puerto Rico.

The 183-day presence test applies for tax years beginning after 22 October 2004.

Under the AJCA, rules similar to the rules for determining whether income is from sources in the United States or is effectively connected with the conduct of a trade or business in the United States apply for purposes of determining whether income is from sources in Puerto Rico. However, any income treated as income from sources in the United States or as effectively connected with the conduct of a trade or business in the United States may not be treated as income from sources in Puerto Rico or as effectively connected with the conduct of a trade or business in Puerto Rico. These sourcing rules apply to income earned after 22 October 2004.

For local purposes, whether an individual is considered resident or nonresident generally is a question of intent, which is determined based on the facts and circumstances of each case. Individuals are presumed to be residents if they are domiciled in Puerto Rico for not less than 183 days in a calendar year.

Income Subject to Tax. Taxable income (or net income) is computed by subtracting allowable deductions and exemptions from gross income. Gross income broadly includes virtually all realized economic gains. However, certain items are specifically excluded by statute from the definition of gross income, including interest on U.S. and Puerto Rican government bonds (state and municipal bonds), life insurance proceeds, gifts and inheritances.

Education allowances provided by employers to their local or expatriate employees' children are taxable for income tax and social security purposes.

For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Salary deferred under a 401(k)-type plan may be excluded, subject to limitations, provided the plan is qualified by the Puerto Rican tax authorities.

In general, a nonresident individual who performs personal services as an employee in Puerto Rico at any time during the tax year is considered to be engaged in a Puerto Rican trade or business. An exception to this general rule applies to a nonresident individual performing services in Puerto Rico if all of the following conditions apply:

- The services are performed for a foreign employer;
- The employee is present in Puerto Rico for no more than 90 days during the tax year; and
- Compensation for the services performed in Puerto Rico does not exceed $3,000.

If these conditions are not met, all income, including the first $3,000, is subject to tax.

Self-Employment and Business Income. Self-employed individuals conducting a business for profit in Puerto Rico are subject to income tax at the rates set forth in *Rates*.

A nonresident individual engaged in a trade or business in Puerto Rico during the tax year is subject to tax on net income effectively connected with the conduct of the trade or business. The tax rates are the same as those for residents (see *Rates*). All income, gains and losses from sources within Puerto Rico, including Puerto Rican-source passive income, are treated as income, gains or losses effectively connected with the trade or business in Puerto Rico.

Investment Income. In general, dividend and interest income is taxed at the regular income tax rates (see *Rates*). However, dividend income from corporations deriving 80% or more of their gross income from sources within Puerto Rico is taxed at a maximum rate of 10%. The first $2,000 of annual interest income paid on a deposit with a financial institution doing business in Puerto Rico is tax-free for single, head of household or married taxpayers filing jointly (for married taxpayers filing separately, the exclusion is $2,000 each). Interest in excess of the $2,000 amount is taxed at a maximum rate of 17% if a taxpayer complies with certain conditions concerning withholding tax.

Rental operations and certain other activities that generate income are considered passive activities. Income from passive activities is included with other taxable income and taxed at the rates presented in *Rates*.

A nonresident individual not engaged in a trade or business in Puerto Rico is taxed, in general, at a rate of 29% on Puerto Rican-source fixed or determinable, annual or periodical gains, profits and income. This consists of investment income, including interest, dividends, rental income and capital gains. Generally, the tax on fixed or determinable income must be withheld at source by the payer. A nonresident alien with income derived from real property located in Puerto Rico, or with gains derived from the sale of real property, may elect to treat rental income from that property as effectively connected with the conduct of a trade or business in Puerto Rico, thereby permitting the deduction of related expenses and depreciation.

If received by a nonresident alien not engaged in a trade or business in Puerto Rico, interest on Puerto Rican bank deposits is treated as non-Puerto Rican-source income and is not subject to tax. Nonresident aliens are entitled to the special maximum 10% tax rate on dividends discussed above.

Directors' Fees. In general, directors' fees are considered earnings from self-employment.

Services Payments. A withholding tax of 7% applies to payments made to persons for services rendered in Puerto Rico by other persons carrying on a trade or business in Puerto Rico. The withholding applies to payments for services that are not covered by other withholding provisions, including payments of wages subject to income tax withholding.

Taxation of Employer-Provided Stock Options. In general, employer-provided stock options are taxed the same in Puerto Rico as they are in the United States, with the following exceptions:

- The exercise of a qualified stock option does not constitute a taxable event in Puerto Rico;
- No alternative minimum tax (AMT) adjustment applies in Puerto Rico;
- No holding period is required for qualified stock options; and

- Stock option plans established on or after 1 January 2001 must obtain a ruling from the Puerto Rico Treasury Department to obtain qualified status and beneficial income tax treatment.

Capital Gains. Net long-term capital gains (the excess of net gains derived from the sale of capital assets held for longer than six months over losses from the sale of most capital assets held for six months or less) are generally subject to tax at a maximum rate of 20%.

However, individuals, estates and trusts realizing long-term capital gains on the sale or exchange of capital assets between 1 January 2005 and 31 December 2005 are subject to the following special tax rates:

- A 10% tax on long term capital gains instead of the regular 20% tax;
- A 5% tax on long-term capital gains instead of the 10% tax on the sale or exchange of property located in Puerto Rico; and
- A 3.5% tax on long-term capital gains instead of the 7% tax applicable to the sale of shares of an eligible corporation or partnership.

For certain property located in Puerto Rico, a 10% tax rate, rather than a 20% rate, may apply. For these purposes, property located in Puerto Rico includes the following types of property:

- Real property located in Puerto Rico;
- Shares of stock and participations in corporations and partnerships organized in Puerto Rico;
- Bonds, notes or other obligations guaranteed by real property located in Puerto Rico;
- Shares of stock and participations in partnerships, as well as bonds, notes or other obligations issued by foreign corporations or partnerships that derived 80% or more of their income from Puerto Rican sources during the three-year period ending with the taxable year prior to the date of the sale;
- Bonds, notes or other obligations issued by individuals who are residents of Puerto Rico and by corporations and partnerships organized in Puerto Rico; and
- Bonds, notes or other obligations issued by the Commonwealth of Puerto Rico, its municipalities or their agencies and public corporations.

Deductions. Nonresident U.S. citizens are allowed the same deductions applicable to residents but, in general, are not allowed any deduction that is allocable or apportionable to income not subject to Puerto Rican income tax.

Deductible Expenses and Standard Deductions. To calculate taxable income, individuals may reduce gross income by using specific deductions, itemized deductions or the standard deduction, plus certain additional deductions.

In general, deductions allowed in the computation of adjusted gross income are costs and expenses directly incurred in, or attributable to, generating or earning income. The following deductions are included in this category:

- Deductions attributable to rents and royalties (losses may not offset other types of income);
- Losses from the sale or exchange of property;

- A portion (not exceeding $1,000) of the excess of capital losses over capital gains;
- Alimony payments; and
- Distributive shares in special partnership losses.

Allowable itemized deductions reduce adjusted gross income. These include limited childcare expenses under certain circumstances, mortgage interest on both a principal residence and a second home located in Puerto Rico, property taxes on the principal residence, charitable contributions subject to limitations, certain disaster losses, medical expenses over specified amounts, annual rent of up to $500 on a principal residence and other deductions. Nonresident aliens may deduct certain charitable contributions made to various Puerto Rican charitable organizations.

Itemized deductions for part-year residents and nonresident individuals must be apportioned on the basis of income sources.

Residents and nonresident U.S. citizens may claim standard deductions instead of itemized deductions. The following table lists the standard deductions.

Filing Status	Amount of Standard Deduction ($)
Married, living with spouse and filing a joint return	3,150
Married, filing separate returns	1,575
Head of household	2,730
Single or married but not living with spouse	2,100

The standard deduction is not available to nonresident aliens.

Additional deductions are allowed for contributions to individual retirement accounts (subject to limitations) and for contributions by government employees to certain retirement plans. Unreimbursed employee business expenses, up to the lesser of 3% of salary or $1,500, are also deductible. A special $500 deduction is provided for U.S. armed forces veterans, a $3,000 deduction is available for two-earner married couples filing joint returns, and interest expense on car loans is deductible, up to $1,200. A $1,000 deduction is available to young people between the ages of 16 and 25 years of age who work and study. A deduction of up to $500 is available for each beneficiary on cash contributions to an Educational Contributions Account for the exclusive benefit of a child or relative up to the third degree of blood relationship or second degree by affinity. A deduction of up to $500 is available for the acquisition and installation of a personal computer used by dependants who are under age 21.

Personal Exemptions. In addition to the deductible expenses discussed above, the following exemptions may be subtracted from adjusted gross income to arrive at taxable income.

Personal Exemptions	Amount ($)
Married, living with spouse and filing a joint return	3,000
Married, filing separate returns	1,500
Head of household	3,000
Single or married, not living with spouse	1,300
Dependent allowance	1,600

Personal exemptions and credits for dependents are not available for nonresident aliens.

Business Deductions. Self-employed individuals are entitled to the same deductions as employees and may also deduct business expenses. Self-employed persons generally may deduct directly related ordinary and necessary business expenses. Deductible expenses for business meals and entertainment are limited to 50% of the amount incurred, and this amount may not exceed 25% of gross income. Depreciation on automobiles is deductible, up to the first $25,000 of the cost of the automobile.

A nonresident alien is entitled to the business deductions allowed to a resident, only to the extent that the deductions are related to income effectively connected with the conduct of a trade or business in Puerto Rico.

Rates. The 2005 income tax rates that apply to resident individuals, nonresident U.S. citizens and nonresident aliens engaged in business in Puerto Rico are set forth in the table below. These rates apply to married individuals who file jointly, single individuals and married individuals not living with their spouse, and heads of households.

Net Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
$	$	$	%
0	2,000	0	7
2,000	17,000	140	10
17,000	30,000	1,640	15
30,000	50,000	3,590	28
50,000	—	9,190	33

The rates that apply to married individuals who file separately are set forth in the following table.

Net Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
$	$	$	%
0	1,000	0	7
1,000	8,500	70	10
8,500	15,000	820	15
15,000	25,000	1,795	28
25,000	—	4,595	33

For taxable income exceeding $75,000, the effect of the difference between the top rate of 33% and the lower rates, as well as the deductions for personal and dependent exemptions, are gradually phased out.

The alternate basic tax applies to an individual with adjusted gross income of $75,000 ($37,500 if married filing separately) or more. The tax applies only if it is larger than the regular tax. The tax is determined in accordance with the following table.

Adjusted Gross Income		
From	To	Rate
$	$	%
75,000	125,000	10
125,001	175,000	15
175,001	—	20

For individuals using the married filing separately status, the adjusted gross income levels are reduced by 50% for purposes of the alternate basic tax.

For a sample tax calculation, see Appendix 2.

Credits. An individual who is single, a head of household, or married filing jointly, whose adjusted gross income does not exceed $10,000 and whose only income is salaries, may claim a tax credit up to the amount of the calculated income tax.

Relief for Losses. Net principal trade or business losses may be used to offset income from other activities. If each spouse has a principal trade or business, a married couple is considered a single trade or business. Unused operating losses may be carried forward for seven years.

Losses from other trade or business activities may offset income only from the same trade or business.

Capital losses are fully deductible against capital gains. In addition, net capital losses of up to $1,000 a year are deductible against other income. Unused capital losses may be carried forward for five years.

A nonresident alien may deduct certain losses from sources within Puerto Rico.

B. Estate and Gift Taxes

Puerto Rican estate and gift taxes are imposed at rates ranging from 18% to 50% on the net taxable value of property transferred at death or by gift.

For estate and gift tax purposes, a resident of Puerto Rico generally may transfer property located in Puerto Rico tax-free because a deduction is allowed for property located in Puerto Rico in determining the value of the gross estate.

Gift Tax. For a resident, gift tax is imposed on the value of transfers of property located outside of Puerto Rico. For a nonresident, gift tax is imposed on the value of property located in Puerto Rico only.

A tentative tax is imposed on the value of all taxable gifts made during the tax year and in all prior years. The current year's tax is the tentative tax, reduced by the aggregate amount of tax imposed on taxable gifts made during prior taxable years. Donors are entitled to an annual exclusion of $10,000 to each donee from taxable gifts. Various deductions are also allowed. A credit against gift tax may be claimed for gift taxes paid to the United States or to foreign governments. If the gift tax is not paid by the donor, it may be assessed against the donee to the extent of the value of the gift received by the donee.

Estate Tax. Estate tax is computed by first calculating a tentative estate tax on the value of the taxable estate, which includes the amount of taxable gifts made after 1982. This tentative estate tax is then reduced by the aggregate amount of gift tax paid with respect to gifts made after 1982 to arrive at the actual estate tax.

For a resident, the taxable estate is defined as the gross estate (generally the fair market value of the transferred property, wherever located, on the date of transfer or gift), less allowable deductions. Various specified deductions are allowed, as well as a fixed exemption of $400,000 reduced by any deduction claimed for property located in Puerto Rico.

Credits are permitted for certain amounts that were included in the estate of a previous decedent, as well as for estate taxes paid to the United States or foreign countries.

Nonresidents are subject to Puerto Rican estate tax on estate property located in Puerto Rico only. Certain deductions and exclusions are allowed. A nonresident U.S. citizen decedent is allowed a minimum exemption of $30,000, and a nonresident alien decedent is allowed a $10,000 exemption.

The Puerto Rican estate tax is limited to the maximum credit allowed under the rules of the government of the decedent. This rule applies, for example, to Puerto Rican residents who are subject to U.S. estate taxes. Residents of Puerto Rico who were born or naturalized in Puerto Rico are subject to U.S. estate and gift taxes on assets located in the U.S. only.

C. Social Security

Three principal social security taxes are levied under U.S. federal law: the Federal Insurance Contributions Act (FICA), the Self-Employment Tax (SE Tax) and the Federal Unemployment Tax Act (FUTA).

In addition, Puerto Rico levies its own unemployment tax, as well as a disability tax and a workers' compensation insurance contribution.

FICA. FICA tax is imposed on wages at a total rate of 15.3%, which includes a 2.9% Medicare Tax. Half of each employee's FICA tax is paid by employers, and the other half is withheld from employees' wages. The combined tax rate for employee's wages is 7.65%, which is composed of a 6.2% component for Old-Age, Survivors and Disability Insurance Tax (OASDI) and a 1.45% component for hospital insurance (Medicare). For 2005, OASDI tax is imposed on wages up to an OASDI wage base of $90,000. No limit applies to the amount of wages subject to the Medicare portion of the tax.

SE Tax. SE Tax is imposed on a U.S. citizen's or resident alien's self-employment income after deductions for business expenses. The 2005 rate is 12.4% on the first $90,000 of self-employment income. No limit applies to the amount of income subject to the 2.9% Medicare portion of the tax. Self-employed individuals must pay the entire tax but may deduct 50% as an adjustment to gross income on their federal income tax returns. Individuals who are subject to both FICA and SE Tax first deduct employment income from the 2005 net available base before determining SE Tax. Therefore, a self-employed individual who also has FICA wages of $90,000 is subject to the additional Medicare tax only.

FUTA. FUTA tax is imposed on an employer's wage payments to employees for services performed within the United States, which is defined to include Puerto Rico. This tax is levied without regard to the citizenship or residence of an employer or an employee. The

2005 tax rate is 6.2% on the first $7,000 of wages for each employee. The same rate is expected to apply for 2006. Self-employed individuals are not subject to FUTA. A credit for the amount of state unemployment insurance paid to the government of Puerto Rico is available.

Puerto Rican Employment Taxes. The maximum 2005 Puerto Rican unemployment tax rate is 5.4% on the first $7,000 of an employee's wages. The same rate is expected to apply for 2006. The rate may be lower, depending on the employer's rating, which is based on the employer's history of layoffs. This tax may be credited against the FUTA tax.

A disability tax is imposed on the first $9,000 of an employee's wages. The rate is 0.6%, with 0.3% paid by the employer and 0.3% paid by the employee.

Premiums for workers' compensation insurance are borne solely by the employer and are based on total wages paid. The rate varies, depending on the occupation of the workers.

D. Tax Filing and Payment Procedures

The Puerto Rican tax system is based on self-assessment. Puerto Rican taxpayers must file annual tax returns with the Bureau of Returns Processing of the Puerto Rican Department of the Treasury.

Nonresident individuals engaged in a trade or business in Puerto Rico must file tax returns if their gross income exceeds $3,000.

Taxes are generally collected by employer withholding on wages and salaries and by individual payment of estimated taxes on income not subject to withholding. Normally, tax due in excess of amounts withheld plus estimated tax payments made must be paid with the return when filed. The taxpayer claims a refund of an overpayment of tax by filing the annual return. Substantial penalties and interest are usually imposed on a taxpayer if a return is not filed on time or if tax payments, including estimated payments, are not made by the applicable due date.

Returns may be selected at a later date for an audit by the Puerto Rico Bureau of Audit. Failure to adequately support amounts claimed as deductions on the return may result in the disallowance of deductions and in a greater tax liability on which interest or penalties, or both, must be paid from the original due date. In general, taxpayers must maintain supporting documentation for at least four years after a return is filed. Evidence of income tax payments should be maintained indefinitely.

The due date is 15 April for calendar-year taxpayers and three and one-half months after the year-end for fiscal-year taxpayers. An extension of time to file a tax return may be obtained, but it is not an extension of time to pay the tax. To prevent interest and penalties from being charged on unpaid tax, taxpayers must pay any tax due by the due date of the return.

E. Double Tax Relief and Tax Treaties

Residents of Puerto Rico are taxed by the Puerto Rican government on their worldwide income. Puerto Rico is a part of the United States, and most U.S. laws apply in Puerto Rico. However, under special legislation, Puerto Rican-source income derived by individuals residing in Puerto Rico is generally exempt from U.S. individual income taxation. Income from sources outside Puerto Rico derived by individuals residing in Puerto Rico is subject to U.S. taxation.

A foreign tax credit is available to prevent double taxation of Puerto Rican residents subject to U.S. or foreign tax on non-Puerto Rican-source income. Generally, the foreign tax credit permits a taxpayer to reduce Puerto Rican tax by the amount of income tax paid to the United States or to foreign governments. The credit is limited to the lesser of the following:

- The actual U.S. or foreign taxes paid or accrued; and
- The Puerto Rican tax applicable to the non-Puerto Rican-source taxable income.

Separate limitations may apply for situations in which non-Puerto Rican-source income is derived from more than one foreign jurisdiction.

Puerto Rico has not entered into any double tax treaties. A protocol provision of the treaty between the United States and Spain states that the U.S. and Spanish governments should meet to extend the treaty's coverage to Puerto Rico, but this has not yet occurred.

F. Visas

The rules concerning eligibility for visas that allow foreign nationals to work in Puerto Rico are identical to those for the continental United States. Therefore, please refer to the United States chapter for information on the requirements and procedures needed to obtain a visa in Puerto Rico.

G. Family and Personal Considerations

Marital Property Regime. The marital property (conjugal partnership) regime in Puerto Rico applies only to married couples. Under the regime, property acquired during the marriage is owned in common. The regime applies, unless the spouses execute a marriage contract by public deed prior to the marriage.

Drivers' Permits. Any person with a valid driver's license is authorized to drive in Puerto Rico for up to 120 days from the date of arrival. After this period, the individual must apply for a Puerto Rico license. The following are the basic requirements:

- Completed application form;
- Three photos of the applicant;
- Medical exam;
- Original and copy of the applicant's social security card, driver's license, certificate of birth, visa and U.S. passport or residence card;
- Written exam; and
- Fee of US$11.

Puerto Rico offers driver's license reciprocity with the following states of the United States: Florida, Illinois, Maine, South Dakota, Tennessee and Wisconsin. Individuals from these states need provide only the first four of the requirements listed above.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(b)
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(c)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(d)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(e)
Capital gain from the sale of personal residence in home country	X	—	(f)
Capital gain from the sale of stock in home country	X	—	—

* Bracketed amounts reduce taxable income.

(a) Contributions of up to US$8,000 (reduced by any Puerto Rican individual retirement account [IRA] contributions) may be excluded from income if the plan is submitted to the Puerto Rico Treasury Department for qualification and if the plan meets the Puerto Rican requirements.

(b) A U.S. cost-of-living allowance is exempt from tax for federal employees who filed income tax returns for the preceding four years and have no outstanding tax debts or are up to date under a valid payment plan.

(c) Moving expense reimbursements are not taxable, moving expenses are not deductible, and relocation allowances, such as relocation bonuses, are 100% taxable.

(d) The value of meals provided is not taxable if incurred as business expenses (travel away from home).

(e) The first US$2,000 of interest income earned from a Puerto Rican bank or local branch of a foreign bank is exempt. Any excess over US$2,000 may be subject to a flat 17% withholding tax if the taxpayer elects to have the tax withheld at source and if he or she provides a written authorization to the payer. Dividends received from a corporation deriving at least 80% of its income from Puerto Rico sources are subject to a 10% withholding tax.

(f) The gain can be rolled over to a new principal residence acquired in Puerto Rico. In addition, married taxpayers who are each age 60 or older and who are filing jointly may exclude the first US$150,000 (this amount is effective from 2005) of the gain.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for expatriates who are bona fide residents of Puerto Rico for the entire 2005 calendar year. They are married with two children, one of whom is a university student. One spouse's compensation, including allowances, is US$50,000, all of which is earned in Puerto Rico. In addition, the other spouse earns US$10,000. During the year, both spouses made the maximum individual contribution to their individual retirement account (IRA). They earn interest income of US$2,700 from a separate Puerto Rico branch of a New York bank and dividends of US$300. During 2005, they sold 100 shares of ABC Company, a U.S. corporation doing business in Puerto Rico, for US$4,000. Eight months earlier, they purchased these shares for US$1,500. They paid rent of US$800 per month for their apartment, and they incurred interest expenses of US$1,400 on a personal loan. Unreimbursed medical expenses amounted to US$4,000 for the year.

The following is the tax calculation.

	US$	US$
Calculation of Taxable Income		
Husband's compensation		50,000
Spouse's compensation		10,000
Interest		
Received	2,700	
Excludable	(2,000)	
Net interest		700
Dividends		300
Gain on sale of shares (US$4,000 - US$1,500)		2,500
Adjusted gross income		63,500
Deductions:		
Standard deduction	(3,150)	
Special deductions: (claimed if greater than standard deduction)		
Rent (10% x US$9,600, limited to US$500)	(500)	
Medical (US$4,000 x 50%) - (US$63,500 x 3%)	(95)	
	595	
Deduction (larger of standard or special deductions)		(3,150)
Special additional deductions:		
Contributions to IRA:		
Expatriate	(5,000)	
Spouse	(5,000)	
Total contributions to IRA		(10,000)
Joint income earners deduction		(3,000)
Personal exemption (married and living with spouse)		(3,000)
Dependants		
University student (1 x US$1,600)		(1,600)
Non-university student (1 x US$1,600)		(1,600)
Taxable income		41,150

	US$	US$
Calculation of Income Tax		
Regular tax liability		6,712
Tax on income excluding capital gains (US$38,650)	6,012	
Tax on capital gains (US$2,500 at 20%)	500	
Alternative tax liability		6,512

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A. Income Tax

Qatar does not levy personal income taxes on employee earnings. Education allowances provided by employers to their local or expatriate employees' children 18 years of age and under are not taxable for income tax and social security purposes.

Partnerships consisting of individuals are taxed on profits at corporate rates. Individuals carrying on business as professionals or sole traders are taxed on net business income at corporate rates. The maximum corporate income tax rate is 35%.

B. Estate and Gift Taxes

Qatar does not levy estate or gift taxes.

Qatar has entered into inheritance and estate tax treaties with France and India.

C. Social Security

Qatar does not levy any social security taxes.

D. Temporary Visas

All visitors to Qatar, with the exception of nationals of Gulf Cooperation Council (GCC) states, must obtain valid entry visas. Completed visa application forms may be submitted to the immigration authority in Qatar or to Qatari embassies abroad. Visa applications may also be submitted online to the government visa service at www.e.gov.qa.

Fourteen-day business visas are granted to visitors for business purposes and may be obtained through companies based in Qatar by filing applications at the point of entry. The visa may be renewed for fourteen additional days only.

Tourist visas that are valid for 14 days are granted to visitors on application if the visitor has a confirmed booking with one of the recognized hotels in the country. Visitors must stay at the hotel through which the visa is obtained. Residents of certain specified countries are permitted to travel to Qatar without obtaining an entry visa prior to traveling and may obtain a tourist visa at any port of entry in Qatar. These specified countries include Australia, Brunei, European Union (EU) countries, Honduras, Hong Kong, Iceland, Japan, Liechtenstein, Malaysia, Monaco, New Zealand, Norway, San Marino, Singapore, South Korea, Switzerland, the United States and Vatican City. These tourist visas are valid for a two-week period and are renewable for an additional two-week period.

Visitors' visas for stays of up to three months may be obtained on application by a sponsor residing in Qatar. The sponsor may be a company registered in Qatar or an expatriate who resides and works in Qatar. This type of visa may be extended for an additional three months. Holders of British passports with a right of abode in the United Kingdom may obtain visitors' visas for up to six months or a five-year multiple entry visa on application to the Qatari embassy in the United Kingdom. Holders of U.S. passports may obtain a ten-year multiple entry visa on application to the Qatari embassy in the United States. Citizens and residents of GCC-member states do not require visitors' visas. On arrival in Qatar, they are granted visas valid for up to two weeks.

E. Work Visas

Foreign nationals may work in Qatar only if they have valid employment contracts sponsored by companies resident in Qatar. An employment visa is issued only if the applicant's employment contract is approved by the Ministry of Labor.

Foreign nationals may work only for the particular company that sponsored them and must leave the country if the sponsoring company no longer requires their services, unless an arrangement is made to transfer the foreign national to another company. A transfer of employment from one sponsor to another requires the approval of the Department of Immigration at the Ministry of Interior. A foreign national may transfer his or her sponsorship only if he or she has worked at least two years for the original sponsor.

The sponsorship laws of Qatar require that employment visa holders obtain exit permits from the Ministry of Interior before leaving Qatar. An exit permit is valid for only seven days from the date of issue.

Employment visas are valid from one to three years and are renewable.

Application for employment visas should be made in Qatar. The application process takes approximately six to eight weeks after all documents are received from a foreign national. The following documents are required from an applicant:

- A passport;
- Four passport-size photos;
- For certain nationalities, a health declaration; and
- Proof that the applicant has no criminal record.

Foreign nationals may not own property in Qatar, other than in designated real estate developments, including the Al Khor resort, the Pearl of the Gulf Island and West Bay Lagoon. With the exception of these developments, ownership is restricted to Qatari and GCC nationals. Foreign nationals may purchase the right to enjoy the use of apartments in multi-story buildings in residential areas for periods of up to 99 years.

F. Residence Permits

Residence permits are generally granted to foreigners only if they have valid employment visas. Foreigners must leave the country when their employment terminates. However, foreign nationals and members of their immediate family who own land or property rights in leased properties are entitled without sponsorship to residence permits for five years with renewal options for the duration of their interests in their properties. In addition, foreign nationals with investments in businesses under the provisions of the Foreign Capital Investment Law No. 13 of 2000 are also entitled to entry visas and residence permits for five years with renewal options over the period of their investments.

Residence visas may be issued to professionals, including doctors, accountants and lawyers, if they obtain the necessary permits from the relevant government department, and if they are sponsored by Qatari nationals or Qatari companies.

G. Family and Personal Considerations

Family Members. The nonworking spouse of a holder of an employment visa does not automatically receive the same type of visa. An independent application must be filed.

Drivers' Permits. Foreign nationals may not drive legally in Qatar with their home country drivers' licenses. Qatar does not have driver's license reciprocity with any country. However, license holders from most western countries and all GCC-member countries may obtain a Qatari driver's license after passing an eye test.

A local Qatarian driver's license may be obtained by taking an eye test, a road test and a written exam.

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Because of the rapidly changing laws in Romania, readers are advised to obtain updated information before engaging in transactions.

A. Income Tax

Who is Liable

Territoriality. Residents who are Romanian individuals domiciled in Romania are subject to tax on their worldwide income. Other residents are subject to tax on their Romanian source income only.

Nonresidents are subject to tax on net income attributable to independent activities carried out through a permanent establishment, net income from dependent activities performed in Romania and certain other types of income.

Defintion of Resident. An individual is considered to be a Romanian resident if he or she fulfills one of the following conditions:
- He or she has a domicile in Romania;
- His or her center of vital interest is located in Romania;
- He or she is present in Romania for a period or periods exceeding 183 days during any 12-month period ending in the respective calendar year; or
- He or she is a Romanian citizen working abroad as an employee of the Romanian state.

If a nonresident individual satisfies the second or third conditions above for a period of three consecutive years beginning 1 January 2004, he or she becomes subject to tax on worldwide income beginning with the fourth year. Until the end of the three-year period, the respective individual is subject to Romanian income tax on Romanian-source income only.

Individuals who are tax residents in countries that have entered into double tax treaties with Romania may benefit from a reduced tax rate or tax exemption under the terms of the respective treaty if a tax residence certificate issued by the individual's country of tax residence is provided to the Romanian tax authorities. Individuals who are tax residents in countries that have not entered into double tax treaties with Romania are subject to Romanian tax beginning with their first day of presence in Romania.

Income Subject to Tax

Employment Income. Taxable compensation includes the following items received under an individual employment agreement:
- Salaries, including those received by daily or temporary workers;
- Benefits received in cash or in kind;
- Wage premiums;
- Rewards;
- Temporary disability payments;
- Paid holidays;

- Fees and compensation paid to directors and managers of private commercial companies, and to members of the board of directors, general shareholders meeting, administration council and audit commission; and
- Other income received by an individual based on an employment agreement.

In determining the monthly tax on employment income, the following deductions may be claimed:
- Mandatory social security contributions;
- Personal deductions allowed, if any;
- Monthly trade union contributions; and
- Contributions to the voluntary pension scheme (up to €200 per year).

Romania employers must withhold the tax on employment income. The Romanian employer must remit the tax to the Romanian tax authorities by the 25th day of the following month.

Investment Income. Investment income includes the following:
- Dividends;
- Interest income;
- Gains from transfers of securities;
- Income from futures or forward transactions with foreign currencies and other similar operations; and
- Income from the liquidation or dissolution without liquidation of a legal entity.

Dividends are defined as any grant of benefits in cash or in kind by a legal entity to shareholders or associates, as a result of holding participations in that legal entity (with certain exceptions). Any amount paid by a legal entity for goods or services provided by a shareholder is treated as a dividend if the value of such goods or services exceeds the market value. In addition, any amount paid by a legal entity for goods and services provided in favor of a shareholder is considered a dividend. Also, for tax purposes, amounts received from holding participations in closed investment funds are treated in the same manner as dividends. A 16% final withholding tax is imposed on dividends. In general, the tax must be remitted by the 25th day of the following month. However, for dividends declared but not paid until the end of the year, the tax is payable by 31 December of that year.

Taxable interest income is any income in the form of interest other than the following:
- Interest from current account or on-sight deposits, deposits for which the interest rate is less than the reference monthly interest rate on the interbanking market and interest on deposits with mutual assistance institutions;
- Interest related to debt instruments and municipal bonds, and bonds issued by the National Agency for Housing or other entities that issue bonds for housing construction; and
- Interest on deposits made in accordance with the provisions of Law 541/2002 regarding real estate collective savings and loans.

A 16% final withholding tax is imposed on interest income. The tax must be remitted by the 25th day of the following month.

The capital gain on securities represents the positive difference between the sale price and the purchase price of the securities, reduced by related costs. For the transfer of shares in a limited liability company, the capital gain represents the difference between the sale price and the nominal value or purchase price of the shares. For the redemption of participations in open-ended investment funds, the capital gain is the positive difference between the redemption price and the purchase or subscription price. The capital gain on shares obtained as a result of a stock option plan equals the difference between the sale price and the preferential acquisition price.

A concept of "net capital gain" has been introduced as representing the difference between gains and losses registered during one year (positive or negative differences between the sale and purchase price, less the related transfer costs).

A 1% tax is imposed on capital gains derived from the sale of the following shares:
• Shares acquired on or before 31 May 2005, regardless of whether the shares are sold;
• Shares acquired on or after 1 June 2005 and sold on or before 31 December 2005; and
• Shares acquired on or after 1 June 2005 and sold after 1 January 2006, if they are held for one year or more.

A 16% tax is imposed on the net capital gain from the sale of shares acquired after 1 June 2005 and sold after 1 January 2006, if the shares are held for less than 365 days.

A 16% final withholding tax is imposed on gains derived from sale-purchase transactions of foreign currencies with subsequent term settlement, as well as from other similar operations. The tax is withheld by the intermediary of such transaction (for example, a bank), on finalization of the operation. The tax must be remitted by the 25th day of the following month.

Income from Real Estate Transactions. Effective from 1 January 2006, capital gains on sale of real estate are subject to tax at a rate of 16%. The following sales of real estate are subject to tax:
• Sales of all types of constructions, as well as the related land, if the sales occur within three years after the acquisition date; and
• Sales of land of without constructions if such land was purchased after 1 January 1990.

Certain exemptions are provided, such as for property inherited or exchanged.

Income from Independent Activities. Income from independent activities includes the following:
• Income from freelance activities;
• Income from commercial activities; and
• Income from intellectual property rights.

Taxable income from freelance activities equals gross income less deductible expenses, which are subject to certain limits. Certain individuals must maintain single-entry bookkeeping. Alternatively, income earned by certain categories of freelancers is subject to income tax based on income quotas, which are established annually by the Ministry of Finance. Freelancers must make advance tax payments on a quarterly basis, by the 15th of the last month in each quarter.

Net income from intellectual property rights is calculated by deducting from gross income the following amounts:
- Deductible expenses representing 40% of gross income; and
- Compulsory social security charges.

A 10% advance income tax, which is withheld at source, applies to the following types of income:
- Income from intellectual property rights;
- Income from sale of goods on consignment;
- Income from agent, commission or commercial mandate agreements;
- Income from contracts entered into under the Civil Code; and
- Income from accounting, technical, judicial and extra-judicial expertise.

Payers of such income must remit the advance income tax by the 25th day of the following month.

Income from independent activities is subject to annual income tax at a rate of 16%, which is imposed on annual taxable income less any loss carryforwards (losses may be carried forward for a five-year period).

Income from Rentals. Gross rental income consists of amounts received in cash or in kind that are stipulated in rental agreements. The rent is taxable in the tax year to which the rent relates, regardless of when the rent is effectively received. Rental income also includes certain expenses borne by the tenant that are the landlord's liability according to the law.

Taxable rental income is determined by subtracting from gross rental income a deduction equaling 25% of the gross income.

A 16% tax is imposed on the taxable rental income. The taxpayer must make advance payments of the tax on a quarterly basis by the 15th day of the last month of the quarter.

As an exception, taxpayers determine the net rental income based on single-entry accounting.

Income from Pensions. Income from pensions consists of amounts received in the form of pensions from the following:
- Funds created from mandatory social contributions made to a social insurance system;
- Voluntary pension schemes; and
- Pension schemes financed by the state budget.

The first RON 900 (approximately €250) of monthly pension income is not taxable.

A 16% final withholding tax is imposed on the difference between the total pensions less the tax-free amount of RON 900. The National House of Pensions withholds and remits the tax by the 25th day of the following month.

Income from Agricultural Activities. Taxable income from agricultural activities may be determined based on income quotas issued by the Ministry of Agriculture. Alternatively, taxpayers earning income from agricultural activities may choose to calculate the income based on single-entry bookkeeping. The tax rate is 16%.

Income from Prizes. A 16% withholding tax is imposed on the income realized from a single contest in one day less the tax-free amount, which is currently RON 600 (approximately €170).

The payer of the income must remit the tax to the tax authorities by the 25th day of the following month.

Income from Gambling. The following tax rates are imposed on income from gambling:
- A 20% rate if the income does not exceed RON 10,000 (approximately €2,800); and
- A 25% rate if the income exceeds RON 10,000.

The tax is applied to the difference between gross income and the tax-free amount, which is currently RON 600 (approximately €170) for gambling income earned in one day from one organizer or payer.

Income from Other Sources. Income from other sources includes, but is not limited to, the following:
- Insurance premiums borne by a freelancer or any other entity on behalf of an individual who is not an employee of the respective freelancer or entity; and
- Income received by pensioners or former employees arising out of employment contracts entered into with their former employers or based on certain special laws, in the form of price differences for certain goods, services or other rights.

Both types of income mentioned above are subject to a 16% final withholding tax. Tax on income from other sources is payable by the 25th day of the following month.

Capital Gains. For details regarding the taxation of capital gains in Romania, see the discussions regarding the taxation of investment income and income from real estate transactions in *Income Subject to Tax*.

Deductions. To calculate monthly employment income, the following employees may claim personal deductions:
- Romanian individuals domiciled in Romania; and
- Foreigners meeting the residence criteria for three consecutive years.

The personal deductions vary depending on the amount of gross monthly income and the number of dependants. The following are the amounts of the personal deductions:
- For gross monthly income up to RON 1,000 (approximately €285), the monthly deductions vary between RON 250 (approximately €70) for persons without dependants and RON 650 (approximately €185) for persons with four or more dependants;
- For gross monthly income between RON 1,000 (approximately €285) and RON 3,000 (approximately €855), the deductions are set through an order issued by the Ministry of Finance; and
- For gross monthly income higher than RON 3,000 (approximately €855), no personal deductions are allowed.

For income tax purposes, employees may also deduct from their gross monthly salary certain specified deductions (see *Employment Income*).

Rates. Income tax is imposed at flat rates, which vary according to the type of income. Most categories of income are taxed at a rate of 16%. For details regarding the taxation of various categories of income, see *Income Subject to Tax*.

Relief for Losses. Tax losses may be carried forward for five years. Losses may not be carried back.

B. Inheritance and Gift Taxes

No taxes are imposed on gifts or inheritances.

C. Social Security

Both employers and employees are required to contribute to the social security system.

Employees are required to make the following contributions:
- Social security contribution: 9.5% of gross salary, capped at the level of five times the national average salary (for 2006, the national average salary is RON 1,077 (approximately €300);
- Health fund: 6.5% of monthly gross income subject to income tax; and
- Unemployment: 1% of monthly base salary.

Employers are required to make the following contributions:
- Social security contribution: from 19.75% to 29.75% (depending on working conditions) of the total salary fund, which is capped at the level of five times the national average salary, multiplied by the average number of employees;
- Health fund: 7% of total salary fund;
- Unemployment fund: 2.5% of total salary fund;
- National insurance fund for work accidents and professional diseases: the contribution ranges between 0.5% and 4% of total salary fund, depending on the risk category;
- Medical leave: 0.75% of total salary fund; and
- Labor Chamber commission: either 0.25% or 0.75% of total salary fund, depending on whether the company or the Labor Inspectorate maintains the workbooks (workbooks are special booklets filled in by employers that show the employment histories of employees; they may be maintained either at the employer's premises or at the local Labor Inspectorate).

The following individuals must make a health fund contribution at a rate of 6.5%:
- Individuals who derive income only from rentals, dividends, interests and capital gains; and
- Foreign individuals seconded to perform activities in Romania who have established their residence in Romania.

Foreign individuals who are temporarily present in Romania, such as tourists, may choose to contribute to the Romanian health fund an amount equal to 13.5% of the value of two national minimum gross salaries.

Citizens of European Union (EU) countries, as well as individuals resident in countries that have entered into totalization agreements with Romania, benefit from the coverage of medical expenses incurred in Romania, under the provisions of the applicable agreements.

D. Tax Filing and Payment Procedures

Effective from 2005, the globalization procedure no longer applies and, accordingly, individuals are subject to tax separately on each type of income.

With certain exceptions, taxpayers must file an annual income tax return and special declarations with the tax authorities by 15 May of the following year. The tax authorities compute the annual income tax on the basis of the information provided in the annual income tax return. The taxpayers are subsequently informed about the tax payable or refundable and the applicable deadline.

Payers of income subject to withholding tax must submit a statement for each individual by 30 June of the following year.

Taxpayers earning only salary income throughout the entire fiscal year fulfill their tax liabilities through employer withholdings.

Expatriates and Romanian individuals employed abroad but performing an activity in Romania must file monthly tax returns and health fund contribution statements and pay the related liabilities by the 25th day of the following month.

E. Double Tax Relief and Tax Treaties

Romania has entered into double tax treaties, which generally provide for a residency test of 183 days in a fiscal year or any 12-month period beginning or ending in the fiscal year, with the following countries.

Albania
Algeria
Armenia
Australia
Austria
Azerbaijan
Bangladesh
Belarus
Belgium
Bulgaria
Canada
China
Costa Rica
Croatia
Cyprus
Czech Republic
Denmark
Ecuador
Egypt
Estonia
Ethiopia
Finland
France
Georgia
Germany
Greece
Hungary
India
Indonesia
Iran
Ireland
Israel
Italy
Japan
Jordan
Kazakhstan
Korea (North)
Korea (South)
Kuwait
Latvia
Lebanon
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mexico
Moldova
Mongolia
Morocco
Namibia
Netherlands
Nigeria
Norway
Pakistan
Philippines
Poland
Portugal
Qatar
Russian Federation
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Syria
Thailand
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Vietnam
Yugoslavia
Zambia

F. Entry Visas

For expatriates, Romanian law provides two principal categories of visas — short-term and long-term.

Short-term and long-term visas can be either single- or multiple-entry visas, which allow foreigners to stay in Romania for a period not exceeding 90 days within a 6-month period. The short-term visa cannot be extended. However, on request by the visa holder, the Romanian authorities can extend the long-term visa. Holders of long-term visas may apply for a work permit and a residence permit.

Foreigners may obtain Romanian visas from Romanian diplomatic missions or consulates before their arrival in Romania. To obtain a visa for an expatriate seconded to Romania, the following documents, among others, must be provided:
- Proof of accommodation in Romania, such as a rental agreement, purchase agreement or hotel reservation;
- Services agreement between the entities (if the employer is not a shareholder of the Romanian company);
- Employment contract;
- Letter of secondment; and
- Document evidencing a criminal-free record that is issued by the authorities in the foreigner's home country.

Citizens of the EU, Canada, Iceland, Japan, Norway and the United States are not required to obtain a Romanian visa to enter and stay in Romania. EU citizens can enter Romania based on their identification cards.

Foreign individuals who intend to stay in Romania for a period exceeding 90 days must apply for a Romanian work permit and residence permit.

The law imposes special conditions on foreigners who intend to establish companies in Romania.

G. Work Permits

All foreign citizens wishing to work under Romanian employment contracts must obtain Type A work permits (for employment purposes) issued by the Office for Migration of the Labor Force. However, work permits are not required for foreign individuals meeting certain legal requirements. Work permits are issued for up to 12-month periods and therefore need to be extended regularly.

Expatriates seconded to Romania who entered Romania based on a D/AS type visa (visa for certain purposes, such as secondment) must obtain Type B work permits (for secondment purposes). They are allowed a one-year extension of their right to stay in Romania for this purpose. After such extension, expatriates working in Romania must obtain Type A work permits (for employment purposes) and enter into employment contracts with the Romanian entities to which they were previously seconded.

H. Residence Permits

After obtaining a Romanian work permit, foreign individuals must extend their right to stay in Romania by obtaining a Romanian residence permit, which is valid for a period of up to

12 months. On request, similar residence permits are issued for all members of the family accompanying the individual during the Romanian assignment.

I. Drivers' Permits

Under the International Convention of Traffic (Vienna, 1968), Romanian authorities recognize any national or international driving permit issued by the countries that agreed to this convention. However, foreigners who are holders of Romanian residence permits must apply for a Romanian driving permit. Such permit is internationally recognized, and foreigners may drive outside Romania during their assignment to Romania as long as they hold a Romanian residence permit.

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Because of the rapidly changing economic and political situation in the Russian Federation, readers are advised to obtain updated information before making decisions. The tax law described in this chapter applies only to the Russian Federation.

A. Income Tax

Who Is Liable. Residents are taxed on worldwide income. Nonresidents are taxed on Russian-source income only. Russian-source income includes income derived from work or services performed in the Russian Federation, capital gains derived from the disposal of property in the Russian Federation, interest from deposits held in the Russian Federation, rent from property located in the Russian Federation and dividends paid on shares of companies in the Russian Federation.

For tax purposes, individuals are considered resident if they are present in the country for 183 days or more in the calendar year. Days of arrival are not considered, whereas days of departure are included in determining the number of days.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income consists of compensation whether received in cash or in kind, including, but not limited to, salary, bonuses and expatriate allowances. Residents are entitled to certain types of deductions from income (see *Deductions*).

Self-Employment and Business Income. The income of individuals engaged in self-employment activities is subject to income tax.

Tax is levied on the individual's annual self-employment income, which consists of gross income, less documented expenses associated with the performance of the work. Under certain circumstances, a simplified regime may apply.

Investment Income. Dividends received by residents are subject to tax at a rate of 9%. Dividends received by nonresidents are subject to tax at a rate of 30%.

Interest income on bank deposits held in the Russian Federation that exceeds the Central Bank's refinancing rate on ruble deposits, or for foreign-currency deposits, interest that exceeds 9%, is subject to tax at a rate of 35%.

Taxation of Employer-Provided Stock Options. At the time of exercise of an employer-provided stock option, an employee recognizes income equal to the excess of the fair market value of the stock over the exercise price.

Capital Gains. Capital gains are included in regular income. A separate capital gains tax does not apply. For additional details, see *Property-Related Tax Deductions*.

Deductions. Deductions, which are available only to tax residents, are categorized as standard tax deductions, social tax deductions, property-related tax deductions and professional tax deductions.

Standard Tax Deductions. Each taxpayer is allowed a standard deduction of RUR 400 per month (RUR 500 or RUR 3,000 per month for certain disabled individuals, veterans and victims of natural disasters), plus a deduction of RUR 600 per month for each dependant. However, these deductions are no longer available starting from the month in which a taxpayer's cumulative annual income exceeds RUR 20,000 (RUR 40,000 for dependants).

Social Tax Deductions. Social tax deductions include the following:
- Annual deductions for certain charitable contributions, up to 25% of income;
- Education expenses for the taxpayer, up to RUR 38,000, and for the taxpayer's children, up to RUR 38,000 per individual; and
- Medical expenses, up to RUR 38,000 (for certain medical expenses related to expensive medical treatments, as designated by the government, the RUR 38,000 cap does not apply).

Property-Related Tax Deductions. Income derived from the sale of property owned by the taxpayer for three years or more is exempt from tax.

Gains derived from the sale of property that does not meet the minimum holding periods set forth above are taxable as regular income (gross income less documented expenses), or the taxpayer may alternatively elect to pay tax on the proceeds less a fixed annual deduction. In the case of real estate held fewer than three years, the maximum fixed deduction is RUR 1 million; in the case of other property held fewer than three years, the maximum fixed deduction is RUR 125,000.

Property-related tax deductions also include a deduction for expenses incurred to construct or purchase certain real estate in the Russian Federation. The deduction is limited to RUR 1 million. Mortgage and certain other bank interest is deductible in addition to the RUR 1 million.

Income derived from the sale of securities is subject to special rules.

Professional Tax Deductions. Individual entrepreneurs and other individuals performing work or services on a contractual basis may deduct associated business expenses. Property tax paid by these taxpayers is deductible if the property is directly used in carrying out entrepreneurial activities. Taxpayers who cannot document expenses incurred in connection with their entrepreneurial activities are allowed a standard professional tax deduction at a rate of 20% of total income received from entrepreneurial activities.

Rates. Four flat tax rates of 9%, 13%, 30% and 35% apply to different baskets of income.

A flat rate of 9% applies to dividend income and certain other investment income received by residents.

A flat rate of 13% applies to all income for which another rate is not specified, including salary and other income earned by tax-resident individuals.

A flat rate of 35% applies to interest income on bank deposits exceeding the Central Bank's refinancing rate (or interest income on nonruble deposits exceeding 9%), certain insurance payouts, certain prizes, and deemed income from certain low- or zero-interest loans.

A flat rate of 30% applies to all income received by individuals who are not tax residents.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Business losses of a self-employed person may not be carried forward to future years.

B. Other Taxes

Net worth tax and estate and gift tax are not levied in the Russian Federation.

C. Social Security

All payments to employees are subject to the Unified Social Tax (UST) at regressive rates ranging from 26% to 2%. The tax is paid entirely by the employer and must be remitted to the tax authorities by the 15th day of the month following the month of the pay period.

The employer's total UST rate is 26% of each employee's annual gross income, up to income of RUR 280,000. The rate includes underlying contributions of 20% to the federal budget (pension element), 3.2% to the Social Insurance Fund, and 2.8% to the

Medical Insurance Fund. Other rates apply to various ranges of income up to total annual income of RUR 600,000, at which point the employer must pay RUR 104,800. For each employee's annual gross income in excess of RUR 600,000, the employer's tax rate is 2%. This 2% tax goes to the federal budget only; contributions to the social funds are capped at RUR 600,000 of annual gross income.

Employers with a presence in the Russian Federation must pay the UST on behalf of all foreign employees.

In addition, all payments to employees who are eligible for Russian pensions are subject to compulsory pension contributions payable to the Pension Fund at regressive rates ranging from 14% to 0% of gross compensation. (Most foreign citizens are not eligible for Russian pensions.) Pension contributions are not paid on income exceeding RUR 600,000. The contributions are divided into insurance and cumulative parts according to the year of each employee's birth. These contributions are paid entirely by the employer and must be remitted to the Pension Fund by the earlier of the day the income is paid to the employee, or the 15th day of the month following the pay period.

Employers may credit the amount of compulsory pension contributions against the pension element of the UST payable to the federal budget. However, the credit may not exceed the federal budget portion of the UST.

In addition to the UST, an employer must pay separate contributions insuring against accidents at work and professional diseases to the Social Insurance Fund on behalf of all of its employees. The rate of the contributions ranges from 0.2% to 8.5% depending on the class of professional risk associated with the employer's industry and activities. The rate generally is 0.2% for most office workers. In general, these contributions must also be paid on behalf of expatriate employees or by a foreign legal entity that is registered for tax purposes in the Russian Federation.

D. Tax Filing and Payment Procedures

The tax year in the Russian Federation is the calendar year.

Entrepreneurs, attorneys, notaries and private detectives must file both preliminary and final tax returns. These categories of taxpayers must submit preliminary returns within one month and five days after they first receive income from their activities, and no later than 30 April in each subsequent year they plan to conduct professional activities in the Russian Federation. Preliminary tax equals 100% of the tax payable on the estimated income. Payment for January through June is due by 15 July; for July through September by 15 October; and for October through December by 15 January of the following year.

Tax returns must be filed by all individuals, resident and nonresident, who have at least one source of income subject to tax in the Russian Federation on which income tax is not withheld by a tax agent and is not subject to withholding. The final tax declaration must be submitted no later than 30 April of the year following the tax period. The final tax must be paid no later than 15 July of the following year.

If a foreign individual ceases during a calendar year to engage in activities that generate income taxable in the Russian Federation and then leaves the Russian Federation, the individual may submit a departure declaration no later than one month before the individual leaves the Russian Federation. Tax charged on the basis of these departure tax declarations must be paid no later than 15 days after the declaration is submitted.

E. Double Tax Relief and Tax Treaties

Taxpayers may be either exempt from the payment of Russian tax or foreign tax paid may be credited against Russian tax payable, but the foreign tax credit may not exceed the Russian tax payable on the same income. To obtain an exemption or a tax credit, the taxpayer must present a certificate of residency from a country with which the Russian Federation has a double tax treaty, and a document certified by the tax authority of the foreign country proving that the income was received and the foreign tax was paid.

The Russian Federation has entered into tax treaties with the following countries.

Armenia	Ireland	Poland
Australia	Israel	Portugal
Austria	Italy	Qatar
Azerbaijan	Kazakhstan	Romania
Belarus	Korea (North)	Slovak Republic
Belgium	Korea (South)	Slovenia
Bulgaria	Kuwait	South Africa
Canada	Kyrgyzstan	Spain
China	Lebanon	Sri Lanka
Croatia	Luxembourg	Sweden
Cyprus	Macedonia	Switzerland
Czech Republic	Mali	Syria
Denmark	Moldova	Turkey
Finland	Mongolia	Turkmenistan
France	Morocco	Ukraine
Germany	Namibia	United Kingdom
Hungary	Netherlands	United States
Iceland	New Zealand	Uzbekistan
India	Norway	Vietnam
Indonesia	Philippines	Yugoslavia

In addition, the Russian Federation currently honors the tax treaties entered into by the USSR with Japan and Malaysia.

F. Visas

Visas are issued by diplomatic missions or consulates of the Russian Federation, the Ministry of Foreign Affairs or the Ministry of Internal Affairs (directly or by proxy) on the basis of the following:

- An invitation from an organization registered with bodies of the Ministry of Internal Affairs;
- A decision adopted by the Ministry of Foreign Affairs or a consulate or diplomatic mission; or
- A decision of a territorial body of the Ministry of Internal Affairs to issue a temporary residence permit.

Visas can be single-entry, double-entry or multiple-entry.

Foreign citizens who are permanent residents of the Russian Federation do not need entry visas; they must present identification documents and their permanent residence permit on entry.

The following categories of visas are available in the Russian Federation:
• Diplomatic;
• Service;
• Ordinary;
• Transit; and
• Temporary residence.

Ordinary visas are divided into private, business, tourist, study, work, humanitarian, and entry visas for persons seeking asylum.

Ordinary business visas support business trips to the Russian Federation; they may be single-entry or double-entry for up to three months, or multiple-entry for up to one year. A foreign citizen with a multiple-entry business visa may not be present in the Russian Federation for more than 180 consecutive days. Ordinary work visas are issued to those who perform labor activities in the Russian Federation. Initially, ordinary work visas are issued for up to three months. However, on the individual entering the Russian Federation, the visa may be extended by bodies of the Ministry of Internal Affairs in the foreign citizen's place of registration through the issuance of a multiple-entry visa for the term of the labor agreement, limited to one year for each subsequent visa.

G. Work Permits

In general, any foreign citizen who works in the Russian Federation must hold a work permit, and the employer or purchaser of work (services) of such foreign citizen must hold a valid employer permit to hire such an individual.

Foreign workers for whom it is not necessary to obtain a work permit and permit for the engagement and use of foreign workers include the following:
• Permanent and temporary residents of the Russian Federation;
• Employees of diplomatic missions, consulates and international organizations;
• Employees of foreign legal entities engaged in the installation, installation supervision, servicing, warranty servicing and after-guarantee repairs of installed equipment manufactured or supplied by those foreign legal entities;
• Journalists accredited in the Russian Federation; and
• Citizens of Belarus.

If no exemption applies, the following are the steps for obtaining employer and employee permits:
• Applying for a conclusion on the expediency of the engagement of foreign labor from the Federal Employment Service;
• Applying for a permit for the engagement of foreign labor from the Migration Service; and
• Applying for a work permit for a foreign employee from the Migration Service.

Completion of the above steps can take four or more months. As a result, it is critical to begin the application process as early as possible.

H. Residence Permits

Foreign citizens in Russia may have one of the following three statuses:

- Persons temporarily located in the Russian Federation;
- Temporary residents (those who hold temporary residence permits); or
- Permanent residents (those who hold permanent residence permits).

The first status, which is the default status if one does not apply for and obtain a residence permit, is by far the most common status of expatriates working in the Russian Federation.

Temporary residence permits are issued within quotas established by the government on an annual basis and are valid for three years.

A permanent residence permit is issued on the basis of a valid temporary residence permit no later than six months before the expiration of the temporary residence permit. A permanent residence permit is issued for five years and may be extended for the same period an unlimited number of times.

I. Family and Personal Considerations

Family Members. Nonworking family members of expatriates may receive accompanying family member visas, but applications must be filed separately. They must have separate work permits if they plan to work in the Russian Federation.

Drivers' Permits. In general, foreign nationals may drive legally in the Russian Federation for six months with their home country drivers' licenses or international drivers' licenses, accompanied by a notarized translation.

The Russian Federation does not have driver's license reciprocity with any other country.

To obtain a local Russian driver's license, an applicant must take a written exam, a medical exam and a practical driving test.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowances	X	—	—
Home-leave allowances	X	—	—

	Taxable*	Not Taxable	Comments
Moving expense reimbursement	—	X	(a)
Tax reimbursement:			
Current gross-up	X	—	—
One-year rollover	X	—	(b)
Deferred compensation	X	—	(c)
Value of meals provided	X	—	—
Material benefits	X	—	(d)

Other Items

Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	(e)
Capital gain from sale of stock in home country	X	—	(f)

* Bracketed amounts reduce taxable income.

(a) Moving expenses are nontaxable for Russian citizens within certain norms. No clear guidance exists as to whether moving expenses are nontaxable for expatriates. However, based on the nondiscrimination clause in the Russian tax law, one may take the position that moving expenses are also nontaxable for foreign citizens within the same norms.

(b) Russian law states that the funds of the employer may not be used to pay employees' taxes. It appears that the Russian authorities will accept Western tax equalization concepts.

(c) The Russian Federation uses some constructive receipt principles.

(d) The interest differential on loans obtained by individuals from companies is taxable to the extent that the annual interest rate is less than three-quarters of the Central Bank refinancing rate on ruble loans, or less than 9% on hard currency loans. Interest income on bank deposits held in the Russian Federation is included in income to the extent that it exceeds the Central Bank refinancing rate on ruble deposits, or in excess of 9% on hard currency deposits. Insurance contributions made by the employer for the benefit of employees is included in the employee's income unless either of the following apply: such insurance is required by Russian law; or the contributions are paid under voluntary medical insurance contracts that do not foresee cash payouts directly to the employees, but rather to the medical institutions. In addition, the excess of insurance payouts over the related contributions made by individuals, adjusted by the Central Bank refinancing rate, are taxable, unless the payout is connected with any of the following:
- An insured incident in the case of property insurance;
- Damage to life, or health or medical expenses; and
- Long-term (for a period of more than five years) life insurance.

(e) Income derived from the sale of real estate or most other property owned by the taxpayer for three years or more is exempt from tax. Gains derived from the sale of property that does not meet this minimum holding period are taxable on a capital gains approach or, alternatively, the taxpayer can elect to pay tax on the proceeds less a fixed deduction. For real estate held for fewer than three years, the maximum fixed deduction is RUR 1,000,000; for other property held for fewer than three years, the maximum fixed deduction is RUR 125,000.

(f) The taxable gain equals the difference between the sales proceeds and the documented expenses associated with purchase, possession and sale of the shares. If the shares were purchased for less than fair market value and if tax was paid on this spread, the spread may also be treated as a documented expense. If the expenses cannot be documented, a property-related annual deduction of RUR 125,000 may be claimed. For shares held for three years or more, if expenses cannot be documented, this deduction equals 100% of sales proceeds. Because no tax is due under this rule, the tax authorities might question the fact that the expenses cannot be documented.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample tax calculation for a Russian tax resident.

	RUR
Wages	175,000
Taxable income	175,000
Tax liability:	
(RUR 175,000 x 13%)	22,750

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A. Income Tax

Who Is Liable. Residents are subject to tax on their worldwide income, while nonresidents are subject to tax on their Rwandan-source income only.

Income Subject to Tax

Employment Income. Employment income includes the following: wages and salaries; vacation pay; sick pay; payments instead of vacation; directors' fees; commissions; bonuses; gratuities; and entertainment or other allowances received for employment. Employment income also includes all benefits in kind, including employer-provided cars, housing, loans at interest rates lower than the central bank lending rates and benefits provided to employees' relatives by employers.

Self-Employment and Business Income. Business income includes the following: trading profits; gains derived from disposals of business assets, shares of profits or profits from partnership interests; and professional, technical, management and other fees.

Investment and Other Income. A final withholding tax at a rate of 15% is imposed on the following:
• Dividends other than intercompany dividends;
• Interest;
• Royalties;

- Technical, management and other service fees;
- Performance fees paid to athletes and musicians; and
- Lottery and gambling proceeds.

Individual property owners who earn rental income are subject to rental income tax. The tax is payable to local or urban decentralized authorities at the following rates.

Rental Income		
Exceeding Frw	**Not Exceeding Frw**	**Rate %**
0	60,000	0
60,000	180,000	10
180,000	300,000	15
300,000	600,000	20
600,000	1,000,000	25
1,000,000	—	30

Capital Gains. Capital gains derived from the disposal of business assets are aggregated with other income and are taxed at the rates set forth in *Rates*.

Deductions

Personal Deductions. Individuals who earn employment income may claim a tax deduction for their contributions to qualified pension funds. The maximum annual deduction is the lower of 10% of their gross employment income or Frw 1,200,000.

Business Deductions. Business expenses are deductible to the extent they are incurred in the production of income. Bad debts incurred in the production of taxable income are not deductible until they are written off following a court ruling attesting that the debts are unrecoverable.

Fixed assets qualify for an annual capital allowance deduction. The deduction may be calculated using the straight-line or declining balance methods at rates ranging from 5% to 50%, depending on the type of an asset.

Rates. The following table sets forth the tax rates, which are applicable to employment income and taxable business income earned by individuals and unincorporated entities.

Taxable Income		
Exceeding Frw	**Not Exceeding Frw**	**Rate %**
0	180,000	0
180,000	1,200,000	20
1,200,000	—	30

A presumptive tax rate of 4% is allowed for persons whose annual turnover does not exceed Frw 20,000,000 and who do not maintain proper books of account.

Relief for Losses. Losses may be carried forward for five years to offset future profits of businesses. Losses may not be carried back.

B. Other Taxes

Estate and Gift Tax. Estate and gift tax is not levied in Rwanda.

Net Worth Tax. Net worth tax is not levied in Rwanda.

C. Social Security

The *Caisse Sociale du Rwanda*, which is Rwanda's statutory social security fund, provides employees with retirement benefits. Employees contribute 3% of their total annual salaries excluding transport allowance, and employers contribute an amount equal to 8% of each employee's total salary excluding transport allowance.

D. Tax Filing and Payment Procedures

Tax is withheld from employees under the Pay-As-You-Earn (PAYE) system. However, if the employer is unable to withhold tax from an employee, the obligation of declaring and paying the tax reverts to the employee.

The tax year runs from 1 January to 31 December. Taxpayers with accounting periods coinciding with the tax year must file three provisional returns and pay tax equal to 25% of the tax paid in the preceding year by 30 September, 31 December and 31 March. Taxpayers with other accounting periods must file provisional returns within three months after the beginning of the accounting period that ends within the tax year.

Taxpayers must file their final tax returns within six months after the end of their accounting year. An assessment is made based on the return, with a credit granted for taxes withheld at source and for provisional taxes paid.

Nonresidents who trade in Rwanda must register their operations or appoint an agent for tax purposes and are subject to the filing and payment requirements described above.

E. Double Tax Relief and Tax Treaties

In accordance with tax treaties, residents may credit foreign taxes paid on foreign-source income against Rwandan tax payable in accordance with tax treaties. Rwanda has entered into double tax treaties with Mauritius and South Africa.

F. Temporary Permits

All foreign visitors must obtain valid entry visas to enter Rwanda, with the exception of nationals of member countries of the Common Market of East and Southern Africa (COMESA) and nationals of a few other countries.

Visitors' passes are issued on entry into Rwanda. They are normally valid for three months and may be extended for up to six months.

Students may obtain long-term permits called students' passes, which are valid for the duration of their courses of study.

Transit passes are normally valid for 14 days.

When applying for passes, applicants must have valid passports or equivalent travel documents. No quota system exists for immigration purposes in Rwanda.

G. Work Permits and Self-Employment

Foreign nationals must obtain special passes or work permits before undertaking employment in Rwanda.

To obtain a work permit, the applicant must seek permission to be employed as an expatriate in Rwanda from the Ministry of Labour. To gain this permission, the following documents must be submitted:

- An application letter from the employer;
- Copies of the applicant's academic certificates;
- A police clearance certificate from the applicant's home country; and
- The applicant's *curriculum vitae* (CV) and a copy of passport.

If the employer is a nongovernment organization (NGO), the following additional documents are required:

- A certificate of registration of the NGO from the Ministry of Local Government; and
- An expatriate authorization letter from the Ministry of Local Government, as well as an authorization letter from the Ministry of Health if the employer is involved in the medical sector.

After obtaining the authorization, the employer must apply to the Ministry of Labor for the actual work permit. The following items must be submitted with respect to the application:

- An application form;
- Two passport photographs of the expatriate seeking the permit;
- An employment contract signed by both parties (employee and employer);
- A personal identification and CV form (available from the Ministry of Labour);
- Payment of Frw 200,000 (approximately US$400) per year to the government treasury; and
- Copy of an affiliation card for the *Caisse Sociale du Rwanda*, which is Rwanda's statutory social security fund (see Section C).

H. Residence Permits

A resident permit allows an expatriate to live in Rwanda during his or her assignment. The following items must be submitted to obtain a resident permit:

- An application letter to the immigration and emigration department.
- An application form available from the immigration and emigration department.
- A copy of a valid passport and one passport-size photograph.
- A police clearance from the person's country of origin.
- A CV and an employment contract signed by the employer and employee.
- Copies of the person's academic certificates.
- An alien's registration card (obtainable in Rwanda).
- A copy of the work permit.
- Payment of immigration caution money. Individuals intending to work in Rwanda must deposit this money with Rwanda's central bank. On the expatriate's exit from the country, it is used to settle any outstanding obligations, and the balance is refunded on demand.
- Payment of Frw 200,000 to the treasury.

I. Family and Personal Considerations

Family Members. Dependants of expatriates with work permits may obtain long-term permits called dependants' passes. The duration of these passes depends on the duration of the expatriate's work permit.

Working spouses of work permit holders do not automatically receive the same type of pass or permit as the principal permit holder. Applications must be filed independently.

Drivers' Permits. Foreign nationals may drive legally in Rwanda with their home country drivers' licenses for three months.

To obtain a local driver's license in Rwanda, an applicant must obtain a provisional driver's license after paying a general fee. This enables the applicant to go to a driving school and to take a driving test, after which he or she is issued a driving permit. No written or physical examination is required.

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A. Income Tax

Who Is Liable. Saudis and nationals of other Gulf Cooperation Council (GCC) states who are resident in Saudi Arabia are not subject to income tax in Saudi Arabia. The GCC states are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Non-Saudi and nonresident GCC nationals and entities with a permanent establishment in Saudi Arabia are subject to income tax on their business income in Saudi Arabia. Payments to nonresidents are subject to withholding tax (for details, see *Rates*).

A natural person is considered to be resident in Saudi Arabia for a tax year if the person meets any of the following conditions:

- The person has a permanent place of abode in Saudi Arabia and is physically present in Saudi Arabia for a total of at least 30 days during the tax year; or
- The person is physically present in Saudi Arabia for at least 183 days in the tax year.

Income Subject to Tax

Employment Income. Employment income and allowances, including education allowances, received by expatriates are not subject to tax in Saudi Arabia.

Self-Employment and Business Income. Foreign individuals are generally not allowed to carry on trading activities in Saudi Arabia. However, foreign professionals and consultants may carry on activities in Saudi Arabia if appropriate licenses are obtained from the Ministry of Commerce and Industry.

Income tax is levied on profits arising in Saudi Arabia derived by self-employed foreign professionals and consultants from their activities conducted in Saudi Arabia.

Investment Income. In principle, foreign individuals are taxed on income derived from investments in Saudi projects at a rate of 20%. However, it is suggested that foreign individuals seek professional advice on the taxation of their investment income.

Taxation of Employer-Provided Stock Options. In general, share ownership is not extended to expatriate employees of Saudi companies. No specific regulations govern the provision of stock options to employees.

Capital Gains. Capital gains are taxed as ordinary income together with other income earned for the same period.

Deductions. A taxpayer may deduct all necessary, provable and certifiable expenses incurred for the purposes of the business to the extent allowed under the tax regulations.

Provisions as well as private and personal expenses are not deductible.

Rates. A flat income tax rate of 20% is applied to the tax-adjusted profit of resident individuals.

Nonresidents who do not have a legal registration or a permanent establishment in Saudi Arabia are subject to withholding tax on their income derived from a source in Saudi Arabia. A Saudi resident entity must withhold tax from payments made to such nonresidents with respect to income derived from Saudi Arabia. This rule applies regardless of whether the Saudi entity is a taxpayer. The following are the withholding tax rates.

Payments	Rate (%)
Management fees	20
Dividends, interest, rent, payments made for technical and consulting services, payments for air tickets, freight or marine, shipping, international telephone services, and insurance or reinsurance premiums	5
Royalties, payments made to head office or an affiliated company for services and payments for other services	15

Relief for Losses. Losses may be carried forward indefinitely. However, the maximum loss that can be offset against a year's profit is 25% of the tax-adjusted profits for that year. Saudi tax regulations do not provide for the carryback of losses.

B. Net Worth Tax

Net worth tax is not levied on non-Saudis in Saudi Arabia other than citizens of GCC states. A religious levy called *zakat* is payable by Saudis and citizens of GCC states on net worth, as adjusted for *zakat* purposes.

Zakat is levied at a rate of 2.5%. The *zakat* base is capital that is not invested in fixed assets, long-term investments and deferred costs, as adjusted by net results for the year. Additional complex rules apply to the calculation of *zakat* liabilities.

C. Social Security

Employers must pay Saudi social insurance tax (GOSI) on behalf of their employees. The contributions are levied on basic salary, including housing allowances and certain commissions. The total contribution for annuity branch (pension annuity) with respect to Saudi nationals is 18% (shared equally between employer and employee). Annuity branch contributions are not required with respect to non-Saudi employees. Employers must pay contributions for occupational hazards insurance at a rate of 2% for both Saudi and non-Saudi employees.

D. Tax Filing and Payment Procedures

Tax Filing. A resident self-employed foreign professional or a resident foreign individual carrying on business activity in Saudi Arabia must file a tax return and must pay the tax due within 120 days after the end of the tax year.

Advance Tax. An advance payment on account of tax for the year is payable in three installments by the end of the sixth, ninth and twelfth months of the tax year. Each installment of advance payment of tax is calculated in accordance with the following formula:

$$25\% \times (A - B)$$

For the purposes of the above calculation, A equals the taxpayer's liability as per the tax declaration for the preceding year and B equals tax withheld at source for the taxpayer in the preceding year.

A taxpayer is not required to make advance payments if the amount of each payment calculated above would be less than SR 500,000.

Delay Fines. A delay fine of 1% for each 30 days of delay is computed after the elapse of the first 30 days from the due date of tax until the advance tax is paid.

Fines for nonsubmission of tax declarations by the deadline are payable at a rate of 1% of the total revenue, subject to a maximum delay fine of SR 20,000. However, fines based on unpaid tax are payable instead of the fine described in the preceding sentence if the fines based on the unpaid tax are higher. The following are the applicable fines:

- 5% of the unpaid tax if the delay is up to 30 days from the due date;

- 10% of the unpaid tax if the delay is more than 30 and not more than 90 days from the due date;
- 20% of the unpaid tax if the delay is more than 90 and not more than 365 days from the due date; and
- 25% of the unpaid tax if the delay is more than 365 days from the due date.

Withholding Tax. The withholder of tax is required to register with the Department of Zakat and Income Tax (DZIT) before the settlement of first tax payment. The withholder of tax must to settle the tax withheld with the DZIT by the 10th day of the month following the month in which the taxable payment is made and issue a certificate to the nonresident party. A delay fine of 1% for each 30 days of delay is computed from the due date of tax until the tax is paid.

E. Tax Treaties

Saudi Arabia has entered into a double tax treaty with France, which covers corporate tax, personal tax, inheritance tax, capital tax and *zakat*. The treaty was renewed for additional five years from 31 December 2003. Saudi Arabia is negotiating double tax treaties with other countries including Germany, the Netherlands and the United Kingdom.

F. Entry Visas

All foreign nationals must obtain valid entry visas to enter Saudi Arabia, with the exception of GCC nationals.

Foreign nationals may enter the country under visit visas, tourist visas, pilgrim visas, work visas (see Section G) and family visas (see Section I). The Saudi Arabian government does not issue any type of permanent visa.

Visas are issued to nationals of countries that have diplomatic ties with Saudi Arabia. In general, those who are deported from Saudi Arabia as a result of violation of Saudi Arabian regulations are prohibited from re-entering the country.

In general, an applicant may not enter the country while his or her visa papers are being processed.

Visit Visas. Visit visas are granted to short-term visitors (up to 90 days) who visit Saudi Arabia for business purposes. The visa allows its bearer to undertake any activity deemed to be usual and necessary for his or her visit, including attending meetings and establishing business contacts. To obtain a visit visa, an applicant must submit his or her passport and a letter from the inviting party to the Saudi embassy in the applicant's home country.

Pilgrim Visas. Pilgrim visas are issued to Muslim pilgrims for the performance of *Haj* and *Umrah*. This type of visa is primarily restricted to the cities of Mecca and Medina. However, holders of pilgrim visas for *Umrah* may obtain permission from the appropriate government department to travel to other cities. A foreign national visiting for pilgrimage purposes may not conduct business or engage in other activities in Saudi Arabia.

G. Work Visas and Self-Employment

Saudi Arabia depends substantially on foreign workers for its labor requirements. However, the government is making concerted efforts to increase the number of Saudi nationals in the workforce and, consequently, considers the availability of Saudi national workers before granting a work visa to a foreign national.

Work visas are issued to foreign workers who come to Saudi Arabia to work under employment contracts with local employers for a maximum initial period of two Hijra years. (The Hijra calendar is the official calendar of Saudi Arabia; a Hijra year is 12 lunar months of 29 or 30 days each.) A local employer may be an individual, a registered company, the Saudi Arabian government or a branch of a foreign company. A work visa is renewable by the Ministry of Labor on renewal of the employment contract.

To obtain a work visa, an application is submitted to the Saudi consulate in an applicant's home country together with a passport, a copy of the employment contract, a medical certificate and proof of professional qualifications. It takes approximately two to four weeks to obtain a visa after all of the documents are submitted. An employee may work while a work visa is being processed or renewed. Work visas must be renewed every two years.

It is possible to change employers with the approval of the existing employer. However, in such cases, a new work visa must be obtained by the new employer.

Foreign nationals may not carry out trading activities in Saudi Arabia. A foreign national who is a professional (for example, an accountant, engineer, lawyer or consultant) may conduct business in Saudi Arabia by setting up a professional partnership with a Saudi national, according to the professional partnership regulations.

A foreign company may set up a subsidiary or a branch headed by a foreign national after obtaining the necessary approval from the authorities.

H. Residence Permits

Residence permits are issued after arrival in Saudi Arabia to those entering the country with work visas. Residence permits are called *iqamas* and must be carried at all times. The residence permit is renewed at the same time the work visa is renewed.

I. Family and Personal Considerations

Family Members. Family visas are issued to spouses and dependants of foreign workers in designated professions. Family visas may also be issued to the parents of foreign workers. Family visas must be applied for independently of the work visa.

Marital Property Regime. No community property or similar marital property regime applies in Saudi Arabia.

Drivers' Permits. Resident foreign nationals may not drive legally in Saudi Arabia with their home country drivers' licenses. Short-term visitors holding visit visas may drive with international drivers' licenses issued in their home countries. Women are not allowed to drive in Saudi Arabia.

Saudi Arabia has driver's license reciprocity with countries in Europe and North America.

To obtain a local Saudi Arabian driver's license, an applicant must take an eye test, a blood test and a practical driving test.

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A. Income Tax

Who Is Liable. Residents of Senegal are taxed on worldwide income. Nonresidents are taxed on their Senegalese-source income only.

Senegalese and foreign individuals are considered residents for tax purposes if they meet any of the following criteria:
- Maintain a home in Senegal;
- Reside primarily in Senegal; or
- Perform a professional activity in Senegal, unless the activity performed is accessory (not the principal source of income).

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable compensation consists of salary, bonuses and fringe benefits valued according to the tax rules. Taxable salary reported by the taxpayer may not be lower than the amount calculated by the tax administration based on the taxpayer's standard of living. The factors contributing to the taxpayer's standard of living are valued according to a rate table established by decree.

The following income is exempt from tax:
- Family or state allowances;
- Specific allowances to compensate for professional expenses if they are not excessive;
- Reimbursement for employment-related expenses, up to either FCFA 400,000 if annual turnover does not exceed FCFA 2 billion or FCFA 800,000 if annual turnover exceeds FCFA 2 billion;
- Legal severance payments and legal retirement benefits;
- Death benefits; and
- Legal increase in salary due to currency devaluation.

A nonresident individual is taxable on income derived from services performed in Senegal.

In the absence of an applicable tax treaty, 20% withholding tax is levied on remuneration paid by a resident to a nonresident for any services provided or used in Senegal. This tax must be remitted by the Senegalese payer within 15 days following the payment of remuneration to the nonresident. The withholding tax is a final tax for nonresidents.

Self-Employment and Business Income. Self-employment activities are divided into commercial activities, agricultural activities and professional activities. Taxable income realized from each category is subject to proportional tax and general income tax (see *Rates*).

Individuals are taxed on commercial income if they derive profits from activities in industry, commerce or skilled trades. Taxable commercial income consists of the net profit derived from all business activities carried on by the taxpayer, computed on an accrual basis.

Individuals are taxed on professional income from professional services, from noncommercial activities and from other occupations and business activities not subject to special tax. Taxable professional income is the difference between income received for, and expenses incurred in, the performance of a qualifying activity. The cash basis of accounting is used.

Agricultural income includes profits realized by farmers, stockbreeders, fishermen and forestry operators. Taxable agricultural income is determined in the same manner as taxable commercial income, as are capital gains derived by agricultural businesses.

In the absence of an applicable tax treaty, a 20% final withholding tax is levied on remuneration paid by a resident to a nonresident for professional services or for any services provided or used in Senegal. This tax must be remitted by the Senegalese payer within 15 days after the payment of remuneration to the nonresident.

Investment Income. Investment income, which includes dividends and interest from bonds and debentures as well as directors' fees, is subject to withholding of proportional tax. Directors' fees are taxed, however, only if the payer company is established in Senegal.

Gross investment income (except dividends) is added to other taxable income, and the proportional tax paid constitutes a tax credit deductible from general income tax liability.

The rate of withholding tax for dividends is 10%; for interest derived from bonds, 13%; and for debentures and other payments, 16%. The withholding tax on dividends is a final tax for individuals.

Certain types of investment income are exempt from taxation, including income from negotiable securities issued by the state or certain Senegalese banks. Interest derived from long-term bonds (five or more years) is subject to a final withholding tax at a rate of 6%.

Withholding tax at a rate of 20% applies to royalties paid to nonresidents. This tax must be remitted by the Senegalese payer within 15 days following the payment of royalties to the nonresident. Withholding tax is imposed on dividends and interest paid to nonresidents at the same rates as those for residents. The withholding taxes are final taxes for nonresidents.

Taxation of Employer-Provided Stock Options. No specific rules apply to the taxation of employer-provided stock options.

Capital Gains. Capital gains realized in the performance of professional, commercial and agricultural activities are taxed as ordinary income, with certain relief available. Capital gains realized on the transfer of commercial business assets are tax-free if the proceeds are reinvested during the following three years in the business assets of an enterprise situated in Senegal and owned by the taxpayer. Otherwise, capital gains derived from sales of real estate are subject to tax at a rate of 15%. In addition, one-third of the gain realized on sales of shares is taxed if, during the previous five years, the seller, together with his or her ascendants, descendants and spouse, held more than 25% of the capital stock of the company and if any of those individuals served as directors in the company at any time during the five-year period. Other capital gains on sales of shares are not subject to tax.

Deductions

Deductible Expenses. The following expenses are deductible:

- A fixed deduction of 10% of gross remuneration for employment-related expenses not reimbursed through specific allowances (if these expenses exceed 10% of gross remuneration, the excess is deductible only if justified); and
- Mileage expenses, up to the limit allowed by the Finance Ministry.

Personal Deductions. The following expenses are deductible:

- Overdue alimony or child support payments, up to the higher of 5% of net taxable income or FCFA 300,000 (this limit does not apply to arrears paid under court order);
- Voluntary premiums for retirement pensions, up to 13.2% of salary, allowances and benefits in kind;
- Life insurance premiums of up to 5% of net taxable income, with a maximum of FCFA 200,000 plus FCFA 20,000 for each dependent child; and
- Interest paid on loans to acquire, maintain or repair the taxpayer's principal residence in Senegal.

Business Deductions. For each of the three categories of income, the following expenses are deductible:

- General expenses incurred for business purposes. These include personnel and social security contribution expenses, rental and leasing expenses, finance charges and certain professional taxes, including business tax, license fees and tax on wages.
- Depreciation expenses computed using the rates established by the tax administration.

Rates. Employees in Senegal are subject to proportional tax and general income tax. Proportional tax on employment income is levied at a rate of 11%, and general income tax is levied at progressive rates, up to a maximum of 50%.

Family coefficient rules reduce the progressive general income tax rates for families. Under the family coefficient system, the applicable progressive tax rates are determined by dividing taxable income by the number of allowances available to the taxpayer. The final progressive tax liability is calculated by multiplying the tax computed for one allowance by the number of allowances claimed. The number of family allowances depends on the taxpayer's status, as shown in the following table.

Taxpayer's Status	Number of Allowances
Single individual	1
Married couple	
No children	1.5
1 child	2
2 children	2.5

One allowance is added for each additional dependent child. If one spouse does not work, an additional allowance is added.

The table below presents the progressive rates of general income tax.

Taxable Income Per Allowance Exceeding FCFA	Not Exceeding FCFA	Tax on Lower Amount FCFA	Rate on Excess %
0	600,000	0	0
600,000	890,000	0	18
890,000	1,010,000	52,200	22
1,010,000	1,410,000	78,600	25
1,410,000	2,475,000	178,600	28
2,475,000	3,540,000	476,800	30
3,540,000	7,650,000	796,300	35
7,650,000	9,650,000	2,234,800	40
9,650,000	12,650,000	3,034,800	45
12,650,000	—	4,384,800	50

Self-employment income is subject to proportional tax at a rate of 25% and to general income tax at the same progressive rates as those for employment income.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses may not be deducted from income from other categories, but may be carried forward for three years to offset income in the same category.

B. Inheritance and Gift Taxes

The worldwide net assets of a Senegalese resident are subject to inheritance and gift tax. Nonresidents are subject to inheritance and gift tax only on assets located in Senegal.

Gifts and inheritances are subject to tax at progressive rates, depending on the value of the assets transferred and the relationship between the donor or deceased and the recipients. The tax rates range from 3% to 50%, with a minimum of FCFA 25,000 levied in all cases. Certain deductions are also granted.

Under Senegalese succession law, parents must leave two-thirds of their estates to their direct lineal descendents.

C. Social Security

Contributions. Individuals' social security contributions are withheld monthly by employers and are computed on the basis of gross remuneration paid, including fringe benefits and bonuses. The following contributions are required.

Description	Rate (%)
On annual salary of up to FCFA 756,000; paid by the employer	
Family allowances	6
Industrial accidents	1 to 5
Pension contributions, based on annual salary of up to FCFA 2,808,000; paid by	
Employer	8.4
Employee	5.6
Special executive contributions, on annual salary of up to FCFA 8,424,000; paid by	
Employer	3.6
Employee	2.4

Totalization Agreement. To prevent double social security taxes and to assure benefit coverage, Senegal has concluded a totalization agreement with France, which applies for a maximum period of three years.

D. Tax Filing and Payment Procedures

Individual income tax on wages is withheld at source by employers.

Senegalese residents are generally required to file income tax returns before 1 March of each year, at which time employees must satisfy any additional tax liability. Individuals engaged in commercial, professional or agricultural activities whose financial year ends 31 December must file returns by 30 April.

An individual performing commercial, agricultural or professional activities must make a first installment payment within the first 15 days of February and a second by 30 April, based on the income tax paid the preceding year. Each installment payment must equal one-third of the preceding year's income tax.

E. Double Tax Relief and Tax Treaties

Foreign taxes paid may be deducted as an expense from taxable income.

Senegal has entered into double tax treaties with Belgium, Canada, France, Italy, Morocco, Norway, Qatar and Tunisia and has signed the West African Economic and Customs Community (CEAO) tax treaty. In addition, Senegal is among the countries that signed the Common African and Mauritian Organization (OCAM) tax treaty. Other signatories include Benin, Congo, Gabon and Togo. The organization of OCAM no longer exists, but under the principles of international law, the multilateral agreements promulgated by OCAM continue to have effect. Gabon applies the tax treaty. Cote d'Ivoire applies the tax treaty although it has not signed it. Niger does not apply the tax treaty although it has signed it.

The treaties generally provide the following relief:

- Commercial profits are taxable in the treaty country where a foreign firm performs its activities through a permanent establishment;
- Interest is taxable in the state of residence of the beneficiary, but the state of source may withhold tax at source if its internal law allows; and
- Employment income is taxed in the treaty country where the activity is performed, except in the case of a short assignment.

The treaties with Belgium and France provide that royalties and remuneration paid to a nonresident for services rendered in Senegal are taxable in the state of residence of the beneficiary, but the state of source may withhold tax at source if its internal law allows.

Under the CEAO treaty, dividends are taxed in the state of source. Under the OCAM treaty, dividends are taxable in the treaty country where the beneficiary is resident, but are subject to withholding tax in the treaty country where the payer is resident.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home-country benefit plan	—	—	—
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(a)
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	—	X	—
Value of hotel provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(b)
Capital gain from sale of personal residence in home country	—	X	(c)
Capital gains from sale of stock in home country	—	X	(d)

(a) The tax authorities determine the taxable amount.
(b) Dividends and interest are not subject to tax on wages. However, they are subject to a proportional withholding tax.
(c) A capital gain derived from the sale of a personal residence is exempt from the tax on wages. However, it is subject to real estate tax at a rate of 15%. The Senegalese tax law does not specify whether the real estate tax applies to a capital gain derived from the sale of a personal residence located in a foreign country.
(d) Capital gains derived from sales of shares of Senegalese and foreign companies are not subject to the tax on wages. However, they are subject to the proportional tax on self-employment income, which is imposed at a rate of 25% on half of the capital gain.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample 2005 tax calculation is provided below for an expatriate who is a resident in Senegal for all of 2005 and is married with two dependent children under 18 years old. During 2005, the expatriate received a gross salary of FCFA 100,000,000. The employer also provided housing of four rooms and other fringe benefits (water, electricity, telephone and a vehicle paid for by the employer). The following is the tax calculation.

	FCFA	FCFA
Calculation of Income		
Gross salary		100,000,000
Fringe benefits (a):		
Housing (FCFA 30,000 x 4 x 12)	1,440,000	
Water	120,000	
Electricity (FCFA 10,000 x 4 x 12)	480,000	
Telephone	360,000	
Vehicle (lower than 11 horsepower)	240,000	
Total fringe benefits		2,640,000
Total income		102,640,000
Calculation of Income Tax		
Proportional Tax		
Total income		102,640,000
Tax deduction		(84,000)
13.2% standard deduction for retirement premiums (13.2% of FCFA 102,556,000)		(13,537,392)
Standard deduction		(700,000)
Proportional tax base		88,318,608
Amount of proportional tax (FCFA 88,318,608 at 11%)		9,715,047
Progressive Tax		
Total income		102,640,000
Tax deduction		(84,000)
Taxable income		102,556,000
Standard deduction for retirement premiums (13.2% of FCFA 102,556,000)		(13,537,392)
Net income		89,018,608
Standard deduction (15% of FCFA 89,018,608)		(13,352,791)
Progressive tax base		75,665,817
Taxable income per one allowance (FCFA 75,665,817 ÷ 3)		25,221,939 (b)
Application of the progressive rates:		
FCFA 600,000 at 0%		0
FCFA 290,000 at 18%		52,200
FCFA 120,000 at 22%		26,400
FCFA 400,000 at 25%		100,000
FCFA 1,065,000 at 28%		298,200
FCFA 1,065,000 at 30%		319,500
FCFA 4,110,000 at 35%		1,438,500
FCFA 2,000,000 at 40%		800,000
FCFA 3,000,000 at 45%		1,350,000
FCFA 12,571,939 at 50%		6,285,969
FCFA 25,221,939		

	FCFA
Progressive tax per one allowance	10,670,769
Progressive tax per three allowances (3 x FCFA 10,670,769)	32,012,307
Total amount of income tax (FCFA 9,715,047 + FCFA 32,012,307)	41,727,354

(a) The tax authorities provide the amounts of the fringe benefits that are included in taxable income.
(b) An expatriate is entitled to three allowances if the expatriate's spouse does not derive taxable income in Senegal.

SERBIA AND MONTENEGRO, UNION OF

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The Republic of Serbia and the Republic of Montenegro are the constituent parts of the Union of Serbia and Montenegro, which succeeded the Federal Republic of Yugoslavia in February 2003. A new Constitutional Charter regulates the relationship between Serbia and Montenegro for the first three years of the union. Under the charter, Serbia and Montenegro may unilaterally leave the union based on a public referendum after the three-year period has elapsed. Both Serbia and Montenegro have their own parliament and government.

The majority of the regulations, including monetary, political, currency, fiscal and customs regulations, are established at the level of the member republics. The member republics' policies in these areas are often very different. This chapter describes the tax system in the Republic of Serbia. Because of the rapidly changing economic and political situation in the Republic of Serbia, readers should obtain updated information before engaging in transactions.

A. Income Tax

Who Is Liable. Residents are subject to tax in Serbia on their worldwide income. Nonresidents are subject to tax on Serbian-source income only.

Individuals are considered to be resident for tax purposes if they have a domicile, residence or center of business and life interests in Serbia or if they spend more than 183 days within a 12-month period, which begins or ends in the tax year (that is, the calendar year). In addition, Serbian individuals seconded abroad or to Montenegro by a resident employer or an international organization to operate in the name of the employer are also considered resident.

Income Subject to Tax. Tax is levied on the types of income described below.

Employment Income. Salary tax is payable at a rate of 14% on income from permanent or temporary employment, benefits received in money and in kind, paid leave and other employment remuneration that exceeds a prescribed level.

Self-Employment Income. Tax is levied on the net earnings of self-employed individuals at a rate of 10%. For this purpose, taxable income is accounting profit adjusted in accordance with the tax regulations. The tax authorities may grant certain self-employed individuals the right to not maintain books; lump sum tax is levied on these individuals.

Grants and loans provided by employers to their employees' children to cover their costs of education in a high school or a higher level of education are taxable if the monthly installment exceeds CSD 4,500 (€56). The excess amount is grossed up and subject to an effective tax rate of 16%. No social security contributions are payable on these grants and loans.

Investment Income. Tax is imposed at a rate of 20% on investment income, including the following: interest; dividends; participation in profits; and use of a company's property or services by its owner for personal purposes. Interest derived from government bonds and demand deposits is exempt from tax. Only individuals who are Serbian tax residents that receive dividends are allowed a 50% reduction of their taxable dividend income.

Withholding tax is imposed at a rate of 20% on royalties from copyrights, rights related to copyrights and industrial property rights. Deductions from royalty income may range from 40% to 60% of total royalty income. Actual expenses for an author or interpreter are deductible if they are properly documented.

Income from property leasing is taxed at a rate of 20%. A standard deduction of 20% may be claimed with respect to this income. As an exception, a 50% deduction is allowed for income received from leasing apartments, rooms and beds in the tourist industry.

Directors' Fees. Fees received by members of a board of directors or supervisory board of a legal entity are taxed at a rate of 20%. A standard deduction of 20% may be claimed with respect to such income.

Other Income. Other income, including income from leasing movables and winnings from games of chance, are subject to tax at a rate of 20%. Certain standard deductions are allowed with respect to such income.

Personal Deductions. Taxpayers may claim a personal deduction in the amount of 40% of the average annual salary per employee paid in Serbia in the year for which the tax is assessed (the amount of the deduction for 2005 was CSD 122,467). In addition, individuals may claim a deduction in the amount of 15% of the average annual salary per employee paid in Serbia in the year for which the tax is assessed (the amount of deduction for 2005 was CSD 45,925) for each dependent family member. The total amount of deductions claimed may not exceed 50% of taxable income.

Capital Gains and Losses. Capital gains are subject to tax at the rate of 20% (10% for entrepreneurs). Capital losses incurred in a calendar year may offset capital gains derived in that year or in the following 5 years (10 years for entrepreneurs).

Rates. A Serbian tax resident individual who derives annual net income from any source in excess of 4 times the amount of the average annual salary per employee paid in Serbia in the year for which tax is assessed (the amount of the threshold for 2005 was CSD 1,224,672), as well as a resident foreign national or a Serbian national seconded abroad who derives annual net income from any source in excess of 10 times the amount of the average annual salary per employee paid in Serbia in the year for which the tax is assessed (the amount of the threshold for 2005 was CSD 3,061,680), pays annual income tax at a flat rate of 10% on the excess amount. Nonresidents are not subject to annual income tax.

The above thresholds are modified each year in accordance with the annual fluctuation of average salary in Serbia.

Relief for Losses. Losses incurred in self-employment activities may be carried forward for up to 10 years.

B. Other Taxes

Property Tax. Residents and nonresidents are subject to property tax at rates ranging from 0.4% to 3% on real estate owned or rented in Serbia. Shares and stakes in legal entities are no longer subject to this tax, effective from 1 January 2005.

Inheritance and Gift Tax. Inheritance and gift tax is levied on the market value of property at rates ranging from 3% to 5% for taxpayers who are second relations to the testator or donor (depending on the value of the tax base) and 5% for taxpayers who are third relations or are not related to the testator or donor. Tax on gifts and inheritance is not payable on shares acquired as a part of the privatization process or transferred from an entity being privatized to a new owner of the shares.

Transfer Tax. Tax is imposed at a rate of 0.3% on the transfer of absolute (ownership) rights of holdings in a legal entity and securities. The tax rate is 2.5% for transfers of agricultural and forestry land and of used motor vehicles, vessels and airplanes. The rate is 5% for other transfers of absolute rights. The tax base is the higher of the contract price or market price.

C. Social Security and Other Contributions

Contributions. Social security tax is imposed on salaries received by individual employees. The employee and the employer each pay contributions to the following funds at the rates noted: the pension and disability fund (11%); the health care fund (6.15%); and the unemployment fund (0.75%).

Contributions must also be paid to Serbia and municipal chambers of commerce at rates ranging from 0.19% to 0.255%.

Contributions to the Pension and Disability Fund at a rate of 22% and contributions to the Health Care Fund at a rate of 12.3% (for individuals without any other insurance) are payable by individuals on income received under contracts relating to royalties, services, additional work, agency and sports, as well as under similar contracts involving the payment of remuneration for services performed.

For expatriate employees, social security contributions are payable only on salaries received in Serbia. Under certain bilateral conventions, expatriates may pay social security contributions in their country of residence only.

Coverage. An employee who pays Serbian social security contributions is entitled to benefits, including health insurance for the employee and dependent family members, disability and professional illness insurance, unemployment allowances, retirement and other benefits.

Totalization Agreements. To prevent double taxation and to assure benefit coverage, The Union of Serbia and Montenegro currently applies social security totalization agreements with the following countries: Austria; Belgium; Bosnia and Herzegovina; Bulgaria; Croatia; the Czech Republic; Denmark; Egypt; France; Germany; Hungary; Italy; Libya; Luxembourg; Macedonia; the Netherlands; Norway; Panama; Poland; Romania; Sweden; Switzerland; and the United Kingdom. These agreements generally provide a 12-month exemption, which may be extended. Certain agreements provide an exemption for the full term of the individual's assignment.

D. Tax Filing and Payment Procedures

The tax year is the calendar year. Annual tax returns must be filed on 15 March. Withholding tax is levied on most types of income, including salaries. Individuals who are liable for income tax must make advance payments of income tax in monthly or, in certain cases, quarterly installments.

E. Double Tax Relief and Tax Treaties

Although Serbia professes to honor the tax treaties concluded by the former Yugoslavia, the applicability of these treaties is in doubt in several instances. In the event of the inapplicability of a treaty, Serbian tax legislation provides for the unilateral avoidance of double taxation through tax credits.

The former Yugoslavia and Serbia and Montenegro entered into double tax treaties with the following countries.

Belarus	Finland (a)	Netherlands
Belgium	France (a)	Norway
Bosnia and Herzegovina	Germany	Poland
Bulgaria	Hungary	Romania
China	Iran (b)	Russian Federation
Croatia	Italy	Slovak Republic
Cyprus	Korea (North)	Slovenia
Czech Republic	Kuwait	Sweden
Denmark	Lithuania (b)	Switzerland (b)
Egypt	Macedonia	Ukraine
	Moldova	United Kingdom (a)

(a) These treaties cover the avoidance of double taxation on income only.
(b) These treaties are not yet in force.

F. Temporary Visas

Valid passports and visas are required to enter Serbia for foreign nationals of many countries. Transit visas allow foreign nationals in transit to stay in Serbia for up to seven days if they register with the Police Department. Foreign nationals holding valid documents and who are on vacation or visiting family may remain in the country for three months. Foreign nationals wishing to stay longer then three months must request authorization from the local Police Department.

G. Work Permits

Before applying for a work permit, a foreign national must have a temporary or permanent residence permit. Work permits are valid until the expiration of the residence permit. Foreign nationals who will be employed for the purpose of performing duties set out in a foreign investment agreement are not required to obtain a work permit.

H. Residence Permits

Temporary and permanent residence permits are issued by the Republic Police Department. Holders of residence permits may obtain Serbian identity cards.

To obtain a temporary residence permit, a foreign national applies to the local Republic Police Department by stating the reasons for the temporary stay and, if requested, providing documents justifying the reasons. The applicant must also prove that he or she has sufficient financial means for his or her support during the stay in Serbia. A temporary residence permit is valid for one year (or until the expiration date of the holder's passport, if sooner), and may be extended for similar periods if sufficient reasons exist.

For a permanent residence permit, a foreign national applies to the Republic Police Department enclosing evidence of sufficient financial means for his or her support in Serbia. A permanent residence permit is issued to an applicant who meets one of the following conditions:

- A member of the applicant's immediate family is a Serbian citizen or a foreign national with a permanent residence permit;
- The applicant is married to a Serbian citizen; or
- The applicant is of Serbian origin.

I. Family and Personal Considerations

Work Permits for Family Members. Work permits are not automatically granted to the family members of a foreign national who receives a work permit.

Forced Heirship. Serbia's forced heirship rules prevent the disinheritance of the closest relatives of the decedent. The decedent's descendents, whether biological or adopted, and spouse comprise forced heirs in the first line, who are entitled to one-half of their intestate share of the decedent's estate. Other forced heirs are entitled to one-third of their intestate share. Forced heirs have all the rights and duties of other heirs.

Drivers' Permits. Foreign nationals may drive in Serbia and Montenegro with their home country drivers' licenses for six months. During this time, they must also have international drivers' licenses or proof that they have applied for domestic drivers' licenses.

SEYCHELLES

Please direct all inquiries regarding Seychelles to Ryaad Owodally (phone: [230] 202-4777, Ext. 4717; fax: [230] 202-4700; e-mail: ryaad.owodally@mu.ey.com) of the Port Louis, Mauritius office.

A. Income Tax

Who Is Liable. Individuals resident in Seychelles are exempt from tax on their local and overseas employment income. Resident individuals who are not citizens of Seychelles are exempt from tax on all of their foreign-source income. Nonresidents are generally taxable on their unearned income derived from Seychelles.

Income Subject to Tax

Employment Income. Individuals resident in Seychelles are exempt from tax on their local and overseas employment income.

Self-Employment and Business Income. Self-employed individuals carrying on a trade, business or profession are subject to business tax on their business profits. Expenses are deductible to the extent they are exclusively incurred to produce gross income.

All income derived from business is taxed at the rates set forth in *Rates*.

Investment Income. Withholding tax is imposed on dividends paid to nonresidents. The withholding tax is considered to be a final tax. Dividends paid to residents are not subject to withholding tax and are exempt from tax at the level of the recipient.

A 10% withholding tax is imposed on interest paid to nonresidents other than banks, finance companies and other enterprises whose principal business is lending money. A 40% withholding tax is imposed on interest paid to a resident or nonresident holders of bearer securities issued by financial institutions in Seychelles at the time of redemption or surrender of the security. The 10% and 40% withholding taxes are considered to be final taxes.

No withholding tax is imposed on royalties paid to residents. The rate is 15% with respect to royalties paid to nonresidents for the following: the use of, or right to use, copyrights, patents, designs, models or trademarks; the use of secret formulas, processes or know-how; and scientific, industrial or commercial knowledge, information or services to the extent social security contributions (see Section C) have not been made on the payments.

Social security contributions are payable on royalties for services performed in Seychelles at the rates stated in Section C. Social security contributions are payable on all services performed in Seychelles.

Directors' Fees. Directors' fees paid to residents or nonresidents are exempt from income tax.

Capital Gains. Capital gains are generally not taxable. However, capital gains deemed to be derived in a business are taxable.

Rates. Business tax is imposed at the rates indicated in the following table.

Taxable Income Exceeding SR	Taxable Income Not Exceeding SR	Tax on Lower Amount SR	Rate on Excess SR
0	48,000	0	0
48,000	96,000	0	25
96,000	120,000	12,000	30
120,000	—	19,200	40

B. Estate and Gift Taxes

No estate or gift tax is imposed in Seychelles. However, transfers of immovable property or shares are generally subject to stamp duty at a rate of 5%, but transfers as a result of a divorce settlement or by a parent to a child are exempt from tax.

C. Social Security

Employees in Seychelles are required to contribute monthly to the Social Security Fund which provides for employees' old-age retirement. The contributions are imposed on all emoluments provided by an employer to an employee during a month. For 2006, the contribution rate is 5% for employees. For employers, the following are the rates.

Emoluments Paid to Employee Exceeding SR	Emoluments Paid to Employee Not Exceeding SR	Contribution Rate %
0	1,000	10
1,000	2,000	20
2,000	10,000	30
10,000	—	40

D. Tax Filing and Payment Procedures

Employers must withhold social security contributions from employees' emoluments. Individuals with self-employment or business income must make monthly provisional tax payments based on their income for the preceding tax year.

E. Double Tax Relief and Tax Treaties

Seychelles has entered into double tax treaties with the following countries.

Botswana	Indonesia	Oman
China	Mauritius	South Africa

The agreements are based on the model treaties of the Organization for Economic Cooperation and Development (OECD) and the United Nations (UN).

F. Visa Requirements

Visas are not required for entry into Seychelles.

G. Visitors' Permits

A visitor's permit is issued on arrival in Seychelles to a person who comes for the purpose of holiday, pleasure, business, or visiting friends or family. A visitor's permit is initially valid for the period of the visit, with a maximum duration of one month. This period can be extended but can be subject to a fee if it exceeds three months.

H. Gainful Occupation Permits

A gainful occupation permit allows the holder to be gainfully occupied in Seychelles.

Applications for gainful occupation permits must be submitted at least 10 weeks before the employee is due to start work. The employee may not enter Seychelles for the purpose of taking up employment before obtaining the gainful occupation permit.

A processing fee of SR 600 and the fee for the duration of the permit, which equals SR 1,500 per month or part thereof, must accompany the application.

I. Residence Permits

The holder of a residence permit is not allowed to be gainfully occupied in Seychelles. If an individual wants to work as an employee or engage in a business or profession, he or she must obtain a Gainful Occupation Permit.

A fee of US$115 is payable for processing of the application. The fee for a residence permit is US$10,000 for the principal applicant and US$5,000 for the spouse if applied for at the same time.

The holder's minor dependants can be endorsed on the permit.

SINGAPORE

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A. Income Tax

Who Is Liable. A person is subject to tax on employment income for services performed in Singapore, regardless of whether the remuneration is paid in or outside Singapore. Resident individuals who derive income from sources outside Singapore are not subject to tax on such income. However, this exemption does not apply if the foreign-source income is received through a partnership in Singapore. Individuals who carry on a trade, business, profession or vocation in Singapore are taxed on their profits. Whether an individual is carrying on a trade is determined based on the circumstances of each case. Foreign-source income received in Singapore by a nonresident is specifically exempt from tax.

Individuals are resident for tax purposes if they are employed or physically present in Singapore for a total of 183 days or more during the calendar year preceding an assessment year. By concession, an individual whose employment extends into three or more consecutive assessment years is considered resident for all three or more years, even if fewer than 183 days were spent in Singapore in the first and last years of the stay. This is commonly known as the "three-year administrative concession."

Under the Not Ordinarily Resident (NOR) Scheme, a qualifying individual may enjoy several tax concessions for five consecutive assessment years, including time apportionment of Singapore employment income, if certain conditions are satisfied. In the 2006 budget, the government declared that scheme would be reviewed periodically to ensure that it remains effective.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income includes cash remuneration, wages, salary, leave pay, directors' fees, commissions, bonuses, gratuities, perquisites and allowances received as compensation for services. Benefits in kind derived from employment, including home-leave passage, employer-provided housing, employer-provided automobiles and children's school fees, are also taxable. Certain of these benefits receive special tax treatment.

Compulsory statutory contributions made by employers to the CPF (see Section C) on behalf of individuals performing services in Singapore does not constitute taxable income. Contributions made by an employer to any provident or pension fund located outside Singapore are taxable as income when the contributions are paid, unless exempted by concession.

Not Ordinarily Resident Scheme. Under the Not Ordinarily Resident (NOR) scheme, a resident employee whose resident status is not accorded under the three-year administrative concession (see *Who Is Liable*), may benefit from the following concessions for five consecutive assessment years:

- Time apportionment of employment income; and
- Tax exemption for the employer's contributions to non-mandatory overseas pension funds or social security schemes, subject to the Central Provident Fund (CPF) maximum contribution limits for "ordinary" and "additional" wages (see Section C).

To qualify for the NOR scheme, an employee must meet the following conditions:

- He must be a resident for tax purposes in that assessment year in which he or she wishes to apply; and

- He must not have been a resident for tax purposes in the three assessment years immediately preceding the assessment year in which he or she wishes to apply.

To benefit from the time apportionment of employment income, the employee must meet the following additional conditions:
- He or she must spend at least 90 business days in the calendar year outside Singapore with respect to his or her Singapore employment.
- He or she must pay tax at a rate of at least 10% on his or her total Singapore employment income.

The time apportionment applies to cash compensation only. A benefit-in-kind, such as a housing benefit or car benefit, is taxable in full and not included in the calculation for the purpose of determining the apportioned employment income.

For a sample tax calculation under the NOR scheme, see Appendix 2.

Self-Employment and Business Income. Self-employment income subject to tax is based on financial accounts prepared under generally accepted accounting principles. Adjustments are made to the profits or losses according to tax law. Business income is aggregated with other types of income to determine taxable income, which is taxed at the rates described in *Rates.*

Investment Income. Under the imputation tax system, tax on dividend income is withheld at source at a rate of 20%, unless the dividend is declared from profits that are specifically exempt from tax or that enjoy concessionary tax rates. Nonexempt dividends are aggregated with other income and are taxed at the rates described in *Rates*. The tax deducted at source from the dividend may be offset against the tax liability for that assessment year, and any excess is refunded to the taxpayer. Dividends declared from exempt profits are tax-free in the hands of the recipient.

However, under the "one-tier" corporate tax system, effective from 1 January 2003, Singapore dividends are exempt, unless the paying company opts to remain under the imputation tax system during the five-year transition period from 1 January 2003 to 31 December 2007 and pays franked dividends out of any unutilized dividend franking credits.

Singapore-source investment income (that is, income that is not considered to be gains or profits from a trade, business or profession) derived directly by individuals from specified financial instruments, including standard savings, current and fixed deposits, is exempt from tax. Examples of such income include interest from debt securities, annuities and distributions from unit trusts.

Net rental income is aggregated with other types of income and taxed at the rates set forth in *Rates*.

Taxation of Employer-Provided Stock Options and Share Owner ship Plans. Employer-provided stock options are taxed at the time of exercise, not at the time of grant. Share awards are taxable at the time of award or at the time of vesting, if a vesting period is imposed. The taxable amount is the open market value of the shares at the time of exercise, award or vesting, less the amount paid by the employee, if any. For stock options and share awards granted on or after 1 January 2003 on which a moratorium is imposed on the acquired shares, the gains are taxed only on the date the moratorium is lifted. The taxable amount is the open market value of the shares on the date the moratorium is lifted, less the amount paid by the employee.

Stock options and share awards granted during overseas employment are not subject to tax even if the gains derived are remitted into Singapore while the employee is a tax resident, because all foreign-source income received in Singapore (other than through partnerships) by resident individuals is exempt from tax. Stock options and share awards granted on or after 1 January 2003 while the employee is engaged in employment in Singapore are subject to tax, regardless of where the options are exercised or shares are vested. These options and awards are deemed exercised or vested at the time of cessation of employment for a foreign national employee, and tax is due immediately on the deemed gains.

For employee stock options or shares granted under any employee share ownership plan on or after 1 January 2003, the employer may apply for a Tracking Option if certain qualifying conditions and requirements are met. If the employer has been granted approval to track and elects to do so, the stock options or shares granted are reportable and taxable at the time of exercise or vesting.

Various incentive schemes are available for an employee to either defer payment of tax on share plan income (subject to an interest charge) or to obtain partial tax exemption of the income, if certain criteria are met.

Any additional gain derived from the subsequent sale of the shares is normally capital in nature and is not taxable.

Capital Gains. Singapore does not impose tax on capital gains. However, in certain circumstances, the tax authorities may treat gains derived from purchases and sales of real estate or shares as revenue subject to income tax if the taxpayer is in the business of dealing in real estate or shares.

The buyer of property must pay stamp duty on the value of the property purchased.

Deductions

Deductible Expenses. In principle, expenses incurred wholly and exclusively in the production of income qualify for deduction, but in practice, the deductions available against employment income are limited. The general view taken by the Inland Revenue authority is that an employer normally pays all necessary expenses incurred by an employee in the course of discharging the duties of office. Employees must be able to prove to the Inland Revenue that expenses claimed were necessarily incurred in performing their duties.

Personal Deductions and Allowances. Personal deductions are granted to individuals resident in Singapore. Some of the deductions for the 2006 assessment year (income earned in the 2005 calendar year) are summarized in the following table.

Type of Deduction	Amount of Deduction
Wife relief	S$2,000
Handicapped spouse	S$3,500
Earned income	
Under 55 years of age	S$1,000
55 to 59 years of age	S$3,000
60 years of age and older	S$4,000
Handicapped earned income	
Under 55 years of age	S$2,000
55 to 59 years of age	S$5,000
60 years of age and older	S$6,000
Child relief	
1st, 2nd and 3rd child	S$2,000 each
4th child (born on or after 1 January 1988)	S$2,000
Dependent relative (maximum of two)	
Living with taxpayer	S$5,000
Not living with taxpayer	S$3,500
Handicapped dependant	Additional S$3,000
Grandparent caregiver relief (for working mothers)	S$3,500

Working mother's child relief and foreign maid levy deductions are available for married women working in Singapore. Parenthood tax rebates are available for parents, but are subject to certain conditions. Special deductions are available for military reservists and the spouse or parents of military reservists.

The following deductions for life insurance premiums or contributions to approved pension funds are granted:

- For an employee, the total of life insurance premiums and amounts contributed to approved pension funds other than the CPF may be deducted up to a maximum amount of S$5,000, provided that the total CPF contributions are less than S$5,000;
- For an individual carrying on a trade, business, profession or vocation, CPF contributions may be deducted up to an amount of S$28,050 for the 2005 calendar year and S$25,245 for the 2006 calendar year; and
- A deduction of up to S$7,000 may be claimed for cash contributions made to the taxpayer's, the taxpayer's parents' or the taxpayer's grandparents' CPF retirement account, including contributions by taxpayers to nonworking spouses who are 55 years old and above and who earned no more than S$2,000 in the preceding year.

In addition, fees for approved courses may be deducted, up to a maximum of S$3,500.

Business Deductions. Amounts incurred are deductible in determining taxable profits if they are expended wholly and exclusively in producing income and are not specifically disallowed. Expenses specifically not deductible include personal expenses, income taxes paid in and outside Singapore, contributions to unapproved provident funds and automobile expenses. Book depreciation of fixed assets is not an allowable deduction; tax depreciation (capital allowances) is granted instead.

Rates. A person who is a tax resident in Singapore is taxed on assessable income, less personal deductions, at the following rates for the 2006 assessment year (income from the 2005 calendar year).

Assessable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount*	Excess
S$	S$	S$	%
0	20,000	0	0
20,000	30,000	0	3.75
30,000	40,000	375	5.75
40,000	80,000	950	8.75
80,000	160,000	4,450	14.5
160,000	320,000	16,050	18
320,000	—	44,850	21

As announced in the 2005 budget, the top personal income tax rate of 21% for the 2006 assessment year will be reduced to 20% for the 2007 assessment year. The marginal tax rates for all of the other income brackets will also be reduced, but the income bands remain unchanged. The following are the proposed tax rates for the 2007 assessment year.

Proposed 2007 Assessment Year Rates

Assessable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
S$	S$	S$	%
0	20,000	0	0
20,000	30,000	0	3.5
30,000	40,000	350	5.5
40,000	80,000	900	8.5
80,000	160,000	4,300	14
160,000	320,000	15,500	17
320,000	—	42,700	20

The rates of tax applied to the income of nonresident individuals are set forth in the following table.

Income Category	Rate
Income from employment (other than directors' fees)	Greater of 15% or tax payable as a resident (employment income of non-resident individual employed in Singapore for no more than 60 days in a calendar year is exempt from tax)
Income from directors' fees	20%
Income from a trade, business, profession or vocation	20%
Income from professional services	15%*
Interest (excluding tax-exempt interest from approved banks, finance companies, loans and certain qualifying debt securities)	15%
Dividends (excluding tax-exempt and one-tier dividends)	20%
Royalties (for the use of, or right to use intangible property and payments for the use of, or right to use scientific, technical, industrial or commercial knowledge or information	10%
Rent or other payments for the use of movable property	15%

Income Category	Rate
Income of public entertainers	15%, net of expenses
Income derived by an international arbitrator	Exempt
Other sources	20%

* This is a final withholding tax on the gross amount (unless the nonresident professional elects to be assessed at a rate of 20% on net income).

Relief for Losses. Losses incurred, and capital allowances granted, in the operation of a trade, business, profession or vocation may be offset against any other taxable income in the same assessment year. Any unabsorbed losses and capital allowances may be carried forward without any time limitation for offset against future income from all sources, subject to certain conditions. This relief is allowed only for a loss incurred in connection with a trade, business, profession or vocation. Relief for a qualifying loss is mandatory and may not be deferred.

Effective from the 2006 assessment year, a one-year carryback of up to an aggregate amount of S$100,000 of current year unused capital allowances and trade losses may be allowed, subject to the satisfaction of certain conditions and compliance with specified administrative procedures.

B. Estate and Gift Taxes

Estate duty is a tax charged on the market value of movable and immovable property in Singapore and on movable property outside Singapore. Estate duty applies to property of individuals domiciled in Singapore at the time of their death that is passed at the time of death from the owner to beneficiary. For individuals dying on or after 1 January 2002 who were not domiciled in Singapore, estate duty is charged only on immovable property located in Singapore. The rates of duty are 5% for the first S$12 million of the estate and 10% on the excess.

Effective from 1 January 2006, for deaths in quick succession, the estate duty paid on the earlier death may be subtracted from the estate duty payable on the same assets assessed in the beneficiaries' subsequent deaths. The relief begins at 100% if the deaths occur within 6 months of each other, reducing to 0% if the deaths are more than 2 years apart.

Certain types of property are exempt from estate duty. The applicable rules are detailed and highly complex. However, in practice, the following are the major exemptions that are likely to be encountered:

- Residential properties, up to an aggregate value of S$9 million;
- Taxable property, up to the greater of S$600,000 in property value or the deceased's balance in the CPF account (see Section C);
- Bequests made from the estate of the deceased as specified in the deceased's will to the Singapore government or any institution of a public character (IPC) approved under the Income Tax Act; and
- Gifts made from the estate of the deceased not specified in the deceased's will to the Singapore government or any IPC approved under the Income Tax Act.

Singapore does not impose a gift tax.

C. Social Security

The Central Provident Fund (CPF) is a statutory savings scheme to provide for employees' old-age retirement in Singapore. Only Singapore citizens and permanent residents working in Singapore are required to contribute to the CPF. All foreigners (including Malaysians) are exempt from CPF contributions. Effective from 1 January 2003, foreigners may no longer make voluntary contributions to the CPF.

Both employees and employers must contribute to the fund. For individuals up to 50 years of age, the statutory rate of the employee's contribution is 20% and the rate of the employer's contribution is 13%. For those from ages 50 to 55, the employee's contribution rate is reduced from 19% to 18%, effective from 1 January 2006. The employer's contribution rate is also reduced from 11% to 9%, effective from 1 January 2006. Lower contribution rates apply to individuals over 55 years of age. Special transitional contribution rates apply to foreigners who become Singapore permanent residents.

Maximum contribution limits apply to both "ordinary" and "additional" wages. For "ordinary" wages, contributions for employees in the private sector are payable only on the part of the monthly wage that does not exceed S$4,500, effective from 1 January 2006.

Contributions on "additional" wages, such as bonuses and other nonregular wages, are subject to limits if the employee's total wages for the year exceed S$76,500 in 2006. In this event, the contributions on the "additional" wages are payable up to a limit of S$76,500, less the total "ordinary" wages subject to CPF contributions in the year.

Self-employed individuals who carry on a trade, business, profession or vocation may also participate in the CPF scheme.

On reaching 55 years of age, an employee is entitled to withdraw, tax-free, the accumulated contributions up to a certain limit, plus accrued interest. If the employee permanently leaves Singapore (and Malaysia) before reaching 55 years of age, the funds may also be withdrawn. The employee's balance may also be withdrawn for certain specified purposes, including the acquisition of residential property, investment in shares and the payment of certain hospital expenses for anyone in the taxpayer's family.

A Supplementary Retirement Scheme (SRS) allows Singapore citizens and permanent residents to elect to contribute to private funds in addition to their CPF contributions. Foreigners working in Singapore may also participate in the scheme. Contributions are deductible but are subject to a cap. The rates of contribution are 15% for citizens and permanent residents and 35% for foreigners, subject to an absolute cap of 17 months of the prevailing CPF salary ceiling. The voluntary SRS contributions are paid only by employees; employers are not required to make SRS contributions. Withdrawals made before the employee reaches the statutory retirement age are fully taxed and are generally subject to a 5% penalty. Withdrawals are only 50% taxable if they are made after the employee reaches the statutory retirement age in effect at the time of the first contribution, after the employee's death, for medical reasons, or by a foreigner who has maintained the SRS account for at least 10 years from the date of the first contribution. Employees who reach the statutory retirement age or who meet the rules on medical grounds, may further reduce the tax payable by extending the withdrawals over a period of up to 10 years from the time they reach the statutory retirement age in effect at the time of withdrawal.

D. Tax Filing and Payment Procedures

The tax year in Singapore is the assessment year, and tax is levied on a preceding-year basis. For example, in the 2006 assessment year, tax is levied on income from the 2005 calendar year. Resident and nonresident individuals must file returns by 15 April of the assessment year. Sole proprietors and partners whose annual turnover exceeds S$500,000 must attach their certified financial statements to their tax returns. NOR taxpayers who spend at least 90 days outside Singapore on business may file their tax returns on a "days-in, days-out" basis, subject to certain conditions.

An individual may pay the tax due for the assessment year in one lump sum within one month after the issuance of a tax assessment. Alternatively, the tax may be paid in installments, up to a maximum of 12 per year.

Married persons are taxed separately, but they can elect to be taxed on a combined basis.

E. Double Tax Relief and Tax Treaties

Relief from double taxation is granted on income derived from professional, consultancy and other services rendered in countries that do not have double tax treaties with Singapore.

Double tax relief is also available for foreign taxes levied on income taxed in Singapore if Singapore has a tax treaty with the country concerned and if the individual is resident in Singapore for tax purposes.

Singapore has entered into tax treaties with the following countries.

Australia	Indonesia	Pakistan
Austria	Israel	Papua New Guinea
Bahrain	Italy	Philippines
Bangladesh	Japan	Poland
Belgium	Korea	Portugal
Bulgaria	Kuwait	Romania
Canada	Latvia	Saudi Arabia (c)
Chile (b)	Lithuania	South Africa
China	Luxembourg	Sri Lanka
Cyprus	Malaysia	Sweden
Czech Republic	Mauritius	Switzerland
Denmark	Mexico	Taiwan
Egypt	Mongolia	Thailand
Finland	Myanmar	Turkey
France	Netherlands	United Arab Emirates
Germany	New Zealand	United Kingdom
Hong Kong (a)	Norway	United States (a)
Hungary	Oman (c)	Vietnam
India		

(a) Applies to income from international sea and air transport only.
(b) Applies to income from international sea transport only.
(c) Applies to income from international air transport only.

Individuals who receive employment income in Singapore and who are tax residents of countries that have concluded double tax treaties with Singapore may be exempt from Singapore income tax if their period of employment in Singapore does not exceed a certain number of days (usually 183) in a calendar year or within a 12 month period and if they satisfy certain additional criteria specified in the treaties.

F. Social Visit Passes and Visas

Social visit passes are issued at the port of entry and may be obtained without prior application. They are issued for visiting purposes only, not for employment. Social visit passes are valid from two to four weeks and for up to three months in aggregate in any one year, subject to the discretion of the immigration authorities.

Certain categories of foreign nationals must obtain visas prior to arrival in Singapore.

G. Work Permits and Employment Passes

Foreign nationals who intend to take up employment or to engage in any business, profession or occupation in Singapore must first apply for either a work permit or an employment pass before arrival in Singapore. In addition, the foreign national's employer must be registered in Singapore.

Work Permit. A work permit (WP) may be granted to a skilled or unskilled foreign worker whose basic monthly salary is less than S$1,800 and who holds qualifications and experience relevant to the position. WPs are granted for up to three years at a time and are renewable. WPs are subject to quota, and employers are subject to monthly levies for each WP holder employed.

Employment Pass. An employment pass (EP) may be granted to a foreign worker whose basic monthly salary exceeds S$2,500 and who holds an acceptable degree, professional qualifications or specialist skills. Immigration authorities reviewing the application may consider the applicant's professional and academic qualifications, special skills with respect to his or her employment and his or her anticipated economic contribution to Singapore. The applicant may be issued a P1, P2 or a Q1 Pass, depending on the basic monthly salary level and other qualitative factors.

The "S" Pass is a work pass for individuals with a minimum basic salary of S$1,800 and an acceptable tertiary qualification, which may be less than a university degree. These two criteria are supplemented by a system of points, to take into account experience, skills and job type. The "S" Pass is subject to a quota and a monthly levy payable by the company.

Temporary EPs may be issued on a discretionary basis to foreign nationals who submit applications for EPs and are waiting for the results of their applications. This pass expires when the EP is granted or denied.

A foreign national who receives approval in principle for an employment pass may be required to undergo a medical examination or to complete a health declaration form.

A first-time applicant may be issued an Employment/"S" Pass with a duration of up to two years. The Employment/"S" Pass may be renewed for a period of up to three years.

Employment Pass Eligibility Certificate. An employment pass eligibility (EPE) certificate is granted to foreign professionals who hold acceptable degrees, professional qualifications or specialist skills and want to have a longer stay in order to seek employment in Singapore. The EPE certificate enables the foreign professional to apply for a six-month social visit pass to allow sufficient time for him or her to seek employment in Singapore. The EPE certificate is issued on a one-time basis and is nonrenewable. No fee is charged for the application for the EPE certificate.

EntrePass (Employment Pass for Entrepreneurs). A foreigner who is an entrepreneur ready to start a new business or company and will be actively involved in the operation of the business or company in Singapore may apply for an EP under the EntrePass scheme. The applicant must submit a comprehensive business plan, which must include certain key indicators such as growth potential of the business and the availability of funding. The EntrePass application must be sponsored by a well-established Singapore-registered company or accompanied by a banker's guarantee of S$3,000 to be furnished by the applicant if the application is approved. EntrePasses are granted for up to two years for new applications and up to three years for renewals.

Procedure. Effective from 3 October 2005, all applications for EPs, "S" Passes, WPs and EntrePasses must be submitted through SingPost (collecting agent for the Ministry of Manpower) and a S$10 administrative fee (S$40 for EntrePass), must be paid for the filing of an application. No administrative fees are charged with respect to Dependant's Passes, Long Term Social Visit Passes, Training Visit Passes or Letters of Consent.

H. Residence Permits

Qualified professionals, technical personnel and skilled workers who are younger than 50 years of age may apply for permanent residence on obtaining an EP to work in Singapore. An applicant in this category may also apply for permanent residence for his or her spouse and unmarried children under 21 years of age.

Under the Global Investor Program, foreign entrepreneurs may seek permanent residence in Singapore for themselves and immediate family members by committing to invest at least S$1 million to S$1.5 million in certain approved categories of business activities. The investment must be made in a Singapore-incorporated entity.

A successful applicant must make the investment in accordance with the approved business plan within six months of receipt of the approval in principle. Applicants are required to produce evidence of their investment for final approval of the conferring of permanent residence status. The applicant must maintain the investment for a period of five years. This five-year period begins on the date of final approval of permanent residence.

Under the Financial Investor Scheme (FIS), foreigners who have net personal assets of at least S$20 million and who place at least S$5 million of financial assets with a financial institution regulated by the Monetary Authority of Singapore may apply for permanent residence.

I. Family and Personal Considerations

Family Members. An EP holder may apply for dependent passes, which allow his or her spouse and children under 21 years of age to live in Singapore. An "S" Pass holder earning a base salary of less than S$2,500 per month may not apply for a dependent pass. A working spouse of an expatriate does not automatically receive the same WP or EP as the expatriate. A dependent pass holder who wishes to work in Singapore must apply for a WP, EP or letter of consent separately.

If dependants are not eligible to apply for dependant's pass, the employment pass holder (P1, P2) may apply for a Long-Term Social Visit pass for eligible dependants, which are the following:
- Parents;
- Parents-in-law;
- Stepchildren;
- Spouse (common-law);
- Handicapped children; and
- Unmarried daughters above age 21.

Marital Property Regime. The Family Court of Singapore has jurisdiction to determine the division of marital property of spouses. The court does not automatically divide the property equally but determines a fair and equitable split according to the circumstances of the case.

Broadly, marital property includes the following: property acquired after the date of marriage; property acquired before the date of marriage but used by the other spouse or children during the marriage for accommodation, transportation, or household, recreational, educational, social or aesthetic purposes; property acquired before the date of marriage but substantially improved during the marriage; and gifts of a matrimonial home or gifts that have been substantially improved during the marriage.

Forced Heirship. No forced heirship rules apply in Singapore.

Drivers' Permits. Expatriates may drive legally in Singapore with their home country drivers' licenses for the first six months after their arrival. Expatriates with valid employment passes must produce their home country drivers' licenses (in English or with an official translation) and pass the basic driving theory test to convert their overseas licenses to Singapore licenses. Satisfactory evidence must be produced to show that applicants hold valid drivers' licenses issued within the past three years by competent authorities in their home countries.

Singapore has driver's license reciprocity with almost all other countries.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Employer contributions to overseas pension fund	X	—	—
Bonus	X	—	—

	Taxable*	Not Taxable	Comments
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	(b)
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(c)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	—

* The bracketed amount reduces taxable income.
(a) The value is includable to the extent of 10% of compensation, or actual rent, whichever is lower.
(b) This is limited to amount of taxable housing benefit.
(c) Home-leave airfare is taxable but only to the extent of 20% of the cost, subject to certain conditions.

APPENDIX 2: SAMPLE TAX CALCULATION UNDER THE NOT ORDINARILY RESIDENT SCHEME

A sample tax calculation is provided below for the 2006 assessment year. The calculation is for an expatriate resident in Singapore for all of 2005, who is married with two dependent children. The calculation is based on the following assumptions:

- During 2005, the expatriate received a salary of, S$300,000, S$100,000 of which was paid in Singapore and the balance deposited in a home country bank account and not remitted to Singapore;
- The expatriate has regional employment responsibility and has spent 90 days working outside of Singapore in 2005;
- The individual's employer also provided unfurnished housing at a cost to the company of S$60,000; and
- The expatriate earned dividends from home country investments of S$3,000, S$1,000 of which was remitted to Singapore.

	S$	S$
Calculation of Taxable Income		
Salary		226,027 (a)
Taxable value of housing		30,000 (b)
Dividends from home country corporations remitted to Singapore		0 (c)
Total income		256,027

	S$	S$
Deductions:		
Earned income	(1,000)	
Wife	(2,000)	
Children	(4,000)	
Total deductions		(7,000)
Taxable income		249,027

Calculation of Tax

Tax on first S$160,000	16,050	
Tax on next S$89,027 at 18%		16,025
S$249,027		
Income tax payable		32,075

(a) The tax on the total employment income of S$330,000 (S$300,000 + S$30,000 [10% housing benefit]) is S$46,950. This represents a rate of 14.2% (46,950/330,000), which meets the minimum floor tax rate requirement of 10%. The employee consequently qualifies for time apportionment under the Non-Ordinarily Resident (NOR) scheme (see Section A). As a result, the salary is taxed based on a time-spent allocation (275/365 × S$300,000 = S$226,027). The tax payable on S$256,027 is S$33,335. This represents a rate of 10.10% (33,335/330,000), which is above the floor tax rate of 10%.

(b) The taxable value equals the lesser of 10% of total compensation income or actual rent paid. The taxable value is S$30,000 (S$300,000 at 10%). This is not subject to time apportionment.

(c) Foreign-source income received in Singapore is not taxable.

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Because of the rapidly changing economic and political situation in the Slovak Republic, readers are advised to obtain updated information before engaging in transactions.

A. Income Tax

Who Is Liable. Slovak residents are subject to tax on their worldwide income. Nonresidents are subject to tax on their Slovak-source income only.

Individuals who have permanent residency in the Slovak Republic are considered tax residents in the Slovak Republic. In addition, any person physically present (that is, usually staying) in the Slovak Republic for at least 183 days in a calendar year is considered resident for tax purposes. For purposes of the 183-day test, each whole or partial day spent in the Slovak Republic during the calendar year counts toward the number of days. The 183-day test does not apply to the following: individuals staying in the country to study; individuals present in the country for medical treatment; and individuals who earn Slovak-source income from dependent activities and who enter the Slovak Republic daily or at agreed-upon time periods only for the purpose of performing such activities.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income includes salaries, wages, bonuses, compensation of a similar nature and most benefits in kind. Employment income also includes fees paid to directors and partners of limited liability companies and to limited partners of limited partnerships for services rendered, even if the relationship of these individuals to the company or partnership is not one of authority.

Education allowances provided by the employer to their employees' children (the age of the children is irrelevant) are taxable.

Self-Employment and Business Income. Taxable self-employment and business income consists of income from business activities and professional services. This income may be decreased by deductible expenses. Nonresidents are subject to tax on their Slovak-source business income only.

Rental income, including income from the rental of real estate, apartments and movable assets (except occasional rentals), is taxed as self-employment and business income. As a result, expenses can be deducted from such income.

Investment Income. Investment income, including interest and other income derived from securities and payments made from supplementary pension insurance schemes, is generally subject to a 19% withholding tax. However, this income can be included in the tax base, and the 19% withholding tax can be treated as a prepayment of the final tax liability. Residents and nonresidents are exempt from tax on dividends and on other profit distributions from limited liability companies, if certain conditions are met.

Taxation of Employer-Provided Stock Options. For employer-provided stock options, the difference between the higher market price and the guaranteed exercise price of the employee's share is taxable on the vesting date (that is on the first day when the option can be exercised), regardless of the actual date of exercise of the option. Employer-provided stock options are treated as employment income and taxed through payroll withholdings at the regular income tax rate. The difference between the higher market price and the guaranteed exercise price paid by the employee is exempt from tax on the exercise date.

Capital gains derived from the sale of shares acquired under an option plan are calculated as the difference between the sales price and the market price on the vesting date (assuming the taxation occurred on the vesting date). These gains are subject to tax at the regular rate (see *Capital Gains*).

Capital Gains. Capital gains derived from the sale or exchange of property are taxed as ordinary income at the regular income tax rate (see *Rates*). In general, capital gains derived from the sale of real estate or personal property are exempt from income tax if relevant conditions stipulated in the law are met (for example, the minimum required holding period). Business assets generally do not qualify for exemption.

Deductions

Deductible Expenses. Sickness insurance, health insurance, old-age insurance, disability insurance and unemployment insurance contributions paid by employees (see Section C) are deductible from employment income. Supplementary pension insurance premiums paid by employees pursuant to the Supplementary Pension Insurance Act, deposits to certain other types of savings schemes that meet statutory requirements and life insurance premiums are deductible up to the amount of SKK 12,000 a year.

Personal Allowances and Deductions. All taxpayers, including nonresidents, are entitled to a personal allowance. The sum of this allowance is equal to the subsistence level multiplied by 19.2 (SKK 90,816 for 2006). Taxpayers who have permanent residency in the Slovak Republic may also claim a spousal allowance if the spouse's income is lower than the spousal allowance. The taxable income of the taxpayer is reduced by SKK 90,816 for a spouse living in the same household if the spouse has no income of his or her own. If the spouse's own annual income does not exceed SKK 90,816, the difference between the spousal allowance and the spouse's income is allowed as a deduction of the taxpayer for tax purposes.

In addition, taxpayers who have permanent residency in the Slovak Republic are entitled to an annual tax bonus (credit) in the amount of SKK 6,480 per dependent child for 2006.

Business Deductions. In general, costs and expenses incurred to generate, assure and maintain income are deductible, including mandatory contributions for social and health insurance. Expenses of a capital nature, penalties, income tax and expenses incurred to generate tax-exempt income are not deductible.

Instead of deducting actual expenses, individuals who are not value-added tax (VAT) payers during any part of the tax year may deduct a percentage of gross revenues. In general, this percentage is 40%. However, for individuals who are engaged exclusively in crafts, as defined in special legislation, the deductible percentage is 60%.

Rates. Taxable income is taxed at a flat rate of 19%.

For a sample tax calculation, see Appendix 2.

Relief for Losses. An individual may carry forward losses incurred in the tax years immediately preceding the year in which he or she first declares a positive tax base. These losses may be carried forward for five tax years following the year of the loss. Losses may not be offset against employment income.

B. Inheritance and Gift Taxes

The inheritance and gift taxes were eliminated in 2004.

C. Social and Health Insurance

Contributions. If an employee is subject to the Slovak social security system, both the employer and the employee are required to pay social security contributions. Slovak social security contributions comprise health, sickness, old-age, disability, unemployment, guarantee and accident insurance, and contributions to the reserve fund. The combined rate for the employee's contribution is 13.4% of his or her assessment base, which is, in general, his or her monthly salary. The employer's contribution rate is 35.2% of the employee's assessment base. The maximum monthly assessment base for all types of insurance (excluding accident insurance) equals the average wage in the Slovak economy multiplied by a coefficient (1.5 for sickness and guarantee insurance, and 3 for the other types of insurance). The minimum monthly assessment base for all types of insurance (except accident insurance) is linked to the minimum wage in the Slovak Republic. The assessment base for accident insurance is not limited.

The following are the social security rates for 2006.

Benefit	Employer %	Employee %	Self-Employed Individuals %
Sickness insurance	1.4	1.4	4.4
Health insurance	10.0	4.0	14.0
Old-age insurance (a)	14.0	4.0	18.0
Disability insurance	3.0	3.0	6.0
Accident insurance	0.8 (b)	0.0	0.0
Guarantee fund	0.25	0.0	0.0
Reserve fund	4.75	0.0	4.75
Unemployment insurance	1.0	1.0	0.0 (c)
Total	35.2	13.4	47.15

(a) The Slovak old-age contribution consists of two pillars. The contributions are paid to two different social security institutions, which are the state Social Insurance Agency and one of the commercial life agencies, such as Nationale Nederlanden or Generali. The rates shown are the total rates of contributions.

(b) The 0.8% rate applies until the end of 2006. Beginning in 2007, the rate will vary according to the type of work and will range from 0.3% to 2.1%.

(c) Self employed individuals are not required to make contributions for unemployment insurance. If they elect to be insured, they make contributions at a rate of 2% of a self-determined assessment base (within statutory bounds).

Under the domestic law in the Slovak Republic, if an employment contract is entered into with an entity or an individual without a registered seat or a branch in the Slovak Republic, neither the employee nor the employer is required to contribute to the Slovak social insurance system. If the foreign employer referred to in the preceding sentence does not have a permanent establishment in the Slovak Republic, no contributions to the Slovak health insurance systems are required.

Effective from 1 May, 2004, European Union (EU) regulations on social and health insurance are binding in the Slovak Republic. Consequently, the respective regulations for EU citizens, and the applicable totalization agreements for other foreigners (see *Totalization Agreements*) must be taken into account in determining the obligations of foreign individuals working in the Slovak Republic.

If a statutory representative enters into a contract with a Slovak company for the execution of a function, both parties are required to contribute only to the Slovak health insurance system as employee and employer.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, the Slovak Republic has entered into totalization agreements with the following countries.

Austria	Germany	Russian Federation
Bosnia-Herzegovina	Hungary	Serbia and Montenegro
Bulgaria	Luxembourg	Slovenia
Canada	Macedonia	Spain
Croatia	Netherlands	Switzerland
Cyprus	Poland	Ukraine
Czech Republic	Romania	
France		

Totalization agreements with EU member states continue to be valid, but they are not applied in practice.

D. Tax Filing and Payment Procedures

In general, individuals who receive income exceeding 50% of the personal allowance (see Section A) are required to file a tax return. An exception applies if individuals receive only employment income and/or other income and if all of such income is subject to withholding tax.

Tax returns must be filed by individuals who receive any of the following types of income:
- Income from an employer that is neither a Slovak taxpayer nor a foreign taxpayer under Slovak tax law;
- Foreign-source income (with certain statutory exemptions);
- In-kind compensation, if tax prepayments could not be withheld; or
- Income other than employment income.

In addition, individuals having only employment income who did not request that their employer perform the annual reconciliation of their income and tax withholdings must file a tax return.

The tax year for individuals is the calendar year. Tax returns for each tax year must be filed within three months after the end of the respective tax year. Individual tax returns are generally required to be filed by 31 March of the year following the tax year. No automatic extension of the deadline is available. Extensions may be granted on a case-by-case basis, up to three months. If an individual who is resident for tax purposes in the Slovak Republic receives foreign-source income, an extension may be granted for up to 6 months (that is, until 30 September).

Advance tax payments are withheld monthly by Slovak employers from all employment compensation paid by or through them. Individuals must make quarterly or monthly advance tax payments for rental and business income, if their last known tax liability exceeded SKK 20,000. However, no advance tax payments from such income are paid if individual also receives employment income that represents more than 50% of all of his or her personal income (if employment income represent a smaller share, advance tax payments are paid in half of regular amount).

Individuals performing work in the Slovak Republic for neither Slovak nor foreign payers of tax must make monthly Slovak tax prepayments based on the actual income received.

In general, married persons are taxed separately on all types of income. The income from joint property, such as income from the sale or renting of the property, is generally, divided between married persons equally, unless agreed otherwise. Cost and expenses are divided in the same percentage as income.

E. Tax Treaties

The Slovak Republic has entered into double tax treaties with the following countries.

Australia	Indonesia	Serbia and Montenegro
Belarus	Ireland	Singapore*
Belgium	Israel	Slovenia
Bosnia-Herzegovina	Korea	South Africa
Bulgaria	Latvia	Switzerland
Canada	Lithuania	Turkey
Croatia	Malta	Turkmenistan
Czech Republic	Moldova*	Ukraine
Egypt*	Poland	United States
Finland	Portugal	Uzbekistan
Hungary	Romania	
Iceland	Russian Federation	

* This treaty has been signed, but it is not yet in effect.

The Slovak Republic has signed a double tax treaty with Singapore, but the treaty has not yet been ratified.

The Slovak Republic honors the double tax treaties entered into by Czechoslovakia with the following countries.

Austria	India	Spain
Brazil	Italy	Sri Lanka
China	Japan	Sweden
Cyprus	Luxembourg	Tunisia
Denmark	Mongolia	United Kingdom
France	Netherlands	Yugoslavia (former)*
Germany	Nigeria	
Greece	Norway	

* The Yugoslavia treaty applies to Macedonia only.

APPENDIX 1: TAXABILITY OF SPECIFIC TYPES OF INCOME

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	(X)	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	(b)
Cost-of-living allowance	X	—	—

	Taxable*	Not Taxable	Comments
Housing allowance	X	—	(c)
Housing contribution	(X)	—	(d)
Education allowance	X	X	(e)
Hardship allowance	X	—	—
Other allowances	X	X	(e)
Premium allowances	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	X	(f)
Tax reimbursement:			
Current gross-up	X	—	—
One-year rollover	X	—	—
Deferred compensation	X	X	(g)
Value of meals provided	—	X	—
Value of lodging provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	X	(h)
Capital gain from sale of personal residence in home country	X	X	(i)
Capital gain from sale of stock in home country	X	X	(i)

* Bracketed amounts reduce taxable income.
(a) Employee contributions are deductible from compensation if the plan is mandatory and recognized by the Slovak tax law.
(b) Under the Slovak tax law, this item is not a deductible, but it is deducted in practice.
(c) Housing allowances paid by the employer are considered taxable income.
(d) Employees' housing contributions are deductible for tax purposes if they represent contributions to the actual housing costs borne by the employer.
(e) If the allowance relates to business and covers the actual costs, it is not taxable. If the allowance is for private or family purposes, the allowance is taxable.
(f) In general, moving expenses are considered taxable income, but if it can be proved that this does not represent any benefit for the individual, it may be treated as nontaxable. This depends on the particular circumstances.
(g) Deferred compensation is not taxable until it is paid. However, if the compensation vests before actual payment, it may be taxable at the date of vesting.
(h) Interest and dividend income earned by foreign executives who are Slovak tax nonresidents on their non-Slovak accounts is not taxable in the Slovak Republic. For tax residents, the relevant double tax treaty needs to be reviewed.
(i) The gain is not taxable if the individual is a nonresident of the Slovak Republic. For tax residents, the relevant double tax treaty needs to be reviewed unless the income is sourced in the Slovak Republic.

APPENDIX 2: SAMPLE TAX CALCULATIONS

Sample tax calculations for 2006 are provided below for an expatriate who is married with one child and worked the entire year in the Slovak Republic for a Slovak entity. The income of the expatriate's spouse is SKK 30,000 and the expatriate's spouse is living in the same household with the expatriate.

The first calculation is for an expatriate who does not have permanent residency in the Slovak Republic, and the second calculation is for an expatriate who has permanent residency in the Slovak Republic and is considered a Slovak tax resident.

Expatriate Not Having Permanent Residency in the Slovak Republic (a)

	SKK
Gross employment income earned by the expatriate after deduction of mandatory social and health insurance contributions	1,725,000
Personal allowances	(90,816)
Taxable income	1,634,184
Tax on SKK 1,634,184 at 19%	310,494

Expatriate Having Permanent Residency in the Slovak Republic (a)

	SKK	
Gross employment income earned by the expatriate after deduction of the mandatory SSHI	1,725,000	
Personal allowances	(151,632)	(b)
Taxable income	1,573,368	
Tax on SKK 1,573,368 at 19%	298,939	
Child bonus	(6,480)	(c)
Final tax due	292,459	

(a) If an expatriate has permanent residency in the Slovak Republic, he or she can claim also the spousal allowance, which is equal to the difference between SKK 90,816 and the spouse's income. He or she can also claim the child bonus in the amount of SKK 6,480 per year.
(b) The following is the calculation for the personal allowances: SKK 90,816 + (SKK 90,816 - SKK 30,000) = SKK 151,632
(c) The child bonus is provided only for dependent children living in the same household with the expatriate.

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Amendments to the tax law took effect in Slovenia on 1 January 2006. This chapter reflects these amendments. Because of the significant changes contained in the amendments, readers should obtain additional information before engaging in transactions.

A. Income Tax

Who Is Liable. Residents are subject to income tax on their worldwide income. Nonresidents are subject to income tax on income from sources in Slovenia. Employment income and income from the performance of services and business income are considered to be derived from sources in Slovenia if the employment, services and business are carried out in Slovenia. In addition, income is deemed to be derived from a source in Slovenia if it is paid by or charged to a Slovenian tax resident.

An individual is considered to be resident for tax purposes in Slovenia if during the fiscal year, he or she fulfills any of the following conditions:

- He or she has an officially registered permanent residence in Slovenia;
- His or her habitual abode or center of personal and economic interests is located in Slovenia; or
- He or she is present in Slovenia for a total of more than 183 days.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income includes all income that a person receives from the employer or other person with respect to either past or present employment. Employment income includes salary, holiday bonus, fringe benefits and directors' fees. Benefits provided to employee's family members are considered to be employee's benefits.

Business Income. Business income includes income derived from performance of business activities and income from individual business transactions. Taxable business income is the difference between gross business income and the expenses necessary to generate business income.

Income from Agricultural Activities and Forestry. Income from primary agricultural and primary forestry activity is attributed to a person who has the right to use the land that is recorded in the land register as agricultural land or a forest (cadastral income). The tax base for cadastral income is the deemed income from then land determined under the relevant regulations.

Income from Property. Income from property includes the following: dividends; interest; property leases; and transfers of property rights.

Income from dividends includes dividends and other income derived from the ownership of shares. Tax on dividends is also imposed on the following: income similar to dividends; compensation received by the owner of the shares on the basis of ownership of the shares; and income received on the basis of profit sharing in mutual funds. Income similar to dividends includes income derived from sales of products and services at lower than market prices, debt cancellations and other benefits granted to family members of the shareholder. Tax on dividends is imposed at a rate of 20% and is considered a final tax. Tax is withheld at source from dividends paid by resident companies. For dividends received from abroad, an individual must file a tax return with the tax authorities within 15 days after receipt of dividends. The tax authorities assess tax on the basis of the tax return.

Interest income includes interest on loans, debt securities, bank deposits, deposits with savings banks and other similar financial claims, as well as income from life insurance policies, income from financial leases and income received on the basis of income sharing in mutual funds that distribute their income as interest. For 2006, interest of up to SIT 300,000 is not included in the tax base. For 2007, this threshold will be lowered to SIT 150,000. For 2006 and 2007, tax on interest is imposed at a flat rate of 15% and is considered a final tax. Tax on interest on deposits with banks in Slovenia or European Union (EU) member states is assessed by the tax authorities based on the annual tax return filed by the individual. Tax on interest paid by resident companies is withheld by the payer. For interest received from abroad, an individual must file a tax return with the tax authorities within 15 days after receipt of the interest. The tax authorities assess tax on the basis of the tax return.

An individual who is resident of an EU member state other than Slovenia is not subject to personal income tax on savings with a source in Slovenia to which the automated information exchange system between the EU member states applies.

Income from property leases includes income from leases of immovable and movable property. In the determination of the tax base, standard costs of 40% are deducted from the income received. Instead of deducting standard costs, individuals may opt to deduct the actual costs for the maintenance of property to preserve its usable value. An advance payment of income tax equaling 25% of the tax base is payable. Resident companies must withhold tax from income paid under property leases. Individuals receiving income under property leases from foreign entities or from individuals must file a tax return by 15 January. This tax return must report income received in the preceding year. The tax authorities assess tax on the basis of the tax return.

Income from transfers of property rights includes income derived from the conveyance of the right to use the following: material copyrights; material rights of the operator; inventions, appearance of a product; distinguishing signs, technical improvements; plans; formulas; methods; personal names; pseudonyms or images. To determine the tax base, income is reduced by 10% of standard costs unless the holder of the right is not its author, operator, or inventor. Standard costs are not recognized in the conveyance of the right to use a personal name, pseudonym or image. An advance payment of income tax equaling 25% of the tax base is payable. Resident companies must withhold tax from amounts paid for property rights. For such income received from abroad or from a domestic individual, the income recipient must file a tax return with the tax authorities within 15 days after the receipt of the income. The tax authorities assess tax on the basis of the tax return.

Other Income. Other income includes awards, gifts, prizes from a prize drawing, student grants and similar items. An advance payment of income tax equaling 25% of the tax base is payable. The 25% advance payment is withheld at source unless the payer of the income is a nonresident or an individual. In such cases, the recipient of the income must file a prepayment tax return.

Capital Gains. Capital gains include the following:
- Gains derived from the disposal of immovable property, regardless of whether the property is disposed of in a modified or unmodified state;

- Gains derived from the disposal of securities and shares issued by companies and other entities; and
- Gains derived from investment coupons.

The tax base from capital gains equals the difference between the value of the capital asset at the time of disposal and the value of the capital asset at the time of acquisition.

Capital gains are taxed at a flat tax rate of 20% with a reduction of the tax rate for every completed five-year period during the ownership of the capital asset. As a result, the following are the tax rates for capital gains:
- After 5 years: 15%;
- After 10 years: 10%;
- After 15 years: 5%; and
- After 20 years: 0%.

Deductions. For 2006, residents may claim the following tax reliefs as deductions:
- General relief of SIT 604,330 if no other residents claim dependent family member relief with respect to the taxpayer;
- Senior citizens relief of SIT 281,081 for individuals over the age of 65;
- Dependent family member relief of SIT 484,873;
- Relief of SIT 484,873 for the first dependent child, SIT 527,040 for the second, SIT 702,754 for the third, SIT 878,469 for the fourth and SIT 1,229,795 for the fifth;
- Relief of SIT 1,756,937 for a dependent child in need of special care;
- If certain conditions are met, relief of SIT 3,513,772 for disabled persons with a severe physical disability;
- If certain conditions are met, relief of SIT 1,225,200 for resident students whose annual income does not exceed SIT 1,600,000; and
- If certain conditions are met, relief equal to 15% of the annual income for resident professionals working in a cultural field, as well as for journalists, up to SIT 6,000,000 of their annual business income.

The tax reliefs described above may be granted proportionally during the year.

Nonresidents who are tax residents of other EU member states may apply the general relief, senior citizens relief and relief for dependent family members in their annual income tax return if they can demonstrate that at least 90% of their entire taxable income in a tax year is derived from Slovenia.

Rates. Employees are subject to monthly employer withholding tax on salaries at rates ranging from 16% to 50%. Temporary workers are subject to a 25% withholding tax on income earned from the performance of work and services reduced by 10% of standardized material costs. Payments on the basis of work contracts are subject to an additional tax at a rate of 25%, paid by the employer.

Individuals aggregate their active income (that is, employment income, business income, income from agricultural activities and forestry, rental income and income from transfer of property rights), apply the progressive tax rates below, subtract tax withheld and paid during the year and then pay any balance due or request a refund of any overpayment. Individuals are subject to tax at the following rates for income earned in 2006.

Taxable Income		Tax on Lower	Rate on
Exceeding SIT	Not Exceeding SIT	Amount SIT	Excess %
0	1,327,300	0	16
1,327,300	2,593,340	212,368	33
2,593,340	5,247,940	630,161	37
5,247,940	10,546,930	1,612,363	41
10,546,930	—	3,794,949	50

Married persons are taxed separately, not jointly, on all types of income.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses incurred by a private business may be carried forward for seven years.

B. Other Taxes

Inheritance and Gift Taxes. Resident individuals who inherit, or who receive as a gift, immovable or movable property in Slovenia are subject to tax if the value of the property exceeds the official average annual salary.

The taxable value for inheritance or gift tax is the current market value of the property, less transaction costs and any liabilities attached to the property. The inheritance and gift tax rates depend on the taxable value of the property and on the beneficiary's relationship to the deceased or donor. Beneficiaries are divided into the following categories:

- Class I: spouses, children and their spouses, and stepchildren;
- Class II: parents and siblings and their descendents;
- Class III: grandparents; and
- Class IV: all others.

Class I beneficiaries are not subject to inheritance or gift tax. In addition, beneficiaries in any other class who inherit or receive a residence, and who have no other residence and were living in the household of the deceased or donor at the time of the death or gift, are not subject to inheritance or gift tax.

The rates for Class II beneficiaries range from 5% to 14%, for Class III beneficiaries from 8% to 17%, and for Class IV beneficiaries from 11% to 30%.

Property Tax. Resident individuals are subject to property tax on the following:

- Buildings, parts of buildings, apartments and garages, at rates from 0.1% to 1%;
- Vacation and recreation facilities, at rates from 0.2% to 1.5%;
- Boats of 8 or 9 meters in length, at a rate of SIT 29,865, plus SIT 11,689 for each additional meter; and
- Business premises, unless used for manufacturing, at rates from 0.15% to 1.25%.

The property tax is assessed on the value of immovable property. For residential property, 160 square meters are exempt from property tax. Property tax is payable quarterly.

C. Social Security

Slovenia imposes social security taxes to cover health insurance, pension and disability insurance, and unemployment insurance. Each month, employers and employees contribute amounts equal to the percentages of salary shown in the table below. No ceiling applies to the amount of salary subject to the contributions.

Type of Contribution	Employer %	Employee %	Total %
Pension and disability insurance	8.85	15.50	24.35
Health insurance	6.56	6.36	12.92
Unemployment insurance	0.06	0.14	0.20
Maternity allowance	0.10	0.10	0.20
Worker's compensation insurance	0.53	0.00	0.53
Total	16.10	22.10	38.20

Self-employed persons must pay all of the above contributions, unless they are also employees. The tax base for the contributions is the profit generated by the business.

Contributions for health insurance and pension and disability insurance are also levied on contract workers. The first contribution by a temporary employee totals SIT 672, and the second, 6% of earned income.

Contributions paid during the year are considered final payments. As a result, no adjustment or final settlement is made at the end of the year.

D. Tax Filing and Payment Procedures

The tax year in Slovenia is the calendar year.

Tax returns must be filed by 31 March of the year following the tax year. Advance payments are due on the receipt of income. The final tax usually is due within 30 days after the receipt of the tax assessment. The tax authorities issue the annual tax assessment by 31 October.

E. Tax Treaties

Slovenia has entered into double tax treaties with the following countries.

Austria	India	Romania
Belgium	Ireland	Russian Federation
Bulgaria	Italy	Serbia and Montenegro
Canada	Korea*	Slovak Republic
China	Latvia	Spain
Croatia	Lithuania	Sweden
Cyprus	Luxembourg	Switzerland
Czech Republic	Macedonia	Thailand
Denmark	Malta	Turkey
Finland	Netherlands	Ukraine*
France	Norway	United Kingdom
Germany	Poland	United States
Greece	Portugal	
Hungary		

* This treaty has been signed, but it has not yet been ratified.

F. Entry Visas

Foreign nationals of the following countries may enter Slovenia for up to 90 days (unless otherwise specified) without obtaining entry visas.

Andorra	Gibraltar	Nicaragua
Argentina	Greece	Norway
Australia	Guatemala	Panama
Austria	Honduras	Paraguay
Belgium	Hungary	Poland
Bolivia	Iceland	Portugal
Brazil	Ireland	Romania
Brunei	Israel	Russian Federation (c)
Bulgaria	Italy	San Marino
Canada	Japan	Singapore (a)
Chile	Korea	Slovak Republic
Costa Rica	Latvia	Spain
Croatia	Liechtenstein	Sweden
Cyprus	Lithuania	Switzerland
Czech Republic	Luxembourg	United Kingdom
Denmark	Malaysia (b)	United States
El Salvador	Malta	Uruguay
Estonia	Mexico (d)	Vatican City
Finland	Monaco	Venezuela
France	Netherlands	
Germany	New Zealand	

(a) The duration is up to 14 days.
(b) The duration is up to 30 days.
(c) Russian nationals may enter Slovenia without a visa only if they hold a permanent visa for Austria, Belgium, Denmark, France, Finland, Greece, Ireland, Iceland, Italy, Lichtenstein, Luxembourg, Germany, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland or the United Kingdom and if such visa has been valid for at least three months as of the date of crossing the Slovenian border.
(d) Ordinary passport holders may enter for up to three months for tourism, and up to one month for business purposes.

Holders of diplomatic and business passports from the following countries may also enter Slovenia without visas for specified durations (up to 3 months or 90 days): Cuba; Hong Kong; Macau; and Mexico.

G. Work Permits and Self-Employment

Foreign nationals may be employed, seconded or self-employed in Slovenia if they possess work permits.

If a foreign national enters into an employment contract with a Slovenian employer, a work permit is issued at the request of the employer for the duration of the employee's stay. A foreign national who establishes a company in Slovenia and intends to run the business as a founder must obtain a personal work permit for self-employment before registering the company.

In addition to the work permit requirement, the work of foreigners must be registered at the employment office. Registration is complete when the residence permit is granted (see Section H).

Employers from EU member states must register job positions at the employment office for persons who are seconded to a subsidiary or branch office in Slovenia. No work permit is required for such persons. If a foreigner is not from an EU member state, he or she must obtain a work permit.

Work permits for secondments are valid for one year and may be obtained for persons who hold management positions and persons who have specific knowledge and high qualifications.

Workers that are seconded to work in Slovenia must be employed by the seconding company for at least one year before the secondment. This applies for all types of secondments (for example, cross-border services, movement within group companies and seasonal work).

Work permits may also be issued at the request of a foreign employer that has a contract with a company in Slovenia to supply services rendered by the foreign employer's workers. These work permits are valid for three months, but may be issued for a longer period if a mutual agreement exists between Slovenia and the other country. Seasonal work and cross-border services cannot last for more than three months in the calendar year. Certain exceptions apply for seasonal construction work.

Citizens of the following countries do not need work permits to work in Slovenia.

Cyprus	Ireland	Poland
Czech Republic	Latvia	Slovak Republic
Estonia	Lithuania	Sweden
Hungary	Malta	United Kingdom

Because the application process for work permits is time-consuming, applications should be submitted to the appropriate authorities at least two months before the intended start date of employment. Each employment of a foreign national must be registered at the employment office. The procedure is shorter and simplified for EU citizens. The work of EU citizens needs only to be registered, and no work permit is required for such individuals.

H. Residence Permits

Temporary Residence Permits. Temporary residence permits are issued by the Regional Department of Internal Affairs for a period of 12 months (or less if the passport or the work permit expires before 12 months elapse). To apply for a temporary residence permit, the applicant must establish the following: the length of the intended stay in Slovenia; adequate means of support; and health insurance coverage. In addition, a foreign person should establish one of the specified purposes for his or her residence in Slovenia (for example, employment, family reunion or study).

The application for the first residence permit must be filed with the Slovenian embassy in the country of permanent residence. Application for a residence permit for seasonal work can be filed by a foreigner with the Slovenian embassy in a foreign country or by his or her employer in Slovenia or with the embassy abroad. The same application process applies for cross-border services.

The temporary residence permit must be obtained before arrival to Slovenia.

Temporary residence permits may be renewed. Applications for renewals must be filed with the authorities before the expiration of the existing permit.

Permanent Residence Permits. Permanent residence permits are issued to foreign nationals if they have have lived in Slovenia for five consecutive years under temporary residence permits and if they satisfy other conditions.

Permanent residence permits can be issued before five years elapsed if certain conditions are met (for example, in the case of a foreign person of Slovenian origin and family members of a foreign person who has already obtained a permanent residence permit).

A foreign national must file an application for a permanent residence permit with the Regional Department of Internal Affairs in the area where he or she has a permanent place of residence.

EU Nationals. An EU citizen is allowed to enter Slovenia with a valid identity card or passport and reside in Slovenia for three months without having to register his or her residence. In the event of an extended stay in Slovenia (in excess of three months), he or she is required to apply for registration of residence before the end of the third month of his or her residence in Slovenia. Alternatively, he or she may apply for a registration of residence immediately after his or her entry to Slovenia.

Certificate of residence registration may be issued to an EU citizen who intends to reside or is already residing in Slovenia for the purpose of employment, self-employment, rendering of services, studying or family reunion, as well as to an EU citizen who wishes to reside in Slovenia for other reasons.

An EU citizen who continuously resides in Slovenia for five years on the basis of a certificate of residence registration may be granted a permit for permanent residence. This permit is valid for an indefinite period of time.

A favorable regime concerning the entry and residence in Slovenia applies also to family members of EU citizens.

I. Family and Personal Considerations

Family Members. Working spouses of expatriates do not automatically receive the same types of permits as the expatriates. Applications must be filed independently.

Spouses and children of EU nationals who legally reside and work in Slovenia do not need work permits to be legally employed, but must have the approval of the National Employment Office.

Marital Property Regime. Under the Law on Marriage and Family Relations, a couple's property is presumed to be owned in equal shares. However, the spouses may prove that they did not contribute to the joint property in equal proportions. The law applies to married couples and long-term heterosexual partnerships (common-law spouses). For spouses who are both foreign nationals, Slovenian law does not apply.

Forced Heirship. Under Slovenian inheritance law, a specified percentage of a deceased's estate passes to a surviving spouse and children, regardless of the provisions of any will.

Drivers' Permits. Foreign individuals who possess valid drivers' licenses in their home countries may drive vehicles in Slovenia for a period up to 12 months after taking up residence in Slovenia. However, citizens of EU countries may use their home-country drivers' licenses during the entire length of their stays in Slovenia without applying for Slovenian licenses. Foreign individuals may apply for a Slovenian driving license within two years after the date of entry into Slovenia. However, even if an individual applies for a Slovenian driver's license within two years, he or she may not drive in Slovenia with his or her home country driver's license after the 12-month grace period.

A Slovenian driver's license may be issued if the applicant submits the application, results of a medical examination, valid foreign driver's license and a fee. The foreign driver's license is sent to the applicant's home country and may be returned to the foreign individual when he or she returns to his or her home country.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home-country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Meal allowance	—	X	(a)
Commuting-to-work allowance	—	X	(b)
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Daily allowance (for business trips)	—	X	(c)
Transportation on a business trip	—	X	(d)
Accommodation costs on a business trip	—	X	(e)
Separation allowance	X	—	(f)
Housing contribution	X	—	—
Education reimbursement	—	X	(g)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	—
Compensation for retirement	—	X	(h)
Compensation for dismissal	—	X	(i)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—

	Taxable*	Not Taxable	Comments
Capital gain from sale of personal residence in home country	X	—	(j)
Capital gains from sale of stock in home country	X	—	(k)
Other income	X	—	(l)

* The bracketed amount reduces taxable income.

(a) The meal allowance is not taxable up to an amount equaling the sum of SIT 1,300 per day, plus SIT 163 per every working hour in excess of 8 hours per day if an employee is present at work for at least 10 hours.

(b) The commuting-to-work allowance is not taxable up to the amount of the cost of public transportation, or SIT 31 per kilometer if the individual uses his or her own car for valid reasons.

(c) The daily allowance is not taxable up to the amount of the statutorily determined daily allowance, which varies depending on the duration of the business trip.

(d) This item is not taxable up to the amount of the cost of public transportation that is actually incurred, or SIT 62 per kilometer if the individual uses his or her own car.

(e) This item is not taxable up to the amount of accommodation costs that are actually incurred on a business trip.

(f) A separation allowance is not taxable up to SIT 80,000 per month if the employer assigns an employee to a place of work that is different from the employee's usual place of work and if such place of work is located at least 100 kilometers away from the location of the employee's family.

(g) Reimbursement of education costs is not taxable if the education is related to the employee's work.

(h) Retirement compensation is not taxable up to the amount of SIT 825,000.

(i) Compensation for dismissal is not taxable if it is determined in accordance with the Employment Relationship Act and if it does not exceed 10 average Slovenian salaries.

(j) In principle, the capital gains are not taxable if the property was owned for at least 10 years.

(k) In principle, the capital gains are not taxable if the shares were owned for at least 20 years.

(l) Other income is taxable unless the law provides exceptions.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample 2006 tax calculation is provided below for an expatriate who is a resident of Slovenia for all of 2006. The expatriate is married and has two dependent children under 18 years old. The wife is considered a dependent family member because she is not employed and has no other source of income. The expatriate's compensation for 2006 amounts to SIT 10,000,000. The individual's employer also provided housing at a cost to the company of SIT 3,600,000. The following is the tax calculation.

	SIT	SIT
Calculation of Taxable Income		
Income:		
Salary	10,000,000	
Taxable value of housing	3,600,000	
Total income		13,600,000
Personal deductions:		
Taxpayer	(604,330)	
Wife	(484,873)	
Children	(1,011,913)	
Total personal deductions		(2,101,116)
Taxable income		11,498,884

Calculation of Tax (a)

			SIT
Tax on	SIT 1,327,300	at 16%	212,368
Tax on	SIT 1,266,040	at 33%	417,793
Tax on	SIT 2,654,600	at 37%	982,202
Tax on	SIT 5,298,990	at 41%	2,172,586
Tax on	SIT 951,954	at 50%	475,977
	SIT 11,498,884		
Income tax			4,260,926

(a) The amounts in the tax calculation may be adjusted because of inflation.

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Because South Africa constantly reviews and implements new immigration policies, readers should obtain updated information before engaging in transactions.

A. Income Tax

Who Is Liable. Individuals resident in South Africa are subject to tax on their worldwide income. Nonresidents are subject to tax on income from a South African source or from a source deemed to be South African.

The place where the services are rendered is generally the source of remuneration. However, short-term visits of fewer than four weeks do not generally result in South African tax liability if the individual's presence in South Africa is incidental to employment elsewhere.

An individual is regarded as a resident for tax purposes under either the ordinarily resident rule or the physical presence rule. Under the ordinarily resident rule, an individual is regarded as ordinarily resident in South Africa if South Africa is the place, considering all personal and financial circumstances, to which the individual would naturally return from his or her travels, and that is the individual's real home.

The physical presence rule applies if the individual is not ordinarily resident at any time during a particular year, but is physically present for more than 91 days in the relevant year and is physically present for an aggregate of more than 915 days in the preceding 5 years and for a *de minimus* period of more than 91 days in each of those preceding years. For purposes of determining the 91-day and 915-day periods, a partial day counts as a full day. If an individual is physically outside South Africa for a continuous period of at least 330 full days after the day of last physical presence, under the physical presence rule that person is not resident for the entire period of continuous absence.

A person cannot be treated as a South African resident for tax purposes if he or she is considered to be a resident for tax purposes of another country under the "tie-breaker" rules of a double tax treaty.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. The basis of employee taxation is remuneration, which consists of salary, leave pay, allowances, wages, overtime pay, bonuses, gratuities, pensions, superannuation allowances, retirement allowances and stipends, whether in cash or otherwise. These payments form part of the gross income of an employee, together with the cash value of any fringe benefits received. Fringe benefits are taxed in accordance with a schedule of valuations.

Remuneration from employment on extended absences outside South Africa is exempt from tax if the employee is outside South Africa for an aggregate of more than 183 full days in any 12-month period beginning or ending in the tax year, and for at least one continuous period exceeding 60 full days during the same 12-month period.

For residents, any amount received or accrued under the social security system of another country or any pension received from a non-South African source (and not deemed to be from a South African source) in consideration of past employment outside South Africa, is tax-exempt. A pension is deemed to be from a South African source if the services for which the pension was granted were performed within South Africa for at least two years during the ten years immediately preceding the date on which the pension first became due.

Self-Employment and Business Income. Professional fees paid to nonresidents are subject to employee withholding tax (if from a South African source), even if the nonresident is an independent contractor.

Investment Income. Domestic dividends paid to residents by companies and close corporations are exempt from tax. Foreign dividends on holdings of 25% or less that are paid to residents are taxable subject to the provisions of an applicable double tax-treaty Foreign dividends paid on greater holdings are exempt from tax. Credit for foreign tax paid may be available.

For residents, interest and taxable foreign dividends of up to R 16,500 (R 24,500 for individuals older than 65 years of age) are exempt from tax. This exemption applies to dividends and interest from both South African and foreign sources. However, foreign-source dividends and interest are exempt only up to R 2,500 of the total allowable exempt amount.

Antiavoidance legislation restricts spouses from splitting their investment income to reduce their tax burden.

Dividends paid to nonresidents by companies and close corporations are exempt from tax. Royalties paid to nonresidents are subject to a final 12% withholding tax.

Nonresidents are not subject to tax on their South African-source interest if they are physically absent from South Africa and if they do not carry on business in South Africa (employment is not a business for these purposes). No withholding tax is imposed on interest under any circumstances, and nonresidents who do not qualify for the above exemption must file a normal tax return. Interest paid to nonresidents of up to R 16,500 (R 24,500 for individuals older than 65 years of age) is exempt from tax.

Taxation of Employer-Provided Stock Options. The difference between the market value on the shares as of the date of vesting and the consideration given by an employee for shares is taxed in South Africa if the stock options are related to services rendered in South Africa. Nonresidents are generally not subject to tax (CGT or income tax) on any subsequent capital gain. If the nonresident employee is classified as a share dealer, the gain is subject to income tax. In the hands of a resident the subsequent gain is generally subject to CGT. However if the resident is classified as a share dealer, the gain is subject to income tax instead of CGT. Also see, footnote (g) to Appendix 1.

Deductions

Deductible Expenses. Expenses not of a capital nature that are incurred in earning taxable income are deductible. Donations to public benefit organizations are deductible, up to 5% of taxable income.

The maximum deduction for current approved pension fund contributions is the greater of R 1,750 and 7.5% of pensionable income.

Approved retirement annuity fund contributions are deductible, up to the greatest of the following amounts:

- R 3,500, less pension fund contributions;
- 15% of nonpensionable income, including income from investments, pensions and annuities; and
- R 1,750.

Individuals may claim deductions for total contributions (his own and those of his or her employer) toward medical aid, subject to the following maximum amounts:
- R 500 per month for the individual; and
- A further R 500 per month for the first dependant, and an additional R 300 per month for each dependent thereafter.

With the exception of taxpayers who retired from employment as a result of old age, ill health or infirmity, employer contributions toward medical aid that exceed the amounts stated above are considered to be a taxable fringe benefit. However, an individual may obtain a secondary medical aid deduction to the extent that the total of the following amounts exceed 7.5% of taxable income:
- Taxable fringe benefit with respect to employer contributions;
- Employee contributions not allowed as deductions; and
- Medical expenses not paid by medical aid.

No limit applies to persons older than 65 years of age and handicapped persons.

Personal Deductions and Allowances. Mortgage interest paid is not deductible for tax purposes. For the 2006-07 tax year, a primary rebate of R 7,200 is deducted from tax payable on taxable income. The amount of the secondary rebate, which applies to individuals 65 years of age and older, is R 4,500.

Individuals younger than 65 years of age who have taxable income of less than R 40,000 are not subject to tax. For individuals 65 years of age and older, the threshold is R 65,000.

Rates. All individuals are taxed at the same rates. The rates for the 2006-07 tax year are presented in the following table.

Taxable Income		Tax on Lower	Rate on
Exceeding R	Not Exceeding R	Amount R	Excess %
0	100,000	0	18
100,000	160,000	18,000	25
160,000	220,000	33,000	30
220,000	300,000	51,000	35
300,000	400,000	79,000	38
400,000	—	117,000	40

For a sample tax calculation, see Appendix 2.

Relief for Losses. Business losses of a self-employed person may be carried forward indefinitely if the trade is continued. No loss carrybacks are permitted.

B. Other Taxes

Capital Gains Tax. Capital gains are taxable in South Africa. Capital gains tax (CGT) is imposed through the income tax system by including a proportion of the calculated gain in taxable income. For residents, CGT applies to capital gains derived from the disposal of worldwide tangible and intangible assets. Nonresidents are subject to CGT on capital gains derived from the disposal of real estate held directly or indirectly through a company (80% of whose assets are real estate), or the assets of a permanent establishment in South Africa. A deemed capital gain arises on emigration.

For individuals, a R 12,500 annual exemption of capital gains or reduction in capital losses is allowed, and only 25% of a capital gain less the exemption is taken into account for CGT purposes. Therefore, the effective CGT rate for an individual taxed at the highest marginal income tax rate of 40% is 10% (25% x 40%).

CGT applies only to increases in value occurring on or after 1 October 2001. Inflation indexing of base cost is not allowed. Rollover relief is available in certain circumstances, including the destruction or scrapping of assets. A gain derived from the sale of an individual's primary residence is not subject to CGT unless the amount of the gain exceeds R 1.5 million.

Capital losses, other than those incurred on the disposal of personal use assets (assets used primarily for purposes other than the carrying of a trade), may offset capital gains. However, capital losses may not be offset against regular taxable income. Excess losses are carried forward indefinitely.

Estate Duty and Donations Tax. Estate duty and donations tax are levied at a flat rate of 20% on all capital transfers concluded for no consideration or for inadequate consideration.

Exemptions from donation tax are granted for donations of up to R 50,000 made each year during a person's lifetime. A deceased's estate is subject to duty only to the extent that the net value exceeds R 2.5 million plus the value of bequests to a surviving spouse.

Residents are subject to estate duty and donation tax on worldwide assets, except offshore assets acquired by inheritance or donation from a nonresident or owned prior to becoming resident. Nonresidents are subject to estate duty on assets located in South Africa only and are exempt from donation tax.

To prevent double taxation, South Africa has entered into estate tax treaties with Botswana, Canada, Lesotho, Swaziland, Sweden, the United Kingdom, the United States and Zimbabwe.

Transfer Duty. Transfer duty is levied on the acquisition of fixed property with a value exceeding R 500,000. The rate of the duty on property with a value exceeding R 500,000 depends on the purchase price of the property; the maximum rate for an individual is 8%. If the purchase price is less than the property's fair value, the tax authorities may calculate the amount of transfer duty payable based on the fair value.

C. Social Security

Limited unemployment insurance and accident or illness benefits are provided.

The Unemployment Insurance Fund provides benefits to unemployed people and to dependants of deceased contributors. Employers and employees each contribute to the fund at a rate of 1% of the employee's remuneration up to the transition limit (currently at R 131,592). A person who enters South Africa for the purpose of carrying out a service contract does not fall within the scope of the fund if, on termination of the contract, the employer is required by law or by contract to repatriate the person.

Employers are required to make contributions to the Workers' Compensation Fund to insure their employees against industrial accidents or illnesses that result in death or disability. The Commissioner for Workers' Compensation determines the amount of the contributions after the employer reports the annual total remuneration of employees.

Contributions are payable on annual remuneration of up to R 179,088. Persons seconded from a foreign country who do not take up employment with a South African company are not required to register with the fund.

D. Tax Filing and Payment Procedures

The year of assessment in South Africa is from 1 March to 28 February. Nonresidents are subject to the same requirements for filing tax returns as residents.

Employees. Resident employers or the representative employer for nonresident employers must deduct tax monthly from the remuneration of their employees and must pay these amounts to the Inland Revenue. Annual tax returns must be submitted to the Commissioner of Inland Revenue within the period specified in the annual "Notice to Furnish Returns" (usually within 60 days from the date of issue), unless the taxpayer is subject solely to Standard Income Tax on Employees (SITE). These taxpayers are not required to file tax returns because the correct amounts of tax payable are withheld by their employers. SITE applies to all taxpayers earning less than R 60,000 a year.

Provisional Taxpayers. Persons deriving income, excluding exempt income, of R 10,000 or more a year from sources other than remuneration are considered provisional taxpayers and are required to make provisional tax payments each tax year on 31 August and in the following tax year on 28 February and 30 September. The third payment must bring the total amount paid to 100% of actual liability to avoid an interest penalty. The penalty does not apply if taxable income does not exceed R 50,000.

A limited exemption from filing provisional tax returns is granted to individuals over 65 years of age who have annual taxable income of R 80,000 or less.

E. Double Tax Relief and Tax Treaties

In the absence of treaty provisions, unilateral relief is available on foreign-source income in the form of a credit for foreign taxes paid, limited to the lesser of the actual foreign tax liability and the South African tax payable on the foreign income.

South Africa has entered into double tax treaties with the following countries.

Algeria	Indonesia	Poland
Australia	Iran	Romania
Austria	Ireland	Russian Federation
Belgium	Israel	Singapore
Botswana	Italy	Slovak Republic
Canada	Japan	Swaziland
China	Korea	Sweden
Croatia	Lesotho	Switzerland
Cyprus	Luxembourg	Taiwan

Czech Republic	Malawi	Thailand
Denmark	Malta	Tunisia
Egypt	Mauritius	Uganda
Finland	Namibia	United Kingdom
France	Netherlands	United States
Germany	Norway	Zambia
Hungary	Pakistan	Zimbabwe
India		

South Africa is also negotiating tax treaties with the following countries.

Bangladesh (d)	Lithuania (c)	Rwanda (c)
Belarus (c)	Malaysia (c)	Seychelles (b)
Bulgaria (c)	Morocco (c)	Spain (c)
Estonia (c)	Mozambique (d)	Sri Lanka (d)
Ethiopia (c)	New Zealand (c)	Tanzania (c)
Gabon (c)	Nigeria (a)	Turkey (c)
Greece (a)	Oman (c)	Ukraine (c)
Kuwait (c)	Portugal (c)	United Arab Emirates (c)
Latvia (c)	Qatar (d)	

(a) Treaty ratified in South Africa but not yet effective.
(b) Treaty signed but not yet ratified.
(c) Treaty negotiated but not yet signed.
(d) Treaty under negotiation.

F. Visitors' Visas

Visitors' visas are issued to foreign nationals who visit South Africa for the following purposes:

- To pursue recreational purposes;
- To attend courses at educational institutions; or
- To do business with South Africans without receiving remuneration from a South African source.

To obtain a visitor's visa, proof of sufficient financial means and a return air, boat or bus ticket must be submitted. Individuals who have traveled or who intend to travel through a yellow fever endemic area must produce a yellow fever vaccination certificate. This requirement excludes direct transit through yellow fever areas. Proof of guardianship and custody is required with respect to minor dependent children. A visitor's visa may be renewed only once for a maximum period equal to the original visa. Thereafter, the visitor must depart from the country.

Nationals of the British Dependent Territories must hold a visa before entering South Africa. To obtain a visa, they should contact the nearest South African mission abroad. The British Dependent Territories include Anguilla, Bermuda, British Antarctic Territory, British Indian Ocean Territory, Cayman Islands, Falkland Islands, Gibraltar, Montserrat, Pitcairn, Henderson, Cucje and Oeno Islands, the Sovereign Base Area of Akrotiri and Dhekelia and the Turks and Caicos Islands.

The holder of a passport of the following countries may be issued a visitor's visa at the port of entry if the intended stay is 90 days or less or if the individual is in transit and a return air or other travel ticket is shown.

Andorra
Argentina
Australia
Austria
Belgium
Botswana
Brazil
British Virgin Islands
Bulgaria
Canada
Chile
Czech Republic
Denmark
Ecuador
Finland
France
Germany
Greece
Guernsey
Iceland
Ireland
Isle of Man
Israel
Italy
Jamaica
Japan
Jersey
Liechtenstein
Luxemburg
Malta
Mexico
Monaco
Netherlands
New Zealand
Norway
Paraguay
Portugal
St. Vincent & the Grenadines
San Marino
Singapore
Spain
Sweden
Switzerland
Taiwan
United Kingdom
United States
Uruguay
Venezuela

The holder of a passport of the following countries is not required to hold a visa for the purposes for which a visitor's visa may be issued if the intended stay is 30 days or less or if the individual is in transit.

Antigua and Barbuda
Barbados
Belize
Benin
Bolivia
Cape Verde
Costa Rica
Cyprus
Gabon
Guyana
Hong Kong
Hungary
Jordan
Korea (South)
Lesotho
Macau
Malawi
Malaysia
Maldives
Mauritius
Namibia
Peru
Poland
Seychelles
Slovak Republic
Swaziland
Thailand
Turkey
Zambia
Zimbabwe

Nationals from countries not listed above must obtain a visa before traveling to South Africa by contacting the nearest South African mission abroad.

On arrival, a visitor must present his or her passport. The passport must be valid for at least 30 days after the intended visit. The visitor may need to satisfy the immigration authorities that the visitor has no criminal record, no communicable diseases and sufficient funds to support himself or herself for a reasonable period after arrival and to pay for return passage if a return ticket has not been purchased.

G. Work Permits

Types of Work Permits. Work permits fall into the following five categories:
- Quota work permits;
- Intracompany transfer work permits;
- General work permits;
- Corporate work permits; and
- Exceptional skills work permits.

Quota Work Permits. Quota work permits are issued to foreigners who fall within specific professional categories or within specific occupational classes as determined by the Minister of Home

Affairs annually by notice in the government gazette. No offer of employment is required. Instead, the applicant's qualifications and years of relevant work experience are the primary factors in determining whether a quota work permit should be issued.

Quota work permits must be applied for and obtained at the nearest South African consulate abroad. After obtaining a quota work permit, a foreigner may enter South Africa and secure employment within 90 days.

Intracompany Transfer Work Permits. Intracompany transfer work permits are issued when an employee is seconded from his or her place of employment abroad to an affiliated company or branch in South Africa. Intracompany transfer work permits are issued for a duration of two years and may be renewed.

General Work Permits. General work permits are issued if an employer has been unable to find a South African citizen or resident to fill the position offered. The South African employer must furnish proof of attempts made to obtain the services of a South African citizen including advertising the position in the national media.

Corporate Work Permits. Corporate work permits are issued to the employer, allowing the employer to employ a specified number of employees. Documentary proof of negotiations with the Department of Labour and the Department of Trade and Industry must be submitted together with corroborated representations with respect to the necessity of employing foreigners.

Exceptional Skills Work Permits. Exceptional skills work permits may be issued to individuals of exceptional skills or qualifications generally not available in South Africa. Evidence regarding such skills or qualifications must be supported by a letter from a relevant South African government body or from an established South African academic, cultural or business body. The applicant must demonstrate how the exceptional skills will benefit the South African environment in which he or she intends to operate. Holders of exceptional skills work permits do not require an offer of employment. Exceptional skills work permits are issued for a duration of three years and are renewable.

In general, it is advisable that individuals apply for and obtain work permits before departure to South Africa. Application processing takes on average of 30 calendar days.

H. Business Permits

A business permit may be issued to a foreigner intending to establish or invest in a business in South Africa in which he or she may be employed.

To obtain a business permit, an individual must submit a certificate issued by a chartered accountant registered with the South African Institute of Chartered Accountants confirming that a minimum of R 2.5 million is available to be invested into the book value of the business. This capitalization requirement may be reduced in the following industries:
- Information and communication technology;
- Clothing and textile manufacturing;
- Chemicals and biotechnology industry;

- Agroprocessing industry;
- Metals and minerals refinement industry;
- Automotive manufacturing industry;
- Tourism industry; and
- Crafts.

A detailed business plan outlining the feasibility of the proposed business both in the short and the long term is required. When investing in an existing business, financial statements of the business for the preceding financial year and a partnership agreement are required.

In addition, a business permit application must include all of the following:
- Undertaking to permanently employ at least five South African citizens or residents;
- Undertaking to register with the South African Revenue Service; and
- Proof of registration with the relevant body, board or council.

I. Other Temporary Residence Permits

The following temporary residence permits may be issued:
- Study permit: for individuals wishing to study in South Africa (part-time employment of 20 hours per week is allowed with this permit);
- Treaty permit: for individuals participating in a program established under a treaty;
- Medical permit: for individuals wishing to obtain medical treatment in South Africa;
- Crew permit: for officers or members of the crew of a public conveyance in transit in South Africa;
- Relatives' permit: for individuals intending to visit relatives within the first step of kinship for up to 24 months (work not permitted);
- Retired persons' permit: for individuals intending to spend part of their retirement in South Africa;
- Exchange permit: for individuals taking part in an exchange program of a public higher educational institution; and
- Asylum permit: for individuals seeking asylum.

J. Permanent Residence

Permanent residence may be granted to the following individuals:
- Individuals who have held a South African work permit for five years;
- Individuals who have received a permanent offer of employment, provided that the employment is in a sector specified in the government gazette;
- Individuals who hold extraordinary skills and qualifications;
- Individuals who intend to establish or have established a business;
- Individuals who wish to spend their retirement in South Africa;
- Individuals who have a net worth of at least R 7.5 million and pay a fee to the Department of Home Affairs of R 75,000 on approval of the application;
- Individuals who derive an income of at least R 20,000 per month from a pension, irrevocable annuity or retirement account;
- Individuals who hold a combination of assets realizing an income of R 20,000 per month; and

• Individuals who are relatives of a South African citizen or resident within the first step of kinship.

K. Family and Personal Considerations

Marital Property Regime. Couples who solemnize their marriages in South Africa are subject to a community property regime that applies to all property. A prenuptial agreement may be concluded if a couple wishes to elect out of the community property regime.

The regime does not apply to couples who do not solemnize their marriages in South Africa or to couples with a non-South African husband, unless they establish a marital domicile in South Africa by seeking a Supreme Court confirmation subjecting the couple to South African marriage legislation.

Forced Heirship. South Africa does not have forced heirship rules.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(a)
Housing contribution	(X)	—	—
Education reimbursement	X	—	(b)
Hardship allowance	X	—	—
Other allowance	X	—	—
Foreign-service premium	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(c)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(d)
Value of lodging provided	X	—	(a)(c)(e)
Subsistence allowance	—	X	(e)
Other Items			
Foreign-source personal ordinary income (interest)	X	—	(f)
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	(g)

* Bracketed amounts reduce taxable income.

(a) Residential accommodations provided to an employee who is away from his or her usual place of residence for purposes of employment is not taxable. The determination of the usual place of residence is based on the facts and circumstances of each secondment. It is not based solely on the length of the secondment.

(b) Educational reimbursement is fully taxable. However, an exemption applies to an educational bursary (scholarship) granted by the employer to a relative of an employee if the employee's annual remuneration does not exceed R 60,000 and if the bursary does not exceed R 2,000.
(c) Expenses paid by the employer on behalf of the employee with respect to a transfer to take up employment or a transfer from one place of employment to another are exempt from tax, including the hiring of temporary accommodations for 183 days after transfer.
(d) The value of meals is usually taxable income unless any of the following applies: the meals are provided at canteens or dining rooms on or off the employer's premises that are primarily for the use of employees; the meals are provided during business hours; the meals are coincidental to business entertainment or; the meals are provided by the employer in conjunction with residential accommodation.
(e) An employee who is away on business in South Africa is entitled to a tax-free subsistence allowance of R 60 per day (R 196 per day if the employer does not provide meals in conjunction with accommodation). For business travel outside South Africa, the amount is US$190 per day, regardless of whether accommodations are supplied by the employer.
(f) Investment income earned by an ordinary resident is deemed to be from a South African source and, accordingly, is taxable. Dividends are exempt from South African tax.
(g) For share options granted and exercised prior to 26 October 2004, the difference between the market value of the shares when they where exercised and the consideration given by the employee is taxed in South Africa if the options are granted or if the stock vests while the employee is rendering services in South Africa. Nonresidents are generally not subject to tax (CGT or income tax) on any subsequent capital gain. If the nonresident employee is classified as a share dealer, the capital gain is subject to income tax. The subsequent gain is subject to CGT in the hands of a resident. However if the resident is classified as a share dealer, the gain is subject to income tax instead of CGT. For share options exercised on or after 26 October 2004, the employee is taxed in South Africa on the difference between the market value of the shares when they vest and the consideration given by the employee. The effect of the change from taxation at date of exercise to date of vesting is that employees are subject to income tax on the full appreciation in the value of their stock options as of the date when any restrictions on the sale of the option cease. Any subsequent appreciation in the value of the shares to the actual date of their sale is subject to CGT in the hands of a resident. However if the resident is classified as a share dealer, the gain is subject to income tax instead of CGT. Nonresidents are generally not subject to CGT on any subsequent capital gain. If the nonresident employee is classified as a share dealer, the capital gain is subject to income tax.

APPENDIX 2: SAMPLE TAX CALCULATION

	R	R
Calculation of Taxable Income		
Salary and bonuses (including traveling allowance received)		400,000
Taxable interest		8,000
Rental income (net of expenses)		7,000
Business income (net of expenses)		15,000
Taxable interest exclusion		(8,000)
Deductions:		
Current pension fund contributions	(30,000)	
Current retirement annuity fund contributions	(1,750)	
Business traveling expenses	(12,000)	
Entertainment expenses	(0)	(43,750)
Taxable income		378,250
Calculation of Tax		
Income tax on R 300,000	79,000	
Income tax on R 78,250 at 38%	29,735	108,735
R 378,250		

	R
Primary rebate	(7,200)
Tax due	101,535
Employee's tax deducted	(92,795)
Tax payable	8,740

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A. Income Tax

Who Is Liable. Individuals performing activities in Spain are subject to taxation based on residence and source of income. Residents are taxed on worldwide income. Nonresidents are taxed on Spanish-source income and on capital gains realized in Spain only. Several tax exemptions may apply to expatriates.

Individuals are resident for tax purposes if they spend more than 183 days in a calendar year in Spain or if the center of their vital interests is located in Spain. A presumption of residence arises if an individual's family lives in Spain. Residence is determined on a full-year basis; Spain recognizes no change of residence during a fiscal year. A Spanish national who gives up Spanish tax residence is nonetheless considered Spanish tax resident for the next four years if the new tax residence is in a tax haven.

Special Expatriate Tax Regime. On 10 June 2005, the Spanish government approved Regulation 687/2005, which modifies the Spanish personal income tax regime for expatriates. Under the modified regime, an employee assigned to Spain who meets the criteria for being considered a Spanish tax resident may elect to be subject to tax under the nonresident taxpayer rules.

This election is subject to certain conditions, the most important of which are the following:
- The individual has not been a Spanish tax resident in the last 10 years;
- The individual comes to Spain under the terms of an employment contract; and
- The individual makes the election within six months of his or her arrival in Spain in accordance with the established election procedure.

If this election is made, the individual is subject to tax on employment income at a flat rate of 25%, instead of at the progressive resident tax rates of up to 45% (other rates may apply to different types of income). The election applies to the first year of residence and the following five consecutive years.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income includes all compensation received for personal services, including salaries and wages, payments for certain business-related expenses, pensions, housing allowances and other allowances paid in cash or in kind.

Spanish residents with overseas duties may apply a foreign earned income exemption of up to €60,101 if certain conditions are satisfied.

Irregular employment income (earned over a period of longer than two years) may be eligible for a 40% deduction, if certain conditions are met.

Self-Employment and Business Income. Taxable self-employment and business income includes income from all industrial, commercial, professional and artistic activities carried on by a taxpayer.

Residents are subject to tax on self-employment and business income at the rates described in *Rates*. Nonresidents are subject to a flat 25% tax on gross self-employment and business income.

Directors' Fees. Directors' fees are considered ordinary income and are taxable to residents at the rates described in *Rates* and to nonresidents at a flat rate of 25%.

Investment Income. Rental income and other consideration derived from the lease of rural or urban real estate are taxable as ordinary income at the rates described in *Rates*. Net income from the rental of property may be reduced by 50% if the property is destined for living.

For urban real estate used by the owner as a permanent residence, deemed income does not apply. However, for urban real estate used as a second residence or not leased, the law presumes an income of 2% of the rateable value (1.1% if the rateable value of the real estate was increased after 1 January 1994). If the rateable value is not determined, then presumed income is determined by applying 1.1% to 50% of the value assessed in accordance with the principles of valuation for purposes of the net worth tax (see Section B).

Income from personal property includes dividends, interest, profits from copyrights and industrial property, and the return in cash or in kind on capitalization transactions and life insurance policies. For residents, this income is aggregated with other income and taxed at the rates described in *Rates*. For nonresidents, this income is subject to a flat tax of 15% on gross income.

In determining net income from personal property, limited administration expenses are deductible.

Interest income and capital gains derived by nonresidents from bonds and securities issued in Spain by nonresident entities or individuals, and from debentures funding the Spanish national debt, are not taxable. Interest income and capital gains derived from bonds and securities issued by resident entities or individuals are not taxable if the taxpayer is a resident of a member state of the European Union (EU).

If members of a family unit elect to file separate tax returns, the income derived from property must be imputed to the members who own the property. For spouses under the community property regime, the income is imputed at 50% to each spouse (see Section H).

Taxation of Employer-Provided Stock Options. Employer-provided stock options are taxed at the time of exercise on the difference between the exercise price and the fair market value of the stock at the time of exercise. This income is also subject to social security contributions (see Section C).

The income derived from employer-provided stock options may be exempt from tax for active employees if all of the following conditions are met:

- The value of benefits derived in the year by the employee under the stock option plan or any other equity plan does not exceed €12,000;
- Offers of the stock options are made according to the general compensation policy of the company;
- The employee's participation in the company does not exceed 5%; and
- The employee holds the stock for at least three years before disposal.

If the stock option income is generated over a period exceeding two years and is not received on a periodic or recurrent basis, it may be possible to apply the 40% reduction for irregular employment income (see *Employment Income*). However, the 40% reduction applies only to a limited amount of stock option income per year. For 2006, this amount is €20,500.

Any capital gains derived from the subsequent sale of the stock are subject to the capital gains tax rules described in *Capital Gains and Losses*.

Capital Gains and Losses. Capital gains are calculated as the difference between the transfer price of an asset and its acquisition price. Acquisition prices of real estate are indexed by applying coefficients determined by the government.

Capital gains derived from sales of assets held less than one year are included in taxable income and taxed at the ordinary rates. Capital gains derived from assets held longer than one year are taxed at a rate of 15%.

Capital losses incurred on sales of assets held for less than one year may be offset against capital gains derived from sales of assets held for less than one year. Any excess loss may be offset against regular income, up to a maximum of 10% of regular income. If the taxpayer has negative regular income, the excess may be carried forward for four years.

Capital losses incurred on sales of assets held longer than one year may be offset only against capital gains derived from sales of assets held longer than one year. Excess losses may be carried forward for four years.

For filers of individual returns, capital gains and losses must be imputed to the individual owner of the property. If the spouses are under the community property regime (see Section H), capital gains and losses are imputed 50% to each spouse.

Deductions

Deductible Expenses. Social security contributions may be deducted in computing taxable income. In addition, the following deductions are allowed:

- A standard deduction of €3,500 if a taxpayer's annual net employment income does not exceed €8,200;
- A deduction of €3,500 less 22.91% of the net employment income exceeding €8,200 for net income between €8,200.01 and €13,000; and
- A deduction of €2,400 if net employment income exceeds €13,000.

These deductions may be increased for disabled taxpayers and workers over 65 years of age, and in certain other cases.

Contributions to a Spanish pension plan made by an employer on behalf of an employee, and pension plan contributions made by an employee, are tax-deductible. The total annual deduction may not exceed €16,000 (€8,000 for contributions made by the employer and €8,000 for contributions made by the employee). For individuals 52 years of age and older, this maximum amount is increased by €1,250 for each year an individual exceeds 52 years of age, up to a maximum amount of €24,250 for individuals 65 years of age and older. Contributors whose spouses receive net earned income and income from business activities of less than €8,000 may deduct contributions of up to €2,000 from their tax base. Excess deductions may be carried forward for five years.

Interest expense that does not exceed gross income, expenses necessary to produce income and charges for depreciation are deductible from rental income.

Nonresidents are generally not entitled to deduct any expenses.

Personal Allowances. Residents may subtract the following specified amounts from their tax base.

Allowance	Amount (€)
Personal deduction	3,400
Deduction for taxpayer over 65 years of age	4,200
Deduction for taxpayers over 75 years of age	5,200
Deduction for handicapped taxpayer under 65 years of age	2,000 (additional)
Deduction for handicapped taxpayer over 65 years of age	5,000 (additional)
Each ascendant over 65 or 75 years of age living with taxpayer whose annual income is less than €8,000	
Over 65 years of age	800
Over 75 years of age	1,800
Each disabled dependent child or ascendant living with the taxpayer whose annual income is less than €8,000	
Individuals for whom the grade of disability exceeds 65%	5,000 (additional)
Other disabled individuals	5,000 (additional)
Each dependent child under 25 years of age living with taxpayer whose annual income is less than €8,000	
First child	1,400
Second child	1,500
Third child	2,200
Fourth child and subsequent children	2,300
Child younger than three years of age	1,200 (additional)
Deduction for working mothers with a child of up to three years of age	1,200 (additional)

Local governments may allow additional personal allowances and deductions.

Business Deductions. Deductions are permitted for all expenses necessary to obtain business income and for the depreciation of assets related to business activities.

Rates. Total tax liability consists of the tax liability computed under the general rates plus the tax liability computed under the autonomous community rates. The maximum marginal rate is 45%.

Income derived by nonresidents is generally subject to a final tax of 25%. However, other rates may apply depending on the type of income. For example, capital gains and income derived from a permanent establishment are subject to a 35% final tax. Dividends and other income derived from holding a participation in a company, interest and other income obtained from assigning capital to third parties are subject to a 15% tax.

See Section A for details regarding the special tax regime for expatriates.

For sample tax calculations, see Appendix 2.

Credits. Tax credits are allowed in only a few specified circumstances, for example, for gifts to specified entities and for certain double tax relief.

In addition, the following investment tax credits are available.

Investment	Amount of Credit
Amounts disbursed or deposited in a bank account to acquire taxpayer's place of residence	15% on maximum expenditure of €9,015.18
Amounts paid for the acquisition, maintenance, repair, restoration or exhibition of assets deemed to be of cultural interest	15% on maximum expenditure of 10% of taxpayer's tax base

Other credits may be available for residences acquired with a mortgage.

The amount of investment eligible for the investment tax credits is the amount effectively paid during the relevant fiscal year. It may not exceed, €9,015.18 per year. The principal residence must be retained by the taxpayer for at least three years after acquisition to qualify for the investment tax credit.

If spouses file separate returns, investment tax credits are applied to each spouse in proportion to that spouse's ownership of the property to which the investment is directed. For spouses under the community property regime (see Section H), investment tax credits are imputed 50% to each spouse.

Other Tax Credits. In general, a 40% tax credit is available on dividends received from Spanish companies. (For this purpose, dividends received from Spanish sources are included in taxable income at 140% of their gross amount.)

Relief for Losses. Relief for losses may be available, subject to the limits and conditions established by law.

B. Other Taxes

Net Worth Tax. Net worth tax is levied annually on a resident's worldwide assets. The graduated rates for 2006 range from 0.2% to 2.5%. These rates may be modified, within certain limits, by each autonomous community. A tax return must be filed if a resident taxpayer's net worth is €108,182.18 or more. Each resident taxpayer may deduct €108,182.18 from the taxable base. Taxpayers may claim an exemption of €150,253.03 for a principal residence.

Nonresidents are subject to net worth tax on any property located in Spain at the same rates as residents. However, nonresidents may not claim the exemption of €108,812. Under certain conditions, nonresidents may be taxed like residents for net worth tax purposes.

Estate and Gift Tax. An individual resident in Spain for fiscal purposes is taxed on assets and rights acquired by inheritance or gift, regardless of where the assets or rights are located. If the recipient is not resident in Spain, estate and gift tax applies only to assets located in Spain or to rights that may be executed in Spain.

Estate tax must be paid by the legal heir, and gift tax must be paid by the donee. The taxable amount for estate tax purposes is determined by deducting certain amounts based on the beneficiary's age and on the relationship between the deceased and beneficiary. Tax payable is calculated by applying factors based on the taxpayer's net worth, age, relationship to the deceased or beneficiary and type of asset.

Estate and gift tax rates vary depending on the autonomous community.

C. Social Security

Contributions. Under Spanish domestic law, an individual must join the Spanish social insurance system if work and residence permits are received. The rate of social insurance contributions is 6.35% of salary for employees, and the rate for employer contributions is 30.6% of salary. The maximum base for employee contributions is €34,772.40 and the minimum base is €9,429.48 for 2006. The maximum annual contribution for employees for 2006 is €2,208.05 and for employers, €10,640.35 per employee.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Spain has entered into totalization agreements, which usually apply for a period of five or six years, with the following countries.

Andorra	Ecuador	Russian Federation
Argentina	Mexico	Slovak Republic
Australia	Morocco	Tunisia
Brazil	Paraguay	Ukraine
Bulgaria	Peru	United States
Canada	Philippines	Uruguay
Chile	Poland	Venezuela

D. Tax Filing and Payment Procedures

The Spanish tax system operates through self-assessment. The tax year is the calendar year. Regardless of marital status, a taxpayer may file an individual return. Alternatively, family members may file one tax return that includes the income of the entire family. On a family tax return, the family members are jointly and severally liable for the payment of tax. If one spouse has a tax liability and the other spouse has a refund, the spouses may offset each other's amounts. Nonresidents with taxable income must file tax returns, unless they are subject to withholding tax for the entire amount due. However, individuals who have elected taxation under the special expatriate regime (see Section A) file their returns during the period 1 May through 30 June following the end of the calendar year.

Returns are usually filed from 1 May to 30 June following the end of the calendar year. Nonresidents must file tax returns within a month of the date when taxable income from Spanish sources is payable. In certain cases, nonresidents may file quarterly tax returns.

For tax returns filed by residents, any tax due is payable with the return, and interest accrues on any unpaid balance. However, 60% of the tax may be paid in June, and the remaining 40% paid by 5 November, without interest accruing. The tax due is the balance remaining after subtracting amounts withheld during the year. If too much tax is withheld, the excess is refunded to the taxpayer.

E. Double Tax Relief and Tax Treaties

An individual resident in Spain may use foreign tax credits to avoid double taxation (imputation method).

Spain's double tax treaties apply both the imputation and the exemption-with-progression methods. Spain has entered into double tax treaties with the following countries.

Algeria	Greece	Philippines
Argentina	Hungary	Poland
Australia	Iceland	Portugal
Austria	India	Romania
Belgium	Indonesia	Russian Federation
Bolivia	Ireland	Slovak Republic
Brazil	Israel	Slovenia
Bulgaria	Italy	Sweden
Canada	Japan	Switzerland
Chile	Korea	Thailand
China	Latvia	Tunisia
Cuba	Lithuania	Turkey
Czech Republic	Luxembourg	USSR*
Denmark	Macedonia	United Kingdom
Ecuador	Mexico	United States
Finland	Morocco	Venezuela
France	Netherlands	Vietnam
Germany	Norway	

* Spain honors the USSR treaty with respect to the former Soviet republics.

F. Residence Permits

A foreign national who wishes to reside in Spain must obtain a valid residence permit (*autorización de residencia*).

For a person who also wishes to work in Spain, the work and residence permits are issued on approval of the same application by both the Spanish labor and police authorities (see Section G). Consequently, the approval of one permit usually means the approval of the other and vice versa.

For a person who does not wish to work in Spain, temporary and permanent residence permits are available.

Temporary residence permits are issued to persons who wish to reside in Spain more than 90 days and less than 5 years. They are issued initially for one year and may be renewed for two periods of two years each.

If the temporary residence permit is issued as a result of a spouse holding work and residence permits, the validity of the residence permit is for the same duration as the spouse's work and residence permits.

Foreigners who have resided lawfully in Spain for a period of five years can apply for a permanent residence permit. However, the residence card must be renewed every five years. A residence card is automatically issued to persons living and working in Spain.

EU nationals are not strictly required to apply for a residence card. However, because this document is a useful form of identification, it is often advisable for an EU national to apply for the card. The issuance of a residence card to an EU national is almost automatic.

G. Work Permits

Nationals of non-EU countries who wish to work and reside in Spain must apply for work permits.

Non-EU nationals may not work while their work permits are being processed. EU nationals are not required to apply for a work permit to undertake employment in Spain. Rules applicable to EU nationals apply also to nationals of the Economic European Area (EEA), which comprises Iceland, Liechtenstein and Norway, as well as to nationals of Switzerland.

Spanish authorities have adopted a restrictive policy regarding the issuance of work and residence permits to foreign nationals. This results from several factors, including the high unemployment rate and the recent dramatic increase in the number of immigrants entering Spain, both legally and illegally, in the hope of obtaining Spanish, and ultimately EU, citizenship. In accordance with this policy, Spanish authorities strictly enforce work permit requirements to encourage the hiring of Spaniards rather than foreign nationals. Specifically, the authorities strive to issue work permits only to foreign nationals who have special characteristics or who fall into one of the preference categories established by law.

A non-EU national who performs any economic activity in Spain, either as an employee of a Spanish company or as a self-employed individual, must obtain work and residence permits. Spanish law imposes steep fines of up to €60,000 for companies that hire foreign workers without valid work permits.

The same rules apply to self-employed foreign nationals and to those applying to work for a specific Spanish company. However, special permits exist for foreign nationals intending to start a business or for foreign companies wishing to establish subsidiaries headed by foreign nationals in Spain.

Types of Work Permits. The most common types of work permits are described below.

Work Permits for Local Employees. Work permits for local employees are issued to first-time applicants. They are issued for specific activities, employers and geographical areas (normally a Spanish province and its capital). The initial permit is valid for one year (unless the underlying labor contract is for a shorter period), but is renewable for an additional two-year period if no material change occurs in the conditions that led to granting the initial permit, including the applicant's employment with a Spanish company and the absence of a criminal record. The renewal is granted for specific activities and allows employment anywhere in the Spanish territory, regardless of the employer.

The application for renewal, which must be submitted during the 60-day period preceding the expiration date, follows an abbreviated version of the original procedure (without interaction with the Spanish consulate in the country of origin). In most cases, renewals are granted routinely unless a material change in the permit holder's status occurs.

After holding a work permit for local employees for three years, an individual can renew the permit for an additional two years. The renewed permit is valid in any activity or geographical area.

Temporary Work Permits. The various types of temporary work permits are described below.

Work permits may be granted for temporary, seasonal or cyclical activities having a maximum duration of nine months. These permits may not be renewed. They are granted for a specific employer and are not transferable.

Work permits are granted for other temporary activities, such as assembly of industrial plants and construction projects for infrastructure, electricity networks, gas supply and railways. In addition, work permits are issued for temporary activities performed by top executives (*personal de alta dirección*) professional sportsmen and for professional training. Temporary work permits for the activities described in this paragraph have a maximum duration of one year and may not be renewed.

Self Employment Work Permits. Self-employment work permits are issued to first-time applicants for specific activities, employers and geographical areas. These permits are granted for one year. They can be renewed for two additional years for the performance of activities specified in the initial permit, but the renewed permit applies in the entire Spanish territory. After holding a self-employment work permit for three years, individuals can renew the permit for two additional years. The renewed permit applies to all activities and geographical areas.

Cross-Border Work Permits. Cross-border work permits allow foreigners to work in Spain within the framework of cross-border services (*prestación de servicios transnacionales*). This means that the employee of a non-EU company may apply for this permit to work in Spain for a client of his or her employer (a Spanish company) or for a subsidiary of the foreign company that is located within the Spanish territory. This permit is valid for one year and renewable for an additional year.

The holder of a cross-border work permit must continue to belong to his or her home country's social security system and must be paid by the foreign company.

The Spanish labor authorities may request a copy of the contract between the Spanish customer and the foreign employer or the assignment letter in the case of a subsidiary.

Permanent Work Permits. After holding a work permit for five years, an individual may request a permanent work permit, which is valid for an indefinite period. However, the residence card must be renewed every five years.

Steps to Obtain a Work Permit. Applying for a work permit in Spain is a lengthy process. In total, the procedure may take from 3 up to 12 months depending on several factors. Each step of the application process is outlined below.

Employment Section – Government Delegation. An application for work and residence permits must be made before the applicant begins work in Spain. The applicant's Spanish employer must file an Application for Work and Residence Permits (Solicitud de Autorización de Trabajo y Residencia) with the Employment and Social Issues Section of the applicable Government Delegation

(Delegación de Gobierno – Area de Trabajo y Asuntos Sociales). This is a one-page application to which documents from the applicant and the Spanish company must be attached.

The following documents from the applicant must be attached to the application:
- Copy of the applicant's valid passport.
- Three passport-size photographs of the applicant.
- Applicant's *curriculum vitae*.
- Documents demonstrating that the applicant falls into one or more of the preference immigrant categories. Because the majority of the preferences are based on family relationships in Spain (that is, the applicant is descended from grandparents who were Spanish nationals by birth), these documents normally consist of certificates issued by the Civil Registry (Registro Civil). If a foreign official body issues the documents, the documents must be legalized with the Apostil of Hague Convention (under the Treaty of the Hague Convention, this is a stamp that all documents in one country must bear in order to be accepted as legitimate in another country) or the approval of the Spanish consulate in the country of origin. If necessary, the documents must be translated into Spanish (sworn translation).

The following documents from the Spanish company must be attached to the application:
- Four copies of the official job offer, signed by the company's representative. The labor authorities in Spain stamp all of the copies and return two of them to the applicant's employer.
- Photocopy of the tax identification number of the company.
- Power of attorney granted by the Spanish company to the individual dealing with the application on behalf of the company. This individual must also be an employee of the Spanish company. This power must be inscribed in the Mercantile Registry.
- A memorandum describing the Spanish company, including its characteristics, activities, offices and employees, if applicable. It is useful to emphasize the number of Spaniards employed by the company or plans to expand its Spanish workforce in the future. The memorandum must include a job description on company stationery and any relevant attachments emphasizing the special characteristics of the position, such as international or head-office experience, familiarity with head-office procedures and strategies, and language or technical capabilities. The purpose of this document is to demonstrate that a Spaniard with arguably similar qualifications cannot fill the applicant's job.
- Documents showing that the Spanish company is registered with the Spanish Social Security system (Seguridad Social), including Form A-6 (Inscripcion en la Seguridad Social) and Forms TC-1/TC-2 (Boletines de Cotizacion) for the last month paid.
- Certificates from the tax and social security authorities proving that the company has no tax or social security liabilities.
- A certificate issued by the Spanish labor authorities providing the results of the search for a Spaniard to fill this position (unless the applicant is in one of the preference immigrant categories established under Spanish law).
- Any other documents or materials specifically requested by the labor authorities.

If it is intended that the applicant hold a senior executive- or managing director-type position with the Spanish company, the following documents should also be included:

- A notarized declaration of the executive's position and authority;
- The certificate of incorporation of the Spanish company; and
- Evidence of the company's inscription in the Mercantile Registry (Registro Mercantil).

In the event of a cross-border services situation, it is also necessary to file the services contract between the two companies (the foreign employer and either the customer or the subsidiary) and the proof of existence of the labor relationship between the applicant and the foreign company, specifying the exact length of the services, the professional category of the applicant as well as the labor conditions of the position. In addition, the Spanish authorities may also require a certificate stating that the employee will remain under his or her home country social security system.

The application, together with all of the above documents, must be filed with the Spanish office dealing with foreign issues that is located where the Spanish company has its registered office. If a foreign official body issues the above documents, they must be legalized. A Spanish translator must prepare certified translations of the documents if they are not in Spanish. If any of the documents are missing or incomplete, the applicant normally has 10 days to provide the missing materials.

Spanish Consulate. After the labor authorities analyze the application and assuming that they issue a decision approving the granting of the work permit, the Spanish company (employer) receives a written notification. Beginning on the date of receipt of notification, the applicant has one month to file an application for the corresponding visa at the Spanish consulate in the country where the applicant lives if he or she does not have legal residency in Spain. If the applicant is already in Spain as a nonworking legal resident, the initial application may be made directly to the Spanish labor authorities; however, the applicant may not stay in the country beyond the maximum period corresponding to the terms of his or her residence visa.

At the consulate, applications must be made in person through the presentation of the following documents:

- The notification from the labor authorities granting the work permit.
- A completed Application for Visa form (Solicitud de Visado), which is available from the Spanish consulate. In filling out this form, it is important to state that the purpose of the visit is "to work for the company (full name) in Spain," and to provide a local address and phone number in the country where the applicant can be contacted in the next few months if the visa is granted.
- One copy of the employment contract offer, previously stamped by the labor authorities in Spain.
- The applicant's valid passport.
- A certificate stating that the applicant does not have a criminal record, issued by the authorities of the home country or countries where the individual has resided during the last five years. Such certificate cannot be issued in certain countries. However, in the

United States, for example, a certificate may be obtained from the city or town where the applicant resides. If the applicant has previously resided or is living in Spain, a certificate from the Spanish Ministry of Justice (Ministerio de Justicia) is required.
- Passport-size photos.
- A medical certificate from the country of origin (or from Spain if the applicant is already residing in Spain). No prescribed form exists for this certificate, but the certificate should meet the following conditions:
  - — Show the title of "Medical Certificate";
  - — Clearly and fully identify both the doctor and the applicant;
  - — Certify that the doctor has examined the applicant and that the examination included a laboratory test;
  - — Certify that, based on this examination, the applicant shows no physical or mental defect, no disease or disability, no abnormalities in the chest X-ray, no evidence of abnormal mental conditions, no addiction to, or use of, toxic substances and no contagious diseases; and
  - — Be signed and dated by the doctor.

If the above documents are not in Spanish, they must be accompanied by certified translations prepared by an official Spanish translator.

In general, an applicant must bring two photocopies of each of the above documents and request legalized copies. However, the consular officials have considerable autonomy in determining the particular documents and the number of copies that an applicant must submit.

The residence visa must be obtained from the Spanish consulate where the original Request for Visa form was filed. Depending on the practice of the consulate, the applicant is notified either by telephone or in writing when the visa is available. This occurs within a period of two weeks to four months. Consequently, the applicant should check periodically with the consulate to see if his or her visa is available.

The Spanish consulate can require the applicant's presence and a personal interview.

If the Spanish consulate grants a visa, the applicant must go to the consulate to pick up the visa within 30 days.

Provincial Directorate of Police. If labor authorities grant a work permit, they transmit the applicant's materials to the Provincial Directorate of the Police (Direccion Provincial de la Policia), for processing the applicant's residence permit. The applicant's employer is also notified of certain administrative costs that must be paid to the Ministry of Economy and Finance (Ministerio de Economia y Hacienda).

If the work permit is denied, an appeal may be filed with the Ministry of Labor and Social Security and, if necessary, with the courts. In practice, however, it is difficult to have a denial of a work permit overruled on appeal.

On receiving the applicant's materials from the labor authorities, the Provincial Directorate of the Police analyzes the application and can request additional materials before agreeing to issue a residence permit.

After an applicant enters Spain with the relevant visa, he or she has 30 days to go to the Provincial Directorate of the Police to pick up the work and residence permits through the corresponding residence card with a Foreign Number already assigned. Normally, the applicant is required to bring the following items:

- The original letter from the labor authorities notifying the applicant that the work permit has been approved;
- The applicant's passport with the visa stamp;
- Three passport-size photographs of the applicant;
- The original Application for Work and Residence Permit form presented to the labor authorities; and
- An invoice establishing that the required fees have been paid to the Ministry of Economy and Finance.

Practical Considerations. The following should be considered when sending a foreign national to work in Spain:

- If the foreign national falls into any of the preference categories (see *Factors Evaluated in Granting Permits*), this could enhance to a considerable degree the likelihood of the granting of the required permits.
- It should be determined whether family members who will also need residence permits will accompany the foreign national to Spain.
- The foreign national must make the initial application for a residence visa in person at a Spanish consulate in the country of origin. The foreign national may file the visa application and enter Spain on a tourist visa while the work and residence permit application is pending, as long as he or she does not formally begin to work in Spain until the permits are obtained. After the visa is available at the consulate, the foreign national must appear there in person to have the visa stamped in his or her passport, which allows the foreign person to enter Spain and request the corresponding residence card from the police authorities within the following 30 days.

Factors Evaluated in Granting Permits. In evaluating whether to issue work and residence permits to a foreign national, the Spanish authorities tend to consider several *de facto* circumstances as well as other factors established under law.

The *de facto* circumstances considered by the authorities vary from case to case, but generally include an analysis of the following:

- The reciprocity accorded to Spanish nationals with respect to granting work and residence permits in the applicant's country of origin;
- The number of Spaniards employed by the Spanish company intending to hire the applicant; and
- The Spanish company's plans for the future expansion of its business and its workforce.

The Spanish authorities must take into account whether an applicant falls into one of the following preference categories established under law. Specifically, the authorities are required to grant favorable treatment to an applicant who meets any of the following conditions:

- He or she was born and is legally residing in Spain;
- He or she has dependent Spanish ancestors or descendants;
- He or she previously had Spanish nationality and now intends to reside in Spain;
- He or she is descended from parents or grandparents who were Spanish nationals by birth;
- He or she is a national of a Latin American country, Andorra, Guinea or the Philippines, or is Sephardic;
- He or she is the spouse or child of a foreign national who holds work and residence permits, especially if the permits are valid for longer than two years;
- He or she is directly related to an officer or director of the Spanish company for which he or she is working (except for domestic help);
- He or she holds a senior executive or managing director position with the Spanish company or is considered an important employee of the company;
- He or she has a permanent residence permit or has resided legally in Spain for the past five years;
- He or she has been granted political asylum less than one year before the permit is applied for; or
- He or she is qualified to assemble or repair imported machinery or equipment.

H. Family and Personal Considerations

Family Members. Family members must obtain residence permits if they intend to accompany a foreign national to Spain.

The working spouse of a foreign national does not automatically receive a work permit. He or she may file jointly with the foreign national or independently if he or she wishes to obtain a Spanish work permit.

It is possible to apply for a regrouping visa if the applicant's spouse has a one-year residence permit that has been renewed for two additional years.

Marital Property Regime. In general, Spain has a mandatory community property regime that applies to married heterosexual couples. This regime applies to couples who solemnize their marriages in Spain or in other countries. Couples may elect out of the regime by following specified legal procedures. The community property regime applies to all interests arising during the marriage. Property owned before the marriage remains separate.

In several autonomous communities within Spain (for example, Cataluña), the mandatory marital property regime is one of separate property.

Forced Heirship. Forced heirship rules in Spain require that direct lineal descendants inherit at least two-thirds of a deceased's estate, regardless of the provisions of the will.

Drivers' Permits. A foreign national may drive legally in Spain with his or her home country driver's license for one year. Requirements for driver's license reciprocity in Spain vary, depending on the country of origin of the foreign national.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Contributions to the Spanish social security plan or home-country benefit plans made by the employer on behalf of the employee	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Employer-provided housing	X	—	(b)
Housing contribution	(X)	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Car allowance	X	—	(c)
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(e)
Value of lodging provided	X	—	(e)
Income from foreign personal services that is subject to income tax in a foreign country	X	—	(f)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	(g)
Capital gain from sale of stock in home country	X	—	—

* Bracketed amounts reduce taxable income.

(a) Contributions to Spanish and home-country pension plans made by an employer on behalf of an employee, and contributions to such plans by an employee are deductible, up to certain limits (see Section B).

(b) Company-owned or rented housing for the benefit of employees is considered a payment in kind that is subject to withholding payments and that must be included in the employee's taxable income, in accordance with the rules described below. An annual percentage of 10% (5% in certain cases) of the cadastral value of the house is included in taxable income. If notification of such value has not yet been received, 5% of 50% of the higher of the following values is included in taxable income, limited to a maximum of the 10% of the remaining employment income of the employee:

- Value assessed to the house for urban real estate purposes;
- Acquisition value; or

• Value assigned by the tax authorities.

In this context, remaining employment income includes payments by the employer of utility expenses of the employee. If the house is leased by the employee and if the rental payments are made directly by the employee and reimbursed by the employer, the amount of the rental payments is subject to tax and the limit mentioned above of 10% of the remaining employment income does not apply.

(c) A car allowance is considered a payment in kind, which is included in income from personal services. A car furnished by the employer is valued at 20% of the purchase price including taxes. A car rented or leased is valued at 20% of the car price (the market value of the car if it were new), including taxes.

(d) The transportation and maintenance of the employee and his or her family and the transport of goods during the employee's move are nontaxable.

(e) Meals and lodging expenses incurred while traveling for business are nontaxable up to certain limits.

(f) Up to €60,101 of such income may be exempt if the tax authorities in the foreign country apply a tax that is identical or similar in nature to the Spanish income tax and if the foreign country is not a tax haven.

(g) The total gain on the sale of a personal residence is not taxable if, within two years after the sale of the residence, the taxpayer reinvests the total gain in another personal residence.

APPENDIX 2: SAMPLE TAX CALCULATIONS

The tax calculations set forth below illustrate the differences between the filing of a family tax return and two separate tax returns for spouses with two dependent children under a community property system. For the purpose of these calculations, special deductions are not taken into account.

	Joint Tax Return €	Individual Tax Return Spouse A €	Individual Tax Return Spouse B €
Gross employment income earned by one member of the married couple	60,000	60,000	—
Spanish social security	(2,143)	(2,143)	—
Net (taxable) employment income	(57,857)	(57,857)	—
Gross income from real estate property	27,000	13,500	13,500
Deduction for interest expense	(7,200)	(3,600)	(3,600)
Net income from property	19,800	9,900	9,900
Total taxable income	77,657	67,757	9,900
Personal service income	(2,400)	(2,400)	—
Minimum personal deduction	(6,800)	(3,400)	(3,400)
Minimum personal deductions for children:			
First child	(1,400)	(700)	(700)
Second child	(1,500)	(750)	(750)
Tax base	65,557	60,507	5,050
Total tax	22,529	20,257	844

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This chapter reflects amendments based on the budget proposals announced on 8 December 2005. At the time of writing, these amendments have not yet been enacted. After enactment, these amendments will be effective from 1 April 2006, unless specified otherwise.

A. Income Tax

Who Is Liable. Resident individuals are taxed on worldwide income. Resident employees earning remuneration from employment exceeding Rs. 300,000 are subject to income tax. Nonresidents are taxed on income derived from Sri Lanka only.

Individuals are considered resident for tax purposes if they are present in Sri Lanka for more than 183 days in a tax year.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable compensation includes any wages, salary, allowance, directors' fees, leave pay, pension, shares of a company received through a share option scheme, or similar compensation, as well as the value of any benefits given to an employee (or to his or her spouse, child or parent), directly or indirectly, in money or in kind. Taxable benefits and payments include travel and entertainment allowances, taxes borne by the employer on behalf of the employee, the personal use of a company-provided automobile, the value of housing provided by the employer and payments for medical expenses. Contributions made by an employee to an approved pension, provident or savings fund are not taxable to employees. Directors' fees not included in payroll are subject to withholding tax at a rate of 10%.

Compensation derived by certain government employees, diplomatic representatives and officials employed by international agencies such as the United Nations is exempt from tax. However, effective from 1 April 2005, 50% of official emoluments of public servants is subject to income tax.

Travel benefits, including the cost of passage for noncitizens in connection with employment duties, are also not taxable.

Compensation earned by resident individuals in foreign currency for duties performed abroad is tax-exempt if the funds are remitted to Sri Lanka.

Self-Employment and Business Income. Individuals deriving profits from any source of self-employment or business income, other than profits of a casual and nonrecurring nature, are subject to income tax.

Self-employment or business income, which consists of income from a trade, business, profession or vocation, is subject to tax at the rates set forth in *Rates*. Taxable income consists of net income after deducting certain expenses.

Partnerships are taxable on their distributable profits and other income at a rate of 10%. The individual partners can claim credit for their pro rata share (based on the profit-sharing ratio) of the Economic Service Charge (see Section B) paid by the partnership against their individual income tax liabilities.

Agriculture income is exempt from income tax, effective from 1 April 2005.

Income from fisheries, livestock and construction is taxed at a concessionary rate of 15%.

Investment Income. Interest (if tax has not been withheld), royalties and rental income are included with other taxable income and are taxed at the rates set forth in *Rates*.

Rental income earned by an owner of a residential house with a floor area of less than 1,500 square feet (139.35 square meters) is exempt from income tax for seven years, effective from 1 April 2005.

Certain items of investment income are not included in an individual's taxable income.

Dividends paid by a resident company to individuals are subject to a 10% withholding tax, which is considered a final tax. If the total interest received from all deposits in a bank or financial institution exceeds Rs. 108,000 per year, a final withholding tax is imposed at a rate of 10% on the total amount of interest. This threshold is increased to Rs. 25,000 per month or Rs. 300,000 per year for all deposits of individuals whose sole or principal income is interest from deposits. Such individuals are required to make a declaration to their respective financial institutions.

A final withholding tax at a rate of 10% is imposed on interest income from corporate debt securities, effective from 1 April 2006.

Effective from 1 April 2006, interest income accruing to a resident individual over 60 years of age from deposits made into a special deposit account in a state bank is exempt from income tax.

Royalties paid to nonresidents are subject to a 15% withholding tax. The withholding tax rate for interest generally ranges from 10% to 20%. These rates may be reduced by applicable tax treaties (see Section E).

Profits derived from sales of shares were subject to tax at a rate of 15%. Effective from 1 January 2005, this tax has been eliminated and replaced by the Share Transaction Levy, which is imposed at a rate of 0.2% on sales of listed shares. Profits derived from sales of unlisted shares held for less than 2 years continue to be subject to a 15% tax.

Deductions

Deductible Expenses. Deductible expenses are limited to bad debts, including unpaid salary.

Personal Deductions and Allowances. The total statutory income of an individual for a year of assessment consists of total profits and income from all sources, after deducting allowable expenses. In calculating taxable income, deductions from statutory income are permitted for annuities, rent, royalties and interest (restricted to interest on housing loans and business loans) and certain other amounts, including the following:

- A tax-free allowance of Rs. 300,000.
- An allowance for qualifying payments, which is limited to Rs. 75,000 or one-third of assessable income, whichever is lower. Qualifying payments for individuals include provident fund contributions (limited to 12% of salary), donations to the government, certain approved investments and life and medical insurance premiums.
- The amount of principal repaid on an approved housing loan or expenditure from the taxpayer's own funds to purchase or construct the taxpayer's first house after 1 April 2001, subject to a limit of one-third of assessable income or Rs. 100,000, whichever is lower. Excess amounts may be carried forward for nine years.

Rates. The rates of income tax that apply to resident individuals for the income year of 1 April 2006 to 31 March 2007 are set forth in the following table.

Taxable Income		
Exceeding Rs.	Not Exceeding Rs.	Rate %
0	300,000	5
300,000	500,000	10
500,000	700,000	15
700,000	900,000	20
900,000	1,100,000	25
1,100,000	1,600,000	30
1,600,000	—	35

Effective from 1 January 2006, the rate of the Social Responsibility Levy is increased to 1% of the income tax liability.

Individuals and partnerships in Sri Lanka earning emoluments and fees in foreign currency for performing services in the professions of literature or fine arts to persons outside Sri Lanka are subject to income tax on such emoluments and fees at a reduced rate of 15%.

Individuals and partnerships in Sri Lanka earning emoluments and fees in foreign currency for providing professional services to persons outside Sri Lanka are exempt from income tax, effective from 1 April 2006. If such exempt income is invested in foreign currency-denominated treasury bonds, a duty concession of up to 25% on the import of a vehicle by the professional is granted. It is proposed that this concession be extended to Sri Lankan professionals living overseas who invest foreign currency in treasury bonds.

For the first five years of employment in Sri Lanka, a noncitizen is subject to income tax on employment income at a reduced rate of 15%. Noncitizens are deemed to be nonresidents for three years from the date their employment begins in Sri Lanka. After expiration of the three-year period, they are considered residents and are taxed on worldwide income. After five years, income tax is levied at the regular rates set forth above.

Effective from 1 April 2006, expatriate employees are taxed at a rate of 15% for the first three years of employment in Sri Lanka and at a rate of 20% for the following 2 years. Thereafter, they are considered residents and taxed on worldwide income at the regular rates.

A noncitizen employed by a flagship company (a company having at least US$50 million invested in Sri Lanka) is treated as nonresident for the first five years of employment in Sri Lanka. Such an individual is subject to income tax at a reduced rate of 15% on employment income from the date employment begins in Sri Lanka, as long as the profits of the flagship company are exempt from income tax.

Effective from 1 April 2006, expatriate employees of flagship companies are taxed at a rate of 15% for the first 5 years of employment and at a rate of 20% for the following 5 years or until the end of the tax holiday, whichever is earlier.

A 5% withholding tax applies to income from professional services and from other specified services.

For a sample tax calculation, see Appendix 2.

Relief for Losses. For the income year beginning on 1 April 2003, losses from a trade, profession or vocation (other than a loss carryforward) are deductible against the statutory income from the respective trade, profession or vocation, subject to certain conditions, and the balance may be carried forward indefinitely. Effective from 1 April 2004, a business may set off loss carryforwards and losses incurred during the current year, subject to a limitation of 35% of the total statutory income in that year, and the balance may be carried forward indefinitely.

Capital losses are abolished, effective from 1 April 2004.

Losses generated through intragroup transactions that have no economic substance are disallowed.

B. Other Taxes

Transfer Tax on Immovable Property. Transfer tax at a rate of 100% is imposed on transfers by noncitizens of immovable property, except for apartments above the fourth floor in a condominium property, land for housing in excess of 100 units, hospitals and large-scale infrastructure projects and other items specifically exempted in an order published in the *Government Gazette*. The tax base is the sales price.

Economic Service Charge. An Economic Service Charge (ESC) is payable by every person who carries out a trade, business, profession or vocation in Sri Lanka. The ESC is imposed at a rate of 1%, 0.5% or 0.25% of the turnover, depending on the type of enterprise. Effective from 1 April 2006, if the turnover exceeds Rs. 40 million, the maximum ESC liability is Rs. 60 million.

Value-Added Tax. The standard rate for value-added tax (VAT) is 15%. Rates of 5% and 20% apply to essential food items and luxury items, respectively. Certain goods and services are exempt from VAT.

Stamp Duty. The government stamp duty which was abolished, effective from 1 May 2002, will be reintroduced. The reintroduced stamp levy will not apply to instruments and documents already subject to debits tax and to letters of credit that are subject to Ports and Airport Development Levy. Rates and effective dates have not been announced. However, the stamp duty on the transfer of immovable property continues to apply.

C. Social Security

Sri Lanka's social security contribution rates rarely change. Most employees are covered by the Employees' Provident Fund (EPF) Act of 1958. The act requires employees to contribute 8% of total earnings and employers to contribute 12% of employees' earnings. In addition, employers must contribute an amount equal to 3% of each employee's total earnings to the Employees' Trust Fund (ETF). This contribution is not deducted from the employee's earnings.

When employment ends, a gratuity is payable to employees under the Payment of Gratuity Act of 1983, which equals half of one month's salary for each year of service. To qualify, an employee must have worked for the employer for more than five years.

EPF and ETF benefits, as well as gratuity benefits paid under a uniform scheme, that exceed the exemption limit of Rs. 2 million are taxed at a maximum rate of 15%. However, gratuity payments for retirement in excess of a certain amount are taxed at normal tax rates. This amount is equal to the greater of Rs. 1.8 million or the average salary for the last three years of employment, multiplied by the number of years of service.

The above exemption for terminal benefits relating to EPF and ETF applies if the period of contribution to such fund exceeds 20 years. If period is less than 20 years, the exemption limit is Rs. 1 million.

Compensation received under approved voluntary retirement schemes or retrenchment schemes is exempt up to Rs. 2 million. The balance, if any, is taxed at concessionary rates.

Compensation under a non-uniform scheme for loss of employment is taxed at a rate of 20%.

D. Tax Filing and Payment Procedures

The income year in Sri Lanka is from 1 April to 31 March. Individuals must obtain special permission to use an alternative period.

Tax is withheld from employees under the Pay-As-You-Earn (PAYE) system.

Income taxes of self-employed persons are payable in advance based on self-assessment of the current year's income. They are payable in four quarterly installments, which are due one and a half months after the end of each quarter. A tax return normally must be filed by self-employed persons by 30 November following the tax year. Under a proposal, this date would be changed to 30 September. Penalties are levied on late or insufficient payments.

The following concessions and incentives are provided to good taxpayers:

- 10% reduction in tax payable for tax payments made one month before the due date;
- Acceptance of return as final if compliance requirements have been met for 3 preceding years of assessment and if more than 120% of the tax or 125% of assessable income of the preceding year have been paid and declared respectively; and
- Duty concessions on import of vehicles if more than Rs. 250,000 has been paid as income tax for the preceding five years.

E. Double Tax Relief and Tax Treaties

Sri Lanka has entered into double tax treaties with the following countries.

Australia	Japan	Russian Federation
Bangladesh	Korea	Saudi Arabia*
Belgium	Malaysia	Singapore
Canada	Mauritius	Sweden
Denmark	Nepal	Switzerland
Finland	Netherlands	Thailand
France	Norway	United Arab Emirates*
Germany	Oman*	United Kingdom
India	Pakistan	United States
Indonesia	Poland	
Iran	Romania	
Italy		

* These treaties cover international air transport only.

In general, these treaties provide for the elimination of double taxation if both Sri Lankan tax and foreign tax are due on the same income.

If remuneration is received by a resident of a foreign state for employment exercised in Sri Lanka, the remuneration is taxable only in the foreign state if all of the following conditions apply:

- The recipient is in Sri Lanka for a period not exceeding 183 days in the relevant fiscal year;
- The remuneration is paid by a nonresident employer; and
- The remuneration is not borne by a permanent establishment or a fixed base maintained by the employer in Sri Lanka.

F. Entry Visas

All foreign nationals must obtain visas to enter Sri Lanka. Foreign nationals who intend to work in Sri Lanka must obtain residence visas.

Single-Entry Visit Visas. Single-entry visit visas are issued for a maximum of six months and do not entitle their holders to work in Sri Lanka. These visas are normally issued to tourists and businesspeople who visit the country.

Nationals of the following countries may obtain visit visas at the port of entry into Sri Lanka.

Albania	Denmark	New Zealand
Armenia	Estonia	Norway
Australia	Finland	Oman
Austria	France	Pakistan
Azerbaijan	Germany	Philippines
Bahrain	Greece	Poland
Bangladesh	Hong Kong	Portugal
Belarus	Hungary	Qatar
Belgium	Indonesia	Romania
Bhutan	Ireland	Saudi Arabia
Bosnia-Herzegovina	Israel	Singapore
Brunei Darussalam	Italy	Spain
Bulgaria	Japan	Sweden
Canada	Korea	Switzerland
China	Kuwait	Thailand
Croatia	Luxembourg	Turkey
Cyprus	Malaysia	United Arab Emirates
Czech Republic	Maldives	United Kingdom
	Nepal	United States
	Netherlands	

Foreign nationals other than those from the countries listed above must obtain visas at the Sri Lanka diplomatic missions in their countries prior to arrival. Local sponsors must request visas for visitors from countries where there is no Sri Lankan diplomatic mission.

The fee for a visit visa varies according to the foreign national's country of origin. Renewal fees and fees for visas permitting stays longer than three months are based on the three-month single-entry visit-visa fee. Extending a three-month visit visa for an additional three months requires the payment of an additional three-month visit-visa fee and a tax of Rs. 10,000. Extending a visit visa for an additional six months requires the payment of a fee that is twice the initial three-month fee and a tax of Rs. 15,000.

Multiple-Entry Visas. Investors and businesspeople may obtain multiple-entry visas valid for 3 or 12 months. To receive a multiple-entry visa, a foreign national must supply proof of his or her activities in Sri Lanka. These visas may be received from the Controller of Immigration and Emigration or from a Sri Lanka diplomatic mission abroad. For a three-month multiple entry visa, the fee is three times the fee for the single-entry three-month visit visa. For the 12-month multiple-entry visa, the fee is the same as for a three-month multiple-entry visa plus a tax of Rs. 10,000.

G. Residence Visas

Residence visas must be obtained by all foreign nationals intending to work in Sri Lanka. This type of visa is normally issued for one year and is renewable annually on the payment of Rs. 7,500. Under the Resident Guest Scheme, however, residence visas may be issued for an initial period of five years (see below). The visa fee under this scheme is Rs. 15,000 per year.

Applicants for residence visas should obtain entry permits from Sri Lankan missions in their home countries. They must submit applications for residence visas within one month after their arrival in Sri Lanka.

The approval of the ministry that governs a particular activity is critical to obtaining a residence visa. For example, if a foreign national wishes to pursue activities in Sri Lanka connected with the power and energy sector, the Sri Lanka Ministry of Power and Energy must approve the visa. The Department of Immigration and Emigration normally abides by the recommendations of the relevant ministry in deciding whether to grant a residence visa.

With respect to employment in companies approved by the Board of Investment (BOI), the BOI must recommend a residence visa for it to be issued. The BOI then refers the application with comments to the Department of Immigration and Emigration, which issues a visa. Employers are responsible for applying for residence visas for expatriate staff.

The Resident Guest Scheme is open to any foreign investor or foreign professional who wishes to contribute to the economic and sociocultural enrichment of Sri Lanka. Five-year visas are issued to individuals qualifying under the scheme.

Application forms are available from the BOI and from any of the Sri Lankan missions abroad.

Individuals applying for visas under the Resident Guest Scheme must undergo a medical examination prior to the visas' confirmation.

Foreign residents in Sri Lanka are subject to a resident visa tax of Rs. 20,000, except for diplomatic staff.

H. Family and Personal Considerations

Family Members. Spouses and dependents of visa holders are not automatically permitted to undertake paid or unpaid work in Sri Lanka. A spouse or child seeking to work in Sri Lanka must file an application for a residence visa independently of the principal visa holder.

Drivers' Permits. Foreign nationals may not drive legally in Sri Lanka with their home country drivers' licenses but they may drive with valid international drivers' licenses issued in their home countries.

A temporary driver's license may be obtained by presenting a foreign license and paying Rs. 300 to the Department of Motor Traffic. To obtain a permanent driver's license, the applicant must submit a medical certificate from a registered medical practitioner in Sri Lanka, the foreign driver's license and Rs. 765 to the Department of Motor Traffic. A temporary license may be obtained immediately after the receipt of the requisite documents; a permanent license takes approximately 10 days.

Sri Lanka does not have driver's license reciprocity with any other country.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home-country benefit plan	X	—	—
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Hardship allowance	X	—	—
Traveling allowance	X	—	—
All other cash allowances	X	—	—
Other Noncash Benefits			
Employer-provided housing	X	—	(a)
Employer-provided vehicle (with fuel)	X	—	(b)
Maintenance of vehicle	X	—	(c)
Hotel accommodation	X	—	(d)
Utilities	X	—	(e)
Cost of passage to home country	—	X	(f)
Tax borne by employer	X	—	—
Award of company shares	X	—	(g)

(a) The value of the benefit from employer-provided housing is calculated in accordance with the following rules:
- For employees whose monthly remuneration is Rs. 150,000 or less, the value of the benefit equals the lower of the actual rent paid for the residence or Rs. 10,000 per month;
- For employees whose monthly remuneration exceeds Rs. 150,000, the value of the benefit equals the lower of the actual rent paid or Rs. 15,000 per month; and
- For furnished accommodation, an additional Rs. 1,500 per month is added to the value.

(b) The value of the benefit from an employer-provided vehicle is calculated in accordance with the following rules:
- For vehicles with an engine capacity of 1,500 cc or less, the value of the benefit is Rs. 7,500 per month;
- For vehicles with an engine capacity exceeding 1,500 cc, the value of the benefit is Rs. 15,000 per month; and
- The value of fuel provided by employer for employee's vehicle is deemed to be Rs. 5,000 per month.

(c) The value of this benefit from the maintenance of a vehicle equals the amount of expenses reimbursed.

(d) For the first three months, the value of the benefit from hotel accommodation equals 25% of the hotel bills. For all subsequent months, the value equals the actual cost.

(e) The value of the benefit from utilities equals the actual cost of the utilities.

(f) Air passage for an employee and his or her family is not taxable in the following circumstances:
- At the beginning of employment in Sri Lanka;
- At the end of employment; and
- For home leave once a year.

The cost of additional trips is taxable.

(g) The award of stock options is taxable as employment income at the time of disposal of the shares if the employer is instrumental in the disposal. Taxable income equals the difference between the following amounts and the acquisition cost of the shares:
- For a sale, the higher of the sales price or the market value on the date of sale;
- For a disposal other than a sale, the market value on the date of disposal; and

• In the event of the cessation of employment without selling or disposing of the shares, the market value on the last date of employment.

APPENDIX 2: INCOME TAX CALCULATION

A sample tax calculation is provided below for an expatriate employee who benefits from a concessionary rate of 15% on all income for the first three years of employment in Sri Lanka. For the following two years, the expatriate's employment income is taxed at a rate of 20%. After five years, the employee is treated as a resident individual for tax purposes and taxed on worldwide income.

	Rs.	Rs.
On Employment Income for the First Five Years of Employment in Sri Lanka		
Calculation of Taxable Income		
Salary	3,600,000	
Cash allowances	1,200,000	
Bonus	25,000	
Vehicle benefit	180,000	
Housing benefit	180,000	
Furniture	18,000	
Other benefits	240,000	
Total salary and benefits		5,443,000
Tax borne by employer (17.647% of Rs. 5,443,000)		960,526 (a)
Total taxable income		6,403,526
Calculation of Tax		
Rs. 6,403,526 at 15%		960,528
On Income After the Completion of Five Years of Employment in Sri Lanka		
Calculation of Taxable Income		
Total income		5,443,000
Tax borne by employer		2,332,326 (b)
Personal allowance		(300,000)
Taxable income		7,475,326
Calculation of Tax		
Tax on Rs. 300,000 at 5%		15,000
Tax on Rs. 200,000 at 10%		20,000
Tax on Rs. 200,000 at 15%		30,000
Tax on Rs. 200,000 at 20%		40,000
Tax on Rs. 200,000 at 25%		50,000
Tax on Rs. 5,875,326 at 35%		2,056,364
Rs. 7,475,326		
Total tax payable		2,361,364

(a) The tax borne by the employer is calculated at a rate of 17.647% (15/85) of total salary and benefits.
(b) The tax borne by the employer is calculated at a rate of 42.85% of total income.

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A. Income Tax

Who Is Liable. Income tax is levied on income received or accrued from sources within Swaziland by both resident and nonresident individuals. Foreign-source income is not subject to taxation.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income includes salary, amounts received or accrued under any employment contract, directors' fees and benefits related to employment.

Self-Employment and Business Income. Taxable self-employment and business income consists of total income, excluding exempt income, less allowable deductions. Taxable income from self-employment and business activities is aggregated with other income and taxed at the rates described in *Rates*.

Investment Income. Dividends are taxed at a flat rate of 10%.

The first E 1,000 of interest income received on deposits with financial institutions is tax-exempt. Other interest is included in taxable income and is taxed at ordinary rates. Residents are also taxed on interest derived outside Swaziland. A foreign tax credit will be available.

Taxation of Employer-Provided Stock Options. Employer-provided stock options are subject to tax at the date of exercise on the difference between the exercise price and the fair market value of the shares at the date of exercise. This amount is aggregated with the employee's other taxable remuneration.

Capital Gains. Swaziland does not tax capital gains.

Deductions

Deductible Expenses. Expenditure incurred in the production of income is deductible, in addition, to the following items:
- Contributions to pension and retirement annuity funds, subject to certain limits;
- Alimony or maintenance paid under the terms of a court order; and
- A portion of the mortgage interest paid on loans secured by real property occupied by the taxpayer.

Personal Deductions and Allowances. Taxpayers are entitled to a tax credit equal to 10% of certain insurance premiums paid, up to a maximum credit of E 120.

Business Deductions. Expenditure incurred in Swaziland or outside Swaziland in the production of income taxable in Swaziland is deductible.

Rates. The income of individuals is taxed at graduated marginal rates. For 2006, the tax on income up to E 75,000 is E 14,850. The maximum marginal rate of 33% applies to amounts in excess of E 75,000.

Nonresidents are generally taxed at the same rates as resident individuals. The minimum tax rate is 10%. Dividends paid to nonresidents are subject to withholding tax at a rate of 15% or 12.5%, which may be credited against final tax liability.

For a sample tax calculation, see Appendix 2.

Credits. An annual tax credit of E 2,400 is available to all taxpayers.

Relief for Losses. Losses incurred in a previous year may be offset against current income. In general, losses may be carried forward indefinitely and offset against income in future years until fully absorbed.

B. Social Security

Swaziland does not levy social security taxes.

C. Tax Filing and Payment Procedures

Employers must withhold tax from an employee's remuneration and submit the amounts withheld monthly to the Commissioner.

The year of assessment for individuals is 1 July to 30 June, which is the tax year. Individuals who receive income other than employment income must estimate their annual income tax liability and pay a provisional tax. Farmers must pay an amount equal to the total estimated tax for the year, less any tax withheld at source, before the last day of the tax year. Other individuals must pay 50% of the total estimated tax, less any tax deducted at source, semiannually during the tax year. The first provisional tax payment of 50% of the estimated liability is due 31 December during the tax year, and the second payment is due the following 30 June.

D. Double Tax Relief and Tax Treaties

No relief is available for double taxation, except as provided in double tax treaties. However, because tax is levied only on Swaziland-source income, double taxation is uncommon.

Swaziland has entered into double tax treaties with South Africa and the United Kingdom.

E. Entry Permits and Visas

All foreign nationals wishing to enter Swaziland must obtain entry visas. Those intending to work in Swaziland must obtain entry permits and work permits.

Nonresidents may obtain either a single-entry visa, which allows one entry, or a multiple-entry visa, which allows entry into the country for a period of up to 3, 6, 9 or 12 months.

Entry permits are issued to individuals whose engagement or employment in Swaziland will benefit the country. These permits are available to the following categories of individuals:

- Class A: A person who is offered specific employment by a specific employer and is qualified to undertake employment;
- Class B: Holder of a dependent's pass who is offered specific employment by a specific employer; and
- Class C: A person who is a member of a missionary society approved by the government of Swaziland.

Special concessions are made by the Ministry of Home Affairs for business visitors, especially for prospective investors.

F. Permanent Residence Permits

Residence visas are not issued in Swaziland. A foreign national may become a permanent resident after living in Swaziland continuously for 10 years.

The following types of permanent residence permits are issued:

- Class I: A person who is at least 21 years of age who has an assured annual income of a specified amount. This income must be derived either from sources outside Swaziland and remitted to Swaziland; from property situated in Swaziland; from a pension fund or annuity payable from sources in Swaziland; or from sufficient investment capital assured of producing such income, which will be invested in Swaziland. This type of permit does not allow a foreign national to accept paid employment of any kind.
- Class J: A person who is unemployed, who under the repealed acts was issued a residence permit or would be entitled to such a permit, who has been a resident of Swaziland for a continuous period of 10 years, and who meets certain other requirements.

G. Work Permits and Self-Employment

No foreign national may work in Swaziland without first applying for a work permit. A work permit is generally valid for three years but is sometimes issued for two years. The corresponding entry visa is renewable for the same period of time.

Applications for work permits must be submitted to the Ministry of Home Affairs in writing by the employer or by a director if the company is self-owned. The application form should be accompanied by proof of qualifications, two passport-size photographs and a police clearance certificate from the applicant's country of origin. After all documents are received, it takes at least two months to process an application.

An entry visa for nonresidents should be applied for concurrently at the nearest office of the Swaziland high commission or embassy prior to arrival in the country. A passport is the only document required to obtain a visa.

If the application is successful, the employer is notified in writing. The amount of the fee payable varies, depending on the period granted under the visa.

Foreign nationals may be self-employed in Swaziland but must obtain work permits. Each application is assessed on its own merit.

Entry permit classes D to H are issued to foreign nationals who intend to engage in commerce in Swaziland, whether alone or in a partnership. Permits are granted if an applicant has obtained, or is assured of obtaining, any license, registration or other permission that may be necessary for the purpose; if an applicant has sufficient capital and other resources for the purpose; and if the applicant's engagement benefits Swaziland.

These entry permits are available to the following individuals:
- Class D: A person who intends to engage in the business of agriculture or animal husbandry;
- Class E: A person who intends to engage in prospecting for minerals or mining;
- Class F: A person who intends to engage in a specific trade, business or profession (other than a prescribed profession);
- Class G: A person who intends to engage in manufacturing; and
- Class H: A member of a prescribed profession who intends to practice that profession.

H. Family and Personal Considerations

Family Members. Family members of holders of Class A or Class B entry permits may apply for dependents' passes. The working spouse of an expatriate must file a work permit application independently.

Drivers' Permits. A foreign national who has a home country driver's license must apply for an international driver's license in the home country.

To obtain a local Swaziland driver's license, an applicant must undertake the following:
- Obtain from the local Revenue Office an application for a learner's test, which is a verbal test held at local police stations;
- On passing the verbal test, register with a local driving school for driving lessons; and
- Take a physical test.

After passing the physical test, a driver's license is issued at the local Revenue Office.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary or wage	X	—	—
Leave pay	X	—	—
Bonus	X	—	—
Gratuity	X	—	—
Commission	X	—	—
Fees	X	—	—
Lump-sum payments	X	—	—
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	—
Motor vehicle allowance	X	—	—
Company car	X	—	—
Utilities	X	—	—
Education allowance	X	—	—
Home-leave allowance	X	—	(b)
All other allowances	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement	—	X	—

	Taxable*	Not Taxable	Comments
Value of hotel provided	—	X	(c)
Pension or provident funds	(X)	—	(d)
Graded tax	(X)	—	(e)
Provident Fund	(X)	—	(f)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.
(a) The percentage of the benefit that is taxable is increased for each year in a five-year period, which began on 1 July 2003. The applicable percentages for the five-year period are 20%, 40%, 60%, 80% and 100%.
(b) Free passage by rail, road, steamer or air is exempt if it is provided during the term of the employment contract, up to a maximum term of two years. Free passage for permanent return is also exempt from tax.
(c) The cost of hotel accommodation is not treated as a taxable benefit if it is incurred on company business.
(d) Employee's contributions are restricted to E 6,000 per year.
(e) The statutory deduction is E 1.50 per month.
(f) The statutory deduction for contributions to the Swaziland National Provident Fund is available to Swazi nationals only and is limited to E 40 per month.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for the 2006 tax year (ending on 30 June 2006) is provided below for an individual who is resident in Swaziland for the entire 2006 tax year. During the 2006 tax year, the individual receives a salary of E 55,000 and is also provided with housing at a cost to the company of E 36,000. The individual uses his own vehicle and is provided an annual cash allowance in the amount of E 24,000 to meet both the fixed and operating costs for the vehicle. The employee does not maintain proper mileage records. In addition, the individual pays for one utility service (E 1,800), a domestic servant (E 3,600) and an education allowance for one child (E 3,000). The following is the tax calculation.

	E
Calculation of Taxable Income	
Salary earned	55,000
Housing (60% of E 36,000)	21,600 (a)
Motor vehicle allowance	16,500 (b)
Utility service (60% of E 1,800)	1,080 (a)
Domestic servant (60% of E 3,600)	2,160 (a)
Education allowance (60% of E 3,000)	1,800 (a)
Taxable income	98,140
Calculation of Tax	
Tax on first E 75,000	14,850
Tax on next E 23,140 at 33%	7,636
Normal tax	22,486
Less general rebate	(2,400)
Income tax payable	20,086

(a) The percentage of the value of the benefit that is taxable will be increased to 80% for the 2007 tax year and to 100% for the 2008 tax year and future tax years.
(b) The taxable benefit from a motor vehicle allowance is calculated in accordance with the following formula:

$$\text{Amount of allowance} - \frac{\text{Fixed and running costs x deemed business mileage of 6,000 km}}{\text{Deemed total mileage}}$$

In this example, the following is the calculation:

$$\text{E } 24{,}000 - \frac{(30{,}000 \text{ x } 6{,}000 \text{ km})}{24{,}000 \text{ km}} = \text{E } 16{,}500$$

In the example, the deemed business mileage amount, which is set by the Commissioner of Taxes, is used because the employee did not maintain proper mileage records.

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A. Income Tax

Who Is Liable. Residents are subject to Swedish taxes on their worldwide income. Nonresident individuals are taxed on salary earned from work performed in Sweden, on certain pensions and on income derived from a permanent establishment in Sweden.

Individuals who are present in Sweden for six months or more and regularly stay overnight are generally considered resident for tax purposes.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Income from employment includes wage and salary income, directors' fees, pensions, fringe benefits and most allowances. Special valuation rules apply to housing and car benefits. Education allowances provided by employers to their employees' children 18 years of age and under are taxable for income tax and social security purposes unless they are exempt under the foreign key personnel rules (see below).

The granting of cost allowances is a taxable benefit but, under certain circumstances, a standard amount may be deducted for private extra living costs if the employee is temporarily working in Sweden. The deductions are SEK 100 per day for the first 90 days and SEK 60 per day thereafter (for a total period of at least 2 years).

Salary and other benefits received by residents from employment abroad (except for employment on Swedish ships or on Swedish, Danish or Norwegian airplanes) may be exempt if either of the following conditions applies:
• The employment abroad lasts for at least six months, and the income is taxed in the country of employment; or
• The employment abroad lasts for 12 months or longer in one country and no tax has been paid under the legislation or administrative practice of that country.

An additional condition for both of the above alternatives is that visits to Sweden are restricted to 6 days per month of the assignment period (for example, 42 days for 7 months), up to a maximum of 72 days during an employment year.

Employment income is taxed on a cash basis when the income is available to the employee. As a result, taxation occurs when the income becomes available and not when it is actually received.

Salary income and other comparable benefits received by a nonresident for employment, or received as commission for activities performed in Sweden from an entity other than the Swedish state or a Swedish municipality, is exempt from tax if all of the following conditions apply:
• The recipient has been in Sweden for less than 183 days during a 12-month period;
• The remuneration is paid by, or on behalf of, an employer not having a residence in Sweden; and
• The remuneration is not an expense of a permanent establishment in Sweden owned by the employer.

Foreign key personnel, who are experts and scientists with knowledge and skills that are scarce in Sweden, may benefit from an expatriate tax regime. Expatriates may take advantage of the tax regime only if their applications are approved. The regime applies to individuals whose periods of assignment will not exceed five years, and tax relief may be granted for only the first three years. An individual who has resided in Sweden at any time during the five years preceding the calendar year when the assignment starts is not entitled to tax relief under this regime. Furthermore, tax relief may be granted only if the individual's remuneration is paid by a Swedish company, branch or permanent establishment. The tax regime exempts the following remuneration from Swedish income tax and social security contributions:
• Twenty-five percent of salary and benefits;
• Moving expenses to and from Sweden;
• Travel expenses (two return tickets to the home country for the individual and family members annually); and
• Children's school fees.

To qualify for the expatriate tax regime, an application must be filed with the Research Tax Committee (Forskarskattenämnden) in Stockholm within three months after the beginning date of the assignment.

Self-Employment and Business Income. Self-employment income of residents is considered business income and is taxed at the same rates applicable to employment income (see *Rates*). Taxable business income is computed under the rules of sound accounting practices. Accounting profit and taxable income are the same, in principle, although the tax law prescribes several adjustments to arrive at taxable income.

Directors' Fees. Regardless of where the services are performed, directors' fees and similar remuneration paid to nonresident members or deputy members of Swedish boards or similar bodies are treated as salary income and are subject to a 25% final withholding tax, with no deductions allowed.

Investment Income. Dividend income from Swedish and foreign shares, net interest income and income from rental activities are taxed as income from capital at a flat 30% rate. However, if such income is earned in connection with the operation of a business, it is taxed at the rates applicable to business income. Royalties are taxed as business income.

Nonresidents are not subject to tax on interest received from Swedish bank accounts or on capital gains derived on sales of property, other than real estate and certain shares and securities described below. Unless a relevant tax treaty stipulates otherwise, dividends paid by a Swedish company to a nonresident are subject to withholding tax at a rate of 30%.

Nonresidents are subject to tax on income and capital gains derived from real property located in Sweden at a rate of approximately 20% of the gain.

Taxation of Employer-Provided Stock Options. Taxable income derived from a stock option incentive plan is generally taxed at the time the option is exercised. However, if the holder of the stock options ceases to be tax resident in Sweden, the value of the stock options will be taxed to the extent they are vested. The taxation at exercise rule also applies to EU citizens residing in the EU.

The value of the benefit is the spread credited to the employee on the date of exercise. The taxable benefit is treated as ordinary employment income. The benefit is also subject to social security contributions.

Income tax must be withheld by the employer by the time the benefit is received by the employee. The tax should be deducted from the employee's normal salary and forwarded to the tax authorities as normal withholding on salary.

If an employee is employed by a Swedish entity and receives stock options from a foreign entity (that does not employ the employee) as a result of the employment in the Swedish entity, the Swedish entity must withhold preliminary taxes and pay social security contributions.

Capital Gains and Losses. Capital gains are treated as investment income and are taxed at a rate of 30%. Residents are liable to tax on capital gains on both Swedish and foreign shares. Nonresidents are taxed on capital gains on Swedish shares if they were tax resident in Sweden at any time during the 10 calendar years immediately preceding the year in which the transaction occurred. Tax treaties often shorten the 10-year period.

A substantial portion of capital losses, which varies depending on the underlying asset, may be deducted against capital gains and investment income.

Capital gains derived from the disposal of business assets, other than real estate, are taxed at the ordinary rates set forth in *Rates*. Capital gains derived from transfers of business real estate are taxed at a rate of 30%, which is the standard rate for capital gains and investment income. Certain capital gains realized on transfers of nonbusiness assets, however, are taxed at the separate rates described below.

Capital gains realized on transfers of Swedish and foreign shares are taxed at a rate of 30%.

Residents are subject to tax on two-thirds of the capital gains on disposals of private homes located in Sweden or abroad. Consequently, gains derived from the sale of a primary residence are taxed at a rate of approximately 20%. A substantial portion of capital losses, which varies depending on the asset generating the loss, may be deducted against capital gains and investment income.

If a nonresident was resident in Sweden for tax purposes at any time during the 10 calendar years immediately preceding the year in which the transaction occurred, the nonresident is taxable on capital gains derived from sales of shares in Swedish companies or from sales of certain securities issued by Swedish limited liability companies.

Deductions

Deductible Expenses. The principal deductions allowed are interest expense, expenses for travel between home and work and for business, payments for health and pension insurance premiums, and alimony payments.

Interest expenses may be deducted from investment income. If the expenses exceed the investment income, 30% of the expenses up to SEK 100,000 is eligible for a tax credit. For expenses exceeding SEK 100,000, 21% is eligible for a tax credit.

Under certain conditions, travel costs between home and work that exceed SEK 7,000 are deductible. The amount deductible if using a private automobile is SEK 1.8 for each kilometer traveled. An employee is also entitled to a deduction of SEK 1.8 for each kilometer traveled in a private automobile to carry out the employer's business.

Employee social security as contributions described in Section C are deductible in the year paid. Because the tax authorities automatically subtract this deduction in computing individuals' final tax assessments, taxpayers receive this deduction without claiming it on their returns.

Pension insurance premiums and pension savings account payments are generally deductible, limited to the sum of one-half of a base unit, plus 5% of income between 10 and 20 base units. For 2006, one base unit equals SEK 39,700, resulting in a maximum limit of SEK 19,850, plus 5% of income between SEK 397,000 and SEK 794,000.

Alimony paid to a former spouse is deductible, subject to certain limitations.

Personal Deductions. A basic deduction is allowed for both local and state purposes. For 2006, the amount of the basic local and state deduction ranges from a minimum of SEK 16,800 to a maximum of SEK 30,600. For persons earning in excess of SEK 312,200, the basic deduction is limited to SEK 11,700.

Business Deductions. For expenses to be deductible, they must be included in the financial accounts. In principle, all expenses incurred to obtain, secure and maintain business income are deductible. Exceptions are made for certain items, including penalties, fines, objects of art, expensive entertainment, and wine and liquor.

Social security taxes for self-employed individuals, as described in Section C, are deductible in the same year they accrue at the rates of 25% for active business income and 20% for passive business income.

Rates. For 2006, employment income is subject to both national income tax and local income tax, at the rates set forth below.

Employment income over SEK 317,700, up to SEK 472,300, is subject to national tax at a flat rate of 20%. Income over SEK 472,300 is subject to tax at a rate of 25%.

Employment income is subject to local tax at rates ranging from 29% to 37%. Nonresidents who perform work in Sweden are taxed at a flat rate of 25%, and no deductions are allowed. This is levied as a final withholding tax. Foreign entertainers and artists are subject to reduced national tax at a rate of 15%.

For sample tax calculations, see Appendix 2.

Relief for Losses. Losses resulting from business activities or earned income may be carried forward indefinitely and offset against the same categories of income in future years.

B. Other Taxes

Net Wealth Tax. Liability for wealth tax depends on an individual's residence at the end of the income year. Resident individuals, the undivided estates of deceased persons resident in Sweden and family trusts resident in Sweden at the end of the income year are subject to wealth tax on all taxable property owned in Sweden and abroad at year-end. Married persons and their children under 18 years of age are taxed jointly on their net wealth.

Foreign nationals resident in Sweden are subject to Swedish net wealth tax only on private real estate located in Sweden. The tax applies if the foreign national's stay in Sweden is temporary and is not intended to exceed three years.

For 2006, the amount of an individual's net wealth exceeding SEK 1,500,000 (SEK 3,000,000 for married couples) is taxed at a flat rate of 1.5%.

Inheritance and Gift Taxes. The inheritance and gift taxes were abolished, effective from 1 January 2005.

C. Social Security

Employers. Social security taxes are levied on salaries, wages and the assessed value of benefits in kind and are paid primarily by the employer (however, see *Employees*). Payments are made to several programs, including general sickness insurance, basic old-age pension insurance and supplementary pension insurance. Contributions to these various programs are assessed and administered by a single authority. For 2006, the total average rate for most employers is 32.28%.

Employment income paid to individuals 65 years of age and older is subject to a special salary tax. If the employee was born in 1937 or earlier, the rate is 24.26%. If the individual is born between 1938 and 1940, the rate is 26.37%.

Employees. Resident employees are subject to social security contributions at a rate of 7% for pension insurance on income from employment of up to 8.07 increased base units (SEK 359,115).

Certain expatriates may apply to qualify for an exemption of certain remuneration from Swedish social security contributions (see Section A).

Self-Employed Individuals. Self-employed individuals are subject to social security taxes on their net taxable profit. For 2006, after deducting the cost of social security taxes, the nominal tax rate is 30.71% for income from a business actively conducted by the individual. The rate is 26.37% for individuals born between 1938 and 1940. For other business income the rate is 24.26%. The lower rate also applies to active business income earned by self-employed individuals born in 1937 or earlier.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Sweden has entered into totalization agreements with the following jurisdictions, which include European Economic Area/European Union (EU/EEA) countries.

Austria	Germany	Norway
Belgium	Greece	Poland
Bosnia-Herzegovina	Hungary	Portugal
Canada	Iceland	Quebec
Cape Verde	Ireland	Serbia and Montenegro
Chile	Israel	Slovak Republic
Croatia	Italy	Slovenia
Cyprus	Latvia	Spain
Czech Republic	Liechtenstein	Switzerland
Denmark	Lithuania	Turkey
Estonia	Luxembourg	United Kingdom
Finland	Malta	United States
France	Morocco	
	Netherlands	

D. Tax Filing and Payment Procedures

Tax is assessed on taxable income for each fiscal year, which is generally the calendar year. Married persons are taxed separately, not jointly, on all types of income. Net worth tax is assessed on net taxable assets as of the same date. Married persons are assessed jointly for purposes of net worth tax. The tax assessment year is the calendar year immediately following the fiscal year.

Annual tax returns generally must be filed by 2 May during the assessment year. Individuals residing abroad must file their tax returns by 31 May. Extensions to file returns may be obtained.

Tax on salaries, wages and other remuneration, including benefits in kind, is withheld by employers. Individuals who are self-employed or who have business income as well as other nonemployment income may register as self-employed taxpayers. Preliminary tax is then computed according to a preliminary tax return. The preliminary tax is payable monthly, beginning in February of the fiscal year and ending in January of the following year.

An expatriate generally receives a final tax assessment by mid-December of the tax assessment year. Any difference between the final tax due and the preliminary tax paid is either refunded immediately or must be paid by 90 days after the date of the final tax assessment.

E. Double Tax Relief and Tax Treaties

Double tax relief is provided by allowing taxpayers to credit foreign taxes paid or to deduct foreign taxes paid as an expense. If a credit is elected, a three-year carryforward is available. The credit is limited to the lesser of foreign taxes actually paid or the Swedish tax payable on all foreign-source income.

Sweden has entered into double tax treaties with many countries. Most of the treaties follow the Organization for Economic Cooperation and Development (OECD) model. In general, the treaties provide that a credit may be taken for foreign taxes paid in the other treaty country to the extent of Swedish taxes imposed on the same income. Under Sweden's unilateral tax credit system, however, a credit may also be taken against Swedish tax imposed on other foreign-source income.

Sweden has entered into double tax treaties with the following countries.

Albania	Iceland (c)	Philippines
Argentina	India	Poland
Australia	Indonesia	Portugal
Austria	Ireland	Romania
Bangladesh	Israel	Russian Federation
Barbados	Italy	Singapore
Belarus	Jamaica	Slovak Republic (a)
Belgium	Japan	South Africa
Bolivia	Kazakhstan	Spain
Botswana	Kenya	Sri Lanka
Brazil	Korea	Switzerland
Bulgaria	Latvia	Taiwan
Canada	Lithuania	Tanzania
Chile	Luxembourg	Thailand
China (b)	Macedonia	Trinidad and Tobago
Cyprus	Malaysia	Tunisia
Czech Republic	Malta	Turkey
Denmark (c)	Mauritius	Ukraine
Egypt	Mexico	USSR (a)
Estonia	Morocco	United Kingdom
Faroe Islands (c)	Namibia	United States
Finland (c)	Netherlands	Venezuela
France	New Zealand	Vietnam
Gambia	Norway (c)	Yugoslavia (a)
Germany	Pakistan	Zambia
Greece	Peru	Zimbabwe
Hungary		

(a) Sweden will apply the treaties with the USSR and Yugoslavia to the new republics that have not entered into a separate treaty with Sweden, unless a law is enacted providing otherwise.
(b) The treaty does not apply to Hong Kong.
(c) Sweden has signed the Nordic Mutual Assistance Treaty, together with Denmark, the Faroe Islands, Finland, Iceland and Norway.

F. Entry Visas

Permission to enter Sweden is granted to foreign nationals who wish to visit or stay in the country for up to three months if they have valid passports and if they prove they have sufficient means to support themselves while in Sweden and to pay for their journeys home. However, citizens of certain Eastern European countries and most African, Asian and Latin American countries must have visas before they may enter Sweden. Applications for visas may be obtained at the Swedish embassy.

G. Work Permits and Self-Employment

Authorities in Sweden are relatively restrictive in granting work permits to foreign nationals. Citizens of EU-member countries are treated in accordance with EU rules. Sweden also has an agreement with Denmark, Finland, Iceland and Norway that allows permanent residents of these countries to live and work in Sweden without residence or work permits.

Foreign nationals from other countries who want to work in Sweden must obtain work permits before entering Sweden. An application for a work permit must be accompanied by an offer of employment issued by the Swedish employer or hirer in Sweden.

Non-EU residents must apply for work permits at the Swedish embassy or consulate in their country of origin or residence. On receiving the Swedish work permit application, the embassy or consulate forwards it to the Swedish Migration Board, which issues the permit. The Migration Board submits the offer of employment to the Swedish Labour Board for a decision. The decision of the Swedish Labour Board serves as the guideline for the Swedish Migration Board with respect to the approval of the work permit. The terms of the offer of employment must comply with current collective bargaining agreements concerning wages and other benefits, and must provide either social security coverage or adequate health insurance, as well as housing arrangements.

An application is normally approved if an employer shows that an applicant is required for specialized activities or otherwise possesses qualities that are scarce in Sweden. Applicants involved in intracompany transfers are always granted Swedish work permits if the transfers comply with collective agreements regarding wages, benefits and other items.

A specialist employed by an international company who travels to and from Sweden in that capacity to work for temporary periods of less than 3 months does not require a work permit if the total duration of stay in Sweden is less than 12 months. However, if the stay exceeds 3 months a Swedish residence permit is required. This permit must be applied for before the specialist enters the country.

Both EU and non-EU citizens must obtain residence permits to be self-employed. These are granted for a period of five years if the applicant proves self-employment.

H. Residence Permits

Citizens of EU-member countries must obtain residence permits shortly after entering Sweden. They are usually granted five-year renewable residence permits if they are employed or can prove other means of support. EU nationals should apply for residence permits either at a Swedish embassy or consulate in the country of residence or origin prior to entering Sweden, or at a local migration bureau after arrival in Sweden. Applicants should bring a valid passport and an employment statement from the employer or other evidence of financial support for their stay in Sweden.

Residents of Nordic countries do not need residence permits, but must report their presence in Sweden to the local tax authorities for registration.

Other foreign nationals who wish to stay in Sweden for longer than three months must have residence permits. These must be obtained before entering Sweden. Residence permits are normally granted only to applicants with close relatives (spouse, co-habitants and children) in Sweden or to applicants holding work permits. Residence permits are usually granted for one year and are renewable for an additional one-year period. The Migration Board then considers whether to issue a permanent residence permit.

A permanent residence permit is recalled if the holder moves from Sweden for a period of longer than six months. Temporary residents, including students and trainees, are not eligible to receive permanent residence permits.

I. Family and Personal Considerations

Family Members. Accompanying spouses or other accompanying family members of expatriates automatically receive a residence permit on application. If the spouse of an expatriate wishes to work in Sweden, the spouse need only check the box on the application form. No other requirements are imposed.

Children of expatriates do not need student visas to attend schools in Sweden.

Marital Property Regime. The default marital property regime in Sweden is community property. All property owned by the spouses is regarded as community property, regardless of whether it is acquired prior to marriage or after marriage by gift or inheritance. If a gift or inheritance is received on the condition that it is deemed to be private property, however, the gift or inheritance is not regarded as community property.

Couples may elect out of the regime before or during the marriage by signing a marriage settlement, which should be registered with the civil court.

The community property regime applies to couples resident in Sweden at the time of the wedding. If a couple with foreign citizenship becomes resident in Sweden after the wedding, the regime applies after two years of residency in Sweden. The couple may elect out of the regime by signing a settlement.

Drivers' Permits. EU citizens and citizens of Iceland, Liechtenstein and Norway may use home country drivers' licenses for unlimited periods of time in Sweden.

Citizens of other countries may use their drivers' licenses for up to 12 months if these are issued in English, French or German, or if they are accompanied by a translation into one of these languages or into Danish, Norwegian or Swedish. A driver's license without a photograph is valid only if accompanied by an identity document with a photograph. Residents of Sweden for longer than one year must obtain Swedish drivers' licenses. A driver's license issued in Switzerland or Japan may be exchanged for a Swedish driver's license if the holder is resident in Sweden or if he or she passes a standard medical test. Otherwise, to obtain a Swedish driver's license, an individual must complete a physical exam and written and driving tests. In addition, drivers must take lessons in driving on slippery roads.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	—	X	—
Cost-of-living allowance	X	—	(a)
Housing allowance	X	—	(b)
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Educational reimbursement	X	—	(c)
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(d)
Value of meals provided	X	—	(e)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(f)
Capital gain from sale of personal residence in home country	X	—	—
Foreign capital gains, dividends and interest	X	—	(f)

* The bracketed amount reduces taxable income.

(a) Compensation received for business travel is tax-free. However, compensation for meals is considered to be a private living cost and, accordingly, taxable. Compensation to cover extra private living costs resulting from an assignment is taxable. However, an employee may claim standard deductions for these costs under certain circumstances (see Section A). An employee may also claim standard deductions if he or she is temporarily working somewhere other than his or her ordinary place of work or if costs for double living (that is, for one ordinary home and one temporary home) are incurred.

(b) Housing allowances are normally taxable as ordinary salary income. The benefit of employer-provided housing is determined from special tables. However, under certain circumstances an employee on a temporary assignment in Sweden may deduct housing costs in Sweden as extra living costs. As a result, the benefit may be effectively tax-free.

(c) Reimbursements of education costs incurred for the employee's children are taxable income. However, if the expatriate tax regime applies (see Section A), the school fees for the children are tax-free. Reimbursement for education that is necessary for the performance of the employee's work is tax-free. The education is considered to be necessary for the employee if employer has paid for the training or if the employer paid salary to the employee during the education period.

(d) A tax-planning possibility exists with respect to tax reimbursements. Depending on when the tax reimbursement is paid, the tax may be deferred.

(e) The value of meals is normally taxable income. However, if the employer provides meals during business meetings and similar events, the meals are tax-free.

(f) The income is taxable if the expatriate is considered to be resident in Sweden for tax purposes.

APPENDIX 2: SAMPLE TAX CALCULATION

The following are sample tax calculations for a resident and a nonresident of Sweden.

	SEK
Resident	
Employment income	600,000
Basic allowance	(11,700)
Taxable earned income	588,300
Municipal tax:	
(SEK 588,300 at 31%)	182,373
National tax:	
([SEK 588,300 – SEK 306,000] at 20%	
+ [SEK 588,300 – SEK 460,600] at 5%)	62,845
Employee social security tax	25,100
Total tax	270,318
Tax credit (100% of social security tax)	(25,100)
Tax due	245,218
Nonresident	
Gross employment income	
(net taxable income)	600,000
National tax (SEK 600,000 at 25%)	150,000

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A. Income Tax

Tax System in Summary. Switzerland's complex tax structure has been shaped by the country's three levels of government, which are federal, cantonal and municipal. The following two distinct taxes are levied: federal taxes; and cantonal and municipal taxes. Swiss federal tax law is uniform throughout Switzerland, but each of the 26 cantons has a separate law for cantonal taxes. Municipal taxes are levied as a multiple of cantonal taxes. Because tax laws and tax rates vary widely among cantons and among municipalities, the choice of residence is an important element of tax planning.

No average tax rates can be calculated because of the multilayered tax system. Taxes are calculated based on specific figures for specific cantons and municipalities. The maximum overall rate of federal income tax is 11.5%. The various cantonal and municipal taxes are also levied at progressive rates, with a maximum combined cantonal and municipal rate of approximately 35%. In addition, cantonal and municipal net wealth taxes are levied.

The federal Supreme Court and tax administration have developed rules for allocating tax liability among the cantons to avoid double taxation.

Federal Taxable Income. Individuals establishing tax residence in Switzerland are assessed for federal income tax purposes on a current-year basis.

Special rules apply for the first year a taxpayer is subject to Swiss tax. In addition, the basis of assessment may be altered if certain extraordinary events substantially change an individual's financial situation (for example, change of business or profession, or divorce or legal separation).

In general, taxable income for federal tax purposes consists of all types of income earned by a resident individual, including the following amounts:

- Remuneration from an employer (base salary, bonus, stock options, home leave, and payment of rent, taxes, school fees and utilities);
- Self-employment or business income;
- Pension payments and compensation for loss of work or health;
- Income from private investments (including interest and dividends); and
- Income from real estate.

Although income derived from either a fixed place of business or a permanent establishment located abroad, as well as income derived from real estate located abroad, are exempt from taxation, this income must be properly recorded on a Swiss tax return for the determination of the tax rate (exemption with progression).

Cantonal and Community Taxable Income. Tax is assessed at the cantonal level on a current-year basis. Taxable income for cantonal and community tax purposes is calculated in basically the same way as taxable income for federal taxes.

Who Is Liable. An individual who is resident or domiciled in Switzerland is subject to federal, cantonal and municipal taxes on worldwide income, except income derived from real estate located abroad and income from either a fixed place of business or a permanent establishment located abroad. Individuals are subject to Swiss income tax and net wealth tax (see Section B) from their first day of residency until they officially leave the country.

Nonresidents are subject to tax on income from the following Swiss sources:
- An interest in Swiss real estate;
- An interest in a Swiss partnership or sole proprietorship;
- A trade or business attributable to a Swiss permanent establishment or fixed place of business;
- A professional practice in Switzerland;
- Trade and agency of real estate located in Switzerland;
- Services performed in Switzerland (with exceptions);
- Interest income derived from a mortgage secured by Swiss real estate;
- Services rendered as a director or officer of a Swiss corporation (with exceptions); and
- Payments by Swiss pension funds.

Individuals are considered resident in Switzerland if they take up legal residence in Switzerland or if they intend to stay there for a certain period (usually longer than one month), as well as if they work in Switzerland for a period exceeding 30 days.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. In general, all compensation provided by an employer is considered employment income and is included in the employee's overall taxable income. However, if properly documented, certain reimbursements for necessary business-related expenses are not subject to tax.

Both residents and nonresidents who remain in Switzerland for employment purposes are subject to tax on employment income. In general, residents are not subject to withholding tax on employment income. Residents with certain types of work permits, however, and most nonresidents are subject to withholding tax on employment income.

Self-Employment and Business Income. Self-employment and business income is included in overall taxable income. A partnership is not taxed as a separate entity; rather, the respective shares of partnership profit are included in the taxable income of each partner. All necessary expenses incurred in operating a business or profession are tax-deductible. Self-employed individuals may carry forward business losses if these losses cannot be offset against other taxable income. No carrybacks are allowed for self-employed individuals.

Directors' Fees. For residents, directors' fees received from a Swiss company are included in the taxpayer's overall taxable income. Directors' fees remitted from a foreign country are generally included in a resident's overall taxable income, unless an applicable double tax treaty provides otherwise. For nonresidents, directors' fees received from a Swiss company are subject to withholding tax (at a rate of 25% in the Canton of Zurich and 20% in the Canton of Geneva), social security contributions and value-added tax (VAT).

Investment Income. A withholding tax of 35% is levied on dividends; on interest from publicly offered bonds, from debentures and from other instruments of indebtedness issued by Swiss residents; and on bank interest, but not on normal loans. For Swiss residents, withholding tax is fully recoverable. For nonresidents, withholding tax is a final tax, unless the terms of an applicable double tax treaty specify otherwise.

Rental income and royalties, as well as licensing, management and technical assistance fees, are not subject to withholding tax. With certain exceptions, they are included in taxable income and are taxed by the federal government, cantons and municipalities.

A 35% final withholding tax is imposed on nonresidents on dividends and on interest realized on bonds and bank accounts from Swiss sources. If Switzerland has concluded a relevant double tax treaty, the withholding tax is usually limited to a lower rate. No withholding tax is levied on royalties or on licensing, management or technical assistance fees.

Taxation of Employer-Provided Stock Options. In Switzerland, employer-provided stock options are, in principle, taxed at grant. Independent professionals must determine the fair market value for employers issuing the stock options. If the options are granted subject to restrictions (for example, the option may not be exercised or sold during a certain period), the fair market value of the option is discounted for tax purposes according to a special formula (the share price is discounted in the option pricing mode). The income derived from the grant of the options is taxed together with other income at the ordinary tax rates. If the value of the option cannot be evaluated at the time of grant, the option is taxed at the time of exercise on the difference between the fair market value of the shares and the strike price. This value is also relevant for net wealth tax. In addition, social taxes are imposed on income derived from the grant of stock options.

Under a directive issued in 2003, in most cases taxation is deferred until the optionee exercises the option. However, not all of the cantonal authorities apply this new practice. The cantons of western Switzerland maintain the principle of taxation at grant, but allow a deferral of taxation until departure or exercise, subject to certain conditions.

For options that are taxed at exercise, the taxable amount is the fair market value of the share less the exercise price.

In all cases, the subsequent sale of the shares triggers no further tax consequences because private capital gains are exempt from tax in Switzerland.

Capital Gains and Losses. Private capital gains derived from sales of movable assets are not taxed at the federal level or at the cantonal level. Capital gains derived from sales of immovable assets are subject to a separate tax in all cantons.

For federal tax purposes, a gain or loss from a sale or exchange of business assets is treated as ordinary income or an expense item. For cantonal tax purposes, the treatment is the same, except that some cantons levy a separate tax on gains from sales or exchanges of immovable assets.

Deductions

Deductible Expenses. Necessary expenses incurred in connection with employment income, maintenance and operating costs of real estate, any kind of debt interest, contributions to qualified pension plans, Swiss or foreign compulsory social security premiums, and other specific items are deductible from taxable income. For some expenses, tax-deductible amounts are standardized (insurance premiums, education costs and lunch expenses). These rules apply for federal as well as cantonal and municipal taxes. However, other items may be treated differently among the cantons.

For expatriates, an annual deduction of CHF 18,000 is allowed, which is intended to cover an expatriate's housing fees and other expenses related to being an expatriate. Expenses in excess of CHF 18,000 may be deductible if they can be proven. Other typical expenses of an expatriate, including moving expenses and tuition, are also deductible.

Personal Deductions and Allowances. No specific personal deductions and allowances are granted to individual taxpayers, except some minor standardized deductions granted in most cantons (for example, deductions for children).

Business Deductions. Nonresidents may deduct necessary expenses incurred in operating a business or profession and in the maintenance and operation of rental property.

Lump-Sum Taxation

Federal Income Tax. Resident aliens and Swiss citizens who were resident or domiciled abroad for the past 10 years may qualify for a special tax concession called lump-sum taxation if they do not engage in any employment or carry on a business in Switzerland. Activities outside Switzerland are not taken into consideration. The lump-sum tax is imposed on income imputed from the living expenses of taxpayers and their families (for example, by a multiple of rental value). The amount of lump-sum tax may not be less than the tax that would be payable on the sum of the following items:
- Income from Swiss real property;
- Income from Swiss investments;
- Income from any other property located in Switzerland;
- Income from Swiss-source patents, copyrights and similar property rights;
- Pensions or annuities paid from Swiss sources; and
- Foreign income, if treaty exemption is claimed.

Cantonal Income Taxes. Several cantons allow a nonworking resident to elect lump-sum taxation instead of regular income tax.

In certain cantons, lump-sum taxation is granted for only a limited number of years. In many cantons, eligibility for lump-sum taxation and the method of calculating the tax payable are negotiated individually with the tax authorities rather than statutorily determined.

Rates. The maximum overall federal tax rate is 11.5%. Maximum cantonal and municipal tax rates range from approximately 14% to 35%.

Cantonal tax rates vary considerably from one canton to another, although all rates are progressive. The tax rate consists of a base rate multiplied by a coefficient, which may change from year to year. The municipal tax rate is usually a percentage of the cantonal rate. Therefore, the overall rate varies within a canton, depending on the municipality where a taxpayer resides. In most cantons, a church tax is also levied as a percentage of the cantonal rate for taxpayers who are members of an official Swiss church community.

For a sample tax calculation, see Appendix 2.

B. Other Taxes

Net Wealth Tax. No net wealth tax is imposed at the federal level. All cantons and municipalities levy net wealth tax on worldwide assets, with the exception of real estate, a fixed place of business, or a permanent establishment located abroad. Tax rates are reasonably low and vary widely, depending on the canton and municipality where the taxpayer resides.

Inheritance and Gift Taxes

Cantonal Taxes. No inheritance or gift taxes are imposed at the federal level. Almost all cantons levy separate inheritance and gift taxes. Rates vary widely depending on the canton where the deceased or donor is domiciled.

In most cantons, resident foreigners are subject to inheritance tax and gift tax on worldwide assets, except for real estate located abroad. Nonresidents are subject to inheritance tax and to gift tax on real estate located in Switzerland only.

Treaties. To prevent double taxation, Switzerland has concluded inheritance tax treaties with Austria, Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden, the United Kingdom and the United States.

C. Social Security

Swiss retirement benefits are derived from the following sources:
- The mandatory social security system (old-age and survivors' insurance). Pensions are based on premiums paid and on the number of years worked. Benefits generally satisfy minimum living requirements.
- Company pension plans. Pension plans must be segregated from the company. These benefit plans complement the benefits of the Swiss social security program and are compulsory for employees subject to the old-age and survivors' insurance.
- Individual savings.

Employees. The Swiss social security contribution rate is 10.1% of total salary, with no ceiling; the employer and employee each pay 5.05%. The employee's share is withheld monthly by the employer. In addition, contributions at a rate of 2% on annual salary of up to CHF 106,800 must be made to the unemployment insurance fund. This cost is also divided equally between employer and employee.

In general, employees who pay into the Swiss social security system must contribute to a pension plan. The employer must make contributions of at least 50% of the total contribution.

Contributions to both schemes are fully tax-deductible. Furthermore, contributions to special types of individual savings schemes are tax-deductible, up to a certain amount.

Self-Employed Individuals. For 2006, self-employed individuals must make social security contributions of 9.5% of their income from their business or profession. The 9.5% rate also applies to partnership profits. Self-employed persons are not required to be members of a pension plan.

Nonresidents. Nonresidents who carry on a business activity within Switzerland (including serving on the board of a Swiss company) are subject to Swiss social security contributions on income derived from that activity, unless a social security treaty provides otherwise.

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Switzerland has entered into totalization agreements, which usually apply for a period of two years but may extend to five years, with the following jurisdictions.

Austria	Greece	Quebec
Belgium	Hungary	San Marino
Canada	Ireland	Slovak Republic
Chile	Israel	Slovenia
Croatia	Italy	Spain
Cyprus	Liechtenstein	Sweden
Czech Republic	Luxembourg	Turkey
Denmark	Netherlands	United Kingdom
Finland	Norway	United States
France	Portugal	Yugoslavia
Germany		

Under these agreements, if certain conditions are met, exemption from the Swiss social security system is available for a certain period if employees continue to contribute to their home country social security systems.

D. Tax Filing and Payment Procedures

Federal taxes are due 31 March of each year. Tax filing and payment procedures vary widely from canton to canton and also depend on individual circumstances.

Married persons are taxed jointly, not separately, on all types of income.

In general, nonresidents must file tax returns if they have income from certain sources, including employment, which is taxed at the regular rates. In most cantons, directors' fees and payments by Swiss pension funds are subject to special withholding provisions (covering cantonal and municipal, as well as federal, income taxes).

E. Double Tax Relief and Tax Treaties

Income is allocated in accordance with rules developed by the federal Supreme court on intercantonal tax allocation, unless an applicable double tax treaty provides otherwise. In addition, certain cantonal rules may influence international income allocation. However, treaty law always overrules Swiss domestic law.

According to Swiss domestic law and treaty regulations, foreign-source income is excluded from taxable income if it is derived from a permanent establishment located in a foreign country (as defined by treaty law or, in the absence of an applicable double tax treaty, by Swiss domestic law). Also excluded is income derived from real estate located abroad. In addition, certain types of income, including directors' fees, special pensions and partnership profits, may be exempt in Switzerland under an applicable treaty.

In general, all other foreign-source income is taxable in Switzerland. In the absence of a treaty, foreign-source income is taxed net of any foreign income taxes or withholding taxes imposed on such income by the source country.

Most of Switzerland's income tax treaties follow the draft model of the Organization for Economic Cooperation and Development (OECD). Switzerland generally applies the exemption-with-progression method rather than the tax-credit method for qualified foreign-source income. A limited tax credit is granted, however, for remaining net foreign withholding taxes imposed on dividends, interest and royalties from the following treaty countries. The credit may not exceed Swiss tax due on the relevant income.

Switzerland has entered into double tax treaties with the following countries.

Albania
Australia
Austria
Belarus
Belgium
Bulgaria
Canada
China
Côte d'Ivoire
Croatia
Czech Republic
Denmark
Ecuador
Egypt
Finland
France
Germany
Greece
Hungary
Iceland
India
Indonesia
Ireland
Italy
Jamaica
Japan
Kazakhstan
Korea
Kuwait
Liechtenstein
Luxembourg
Malaysia
Mexico
Moldova
Morocco
Netherlands
New Zealand
Norway
Pakistan
Poland
Portugal
Romania
Russian Federation
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Thailand
Trinidad and Tobago
Tunisia
Ukraine
United Kingdom
United States
Venezuela
Vietnam

F. Types of Visas

Switzerland offers foreign nationals visitors' visas, as well as tourist visas, transit visas and visas for family members accompanying working expatriates. It is not necessary for European Union (EU) nationals or nationals of many other countries to obtain visas to enter Switzerland.

Foreign nationals visiting Switzerland for three months or less for tourist purposes, or for up to eight days per year for business purposes (except for Swiss employment), need not obtain work or residence permits. Stays of longer duration require residence permits and, if applicable, work permits.

G. Work Permits and Self-Employment

Entrance and work permit policy is administered on two levels in Switzerland—the federal level and the cantonal level. Foreign residents engaged in gainful activities (all income-oriented activities, dependent or independent, even if performed without compensation) in Switzerland are subject to the provisions of the Federal Ordinance on the Limitation of the Number of Aliens, as are foreign nationals who enter Switzerland as students or retirees.

An application for a residence permit is normally combined with an application for a work permit, unless the applicant is a student or retiree or the spouse or child of a person who has been granted a work and residence permit. Residence permits are issued if the foreign nationals have been granted working rights in Switzerland. Applications for residence permits for the purpose of employment are always filed by potential employers. For additional details on residence permits, see Section H.

Because Swiss workers have employment priority, employers may be asked to prove the following:
- A reasonable effort was made to find an employee within the domestic labor market;
- The Labor Office was notified of the vacant position and was unable to provide a prospective employee within a reasonable amount of time; and
- It would be impossible to train local employees for the position offered within a reasonable time.

The priority rule in favor of domestic workers does not apply to persons needed for the performance of extraordinary tasks, to intracompany management transfers by international firms, and to executives or highly qualified specialists indispensable for research projects. Moreover, exceptions may apply to foreign nationals wishing to live and work in Switzerland for limited periods of time.

Work permits are issued to foreigners by the cantonal police, subject to the approval of the cantonal labor authorities or the Federal Aliens Office. The employer must file an application with the labor authorities in the canton where the employee will work. The labor authorities examine the application and decide if all prerequisites have been fulfilled. A decision is then made, and the final work and residence permit is issued by the police.

Permission is required to change an employer, profession or canton. In general, this permission is not granted to the following individuals:
- Year-round residents who receive permits for a specific time-limited activity; or
- Short-term residents.

Permission for a change of employer, profession or canton is granted on the condition that the former employment contract is duly terminated.

Foreign nationals holding permanent residence permits (see Section H) may engage in any activity, including self-employment, without special work permits. Foreigners who require work permits are granted permits for self-employment only in exceptional cases.

A foreign national who is employed by a company in which he or she has a substantial interest may be considered self-employed.

H. Residence Permits

To regulate the number of foreign nationals entering Switzerland, the Swiss authorities operate a quota system, which limits the number of first-time residence permits available. All cantonal labor authorities, as well as the Federal Aliens Office, have a quota of permits at their disposal. In other words, each canton may issue residence permits to year-round residents, seasonal workers and short-term residents, up to a predetermined number usually per 12-month period.

In general, residence permits for first-time residents are granted with first priority given to citizens from countries of the European Free Trade Association (EFTA) and the EU. This rule, however, does not apply to qualified intragroup transfers.

Short-Term Residence Permits. One category of short-term residence permits is the 4-month/120-day permit, which does not fall under the previously discussed Swiss quota system. Under this permit, foreign nationals may take up short-term employment for a maximum of 4 consecutive months, or 120 days, spread throughout the year.

Typically, 4-month/120-day permits are granted to executives or specialists who are needed either once or periodically in Switzerland to perform time-limited tasks. However, Swiss law does not allow a system of rotating employees every 4 months or 120 days (for example, one employee comes for 120 days and is replaced by another, who is then replaced by another). The number of these short-term foreign nationals may not exceed one-fourth of an organization's total staff.

A second category of short-term residence permits is available for the purpose of training and continuing the education of managers, qualified specialists and other short-term residents. Some of these permits, which are subject to the quota system, may be extended; however, the maximum duration of this type of permit is 18 months.

Year-Round Residence. Year-round residence permits, also known as B-Permits, are issued to, among others, executives and specialists who are essential to the employer and who are not available in the domestic labor market in sufficient number, as well as to managers.

The residence permits for non-EU nationals who are year-round residents must be renewed annually. On the request for renewal, the competent authorities may review the original conditions on which the first permit was granted. If the circumstances have not changed, the permit is routinely renewed.

In this category, the Federal Aliens Office issues permits of limited duration (up to five years) to executives or highly qualified specialists temporarily engaged in Switzerland for major projects by higher-level educational institutions, research institutions or companies, and to intracompany management transfers by international firms.

Permanent Residence Permits. Permanent residence is available in Switzerland to foreign nationals who have lived in the country as year-round residents for a period of time that varies, depending on both citizenship and bilateral treaties (five years of residence are required for citizens of most European countries).

As a permanent resident (C-Permit holder), an individual may engage in any legal activity in the issuing canton. A change of canton is normally approved. Permanent resident holders may change their employment or profession without approval.

Permanent residence is for an unlimited duration. The permit lapses, however, if the permit holder gives notice of departure to the municipality's local registration office, forfeits his or her residence or lives abroad for more than six months. For stays abroad for up to two years, the permit may be maintained if an application is filed prior to departure.

The cantonal rules determine the application process for residence permits; therefore, the procedure for obtaining a residence permit varies accordingly. Processing time may take up to eight weeks, so applications should be filed well in advance.

Changes for EU Nationals. Under the bilateral treaties between Switzerland and the EU that came into effect on 1 June 2002, Switzerland grants freedom of movement for EU nationals. However, access to the labor market will remain regulated during the first five years. Thereafter, any EU national employed in Switzerland will have the right to move into Switzerland and obtain a residence permit without having to meet any further requirements. Family members (regardless of their nationality) of EU nationals will also be allowed to move into and work in Switzerland. Effective from 1 January 2002, B-Permits are issued to EU nationals for an initial period of five years.

Two years after the treaties came into effect (that is, in 2004), the employment priority for Swiss workers, as well as governmental control of salary and employment conditions, was eliminated with respect to EU nationals. The number of residence permits granted for paid employment are subject to quotas for five additional years.

Immigration of EU nationals into Switzerland may be limited during the period beginning 6 years after the bilateral treaties come into effect and ending 12 years after that date, if the immigration of EU nationals has increased substantially. Under the new rules (similar to the old regime), retirees, students and other nonemployed people must prove that they have sufficient funds and health insurance coverage to obtain a residence permit.

I. Family and Personal Considerations

Family Members. Family members of permit holders (except C-Permit holders) may not undertake employment unless they have been granted permission to do so.

Short-term residents, trainees and students may not bring their families to Switzerland. The foreign national's spouse and unmarried children younger than 18 years of age may be admitted to the country in accordance with the following prerequisites:
• The permit holder has secured employment in Switzerland;
• The family lives together and has adequate housing (housing must meet the standards of Swiss citizens in the same area);
• The permit holder has sufficient funds to support the family; and
• Parental supervision of children is assured.

The family members of high-level executives sent to Switzerland in the course of an intragroup transfer normally are admitted.

Marital Property Regime. Switzerland provides married couples with a choice of three marital property regimes. Under the normal regime, property brought into the marriage or received by gift or inheritance during the marriage remains separate property. Other property acquired during the marriage is held in common. The other regimes are total separation of property and community of property by contract. Total separation may be ordered by a notary on the application of one spouse if an important reason exists.

Spouses may elect a regime before marriage and may change regimes during marriage. Election is made by way of a contract. If a couple does not conclude a contract, the normal regime applies.

A married couple may elect in writing to apply one of the following laws to their marital property:
• The law of the country where both spouses are resident or will be resident after their marriage; and
• The law of the country where one of the spouses is a citizen.

If a married couple does not choose the applicable law, one of the following laws applies:
• The law of the country where both spouses are resident at the same time;
• If they are not resident in the same country, the law of the country where they were most recently resident together;
• If they were never resident together in the same country, the law of their communal country of citizenship; or
• If they do not have the same citizenship, the law of the court where the claim is filed.

Forced Heirship. In Switzerland, a testator may not freely bequeath his or her entire estate. Certain persons, including a surviving spouse, parents and descendents, are forced heirs. A forced heir may waive his or her legal inheritance by executing a written contract with the testator witnessed by a notary public. A forced heir may be disinherited only in limited circumstances (for example, committing a crime against the testator).

The portion of the estate that must be allocated to the forced heirs varies, depending on the relationship of the heir to the deceased and the number of surviving forced heirs.

In general, Swiss law applies to an estate if the testator's last residence was in Switzerland. However, a testator may choose in his or her will to apply the law of his or her country of citizenship.

Drivers' Permits. Foreign nationals may drive legally in Switzerland with their home country drivers' licenses for up to one year from the date of entry. After that period, if an individual wishes to obtain a Swiss driver's license, he or she must take a written exam and a driving test, as well as provide certificates regarding a completed eye exam and first-aid training.

Switzerland has driver's license reciprocity with all EU-member countries, European Economic Area (EEA) countries, the United States, Canada, and certain other countries.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	(X)	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	X	—	(c)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.
(a) In general, the contributions must be mandatory.
(b) Expatriates are entitled to a deduction of CHF 18,000 per year (see Section A).
(c) Education reimbursement is not taxable if the employee has expatriate status and if the education fees are directly paid by the employer to a school with which the employer has entered into a cooperation agreement. An individual is considered to be an expatriate if the following conditions are satisfied:
- The home and host country employers are affiliates in a group of companies;
- The individual entered into a local work contract in his or her home country and was assigned to the host country;

- The assignment letter (additional work contract) relates a specific project, limited to a duration of five years; and
- The individual is expected to return to the home country at the end of the assignment.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2006 is provided below for an expatriate who resides in Geneva, Switzerland for all of 2006 and is married with two dependent children under 18 years old (one is under 12 years old). During 2006, the expatriate received compensation of CHF 120,000. The compensation was paid by a Swiss entity. The individual's employer also provided housing at a cost to the company of CHF 30,000.

The tax in the example below is collected through the taxation-at-source method. In the canton of Geneva, taxation at source applies to an expatriate if all of the following conditions are satisfied:

- The employee is entirely paid from Switzerland;
- The employee does not hold property in Switzerland;
- The employee is not required to pay wealth tax because the employee's net wealth is below the minimum thresholds for such tax (CHF 50,000 for single taxpayer and CHF 100,000 for married couple plus an additional CHF 25,000 per child); and
- The employee earns less than CHF 500,000 per year.

If all the above conditions apply, the expatriate is not required to file a tax return, and tax withheld from the expatriate's salary by the employer represents the expatriate's final tax burden. Please note that each canton of Switzerland has a different tax system and that the sample tax calculation applies only in Geneva.

The following is the tax calculation.

	CHF	CHF
Calculation of Taxable Income		
Income:		
Salary	120,000	
Housing	30,000	
Total income		150,000
Personal deductions:		
Expatriate allowance	(18,000)	
Total personal deductions		(18,000)
Taxable income		132,000
Calculation of Tax		
Tax on CHF 132,000 at 12.95%		17,094

SYRIA

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A. Income Tax

Who Is Liable. Syria has a territorial income tax system. As a result, income tax is imposed only on income derived from activities carried out in Syria.

Income Subject to Tax

Employment Income. Individuals working in Syria are subject to Syrian individual tax on their Syrian-source income, beginning on the individual's first workday in Syria.

Tax is withheld by the employer from salaries, wages, fringe benefits or any other remuneration earned by resident and nonresident employees in Syria. This tax must be paid twice a year, during 15-day periods beginning on 1 January and 1 July.

For expatriate employees working for foreign companies in Syria, the tax on salaries and wages is subject to special rules (see *Nonresidents*).

Income from Movable Capital. Tax is levied on income from movable capital, which includes the following types of income:
- Interest on bonds and loans issued by Syrian institutions;
- Dividends from non-Syrian companies;
- Interest from bonds issued by Syrian or foreign governments;
- Income derived from all types of deposits;
- Interest on guarantees and monetary bonds issued by legal entities; and
- Lottery prizes exceeding SYP 1 million.

Tax is also imposed on mortgages to guarantee financial assets or debts. The tax is equal to a percentage of the value of the financial asset or debt.

Self-Employment and Business Income. Tax is imposed on the real profits derived from the exercise of industrial, commercial and noncommercial professions, as well as on income not covered by provisions of any other tax measure, including the tax on real property. Real profits equal the difference between revenue and acceptable expenses.

Capital Gains and Losses. Capital gains are included in taxable income and taxed at the rates applicable to business income (see *Rates*).

Under Syrian law, capital losses may not offset ordinary income, and ordinary losses may not offset capital gains.

Deductions. Taxable income is calculated by deducting all legitimate and allowable costs and expenses from revenue. Deductions that may be claimed include the following:
- Rental fees for the work location, or the rental value, if the taxpayer owns the work location. These fees or value are the same as the tax base for the property tax (see Section B).

- The wages and salaries and incentives that are paid to the employees and workers for their services.
- Amounts paid by employers for social security.
- Amounts saved by paying the dismissal indemnity or the bonus at the end of the working period, or emergency allowances under the labor law.
- Acceptable depreciation under the technical rules applied in the industry, trade, profession or craft, except that the actual amount of depreciation of real property must be claimed.
- Taxes and fees imposed in Syria in the year in which the profits are earned except for income tax imposed under the Syrian tax law.
- Donations, up to 3% of taxable income, paid to officially recognized public or private institutions engaged in activities related to public welfare, if the donor and donee maintain records approved by the income tax department.

Partners in a general partnership or general partners in a limited partnership are entitled to an annual deduction of SYP 50,000 per partner.

Rates

Employment Income. The following are the tax rates on employment income.

Taxable Income Exceeding SYP	Taxable Income Not Exceeding SYP	Rate %
0	5,000	0
5,000	8,000	5
8,000	12,000	7
12,000	16,000	9
16,000	20,000	11
20,000	30,000	13
30,000	—	20

Income from Movable Capital. Income from movable capital is taxed at a flat rate of 7.5% of the gross income. In addition, a municipality surcharge tax of 2% to 10% of the tax due is imposed. The tax on income from movable capital and the surcharge are withheld at source.

Business Income. The following are the tax rates for business income.

Taxable Income Exceeding SYP	Taxable Income Not Exceeding SYP	Rate %
0	50,000	0
50,000	200,000	10
200,000	400,000	15
400,000	700,000	20
700,000	1,000,000	23
1,000,000	2,000,000	26
2,000,000	3,000,000	29
3,000,000	—	35

In addition, a municipality surcharge tax of 2% to 10% of the tax due is imposed.

Withholding Taxes. Law 60 for 2004 introduced withholding taxes on Syrian natural and legal entities that engage in contracting, construction, the performance of services and supply work with or for the benefit of the Syrian public, joint, private and cooperative sectors and foreign companies. The following are the withholding taxes:

- 1% of total value of food substances and feed supply (treated as income tax).
- 2% of total value of other material supply (treated as income tax).
- 3% of total value of construction work. If no clear split exists between services and supply, the tax is treated as income tax.
- 1% of total value of construction work. If no clear split exists between services and supply, the tax is treated as wages and salaries tax.
- 7% of total value of services provided to oil and gas companies (treated as income tax).
- 3% of total value of services provided to oil and gas companies (treated as wages and salaries tax).
- 5% of total value of services to companies and businesses other than oil and gas companies (treated as income tax).
- 2% of total value of services to companies and businesses other than oil and gas companies (treated as wages and salaries tax).

Law No. 60 for 2004 requires that the taxes described in the preceding paragraph be remitted to the tax authorities by the 15th day of the month following the month of payment to the recipient.

Credits. No tax credits are available under Syrian law.

Relief for Losses. Losses may be carried forward five years. Losses may not be carried back.

Nonresidents. Syrian law contains special rules for the taxation of nonresident companies. These rules apply regardless of whether the nonresident company has a branch in Syria. The special rules provide that the tax on nonresident companies equals specified percentages of certain amounts. For contracts concluded before 2005, two of these rules relate to the tax on salaries and wages and the other two rules relate to income tax. The following are the two rules for wages and salaries tax.

- 1% of the total value of turnkey projects is treated as the tax on salaries and wages for expatriates and local employees working for the nonresident company in the absence of a clear split between services and pure supply; and
- 2% of the total value of turnkey projects is treated as the tax on salaries and wages for expatriates if the contract is for the provision of services only or if a clear split exists between services and pure supply.

The following are the rules relating to income tax:

- 5% of the total value of turnkey contracts and contracts without a clear split between the value of services and pure supply are treated as income tax; and
- 10% of the total value of services contracts and of fees paid for the exploitation of movies, equipment, patents, and commercial and industrial trademarks are treated as income tax.

The taxes under the above rules must be withheld by the payer and remitted to the tax authorities within 15 days following the date of payment to the recipient.

Under Law No. 60 for 2004, the above rates are modified for contracts concluded in 2005 and future years. The following are the new rates:
- 3% of total value of construction work. If no clear split exists between services and supply, the tax is treated as income tax.
- 1% of total value of construction work. If no clear split exists between services and supply, the tax is treated as wages and salaries tax.
- 7% of total value of services provided to oil and gas companies (treated as income tax).
- 3% of total value of services provided to oil and gas companies (tax is treated as wages and salaries tax).
- 5% of total value of other services and of fees paid for the exploitation of films, equipment, patents, trademarks and industrial and commercial names (tax is treated as income tax).
- 2% of total value of other services and of fees paid for the exploitation of films, equipment, patents, trademarks and industrial and commercial names (treated as wages and salaries tax).

Law No. 60 for 2004 requires that the taxes described in the preceding paragraph be remitted to the tax authorities by the 15th day of the month following the month of payment to the recipient.

B. Other Taxes

Property Tax. Income from real property is taxed at rates ranging from 17% to 60%. The tax base is the estimated rental value, which takes into account certain factors, including the property's construction, location and total surface. A war surtax of 30% of the tax due is also imposed.

Other presumptive taxes on real estate are also imposed.

A property registration fee is payable for the registration of real estate on the sale, transfer, assignment or inheritance of real estate. The fee is 10% of the value of the property as estimated by the Ministry of Finance.

Inheritance and Gift Tax. Legislative Decree No. 56 for 2004 eliminated the inheritance tax and gift tax and imposes transference duty on donations. Transference duty is the tax imposed on capital gains derived from the transfer or ownership of property other than by sale or inheritance.

Air Travel Taxes. Syria levies the following taxes on air travel:
- Departure tax;
- Exit tax on Syrian nationals;
- Luxury tax; and
- Stamp tax.

Departure Tax. Departure tax is levied on non-Syrian passengers on international flights departing from an international airport (Damascus International Airport and Aleppo International Airport). The tax is levied at a flat rate of SYP 200. Children under 10 and passengers in transit are exempt.

Exit Tax. Exit tax is levied on all Syrian national passengers on international flights. The exit tax imposed on Syrians varies according to the destination of the flight, as shown in the table below.

Destination	Amount of Tax
Arab states that recognize Syrian identity cards	SYP 800
Other Arab states	SYP 1,000
All other destinations	SYP 1,700

Children under 10 and passengers in transit are exempt.

Luxury Tax. Luxury tax is levied on the issuance of first class tickets to passengers on domestic or international flights. The tax is charged at the rate of 10% on the applicable fare. Tickets issued and paid for outside Syria for travel beginning from Syria are exempt.

Stamp Tax. Stamp tax is levied on the issuance of tickets in Syria for domestic or international flights, regardless of the place of departure. The tax is charged at a flat rate of SYP 2.

C. Social Security

Social security contributions apply to all employees working in Syria, including expatriates, regardless of whether they are working for a local or foreign company in Syria. The contribution rates for old age, disability and death are applied to the basic salary portion of the payroll. The rates are 14% for the employer and 7% for the employee.

Employers must also pay contributions for work injuries and insurance. The rates, which are also applied to the basic salary portion of the payroll, are 3% and 0.1%, respectively.

Employers are responsible for withholding the employees' contributions and paying the contributions monthly.

D. Tax Filing and Payment Procedures

The fiscal year is normally the calendar year. Taxpayers may obtain the approval of the Minister of Finance to use a different fiscal year. No special form for tax returns is available. Taxpayers may use any form if a certified public accountant signs it.

Individuals must file annual income tax returns by 30 April. Taxes declared must be paid within 30 days of submission of the tax return.

A delay penalty of 10% of the assessed tax is imposed in case of a failure to file a tax return by the due date. The fine may be reduced to 5% if the taxpayer files the return within 30 days after the due date.

E. Double Tax Relief and Tax Treaties

Syria has entered into double tax treaties with the following countries.

Algeria	France	Lebanon
Armenia	India	Malta
Bahrain	Indonesia	Pakistan
Belarus	Iran	Romania
Bulgaria	Italy	Russian Federation
Cyprus	Kuwait	Tunisia
Egypt		

Syria also has entered into limited tax agreements for sea and/ or air transport with Cyprus, France, Greece, Italy and the Netherlands.

F. Entry Visas

In Syria, the two types of entry visas are the touristic and work visas. All visas in Syria are issued for a specified time period. Permanent visas are not issued in Syria.

Touristic Visas. Visitors, except those from Arab nations, must arrange for touristic visas before traveling to Syria. The touristic visa enables a visitor to stay a maximum of two weeks in Syria. This period may be extended for two months up to two times, or up to six months at the discretion of Syrian Emigration Department (ED) officials. To obtain a touristic visa, the visitor must submit a visa application to the Syrian embassy in his or her home country, together with the necessary supporting documents. The issuance of a touristic visa takes three to four weeks.

Work Visas. The procedures for obtaining work visas are described in Section G.

G. Work Visas and Work Permits

Work Visas. The procedures for obtaining work visas depend on whether the foreign employer is performing a contract entered into with the private or the public sector.

Public Sector. The procedure for obtaining a work visa for an employee working for a company that is performing a contract entered into with the public sector is summarized below.

The branch of the foreign company (if one exists) or the company itself requests the visas from the customer, which is a public establishment (PE). The PE requests that the ED issue the visa. The ED issues the visas, which are valid for three months, and sends notification by telegram to the entry point at which the employee is expected to enter Syria.

On arrival in Syria, the employee is granted a 15-day stay permit. The employee must report to the ED if he or she wants to stay for more than 15 days. The stay permit may be extended for two months up to two times, up to a total of six months.

If the employee wants to stay for more than six months, a residence permit must be requested. The residence permit, which is in the form of a residence card, is valid for one year and issued within one month after the date of filing the application. The employee must complete an information sheet in triplicate and submit it with three photos. The ED issues the residence permit, while the Ministry of Labor and Social Affairs issues the work permit.

An exit entry visa is required each time the employee wants to exit the country. This visa is an approval for leaving the country and for re-entering if the employee holds a residence card.

The issuance of a work visa for an employee working for a company that is performing a contract entered into with a PE takes approximately one week.

Private Sector. The procedure for obtaining a work visa for an employee working for a company that is performing a contract entered into with the private sector is summarized below.

The customer, which is the Syrian company, sends a request for an entry visa to the Syrian embassy in the country of the employee's permanent residence. This request may be sent either directly or indirectly through the employee. The employee then reports to the Syrian embassy and files an application for a visa. Within two weeks, the Syrian embassy issues a visa. On arrival in Syria, the employee is granted a 15-day stay permit.

The employee must report to the ED if he or she wants to stay for more than 15 days. The stay permit may be extended for two months up to two times, or up to six months. If the employee wants to stay for more than six months, a residence permit must be requested. An exit entry visa is required each time the employee wants to leave the country.

The issuance of a work visa for an employee working for a company that is performing a contract entered into with a private company also takes approximately one week.

Work Permits. Except for the cases mentioned below in which a visa is sufficient, a work permit is generally required for expatriate employees working in Syria regardless of the duration of their stay in Syria. The Ministry of Labor issues work permits. To obtain a work permit, an employer must submit an application, together with the employee's resident permit, stating the employee's name, date of birth, nationality, marital status, education and contract in Syria. Permits are valid for one year and can be renewed. This ministry strongly encourages the use of local labor and may refuse applications if sufficiently qualified Syrian staff is available. Foreign petroleum companies are exempt from these restrictions.

Certain categories of employees who intend to work in Syria are exempt from the requirement to obtain a work permit if the employer notifies the Ministry of Labor within 48 hours of the beginning the employees' work. The following are the exempt categories of employees:

- Technical experts working in installation, commissioning of factories or extending technical assistance to Syrian factories; and
- Experts who are in Syria with respect to the execution of contracts with ministries or PEs.

The branch or the foreign company must send a letter of notification regarding an employee in one of the above categories to the ministry through the Syrian contracting party.

H. Family and Personal Considerations

Family Members. Expatriates with residence permits in Syria may obtain visas and resident permits for their spouses, dependent children and parents. The ED issues these visas and resident permits.

Drivers' Permits. Holders of foreign drivers' licenses may drive in Syria if they drive rental or diplomatic cars.

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A. Income Tax

Who Is Liable. Resident and nonresident individuals are subject to consolidated (personal) income tax on income earned from Taiwan sources. Taiwan-source income includes all employment income derived from services performed in Taiwan, regardless of whether the employer is a resident of Taiwan.

Individuals are considered resident in Taiwan if they are domiciled and reside in Taiwan or, if not domiciled, if they have resided in Taiwan for at least 183 days in a tax year. The computation of resident days is based on the dates stamped on an individual's passport. If an expatriate enters and departs Taiwan several times within a calendar year, the resident days are accumulated. After individuals are considered resident, they generally continue to be taxed as residents for the following tax years until their repatriation.

Income Subject to Tax. Foreign nationals in Taiwan are subject to Taiwan consolidated income tax. However, the amount of income subject to tax and the applicable rates depend on the length of stay as well as on the individual's residence status.

An individual's consolidated gross income is the total of the following categories of Taiwan-source income:

- Business profits, including dividends, profits distributed by cooperatives and partnerships, profits from a sole proprietorship and profits from sporadic business transactions;
- Income from a professional practice;
- Salaries, wages, allowances, stipends, annuities, cash awards, bonuses, pensions, subsidies and premiums paid by an employer for group life insurance policies that offer payment on maturity;
- Interest income;
- Rental income and royalties;
- Self-employment income from farming, fishing, animal husbandry, forestry and mining;
- Gain from sales of rights and properties other than land;
- Cash or payments in kind received as winnings in competitions or lotteries;
- Retirement pay, severance pay and non-insurance old-age pension payments; and
- Other income.

Taxable income of residents is computed by deducting from consolidated income certain allowable exemptions and deductions (see *Exemptions and Deductions*). The income of a taxpayer's dependents is also included in the taxpayer's taxable income.

For a table outlining the taxability of income items, see Appendix 1.

Employment Income. A nonresident staying in Taiwan for no longer than 90 days during a calendar year is not subject to Taiwan income tax on salary received from a nonresident employer provided the payment is not charged back to any Taiwan entity; otherwise, the income is subject to a 20% withholding tax on salary received from a resident employer.

Nonresidents and individuals who are present in Taiwan less than 183 days during a calendar year are subject to Taiwan income tax on Taiwan-source income, regardless of where the income is paid, at a fixed rate of 20%.

For individuals who stay in Taiwan less than 300 days in a calendar year, salary not borne by a Taiwan entity may be allocated to determine the amount taxable in Taiwan.

The following benefits are exempt from consolidated income tax:
- Moving expenses paid for expatriates and their families when they report for duty and at the time of repatriation;
- Traveling expenses paid for expatriates on home leaves;
- Rental payments for a house leased by the employer for expatriates;
- Durable household appliances and furniture purchased by a Taiwan-registered entity;
- Water, electricity, gas, telephone, cleaning services, and consumable materials for expatriates' houses leased by a Taiwan entity; and
- Taiwan consolidated income tax for expatriates, if borne by the Taiwan entity and not deducted for corporate tax purposes.

Investment Income. Dividend and interest income are subject to consolidated income tax and are taxed together with other income at the rates set forth in *Rates*. However, interest income from postal savings accounts is excluded from gross income. Furthermore, interest income from short-term commercial paper is subject to a 20% final withholding tax at source and therefore, is not included in gross income.

The rate of withholding tax on interest for nonresidents is 20%. For dividends, the rate of withholding tax is 0% for residents and 20% or 30% for nonresidents, depending on the type of investment.

Rental income and royalties are included in taxable income. For rental income, the rate of withholding tax is 10% for residents and 20% for nonresidents. For royalties, the rate of withholding tax is 15% for residents and 20% for nonresidents.

Other Income. The taxable amount of a lump-sum severance payment is calculated in accordance with the following rules:
- If the total amount received in one lump sum is less than NT$156,000 multiplied by the number of service years at the time of separation, the entire amount is tax-exempt;
- If the total amount received in one lump sum is more than NT$156,000 multiplied by the number of service years at the

time of separation, half of the excess over NT$156,000 but less than NT$312,000 multiplied by the number of service years at the time of separation is taxable income;
- The excess over NT$312,000 multiplied by the number of service years at the time of separation is taxable income; and
- If each of the service years was spent only partially rendering service in Taiwan, then the severance payment may be allocated to arrive at an amount subject to tax in Taiwan.

For severance payments received in installments, the taxable income amount is the total of all payments received in the calendar year in excess of the NT$676,000 annual deduction.

Taxation of Employer-Provided Stock Options. On 30 April 2004, the Ministry of the Finance released a tax decree that addresses the taxation of stock options issued by Taiwan companies. Under the decree, on the exercise of a stock option, the difference between the fair market value of the shares at exercise and the exercise price (that is, the option spread) is taxed as "other income."

Taiwan employers have a reporting requirement, but not a withholding requirement, with respect to the option spread. Taiwan employers must issue nonwithholding statements on behalf of employees who exercise stock options.

In addition to the 30 April 2004 income tax decree, the Ministry of the Finance issued a separate tax decree on 17 May 2005 to address the taxation of stock options issued by non-Taiwanese companies. Similarly, the option spread is taxed as "other income" at the time of exercise. The reporting requirement is similar to the requirement applicable to Taiwan companies.

The 17 May 2005 decree also addresses the taxation of stock options exercised by cross-border employees. Under the decree, the option spread can be prorated based on the ratio of the number of days the employee is physically present in Taiwan during the period from the date of grant through the date of vesting to the total days in such period.

Capital Gains and Losses. Taiwan does not impose a separate tax on capital gains, except the Land Increment Tax imposed on the sale of land. Losses from the disposal of property are deductible only to the extent of gains from the disposal of property in the same tax year. Net losses may be carried forward for three years.

Capital gains from the sale of a house or apartment are taxed together with other income at the rates described in *Rates*.

Gains from the sale of stocks are exempt from income tax, and losses are not deductible. A securities transaction tax is imposed on proceeds from the sale of stocks at a rate of 0.3%.

Exemptions and Deductions. A nonresident taxpayer is not entitled to personal exemptions or deductions. Income tax is computed on gross income. The exemptions and deductions described below apply to residents only.

A resident may deduct the personal exemption, and either the standard deduction or itemized deductions, whichever is higher, as well as special deductions, from consolidated gross income to arrive at taxable income.

Personal Exemptions. For 2006, a taxpayer is entitled to personal exemptions of NT$77,000 each for the taxpayer, his or her spouse, and each dependant. If the taxpayer, or if married, either the taxpayer or taxpayer's spouse, is more than 70 years of age, the exemption amount is increased to NT$115,500 per person. The exemption amount is also increased to NT$115,500 for a lineal ascendent dependant who is older than 70 years of age.

The personal exemption amount may be adjusted if the accumulated consumer price index has risen at least 3% over the last adjustment.

Itemized Deductions. The following itemized deductions are available:

- The following contributions and donations:
  - Up to 20% of gross consolidated income if given to officially registered educational, cultural, public welfare or charitable organizations;
  - Up to 100% of gross consolidated income if given for national defense or troop support or if contributed directly to government agencies;
  - Up to 20% of gross consolidated income, not to exceed NT$200,000, if given to a political party; and
  - Up to NT$200,000 if given to qualified political candidates, not to exceed NT$100,000 per candidate.
- Insurance premiums, up to NT$24,000 per person per year, for life insurance, medical insurance, labor insurance and government employee insurance for a taxpayer, his or her spouse, and lineal dependants.
- Unreimbursed medical and maternity expenses incurred by a taxpayer, his or her spouse, and dependents living with the taxpayer, provided the expenses are incurred in the following recognized institutions:
  - Government hospitals;
  - Hospitals that have entered into contracts with the government under either the government employee insurance program, the government health insurance program or the labor insurance program; or
  - Hospitals maintaining complete and accurate accounting records recognized by the Ministry of Finance.
- Uncompensated casualty losses (uninsured portion of losses caused by a natural disaster of *force majeur*). To claim this deduction, the loss must be appraised by an investigator appointed by the tax authorities within 15 days after the disaster occurred.
- Rental expenses paid by the taxpayer, taxpayer's spouse and/or lineal dependents for housing located in the Republic of China, up to NT$120,000 per household. To qualify for the deduction, the property must be used for residential purposes and not for business purposes. However, the deduction will be disallowed for taxpayers who claim interest payments on loans to purchase owner-occupied dwellings. Taxpayers must provide supporting documents.
- Mortgage interest paid on loans from financial institutions for the purchase of an owner-occupied dwelling (limited to one), up to NT$300,000, after subtracting the special deduction for savings and investments claimed for the same tax year. The dwelling must be a principal residence located in Taiwan.

Standard Deduction. For 2006, a taxpayer may claim a standard deduction instead of the itemized deductions listed above. The standard deduction is NT$46,000 for a single taxpayer and NT$92,000 for a married taxpayer filing jointly.

Special Deductions. The following special deductions are available:

- Special deduction for salary or wages: The lesser of either total salaries and wages earned or NT$78,000 is deductible by each salary and wage earner included in the same return.
- Special deduction for savings and investments: Up to NT$270,000 for each family unit is deductible for income realized from a savings trust fund and for interest income realized on deposits with financial institutions, on treasury bonds, on corporate bonds and on financial bonds, excluding interest income from postal savings accounts (which is not taxable) and from short-term commercial paper (which is subject to a final 20% withholding tax at source).
- Special deduction for the handicapped: Up to NT$77,000 is deductible for a person meeting the definition of a handicapped person under the Handicapped Welfare Law or the Mental Health Law.
- Special deduction for property losses: Losses derived from disposals of property are deductible to the extent of gains derived from disposals of property in the same tax year. Any remaining losses may be carried forward for three years.
- Special deduction for tuition fees paid for post-secondary education: Each household may deduct up to NT$25,000 of total tuition fees paid less any reimbursement received for any post-secondary education.

Rates. The progressive consolidated income tax rates for residents for 2006 are set forth in the following table.

Taxable Income		Tax on Lower	Rate on
Exceeding NT$	Not Exceeding NT$	Amount NT$	Excess %
0	370,000	0	6
370,000	990,000	22,200	13
990,000	1,980,000	102,800	21
1,980,000	3,720,000	310,700	30
3,720,000	—	832,700	40

The income tax brackets may be adjusted if the accumulated consumer price index has risen at least 10% over the previous rate adjustment.

The tax rate for nonresident individuals is 20%.

For a sample tax calculation, see Appendix 2.

Alternative Minimum Tax. On 9 December 2005, the Legislative Yuan passed the Alternative Minimum Tax (AMT) Law and the President of Taiwan signed the law, which is effective from 1 January 2006. The AMT Law applies to both profit-seeking enterprises and individuals.

Under the AMT Law, for individuals, the following items are added back to net income as calculated under the general income tax system to determine minimum income (MI) subject to AMT:

- Foreign-source income, if such income for each filing household unit exceeds NT$1 million (approximately US$31,000) in a tax year (this item will be effective from the 2009 or 2010 tax year);
- Discretionary insurance benefits for insurance contracts entered into on or after 1 January 2006;
- Capital gains derived from sales of nonpublicly listed stocks and private placement funds;
- Deductions claimed for noncash charitable contributions;
- The spread between the fair market value and the par value for employee stock bonuses; and
- Other items published by the Ministry of Finance.

The AMT rate for individuals is 20%. A NT$6 million (approximately US$185,000) deduction may be claimed from the minimum income (MI) by each filing household unit to arrive at the minimum taxable income (MTI) subject to AMT.

Under the AMT scheme, individual taxpayers calculate both the tax due under the general income tax rules and the AMT rules, and pay the higher of the two amounts. If foreign-source income has been included in the calculation of the AMT, any foreign tax paid on these amounts may be offset against AMT.

Relief for Losses. Except for losses derived from the disposal of properties described in *Capital Gains and Losses*, no loss may be carried forward or back.

B. Other Taxes

Estate Tax. Estate tax is imposed on the estate of a decedent who was a national of Taiwan or who owned property in Taiwan. If the decedent was a Taiwan national regularly domiciled in Taiwan, tax is levied on all property, wherever located. If the decedent was a foreign national or Taiwan national regularly domiciled outside Taiwan, tax is levied only on property located in Taiwan.

The basis for estate tax is the prevailing value of property at the time of death, less legal exclusions, exemptions and other deductions. Land and buildings are valued at an officially assessed value determined by the relevant government agencies.

In general, an exemption of NT$7,790,000 is allowed for each decedent. The following are other allowable deductions from total taxable property:

- NT$4,450,000 for the decedent's surviving spouse;
- The value of agricultural land and the products on the land if the heirs continue to farm the land for at least five years after the death of the decedent;
- NT$1,110,000 for each of the decedent's surviving parents, NT$450,000 for each dependent grandparent, dependent brothers and sisters, and lineal descendants, as well as an additional NT$450,000 for each year that each lineal descendant and dependent brother and sister is younger than 20 years of age;
- An additional NT$5,570,000 for each qualified handicapped or mentally disturbed heir;
- A percentage of the value of any estate property that was inherited by the decedent within nine years prior to his or her death and that was subject to tax;

- NT$1,110,000 for funeral expenses;
- Direct and necessary expenses to execute the decedent's will and administer the estate; and
- Taxes and penalties owed, and debts incurred, by the decedent before his or her death.

Certain property is not subject to estate tax. The following exclusions are among the more common:
- Proceeds from life insurance policies with designated beneficiaries;
- Furniture, household equipment and other daily necessities, up to NT$800,000;
- Patents and literary or artistic works created by the decedent;
- Donations to government agencies and enterprises and to privately incorporated educational, cultural, social welfare, charitable and religious organizations;
- Tools used in the decedent's profession, up to NT$450,000; and
- Property inherited by the decedent within five years before death that was subject to tax.

The net estate after exclusions, deductions and exemptions is taxed at the following progressive rates.

Net Taxable Estate Exceeding NT$	Not Exceeding NT$	Tax Rate %
0	670,000	2
670,000	1,670,000	4
1,670,000	3,340,000	7
3,340,000	5,010,000	11
5,010,000	6,680,000	15
6,680,000	11,130,000	20
11,130,000	16,700,000	26
16,700,000	44,530,000	33
44,530,000	111,320,000	41
111,320,000	—	50

The executor of an estate, or the heir in the absence of an executor, must file an estate tax return with the local tax bureau generally within six months after the death of the deceased, and the tax bureau must complete the tax assessment within the following two months. Payment of tax is due within two months after receipt of a tax assessment notice. If the tax due exceeds NT$300,000, a taxpayer may, subject to prior approval, pay it in 12 installments at intervals of no longer than two months or pay the tax in kind. A taxpayer who is not satisfied with an assessment may seek relief through administrative and judicial reviews.

Gift Tax. Tax is imposed on gifts made by a donor who is a national of Taiwan or who owns property in Taiwan. If the donor is a Taiwan national regularly domiciled in Taiwan, the tax is levied on any donated property, wherever located. If the donor is a Taiwan national regularly domiciled outside Taiwan or a foreigner, tax is levied only on donated property located in Taiwan.

Gifts are valued based on the prevailing value at the time of donation. Land and buildings are valued at officially assessed values determined by government agencies.

An annual exemption of NT$1,100,000 per donor is allowed for taxable gifts. The following items are excluded from total taxable gifts:

- Donations to government agencies and enterprises and to educational, cultural, religious, public welfare and charitable organizations;
- Transfers between spouses;
- Marriage gifts of up to NT$1 million given by each parent; and
- Agricultural land given to the donor's heir, if the heir continuously uses the land for farming for at least five years after the transfer.

The net gift, after exclusions and exemptions, is taxed at the following progressive rates.

Net Taxable Gifts		
Exceeding NT$	Not Exceeding NT$	Tax Rate %
0	670,000	4
670,000	1,890,000	6
1,890,000	3,120,000	9
3,120,000	4,340,000	12
4,340,000	5,570,000	16
5,570,000	8,020,000	21
8,020,000	15,580,000	27
15,580,000	32,280,000	34
32,280,000	50,090,000	42
50,090,000	—	50

A donor must file a gift tax return with the local tax bureau within 30 days after making a gift if the aggregate amount of total gifts during the calendar year, including the current gift, exceed the NT$1,100,000 annual exemption. The local tax bureau must complete the tax assessment within two months after it receives the return. Payment is due within two months after the receipt of a tax assessment notice. If the tax due exceeds NT$300,000, a taxpayer may, subject to prior approval, pay the tax in 12 installments at intervals of no more than two months or pay the tax in kind. A taxpayer who is not satisfied with an assessment may seek relief through administrative and judicial reviews.

C. Social Security

No social security taxes are levied in Taiwan. However, nominal labor insurance premiums and national health insurance premiums are imposed at the following rates on each person employed by a Taiwan business entity.

Contributions	Rate (%)
Labor insurance scheme, on monthly salary of up to NT$42,000; paid by	
Employer	4.55
Employee	1.3
National health insurance scheme, on monthly salary of up to NT$131,700; paid by	
Employer (per each insured person)	4.859
Employee	1.365

D. Tax Filing and Payment Procedures

The tax year in Taiwan is the calendar year. A taxpayer must file an annual income tax return between 1 May and 31 May following the close of the tax year. No extensions are allowed.

Married couples must file joint tax returns except for the first year of marriage and the year of divorce, when they may choose to file as single or as married. However, a working spouse may choose to separately compute tax on his or her salary income.

The following are the tax filing procedures for aliens, depending on the length of their residence in Taiwan:

- A nonresident staying in Taiwan 90 days or less is only subject to withholding tax on income received from a Taiwan entity and, accordingly, does not need to file an income tax return. For these individuals, income tax payable is withheld directly by the payer at the time of payment at a rate of 20%. However, interest income as well as capital gains from property transactions or securities transactions (currently exempt) should be declared, and any tax due paid, before final departure.
- An individual present in Taiwan for longer than 90 days but less than 183 days must either file an interim income tax return before final departure, or appoint a tax guarantor. If the individual is in Taiwan at the end of the year, he or she must file an annual income tax return.
- An individual staying in Taiwan for 183 days or longer must file an annual income tax return. However, an individual who intends to leave Taiwan any time during the year, and not to return within the same year, must file an interim income tax return one week before departure or must appoint a tax guarantor.

Taxpayers must submit supporting documents issued by their nonresident employers stating the amount of foreign-paid compensation. The documents must be certified by the tax office that has jurisdiction over the employer or by a certified public accountant.

A tax certification is issued when tax liability is paid or when a tax guarantor is appointed. The tax guarantor is responsible for the timely filing of the income tax return and the payment of tax due for the taxpayer.

For taxpayers who file returns after 31 May following the end of the tax year, interest is charged on the net amount of tax payable at a specified interest rate set annually by Taiwan tax authorities.

If an item of income is omitted or if the return is improperly filed, the tax authorities may assess a penalty of up to two times the amount of the additional tax due. If the taxpayer fails to file a tax return, the tax authorities may assess a penalty of up to three times the tax payable.

E. Tax Treaties

Taiwan has entered into comprehensive tax treaties with Australia, Belgium, Denmark, Gambia, Indonesia, Macedonia, Malaysia, the Netherlands, New Zealand, Senegal, Singapore, South Africa, Swaziland, Sweden, the United Kingdom and Vietnam.

F. Entry Visas

Foreign passport holders must have valid visas when they enter the Republic of China. However, to meet special needs, the Ministry of Foreign Affairs may grant exemptions from visa requirements to foreign nationals of certain countries or allow certain foreign nationals to apply for visas upon their arrival in the Republic of China, if certain conditions are met. In addition, other than diplomatic and courtesy visas, two categories of visas—the visitor visa and the resident visa—are available for foreign nationals to enter the territory of Taiwan.

Visitor visas are issued to those who wish to visit Taiwan for short periods of time (for example, for sightseeing, conducting business and other purposes). Depending on the applicant's nationality, the visitor visa is valid for either single or multiple entries for a period from one month to five years, and entitles the applicant to stay in Taiwan for 14 days to 60 days per visit. In general, foreign nationals from Southeast Asian countries are usually issued single-entry visas for 14-day stays only, with no extension allowed. U.S. citizens usually obtain multiple-entry visas valid for five years that entitle the bearers to stay for 60 days, with possible extensions if necessary.

Foreign nationals wishing to work in Taiwan must obtain the necessary employment authorization (work permits) as well as the appropriate visas to enter the territory.

The Bureau of Educational and Vocational Training issues employment authorizations. The Ministry of Foreign Affairs and consulates abroad issue the appropriate visas based on employment authorization. The entry, departure and residence of foreign nationals working in Taiwan are supervised by the local police headquarters.

G. Resident Visas

In general, resident visas are issued to foreign nationals who obtain employment authorizations valid for longer than six months from the Bureau of Educational and Vocational Training.

Foreign nationals entering Taiwan with resident visas must report to the local police headquarters to secure their residence and to apply for Alien Resident Certificates (ARCs). The ARC bears the foreign national's personal information, the reason for residence, the address of the Taiwanese residence and the expiration date. Expatriates holding ARCs should report any changes to the ARCs to the local police headquarters.

H. Work Permits and Self-Employment

Foreign nationals who intend to work in Taiwan must apply for employment authorizations (work permits). An expatriate's entry, residence and departure are governed by the police.

An application for employment authorization must be filed by the employer according to the Measures for Employment Permission and Supervision of Foreign Persons (Employment Rules).

The Employment Rules divide foreign nationals who wish to work in Taiwan into four categories. The first category, which applies to most foreign expatriates, includes the following jobs:

- Specialized or technical workers; and
- Branch managers for Taiwan branches of foreign companies, representatives for Taiwan representative offices of foreign companies and general managers of companies approved for foreign investment under either the Statute for Investment by Overseas Chinese or the Statute for Investment by Foreign Nationals.

To qualify as a specialized or technical worker, an employee must possess one of the following qualifications:
- A Ph.D. or M.S. in a related field;
- A B.S. in a related field and more than two years of actual work experience in related jobs;
- Employment in related jobs for more than five years; or
- Employment with a multinational enterprise for more than one year and an assignment to work in Taiwan from the multinational enterprise.

An employer must satisfy one of the following conditions to hire foreign specialized or technical workers:
- Sales volume of NT$10 million for the previous year or an average of NT$10 million for the preceding three years;
- Total import and export volume of US$1 million for the preceding year or an average of US$1 million for the preceding three years;
- Total import and export commission revenue of US$400,000 for the preceding year or an average of US$400,000 for the preceding three years;
- Company has been incorporated for less than one year and has paid-in capital of NT$5 million;
- Foreign branch has been established for less than one year and has registered working capital of NT$5 million;
- Foreign representative office has been approved by the government authorities and has been operating in Taiwan; or
- Research and development center or business operational headquarters has been approved by the government authorities.

To qualify as a branch manager, representative or general manager, an employee must be registered with the government authorities and shown on the company registration card. An employer must satisfy one of the following conditions to hire these foreign nationals:
- Sales volume of NT$5 million or five times to the capital amount for the preceding year, or an average of NT$5 million or five times to the capital amount for the previous three years;
- Total import and export volume of US$500,000 for the preceding year or an average of US$500,000 for the preceding three years;
- Total import and export commission revenue of US$200,000 for the preceding year or an average of US$200,000 for the preceding three years; or
- Foreign representative office has been approved by the government authorities and has been operating in Taiwan.

A company, foreign branch or foreign representative office that has been incorporated for less than one year is exempt from the restrictions mentioned in the preceding paragraph.

Employment authorization is based on the employment contract, with a maximum length of three years. Employment extensions are usually granted. If a foreign corporation performing a contract needs to assign an expatriate to Taiwan to fulfill contract obligations, the expatriate can apply for a work permit. If an expatriate obtained a work permit under a different contract, the accumulated working duration for fulfilling contract obligations may not exceed one year.

Foreign nationals may not be self-employed in Taiwan.

I. Family and Personal Considerations

Family Members. Resident visas are granted to the dependants of either a Taiwan citizen or an expatriate who obtains an ARC (see Section G). Copies of the marriage certificate and birth certificates, which are authenticated by the R.O.C. representative office, must be provided to obtain resident visas for the spouse and dependants, respectively. The spouse and dependants may apply for their resident visas and ARCs together with the expatriate.

For dependants over 6 years old, resident visa applications must be accompanied by a health certificate issued within the preceding three months.

A working spouse does not automatically receive work authorization. If the spouse wishes to file for a work permit, he or she must do so independently.

Marital Property Regime. All married individuals in Taiwan are subject to a statutory property regime, unless the parties agree otherwise in writing and register the agreement in court before or during the marriage. The statutory property regime applies to all heterosexual couples married in Taiwan. However, if one of the spouses is a foreign national, special rules apply.

Under the statutory property regime, the property of the husband and the wife is divided into property acquired before marriage and the property acquired during marriage, and the allocable shares of the property are considered to be owned by the spouses.

If it cannot be determined whether property was acquired before marriage or during the marriage, it is presumed that the property was acquired during the marriage. If it cannot be determined whether the property is owned by the husband or the wife, it is presumed that the property is owned by the husband and the wife jointly.

The remains of fruits gained during the marriage from the property acquired by the husband or the wife before marriage is deemed to be property acquired during the marriage.

If the husband and the wife enter into a contract regarding the holding of matrimonial property and subsequently adopt the statutory regime, the property held before the adoption is deemed to be property acquired before marriage.

Under the statutory regime, on the termination of the marriage relationship, the balance of the property acquired by the husband or the wife in marriage, after deduction of debts incurred during the marriage, if any, is equally distributed to the husband and the wife, except for property acquired as a result of a succession or a gift or property acquired as a solatium (compensation for an injury or loss).

Taiwan does not enforce community property claims brought between couples from community property countries who establish marital domicile in Taiwan if the husband's most recently acquired nationality is Taiwanese. In other cases, community property claims are enforced, unless another property regime is registered in court.

Forced Heirship. Taiwan's succession law provides for forced heirship rules. The law guarantees certain heirs a portion of the decedent estate, as indicated in the following tables. If the decedent leaves a surviving spouse, the forced heirs receive the following portions of the estate.

	Portion of Estate Received by:				
Survivors	**Spouse**	**Direct Descendants**	**Parents**	**Siblings**	**Grandparents**
Direct descendants	Spouse and each direct descendant share evenly in 1/2 of the estate		0	0	0
No direct descendants	1/4	—	1/4	0	0
No direct descendants or parents	1/4	—	—	1/6	0
No direct descendants, parents or siblings	1/3	—	—	—	1/9
No direct descendants, parents, siblings or grandparents	1/2	—	—	—	—

If the decedent does not leave a surviving spouse, the forced heirs receive the following portions of the estate.

	Portion of Estate Received by:			
Survivors	**Direct Descendants**	**Parents**	**Siblings**	**Grandparents**
Direct descendants survive	1/2	0	0	0
No direct descendants	—	1/2	0	0
No direct descendants or parents	—	—	1/3	0
No direct descendants, parents or siblings	—	—	—	1/3

Drivers' Permits. Foreign nationals may not drive legally in Taiwan with their home country drivers' licenses. However, expatriates may drive legally with valid international drivers' licenses.

Based on driver's license reciprocity with the expatriate's home country, an expatriate with an ARC (see Section G) may obtain a Taiwan license after taking a physical examination, a written examination and a driving test if his or her home country license is valid. An expatriate without a home country license must take a three-month learner license or driving school class, a physical examination, a written examination and a driving test to obtain a Taiwan license.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable/ Not Deductible*	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	—	(X)	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(b)
Housing contribution	—	(X)	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(c)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	—	X	—
Value of meals provided	X	—	(d)
Utilities	—	X	(e)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from the sale of stock in home country	—	X	—

* Bracketed items are not deductible.
(a) Employees' contributions to home country pension plans or other tax-deferred benefit plans are taxable for Taiwan tax purposes.
(b) If a lease is signed between the employer and the local landlord, the value of the housing is not taxable to the employee.
(c) An expatriate's share of home-leave expenses is not taxable, but the share of expenses incurred by family members is taxable.
(d) Meal allowances in excess of NT$60 per day are taxable.
(e) Utilities are not taxable if the costs for the utilities are borne by a Taiwan entity and are not deducted for corporate tax purposes.

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample tax calculation for a married couple with two children who are full-year residents of Taiwan.

	NT$	NT$
Calculation of Taxable Income		
Salary		2,400,000
Personal exemption		(308,000)
Deductions		
Standard deduction	(92,000)	
Special deduction for salary	(78,000)	(170,000)
Taxable income		1,922,000
Calculation of Income Tax		
Tax on NT$990,000	102,800	
Tax on NT$932,000 at 21%	195,720	
NT$1,962,000		
Income tax due		298,520

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A. Income Tax

Who Is Liable. Residents are subject to income tax on worldwide income. Nonresidents are subject to tax on Tanzania-source income only. All expatriates are required to pay tax on income earned in Tanzania, except for those who enter the country under special agreements with the government.

Individuals are considered residents if they meet any of the following conditions:

- They are present for 183 days or more in the income year;
- They are present for an average of 122 days or more in the income year and in each of the two preceding income years; or
- They have a permanent home in Tanzania and are present for any length of time during the income year.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income includes any compensation for employment received in cash, plus the value of employer-provided benefits. Directors' fees are generally included in employment income. However, non-executive directors are subject to a 30% secondary employment tax on their directors' fees. For employees and directors, employer-provided housing is valued at 15% of gross salary less the amount of rent paid.

Nonresidents are taxed on employment income that is sourced in Tanzania.

The cost of other benefits is also included in employees' income. These benefits include the payment of utility expenses, tuition expenses and the services of a watchman or gardener. An education allowance provided by employers to their expatriate or local employees' children under 18 years of age is taxable income and is also included in income for national social security computation purposes. Taxable benefits are included in taxable employment income.

The following benefits are specifically exempt from tax:

- The traveling costs for passage of the taxpayer, spouse and up to four children, if the individual is domiciled more than 20 miles from his or her place of employment and performs services for the employer only;
- Cafeteria services on the business premises that are available on a nondiscriminatory basis;
- Contributions to approved pension funds and provident funds;
- The value of medical services granted on a nondiscriminatory basis to a full-time employee or a director providing full-time services, the spouse and four children; and
- Benefit for use of motor vehicle if the employer does not claim any deduction or relief with respect to the vehicle.

Self-Employment and Business Income. Self-employment and business income is added to other income and taxed at the rates described in *Rates*.

Nonresidents are subject to tax on business activities carried out in Tanzania at the rates that apply to residents (see *Rates*).

Investment Income. The following nonresident withholding taxes apply.

Income	Rate (%)
Dividends	5/10 (a)
Interest	10
Royalties	15
Rent, premiums and similar consideration	10/15 (b)
Pension or retirement annuities	10/15 (b)

(a) The 5% rate applies to shares quoted on the Dar es Salaam Stock Exchange.
(b) The 10% rate applies to residents and the 15% rate applies to nonresidents.

Taxation of Employer-Provided Stock Options. The method of taxing employer-provided stock options has not yet been determined in Tanzania.

Capital Gains. Capital gains derived from the sale of real property by individuals not engaging in business are subject to tax at a rate of 10%. For capital gains on financial assets, the tax rate is 30%.

Deductions

Deductible Expenses. For expenses to be deductible from employment income, an employee must generally establish that the expenses were incurred wholly and exclusively in the production of income. This is a narrower standard than that required for deductible expenses for self-employed persons (see *Business Deductions*).

Business Deductions. Expenses directly related to accrued business income, including the cost of goods sold and sales and administrative expenses, are allowed as deductions.

Rates. Tax is levied on monthly income at the rates shown in the following table.

Monthly Taxable Income Exceeding TSHS	Monthly Taxable Income Not Exceeding TSHS	Tax on Lower Amount TSHS	Rate on Excess %
0	80,000	0	0
80,000	180,000	0	18.5
180,000	360,000	18,500	20
360,000	540,000	54,500	25
540,000	—	99,500	30

Presumptive assessments apply to income received by individuals from businesses generating annual gross turnover of up to TSHS 20 million. The assessments are based on annual turnover and vary depending on whether the taxpayer maintains complete or incomplete records for the business. The following are the amounts of these assessments.

Complete Records

Annual Turnover Exceeding TSHS	Annual Turnover Not Exceeding TSHS	Tax on Lower Amount TSHS	Rate on Excess Turnover %
0	3,000,000	0	1.1
3,000,000	7,000,000	33,000	1.3
7,000,000	14,000,000	85,000	2.5
14,000,000	20,000,000	260,000	3.3

Incomplete Records

Annual Turnover Exceeding TSHS	Annual Turnover Not Exceeding TSHS	Amount of Tax TSHS
0	3,000,000	35,000
3,000,000	7,000,000	95,000
7,000,000	14,000,000	291,000
14,000,000	20,000,000	520,000

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses resulting from an individual's trade, vocation or business activities may be carried forward indefinitely. They may not be carried back.

B. Estate and Gift Taxes

Tanzania does not impose estate duty or gift tax.

C. Social Security

Tanzania does not have a comprehensive social security system. However, the following pension funds are available:

- The Parastatal Pension Fund and the National Social Security Fund, for employees in the private sector;

- Public Service Pension Fund for central government employees; and
- The Local Authorities Provident Fund for local government employees.

For the Parastatal Pension Fund, the employer contributes 15% of the employee's gross salary and the employee contributes 5%. For the National Social Security Fund, the employee and employer each contribute 10% of gross salary, provided that the employee joins the fund before reaching 40 years of age. Contributions may be claimed in full after reaching 50 years of age. Employees who claim their pension before reaching 50 years of age are paid only the surrender value, that is, the amount of the contributions made by the employee to the fund, excluding contributions from the employer. In exceptional cases, membership in the fund may continue after the employee reaches 50 years of age, but in all cases, membership ceases at 60 years of age.

For the Public Service Pension Fund, central government employees contribute 5% of gross salary, and the government contributes 15%.

For the Local Authorities Provident Fund, both the employer and the employee contribute 10% of gross salary. Full payment is made at retirement between 50 and 55 years of age.

No ceiling applies to the amount of salaries subject to social security contributions in Tanzania.

D. Tax Filing and Payment Procedures

The statutory tax year is the calendar year. However individuals may apply to use a different financial year.

Tax is withheld from employees under the Pay-As-You-Earn (PAYE) system. Self-employed persons and others with income from sources other than employment are required to file provisional returns and to pay the provisional tax in four installments during the tax year.

Tax returns must be filed by March or, for taxpayers who must prepare financial statements to determine taxable income, six months after the end of the financial year.

A penalty based on a statutory rate is imposed for a failure to file a tax return on time. The minimum penalty is TSHS 10,000 for individuals. Interest is charged on unpaid tax and underestimated installment payments.

E. Tax Treaties

Tanzania has entered into double tax treaties with Canada, Denmark, Finland, India, Italy, Norway, Sweden and Zambia. A tax treaty with South Africa is being renegotiated.

The 15% rate of withholding tax on pension or retirement annuities is reduced to 12.5% if the recipient is resident in a country that has a tax treaty with Tanzania.

F. Entry Visas

Foreign nationals must have visas to enter Tanzania, unless they are nationals of countries that have waived the visa requirement. These countries include most British Commonwealth countries, Finland, Romania and Sudan, as well as member countries of the

Common Market for Eastern and Southern Africa (COMESA), which includes Angola, Botswana, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Swaziland, Uganda, Zaire, Zambia and Zimbabwe.

Foreign nationals intending to stay in Tanzania for more than two weeks may be required to provide evidence that they have sufficient finances to support their stay as well as proof that a local resident is sponsoring the visit.

At the point of entry into Tanzania, visitors with valid passports may receive visas for social or tourist purposes.

Foreigners intending to visit Tanzania to attend meetings or establish business contacts must first obtain business visas.

Visas, including business visas, are issued to visiting foreigners for an initial period of 90 days and may be renewed for a maximum period of another 90 days.

To receive a visitor's visa, a foreign national must have a valid passport and a return ticket exiting Tanzania and must prove that he or she has adequate financial resources for the visit.

G. Work and Residence Permits and Self-Employment

Foreign nationals wishing to reside in Tanzania must obtain suitable residence permits. Residence permits allow foreign nationals to live in Tanzania for specific purposes, including employment. The permits are issued initially for any period up to three years and are renewable for any period up to two years. Three categories of residence permits are available — Class A, B and C.

Investor Permits. Class A residence permits are available to foreign investors. Applicants for Class A residence permits must be foreign nationals intending to enter or remain in Tanzania to engage and invest in a trade, business or profession; in agriculture or animal husbandry; in mineral prospecting; or in manufacturing. The applicant's investment in Tanzania must be at least US$300,000. The applicant should have a strong financial background and must deposit with the Immigration Department sufficient funds to cover the cost of his or her repatriation if necessary.

Employment Permits. Class B residence permits are available to foreign nationals with specific offers of employment in Tanzania. The applicant must be a member of a profession recognized by Tanzania, and the government must be satisfied that the applicant possesses the necessary qualifications and skills, and that his or her employment will benefit the country. Offers of employment may be made by the following entities:

- Specific employers;
- The Tanzanian government; and
- Technical assistance agencies, such as the United Nations or other approved agencies.

Employers must apply for Class B residence permits for their foreign employees. The application is submitted to the Commissioner for Labor, who reviews it and makes a recommendation to the Director of Immigration. The immigration authorities must approve the application before the foreign national is permitted to enter Tanzania.

Class C Permits. Class C permits are available to foreign nationals not covered under Class A or Class B. Class C permits do not authorize holders to pursue gainful employment in Tanzania.

Steps for Obtaining Residence Permits. To obtain a residence permit, a foreign national must submit a completed application to the Director of Immigration and pay a fee. Applications should be submitted together with the following:

- For Class A permits, copies of the applicant's passport and a certificate of incentives. A certificate of incentives, issued under the Tanzania Invest Act of 1997, indicates the investor's name and type of project and authorizes granting tax reliefs as provided by the act.
- For Class A, B and C permits, photographs of the applicant.
- For Class B permits, a signed labor contract and a professional certificate.
- For Class C permits, a letter offering the applicant a place in an educational institute or church.

A company granted a Certificate of Incentives is initially entitled to an automatic immigrant quota of up to five persons during the company's start-up period.

Self-Employment. Foreign nationals wishing to engage in self-employed activities in Tanzania must first obtain Class A residence permits. This permit entitles the holder to investment protection and enables him or her to take advantage of financial, economic and other incentives, which are offered under the Tanzania Investment Act. Self-employed professionals, including doctors, lawyers, accountants, architects and engineers, must be licensed by the relevant professional bodies in Tanzania before they can be issued residence permits.

H. Family and Personal Considerations

Family Members. Holders of residence permits may be accompanied by their spouses and children 18 years of age and younger who are entitled to dependants permit (Class C) passes. Any dependant wishing to take up employment in Tanzania must obtain a Class B residence permit with a work permit inclusion.

Marital Property Regime. The marital property regime in Tanzania is one of community property. The regime is mandatory, and couples may not elect out without losing the privileges or interests arising from the joint marital property. The regime applies to all types of property interests arising during the marriage. A spouse's separate property must be clearly identified when the spouse first becomes subject to the regime. The proceeds of separate property always remain separate, unless the couple elects otherwise.

The regime applies to married heterosexual couples who solemnize their marriages in Tanzania and also to foreigners who establish marital domicile in Tanzania. Domicile is established by puposefully making Tanzania the couple's principal or sole permanent home.

In general, community property claims do not survive a permanent move to a noncommunity property country. Tanzania enforces community property claims brought between couples from noncommunity property countries who have established a new marital domicile in Tanzania.

Forced Heirship. Tanzanian law does not require parents to leave to their descendents any portion of their estate, although the courts disapprove the complete disinheritance of family members in favor of aliens.

Drivers' Permits. Foreign nationals with international drivers' licenses or drivers' licenses issued in a British Commonwealth country may drive in Tanzania for a maximum period of three months, after which they must obtain a valid Tanzanian driving license. An applicant must take a driving test, including a written and physical examination.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Basic salary and wages	X	—	—
Retirement contributions made to and payments received from pension funds	—	X	—
Housing allowance	X	—	—
Payments instead of leave, bonus, gratuity, and subsistence, traveling, entertainment and other allowances received with respect to employment or services rendered	X	—	—
Payment or reimbursement of expenses if the taxpayer lives more than twenty kilometers from the place of employment or business	—	X	—
Payment for redundancy or loss or termination of employment	X	—	—
Benefits-in-kind, such as employer-provided housing, school fees and guards	X	—	(a)
Exempt amounts	—	X	—
Meal allowance on premises that is available on a nondiscriminatory basis	—	X	—
Medical services and payments for medical services and medical insurance	—	X	—
Use of employer's car if no claim is made for deduction or relief regarding the ownership, maintenance or operation of the vehicle	—	X	(b)
Payments for passage of the individual, spouse and four children to or from the office if the individual lives more than 20 miles from the place of employment	—	X	—

	Taxable	Not Taxable	Comments
Payments that are unreasonable or administratively impracticable for the employer to account for or allocate to the recipients	—	X	—
Investment income	X	—	—
Income from an individual's business	X	—	—
Subsistence, traveling, entertainment or other allowance that serves only as a reimbursement to the recipient for an amount expended by the employee wholly and exclusively for the purpose of the employer's business	—	X	—
Other Items			
Capital gains from sale of personal property	X	—	—
Capital gains from sale of shares	X	—	—

(a) These are categorized as consumption expenditures under the Income Tax Act, 2004 and, accordingly, are not tax deductible in calculating an individual's taxable income.

(b) The use of an employer-provided car is taxable if a claim of relief or deduction is claimed by the employer with respect to the maintenance or operation of the car. The taxable amount is based on the engine size of the car and age of the vehicle. Higher taxable amounts apply to newer vehicles. These amounts range from TSHS 125,000 to TSHS 1,500,000 per year.

APPENDIX 2: SAMPLE TAX CALCULATION

	TSH	TSH
Calculation of Taxable Income		
Income:		
Basic salary		1,500,000
Fringe benefits		
Housing allowance	150,000	
Transport allowance	100,000	
Security allowance	200,000	
School fees	145,000	
Total fringe benefits		595,000
Total income		2,095,000
Less deductions:		
Retirement contributions (20% of TSHS 2,095,000)	(419,000)	
Transport allowance	(100,000) (a)	
Total deductions		(519,000)
Taxable income		1,576,000
Calculation of Tax (b)		
Tax on TSHS 540,000		99,500
Tax on TSHS 1,036,000 at 30%		310,800
TSHS 1,576,000		
Income tax payable		410,300

(a) The transport allowance is deductible if an individual lives more than 20 kilometers from the individual's place of employment.
(b) The income tax on employment income is collected through the Pay-As-You-Earn (PAYE) system.

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A. Income Tax

Who Is Liable. All resident and nonresident individuals earning income from sources in Thailand are subject to personal income tax (PIT). A Thai resident is also subject to PIT on self-employment and business income from sources overseas if the income is remitted to Thailand.

Individuals are considered resident if they reside in Thailand for a period or periods aggregating 180 days or more during a calendar year. Income earned overseas by Thai residents is also subject to PIT if it is remitted to Thailand in the year it is earned.

Income Subject to Tax. Taxable income consists of assessable income, less deductible expenses and allowances.

The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. All benefits derived from employment are assessable, unless expressly exempt by law. Examples of assessable benefits are wages, salaries, per diem allowances, bonuses, bounties, gratuities, directors' fees, pensions, house rental allowances, the monetary value of rent-free accommodation provided by an employer, and income tax paid and borne by an employer on behalf of an employee.

Tax-exempt benefits include medical expenses as well as travel expenses incurred wholly and exclusively by an employee in carrying out his or her duties.

Self-Employment and Business Income. Taxable self-employment and business income consists of assessable income less deductible expenses and allowances. Generally, all types of income are assessable unless expressly exempt by law.

Investment Income. Interest, dividends and other investment income are subject to PIT at the rates set forth in *Rates*.

A tax credit is granted for dividend income received by an individual domiciled in Thailand from locally incorporated companies. The credit is calculated according to the following formula:

$$\text{Tax credit} = \frac{t}{100 - t} \times \text{dividends received}$$

For the purposes of the above formula, t equals the rate of corporate income tax applicable to the distributing company.

Capital Gains. Gains derived from sales of shares are generally subject to PIT. However, gains derived from sales of securities listed on the Stock Exchange of Thailand are exempt from tax.

Gains derived from sales of real property are subject to PIT. A standard allowance is deductible, depending on the number of years of ownership. This tax also applies to gains derived from sales of real property used in a trade or business.

Taxation of Employer-Provided Stock Options. Employees are subject to tax on the benefit derived from shares provided either for free or at a favorable price by the employer. The taxable benefit is the difference between the price paid by the employee, if any, and the fair market value of the shares.

Deductions

Deductible Expenses. A standard allowance of 40% of assessable income, up to Baht 60,000, is allowed as a deductible expense against income from employment.

Personal Deductions and Allowances. To arrive at net assessable income, the following allowances are permitted as deductions.

Benefit	Amount
Personal allowance	Baht 30,000
Spouse allowance	Baht 30,000
Child allowance	Baht 15,000 per child (maximum 3 children)
Education allowance	Baht 2,000 per child
Parental support allowance	Baht 30,000 per parent (conditions apply)
Life insurance allowance	Up to Baht 50,000
Provident fund allowance	Up to Baht 300,000 (contribution may not exceed 15% of basic salary)
Interest allowance (housing loans)	Up to Baht 50,000
Donations allowance	Up to 10% of net assessable income
Social security fund allowance	Actual amount (normally 5% of basic salary, not exceeding Baht 750 per month)

Business Deductions. Certain expenses are fully or partially deductible, depending on the type of income. For some expenses, standard deductions are provided. The following table provides the rates of deduction for certain types of income.

Type of Income	Rate of Deduction
Service income	40%, up to Baht 60,000
Income from copyrights	40%, up to Baht 60,000
Income from goodwill or other rights	None
Dividends	None
Rental income	Either 10% to 30%, or actual amount of expenses
Income from liberal professions	Either 30% to 60%, or actual amount of expenses
Income from work contracts	Either 70%, or actual amount of expenses
Income from other businesses, commerce, agriculture, industry and transport	Either various rates or actual amount of expenses

Rates. Personal income tax is levied on an individual's net assessable income at the following progressive rates.

Taxable Income		
Exceeding Baht	Not Exceeding Baht	Rate %
0	100,000	0
100,000	500,000	10
500,000	1,000,000	20
1,000,000	4,000,000	30
4,000,000	—	37

For a sample tax calculation, see Appendix 2.

B. Other Taxes

Net Worth Tax. PIT normally is levied on assessable income earned during a calendar year. However, the tax authorities may reassess income tax based on net worth if the amount of a taxpayer's income is believed to be understated. In practice, this power is rarely exercised.

Inheritance and Gift Taxes. No inheritance taxes are levied in Thailand. Gifts other than those made on ceremonial occasions or in other limited situations are taxed as ordinary income.

C. Social Security

Employers and employees must each contribute 5% of each employee's basic salary to the Social Security Fund, up to a monthly contribution of Baht 750, to finance benefits for pregnancy, accidents, illnesses, child welfare, old age, death and physical disability occurring outside working hours. The government contributes 2.75%. All of the rates mentioned in this paragraph are effective from 1 January 2004.

D. Tax Filing and Payment Procedures

PIT payable by employees is withheld by employers. Some self-employed individuals, including certain professionals and those engaged in the rental of property, must make an interim income tax payment in September.

All individuals who earn income in Thailand during a calendar year must file personal income tax returns with the Revenue Department by the end of the following March. Self-assessed income tax must be paid on the filing date.

Married persons are taxed jointly or separately, at the taxpayers' election, on employment income and jointly on all other types of income.

E. Tax Treaties

Thailand has entered into double tax treaties with the countries listed below. The method of eliminating double tax varies by treaty.

Armenia	India	Poland
Australia	Indonesia	Romania
Austria	Israel	Singapore
Bahrain	Italy	Slovenia
Bangladesh	Japan	South Africa
Belgium	Korea (South)	Spain
Bulgaria	Laos	Sri Lanka
Canada	Luxembourg	Sweden
China	Malaysia	Switzerland
Cyprus	Mauritius	Turkey
Czech Republic	Nepal	Ukraine
Denmark	Netherlands	United Arab Emirates
Finland	New Zealand	United Kingdom
France	Norway	United States
Germany	Oman	Uzbekistan
Hong Kong	Pakistan	Vietnam
Hungary	Philippines	

F. Entry Visas

Foreign nationals of most countries who intend to stay in Thailand for 15 days or less are not required to obtain visas prior to entry. Nationals of 40 countries, including most Western, Southeast Asian and Middle East countries, are granted a 30-day stay at the point of entry.

The government of Thailand through its embassies or consulates overseas can issue many types of visas. However, the three principal types of visas requested by foreigners from Thai embassies and consulates are tourist visas, nonimmigrant visas and transit visas.

Tourist visas are granted for the purpose of tourism only and are normally valid for 60 days.

Nonimmigrant visas are necessary for foreign nationals who wish to remain in Thailand for a longer period of time or who wish to work in Thailand. The holder of a nonimmigrant visa is granted a stay of 90 days. The visa may be extended to a maximum of 12 months with permission from the Immigration Bureau. Foreign nationals who are 55 years of age and older or who invest at least Baht 3 million in Thailand may apply for one-year nonimmigrant visas.

Visitors in transit or those who are not required to obtain visas from a Thai embassy or consulate in their home countries normally are given transit visas and are granted a 30-day stay at the point of entry.

G. Work Permits and Self-Employment

Foreign nationals who wish to work in Thailand must obtain work permits from the labor authorities. To be eligible for a work permit, a foreign national must enter Thailand on a Non-Immigration Category "B" (Non-B) Visa.

The granting of a work permit is discretionary, based on such criteria as the nature of the work, the knowledge and skills of the applicant, the capital of the employer, and the proportion of Thai national employers to foreign national employees.

An application for a work permit must be submitted by the applicant's employer to the Ministry of Labor and Social Welfare, together with required documents, including the following:

- Passport or equivalent document and three photos of the applicant;
- Details of the employer's business and explanation of the need for the foreign employee;
- Evidence of the employer's registration and shareholding structure;
- Educational records and employment history of the applicant; and
- Recent health certificate of the applicant obtained in Thailand.

After all required documents are received, the time for processing a work permit can range from approximately a few days up to two weeks, depending on the qualifications of the employer in Thailand. Applicants may not begin working in Thailand while their work applications and other papers are being processed. To change employers after an applicant receives a work permit, the applicant must file a new application reflecting a change of employer.

Work permits are usually granted for one year. An application for renewal is needed if the holder wishes to continue working in Thailand.

Foreign nationals may establish businesses in Thailand if the type of business is not restricted to majority Thai shareholding by the Alien Business Law. Under a bilateral agreement, nationals of the United States may apply for exemption from this restriction.

H. Residence Permits

In general, ordinary residence permits are granted to no more than 100 foreign nationals each year; however, residence permits also may be granted to experts in certain fields through the Board of Investment.

An application for a residence permit must be submitted by the applicant to the Immigration Bureau, together with required documents, including the following:

- Passport or equivalent document and three photos of the applicant;
- Proof of financial means;
- Recent health certificate obtained in Thailand; and
- Statement certifying the applicant has no criminal record.

I. Family and Personal Considerations

Family Members. The working spouse of a work permit holder does not automatically receive a work permit; an application must be filed independently.

Marital Property Regime. Thailand does not have a community property or similar marital property regime.

Forced Heirship. No forced heirship rules apply in Thailand.

Drivers' Permits. Although Thailand has no driver's license reciprocity agreements with other countries, a foreign national may drive legally in Thailand with an international driver's license.

Obtaining a Thai driver's license requires taking a written examination and a driving test and undergoing a physical examination.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	(a)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	(a)
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(b)
Capital gain from sale of personal residence in home country	—	X	(b)
Capital gains from sale of stock in home country	—	X	(b)

* Bracketed amounts reduce taxable income.
(a) This item may be deductible in certain circumstances.
(b) This item is taxable if remitted to Thailand by a resident.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation is provided below for an expatriate who is married with two dependent children. The children are being educated in Thailand.

The expatriate earns annual net take-home pay of Baht 1,440,000. The expatriate's Thai employer provides housing to the employee at a cost to the company of Baht 360,000 per year. The company pays school fees of Baht 120,000 and a total of Baht 240,000 for the electricity and water supplied to the house. The following is the tax calculation.

	Baht	Baht
Calculation of Net Assessable Income		
Annual net take-home pay	1,440,000	
Annual housing allowance	360,000	
Electricity and water	240,000	
School fees	120,000	
Assessable income		2,160,000
Deductions and allowances:		
Deductible expense	(60,000)	
Personal allowance	(30,000)	
Spouse allowance	(30,000)	
Child allowance	(30,000)	
Education allowance	(4,000)	
Social security contribution	(9,000)	
Total deductions and allowances		(163,000)
Net assessable income		1,997,000
Calculation of Tax (Gross-up Method)		
Tax on net assessable income:		
Baht 100,000 at 0%	0	
Baht 400,000 at 10%	40,000	
Baht 500,000 at 20%	100,000	
Baht 997,000 at 30%	299,100	439,100
Baht 1,997,000		
Tax on tax:		
Baht 439,100 at 30%	131,730	
Baht 131,730 at 30%	39,519	
Baht 39,519 at 30%	11,856	
Baht 11,856 at 30%	3,557	
Baht 3,557 at 30%	1,067	
Baht 1,067 at 30%	320	
Baht 320 at 30%	96	
Baht 96 at 30%	29	
Baht 29 at 30%	9	
Baht 9 at 30%	3	
Baht 3 at 30%	1	188,186
Total tax payable		627,286

TRINIDAD AND TOBAGO

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A. Income Tax

Who Is Liable. Residents of Trinidad and Tobago are subject to tax on their worldwide income. An individual not resident in Trinidad and Tobago is taxable on income accruing in or derived from Trinidad and Tobago and on foreign income remitted to or received in Trinidad and Tobago.

Individuals are considered resident in Trinidad and Tobago if they are physically present in Trinidad and Tobago for a period of more than six months in the income year.

Income Subject to Tax. Taxable income is the aggregate of worldwide income from all specified sources after allowing for appropriate deductions and exemptions.

Employment Income. Taxable income includes the value of employer-provided benefits, including accommodation, transportation and tax equalization.

Self-Employment and Business Income. Taxable income consists of the aggregate amount of income from all sources, including self-employment and business income, after allowing the appropriate deductions.

Directors' Fees. Directors' fees and amounts paid by a company for expenses to any of its directors are subject to tax, with the exception of payments for retirement annuities.

Married persons are taxed separately, not jointly, on all types of income. No community property or other similar marital property regime applies.

Investment Income. Dividends received from a local company (other than preferred dividends) are exempt from tax. Interest received on bank deposits and certificates of deposits held at financial institutions in Trinidad and Tobago, as well as interest on bonds and similar instruments, is exempt from tax. Rental income and royalties are taxed with other ordinary income.

For nonresidents, a final withholding tax is levied at source at a rate of 20% on interest, royalties and management fees. A final withholding tax is imposed at a rate of 10% on dividends paid to a parent company. For other dividends paid to nonresidents, the final withholding tax rate is 15%. These withholding tax rates may be modified or eliminated under the provisions of a tax treaty (see Section E).

Capital Gains. Long-term capital gains are not subject to tax.

Any gain realized on the disposition of certain assets within 12 months after acquisition is taxable as ordinary income. Persons domiciled in Trinidad and Tobago are taxed on gains derived from sales of capital assets.

The following assets are exempt from tax:

- Currency other than Trinidad and Tobago currency acquired for personal expenditure abroad by the taxpayer or his or her family or dependants;
- Sums obtained as compensation or damages for any wrong or injury suffered by an individual in his or her personal life or profession or vocation; and
- Winnings from legal gambling.

The following gains are exempt from tax:
- Gains accruing on the disposal of any security in Trinidad and Tobago or elsewhere;
- Gains accruing on the disposal of personal automobiles, household goods or owner-occupied houses if these assets are disposed of for TT$5,000 or less; and
- Gains that are specifically exempt from tax under the law.

The following deductions are allowed:
- The cost (money or money's worth) of an asset, together with other expenses incidental to acquisition;
- Any expenditure incurred wholly and exclusively for enhancing the value of an asset (maintenance expenses are not allowable expenses); and
- Costs incurred wholly and exclusively in disposing of an asset, including legal fees and agent's fees.

Taxation of Employer-Provided Stock Options and Profit-Sharing Schemes. No specific provisions in Trinidad and Tobago regulate the taxation of employer-provided stock options. Therefore, the tax treatment is based on general principles and case law.

An option is taxed on its market value at the time of grant if the option gives the employee the right to acquire shares at less than the current market value. An option is not taxed at the time it is exercised. Any gains derived from the subsequent sale of the shares acquired under the option are exempt from tax.

Specific provisions apply to profit-sharing schemes. An employer that establishes an employee share ownership plan (ESOP) must contribute at least 40% of the annual bonus distribution to the plan's trustee for the purchase of company shares. When options are granted to employees, the shares have already been purchased on behalf of the employees. Contributions by the employer to the plan are not considered income to the employee and are not taxable. Distributions received by an employee from the shares held in trust are not subject to tax. If the shares are transferred to an employee under either of two specified conditions, the market value of all the shares transferred is deemed to be income accruing to the beneficial owner of the shares on the date of transfer and is included in the income of the individual for that income year. The following are the specified conditions:
- The employee is still employed by the employer, and the shares are transferred after five years from the date of allocation of the shares.
- The employee ceases to be employed by the employer for a reason other than retirement or death, and the shares are transferred after the employment ends.

Deductions

Deductible Allowance. A deductible allowance of TT$60,000 is granted.

Deductible Expenses. The following items are deductible from taxable income:

- Expenses up to TT$18,000 for tertiary education, other than at regional public institutions, for the taxpayer or the taxpayer's children.
- 70% of employees' contributions to the national insurance scheme.
- Contributions to an approved pension scheme or deferred annuity. The aggregate of these contributions and the deduction listed above is limited to TT$12,000.
- Housing allowance up to TT$10,000 for expenditure by first-time owners on a residence purchased before 1 January 2006 (applicable for first five years only).
- Unreimbursed travel expenses of an employee incurred in the production of income.
- Maintenance paid under a deed of separation or by court order, or alimony paid to a former spouse.

Business Deductions. The following expenses incurred wholly and exclusively in the production of income are deductible:

- Depreciation allowance: A depreciation allowance is available for assets employed in a business. The applicable rates range from 10% to 40%, depending on the class of the asset.
- Automobile depreciation allowance: Depreciation allowances are available for personally owned automobiles used for business purposes.
- Bad debts: Bad debts incurred that are proved to the satisfaction of the Board of Inland Revenue to have become worthless during the income year are deductible.
- Interest paid: Interest paid on loans or overdrafts is an allowable expense.
- Balancing charge and allowance: If a depreciable asset purchased before 1 January 1995 is sold or disposed of, either a balancing charge or balancing allowance is made, depending on whether the item is sold for more or less than its depreciated value.
- Rental payments: Rental expense is deductible in arriving at taxable income. This expense consists of the following elements:
  — Rental of equipment, plant and machinery;
  — Rental of buildings (must substantiate certain details); and
  — Rental of motor vehicles.
- Business entertainment: Only 75% of business meals and entertainment expenses may be deducted.
- Promotional expense allowance: This allowance provides for a deduction equal to 150% of the expenditure incurred.

Rates. For 2006, income tax is imposed at a flat rate of 25%.

Credits. Most tax credits have been replaced by the deductible allowance of TT$60,000.

Relief for Losses. Business losses carried forward may be written off to the full extent of taxable business profits in the same tax year. The unrelieved balance may be carried forward indefinitely. No loss carrybacks are allowed.

B. Other Taxes

Estate and Gift Taxes. No inheritance or estate tax is levied on a deceased person's estate, and no tax is levied on gifts.

Business Levy. Sole traders and self-employed persons engaged in a trade or business are subject to a business levy on gross sales or receipts (other than emolument income) at a rate of 0.20%. This levy applies only if gross sales or receipts exceed TT$200,000 for the income year. Any income tax paid may be credited against the individual's business levy liability if the business levy liability is higher. An exemption applies for the first three years of the business.

C. Social Security

Trinidad and Tobago has no social security program. A national insurance program provides pension, sickness and maternity benefits. The employer's weekly required contributions for 2005 range from TT$8.58 for employees earning less than TT$160 per week to TT$66.66 for employees earning TT$1,010 or more per week. The employee's weekly required contributions range from TT$4.29 to TT$33.33.

Employees under 16 years of age, unpaid apprentices and persons 60 years of age and older, as well as these individuals' employers, are exempt from the national insurance contribution requirement.

The following health surcharge tax is levied on every employed person who makes, or is required to make, contributions under the National Insurance Act and on individuals, other than employed persons, who must file income tax returns.

Income		Weekly
Weekly TT$	Monthly TT$	Contribution TT$
0 to 109	0 to 470	4.80
Over 109	Over 470	8.25

D. Tax Filing and Payment Procedures

The tax year in Trinidad and Tobago is the calendar year. Married persons are taxed separately, not jointly, on all types of income. In general, every person in receipt of income must file an income tax return by 30 April of the year following the tax year. However, taxpayers whose sole income is from employment are not required to file tax returns, unless specifically requested by the Board of Inland Revenue. Every person receiving income from any trade, business, profession or vocation must file an income tax return for the year of income, even if the business operated at a loss. Penalties of TT$100 are imposed on late returns for every six months or part thereof past the due date.

Employers must deduct tax from employees under the Pay-As-You-Earn (PAYE) system.

Every person in receipt of income other than employment income must pay tax in four equal installments on or before 31 March, 30 June, 30 September and 31 December in each income year. Each installment should equal one-quarter of the tax on chargeable income for the preceding year. The balance of tax due, if any, must be paid no later than 30 April of the following year. Late payment of a quarterly installment results in an interest charge at a rate of 20% a year.

If the current year's tax liability exceeds the previous year's tax liability, total quarterly payments for the current year must equal at least the previous year's liability plus 80% of the current year's tax increase. If this requirement is not met, interest is charged at a rate of 20% a year on the underpayment.

Nonresidents must file tax returns for any year in which they derive income from Trinidad and Tobago sources. To file returns, nonresidents follow the administrative rules that apply to residents. In addition, nonresidents must satisfy the tax authorities that all outstanding tax liabilities are settled before a tax clearance is issued allowing them to leave Trinidad and Tobago.

E. Double Tax Relief and Tax Treaties

Unilateral Relief. A credit is available to residents for foreign taxes paid on foreign-source income. The credit may not exceed Trinidad and Tobago tax payable on the underlying foreign-source income.

A nonresident who proves to the satisfaction of the Board of Inland Revenue that he or she has paid, or is liable for, Caribbean Commonwealth (CARICOM) income tax (see below) on Trinidad and Tobago income is entitled to double tax relief on foreign-source income at a rate determined under the following rules:

- If the appropriate CARICOM tax rate does not exceed the tax rate in Trinidad and Tobago, relief is given at one-half of the CARICOM rate of tax.
- If the appropriate CARICOM tax rate exceeds the Trinidad and Tobago rate, relief is given in the amount by which the Trinidad and Tobago rate exceeds one-half of the CARICOM tax rate.

Relief Under Double Tax Treaties. Trinidad and Tobago has entered into double tax treaties with the following countries.

Canada	India	Switzerland
China	Italy	United Kingdom
Denmark	Luxembourg	United States
France	Norway	Venezuela
Germany	Sweden	

In addition, the treaty with the CARICOM states (Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent) provides reduced rates of withholding tax.

F. Entry Visas

Only Trinidad and Tobago nationals and residents have the right to enter the country freely. Nonresidents are subject to varying entry requirements, depending on whether a temporary visa or resident status is required. General entry visas are not required for nationals of countries that are members of the following:

- CARICOM;
- European Union (EU); or
- British Commonwealth.

Certain exceptions apply to the European Union and the British Commonwealth.

Obtaining a visa for entry into Trinidad and Tobago does not ensure that entry will be permitted. The immigration officer makes the final decision on whether to allow entry. Under the Immigration Act of 1969, an officer may allow entry to the following classes of persons:

- Diplomatic or consular officers of any country, representatives of the United Nations or any of its agencies, and officials from international organizations in which Trinidad and Tobago participates, who are entering the country to carry out official duties or to pass through in transit;
- Tourists and visitors;
- Persons passing through the country to another country;
- Clergy, priests or members of religious orders entering to carry out religious duties;
- Students entering to attend a university or college authorized by statute to confer degrees, or an educational or training establishment recognized by either the Permanent Secretary of the Ministry of National Security or the Chief Immigration Officer;
- Members of crews entering Trinidad and Tobago for shore leave or some other legitimate and temporary purpose; and
- Persons entering to engage in a legitimate profession, trade or occupation.

At the point of entry, the immigration officer issues a landing certificate, which states the terms and the permitted period of stay. The officer may require the person entering to furnish security in the form of a deposit or a bond to cover the cost of repatriation and other incidental expenses.

G. Work Permits and Self-Employment

Trinidad and Tobago has a well-educated labor force with an adequate supply of skilled workers. Therefore, the government requires offering employment opportunities first to Trinidad and Tobago nationals and residents before nonresidents. The Ministry of National Security requires specific and detailed information before granting foreign nationals work permits. In practice, however, in highly technological industries, most foreign investors prefer to rely on expatriate personnel at the senior management level.

Individuals entering Trinidad and Tobago for business-related purposes do not have to obtain work permits from the authorities if they do not interact with the general public and do not receive remuneration for work conducted there.

Traveling salespeople must obtain valid work permits and Traveling Salesman Licenses to enter Trinidad and Tobago. The licenses allow salespeople to engage in sales and set the conditions for their stays.

Broadly, individuals offered business offices or employment in Trinidad and Tobago who are not residents of countries that belong to the CARICOM, EU or the British Commonwealth must obtain both entry visas and work permits.

A foreign national interested in establishing a business in Trinidad and Tobago must apply for a work permit. Foreign subsidiaries and branches may be headed by foreign nationals.

Foreign nationals intending to work in Trinidad and Tobago for less than 30 days do not require work permits. All persons entering the country for work purposes are automatically granted 30-day stays. After 30 days, the employers of persons wishing to extend their work permits must apply to the Permanent Secretary at the Ministry of National Security. The employer should include a statement indicating the steps taken to recruit a citizen or resident of Trinidad and Tobago for the position in question.

The Ministry of National Security usually requires employers to advertise locally to secure the services of a Trinidad and Tobago national. The employer must document the results by presenting the advertisements and responses to the Ministry of National Security along with the foreign national's work permit application. The application is a prescribed government form known as the Application for a Work Permit or an Extension of a Work Permit (Form 3), which requires detailed information on the prospective employee, including academic or technical training, job experience and on-the-job training. The completed form must be accompanied by three photographs of the prospective employee, a police certificate covering the previous five years and two written character references (one must be from the last employer). The application must be submitted with a nonrefundable application fee of TT$600.

The Work Permit Advisory Committee reviews applications and may seek advice from competent sources within Trinidad and Tobago about the requirements for the position and whether a qualified national is available to fill the position. If the committee is satisfied that all the requirements are met, approval is granted subject to the payment of TT$450 for each month the work permit is issued. The committee meets every two weeks to review applications; in most circumstances, approval is granted within one month.

The approval form and the work permit state the name of the nonresident employee and the position for which he or she is employed, and specify certain conditions. In many cases, the conditions relate to the repatriation of the nonresident employee at the end of the approved period and to training a national employee as an understudy.

Trinidad and Tobago's immigration laws do not provide for any exemptions from obtaining entry visas and work permits. However, the following facilitation policies apply:
- Reciprocal agreement: By virtue of the Visa Abolition Agreement, nationals of Brazil, Canada, Denmark, Finland, Germany, Ireland, Italy, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States are not required to obtain visas to enter Trinidad and Tobago.
- Short-term work visits: Persons intending to work in Trinidad and Tobago for less than 30 days do not need work permits.
- Nonprofit organizations: A work permit is required for a nonprofit organization intending to hire a foreign national. However, the application and final approval fees are waived.
- Free Zone operations: Under the Free Zones Act, workers employed by approved enterprises engaged in free zone operations are not subject to work permit application procedures.

H. Residence Permits

The Ministry of National Security may grant permanent resident status to any of the following persons:
- A person who has ceased to be a citizen of Trinidad and Tobago;
- A spouse, parent or grandparent of either a citizen or a resident; and

- A person who, by reason of education, employment, training, skills or other qualifications, has established, or is likely to establish, a successful profession, trade, self-operating business or agricultural enterprise in Trinidad and Tobago and who has sufficient means of support while in the country.

A person who has been a continuous resident of Trinidad and Tobago must apply for resident status to the Permanent Secretary of the Ministry of National Security and must present the circumstances of his or her particular case. In determining the suitability of an applicant, the Ministry of National Security must have a good character certificate for the applicant from the police in Trinidad and Tobago. If an application for resident status is refused, the applicant may reapply one year after the date of receipt of the refusal.

I. Family and Personal Considerations

Family Members. The family members of a working expatriate must obtain separate residence permits to reside with the expatriate in Trinidad and Tobago. Any family member of a working expatriate wishing to work in Trinidad and Tobago must obtain his or her own work permit. The children of a working expatriate do not need student visas to attend schools in Trinidad and Tobago.

Marital Property Regime. No community property or other similar marital property regime applies in Trinidad and Tobago.

Drivers' Permits. Foreign nationals may drive legally in Trinidad and Tobago with their home country drivers' licenses for 30 days after the date of arrival. They must keep valid passports with them at all times. Persons with international drivers' licenses must have them stamped by the Trinidad and Tobago Automobile Association. These licenses are valid for one year. To obtain a local Trinidad and Tobago driver's license, a foreign national must take an eye test, a written examination and a practical driving examination.

TUNISIA

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A. Income Tax

Who Is Liable. All individuals whose habitual residence is in Tunisia must pay income tax on all benefits or income received in the previous year. Nonresident individuals are taxed on Tunisian-source income. They are subject to a 15% final withholding tax on such income.

Individuals are considered tax residents if they meet any of the following conditions:

- They maintain their home in Tunisia;
- They are present in Tunisia for at least 183 days during the year; or
- They are civil servants or state officials performing their duties or assignments in a foreign country, and they are not subject to personal tax on their global income in the foreign country.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income includes total compensation after deducting the employee's social contributions and personal deductions and allowances.

Self-Employment and Business Income. Self-employed individuals are divided into two categories for tax purposes, depending on the nature of their activities. They may be taxed on income from commercial and industrial activities or on income from agricultural and fishing activities.

Net commercial and industrial income realized by each taxpayer in the previous year is included in the income tax base. Net income is calculated using the global results from operations of any kind performed by the company. Net income is the difference between the value of net assets at year-end and at the beginning of the period.

Net profits for farms or fishing businesses are total receipts realized during the calendar year, over expenses required to run the business during the same year. If accounts are kept, farm and fishing businesses apply the rules for industrial and commercial income. If no accounts are kept, a flat tax is assessed on taxable income.

Investment Income. Profits distributed by companies are not subject to the tax on securities income.

Interest is subject to the tax on income derived from sales of movable assets at the rates set forth in *Rates*.

Capital Gains. Capital gains derived from the sale of corporate assets, land for construction or buildings are included in taxable income and are taxed at the rates set forth in *Rates*.

Taxation of Employer-Provided Stock Options. No specific law in Tunisia addresses the taxation of employer-provided stock options. Under common law, options are taxed at the time of exercise on the difference between the exercise price and the fair market value of the stock. The benefit is subject to both income tax and social security contributions.

Deductions

Deductible Expenses. The following expenses are deductible:

- The required amounts withheld by the employer for contributions to annuities, pensions, retirement funds or mandatory social security schemes; and
- Professional expenses equal to 10% of the balance of income after the deduction of amounts withheld.

Personal Deductions and Allowances. The following personal deductions are granted:

- Mandatory arrears and annuities paid free of charge;
- Premiums from certain life insurance policies;
- Interest received by the taxpayer for special savings accounts, limited to an annual amount of TD 1,500;
- Rental income from property that houses students;
- TD 150 for heads of families, in addition to TD 90 for the first child, TD 75 for the second, TD 60 for the third, TD 45 for the fourth, plus 5% of net income per dependent parent, up to a combined maximum of TD 150; and
- TD 500 for employees with the guaranteed minimum wage.

Rates. Income tax is levied on residents at the following rates.

Taxable Income		Tax on Lower	Rate on
Exceeding TD	Not Exceeding TD	Amount TD	Excess %
0	1,500	0	0
1,500	5,000	0	15
5,000	10,000	525	20
10,000	20,000	1,525	25
20,000	50,000	4,025	30
50,000	—	13,025	35

Nonresident individuals are subject to a final withholding tax at a rate of 15% on their Tunisian-source income.

For a sample tax calculation, see Appendix 2.

B. Estate and Gift Taxes

Heirs or legatees must file and register a declaration of inherited property within a year following the decedent's death.

Gifts must be recorded within 60 days after the date of the gift.

The following are the rates of tax on gifts and inheritances:

- 2.5% for direct lineal relatives (children, spouses and parents) and 5% for indirectly related individuals. However, gifts of houses given to a spouse under the community regime are subject to a charge of DT 15 per page and per copy.
- 25% for collateral lineal relatives.
- 35% for relatives beyond the fourth degree and for unrelated individuals.

C. Social Security

Employees pay social security contributions on their salaries at a rate of 7.75%. The total rate for contributions paid by the employer is 16%. No ceiling applies to the amount of wages subject to social security contributions.

D. Tax Filing and Payment Procedures

For individuals with a habitual residence in Tunisia, income tax is due on 1 January of each year on all benefits or income realized over the previous year.

The deadline for filing the tax return is 25 February for individuals realizing income on movable assets and 5 December for employees or individuals benefiting from pensions or life annuities.

E. Double Tax Relief and Tax Treaties

Tunisia has entered into double tax treaties with the following countries.

Algeria	Korea	Qatar
Austria	Kuwait	Romania
Belgium	Libya	Senegal
Canada	Luxembourg	South Africa
Czech Republic	Mali	Spain
Denmark	Mauritania	Sweden
Egypt	Morocco	Switzerland
Ethiopia	Netherlands	Syria
France	Norway	Turkey
Germany	Oman	United Arab Emirates
Indonesia	Pakistan	United Kingdom
Italy	Poland	United States
Jordan	Portugal	Yemen

These treaties generally stipulate that wages and compensation are taxed in the state where the activity is performed. Dividends and interest are taxed differently, depending on whether the source is Tunisian or foreign.

F. Entry Visas

Tunisia issues entry visas for stays of less than three months; work permits; residence permits, which often require applicants to possess work permits; and commercial cards for individuals possessing certain capital and skills beneficial to the Tunisian economy.

The requirements for entering, working and residing in the country depend on the foreign national's country of citizenship. Nationals of European Union (EU) countries are not required to obtain entry visas to visit Tunisia. Nationals of France and the Union of the Arab Maghreb (Union du Maghreb Arabe, or UMA) may enjoy certain special work and residence privileges.

Foreign nationals must obtain entry visas from Tunisian embassies or consulates for stays of less than three months. Entry visas are not required for citizens of EU-member countries or citizens of countries that have signed treaties of reciprocity with Tunisia.

G. Residence Permits

Foreign nationals intending to stay in Tunisia for longer than three months must apply to the Ministry of the Interior for residence permits (*cartes de séjour*). Residence permits are usually granted to foreign nationals who obtain work permits (see Section H). A residence permit is valid for one year and may be renewed after an employee secures a renewed work permit.

H. Work Permits and Self-Employment

Foreign nationals wishing to work in Tunisia must obtain work permits and residence permits before beginning employment. The Ministry of Training and Employment requires specific documentation before permitting a foreign national to work in Tunisia. The ministry ensures that all employment opportunities are made available to Tunisian citizens before offering employment to foreign workers.

A foreign national wishing to practice a salaried professional activity in Tunisia must have an employment contract, which must be signed by both the employer and employee and then submitted for approval to the Ministry of Training and Employment. The employee must also provide a résumé and any diplomas and transcripts certifying his or her qualifications. The ministry requires a certificate attesting that a local Tunisian with similar qualifications was not available.

Work permits issued by the ministry have specific expiration dates. The work permit period may not exceed two years. To renew the work permit, the employer must again seek approval from the ministry by justifying the need to hire a foreign worker.

In all but certain exempt categories, Tunisian employers are prohibited from recruiting foreign employees who do not have employment contracts authorized by the Ministry of Training and Employment and residence permits. An employer is also prohibited from recruiting a foreign worker whose employment contract with a prior employer has expired. Employers must notify the ministry of the departure of each foreign worker from their firm.

Exemptions. The following foreign nationals are exempt from obtaining employment contract approval:
- Foreign nationals acting as employers in Tunisia;
- Nationals of the UMA, a regional association that includes Algeria, Libya, Mauritania and Morocco;
- Foreign workers born and living permanently in Tunisia; and
- Employees of the following employers:
  - — Offshore banks and financial companies working with nonresidents. These companies may recruit foreign managers and staff and must notify the Central Bank of Tunisia of any such recruitment.
  - — Petroleum companies specializing in research and production of hydrocarbons. These companies are allowed to recruit foreign managerial staff for exploration work.
  - — Companies wholly engaged in exports. These companies may recruit up to four managers and executives of foreign nationality for each activity after advising the Ministry of Training and Employment. Beyond this limit, projects must comply with a Tunisification program, which specifies deadlines for the replacement of foreign personnel by Tunisian nationals.

In all of the cases described above, employers must report recruitment of foreign nationals to the Ministry of Training and Employment. The ministry delivers an exemption certificate for each notification.

French Citizens. French citizens who have resided in Tunisia for at least three years following the date of the Tunisia/France Residence and Work Treaty (17 March 1988) may automatically obtain residence and work permits valid for 10 years. The work permits allow French citizens to perform any kind of salaried work in Tunisia. French citizens who have been married to Tunisian citizens for one year are also eligible for residence permits and work permits valid for 10 years. French spouses and minor children of holders of 10-year residence and work permits may benefit from the same advantages. French citizens who reside continuously in Tunisia for 10 years automatically receive 10-year residence and work permits.

Self-Employment. Individuals possessing certain capital and skills beneficial to the Tunisian economy may obtain a business visa (*carte de commercant*), which allows the holder to reside and conduct business in Tunisia.

I. Family and Personal Considerations

Family Members. The spouse and dependent children of a foreign national may accompany the worker to Tunisia. However, they are generally not permitted to work in Tunisia unless they qualify independently for work permits (see Section H for exceptions).

Drivers' Permits. A foreign national may drive legally in Tunisia with a home country driver's license for three months.

Tunisia does not have driver's license reciprocity with other countries.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contribution to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	X	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	—	X	—
Value of hotel provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(b)
Capital gain from sale of personal residence in home country	X	—	(b)
Capital gain from sale of stock in home country	X	—	(b)

(a) This item is taxable if either of the following circumstances exists: Tunisia has not entered into a social security tax treaty with the home country of the employee; or the employer does not have the status of a wholly exporting company.

(b) These items are taxable in Tunisia if they are not taxed in the home country of the individual.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for an expatriate who is a resident in Tunisia for all of 2005 and is married with two dependent children under 20 years old. During 2005, the expatriate received compensation of TD 100,000, TND 60,000 of which was paid in Tunisia and the balance in a home-country bank account and not remitted to Tunisia. The individual's employer also provided housing at a cost to the company of TD 10,000. The expatriate earned dividends of TD 5,000 from a home-country investment. These dividends were remitted to Tunisia and were not taxed abroad. The following is the tax calculation.

	TD	TD
Calculation of Taxable Income		
Salary	100,000	
Housing value	10,000	
Total compensation		110,000
Dividends		5,000
Deduction of professional expenses (10% of TD 110,000)	(11,000)	
Personal deductions:		
Head of family	(150)	
First child	(90)	
Second child	(75)	
Total deductions		(11,315)
Taxable income		103,685

Calculation of Tax

Tax on TD 1,500	at 0%	0
Tax on TD 3,500	at 15%	525
Tax on TD 5,000	at 20%	1,000
Tax on TD 10,000	at 25%	2,500
Tax on TD 30,000	at 30%	9,000
Tax on TD 53,685	at 35%	18,790
TD 103,685		
Income tax payable		31,815

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A. Income Tax

Who Is Liable. Individuals who are resident in Turkey are subject to tax on their worldwide income. Nonresidents are taxed on earnings and revenue arising in Turkey only.

Residents include individuals with legal residence in Turkey and those who reside in Turkey for more than six months during one calendar year.

Income Subject to Tax. Turkey has a unitary taxation system, under which income derived from different sources is aggregated, and tax due is computed on the total aggregate income. Under the unitary system, withholding taxes are considered advance payments of tax and are credited against tax due in the annual return.

Taxable income includes commercial and agricultural profits, remuneration, professional service income, real estate income, income from capital investments and other income.

Nonresidents are taxed on Turkish-source income only. Salaries and trade or business income from a permanent establishment located in Turkey are taxed at the rates set forth in *Rates*.

The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable remuneration includes salary, other compensation for services and benefits paid in cash or in kind. Certain payments made by the employer on behalf of the employee, including payments for rent and utilities, are grossed up and taxed at the rates set forth in *Rates*. In determining taxable income, expenses allowable under the income tax law are deducted from gross revenue.

Individuals in Turkey who work for nonresident entities and are compensated in foreign currency are not taxed on their salaries if all of the following conditions are met:
- The nonresident entity pays the salaries out of earnings derived abroad;
- The salary payments are not charged as expenses against profits taxable in Turkey; and
- The amount of compensation is brought into Turkey as foreign currency.

Investment Income. Resident and nonresident individuals are subject to withholding tax on dividends, interest and royalties. A 10% withholding tax is imposed on dividends. Royalties for patents and copyrights are subject to a 22% withholding tax. Withholding tax is imposed on interest at a rate of 15%. Certain interest payments are exempt from tax.

Capital Gains. Capital gains are generally included in ordinary income. However, capital gains derived from transfers of shares are exempt from income tax if the shares are held for a specific period before disposal. Under an amendment to the law, for shares of listed resident companies obtained on or after 1 January 2006, the holding period is one year. In addition, for shares of unlisted resident companies, the holding period is two years if the disposal of the shares occurs without the intermediation of a bank or an intermediary institution. Shares obtained before 1 January 2006 are subject to the former rules.

Taxation of Employer-Provided Stock Options. No specific rules in Turkey govern the tax treatment of employer-provided stock options. Under the general tax provisions, options are taxable as fringe benefits at the time of exercise. In addition, under certain circumstances, stock options are subject to stamp tax at a rate of 0.6% and may be subject to social security contributions (see Section C).

Deductions. An individual who renders independent professional services may deduct from taxable income ordinary business expenses, including salaries, rental payments, fees and the cost of utilities. Depreciation on fixed assets is also allowed.

Rates. A bill containing amendments to the Income Tax Code was being considered by parliament at the time of writing. The bill, which is expected to be enacted, provides the tax rates for 2006. The following table sets forth the 2006 tax rates for single and married individuals under the bill.

Taxable Income Exceeding NTL	Taxable Income Not Exceeding NTL	Rate on Excess %
0	7,000	15
7,000	16,000	20
16,000	40,000	27
40,000	—	35

Remuneration paid by local employers is also subject to a 0.6% stamp duty.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Self-employed individuals engaged in a business may carry forward business losses for five years. No loss carry-backs are allowed.

B. Inheritance and Gift Tax

For 2006, beneficiaries and gift recipients are subject to inheritance and gift tax at rates ranging from 1% to 30%.

Turkish citizens are subject to inheritance and gift tax on worldwide assets received. Resident foreigners are subject to inheritance and gift tax on worldwide assets received from Turkish citizens and on assets located in Turkey received from resident foreigners or nonresidents. Nonresident foreigners are subject to inheritance and gift tax on assets located in Turkey only.

C. Social Security

All employees of Turkish entities are subject to a national social insurance system that covers work-related accidents and illness, pregnancy, disability and death. It also provides retirement benefits. Employers and employees pay monthly contributions at varying percentages calculated on gross salary up to a ceiling amount stated in the Social Security Law. The 2006 ceiling for monthly salary subject to social security contributions is YTL 3,451.50. Expatriate employees pay contributions at a rate of 14%; their employers pay at a rate of 19.5%. For most other employees, the rate is 14% for employees and 19.5% for employers.

Employees who are subject to social security contributions in their home country may not be subject to social security contributions in Turkey if they prove their social security status by submitting legal documents obtained from the relevant foreign social security institution.

To provide relief from double social security premiums and to assure benefit coverage, Turkey has entered into totalization agreements, which usually apply for a maximum of two years, with the following countries.

Albania	Denmark	Northern Cyprus
Austria	France	Norway
Azerbaijan	Georgia	Quebec
Belgium	Germany	Romania
Bosnia-Herzegovina	Libya	Sweden
Canada	Luxembourg	Switzerland
Czech Republic	Macedonia	United Kingdom
	Netherlands	

D. Filing and Payment Procedures

Employers must withhold income tax from salaries and wages paid to employees.

A taxpayer who derives commercial or self-employment income must file and pay advance income tax quarterly. The advance tax amount equals 30% of net income. Advance tax paid is deducted from the income tax payable in the final tax return. Under the tax amendment bill presented to parliament, it is expected that the advance tax rate will be reduced to 20% for 2006.

Nonresidents are generally not required to file income tax returns if they have only earnings subject to withholding tax. Expatriates or Turkish citizens who reside in Turkey with the intention of staying must file income tax returns for other sources of earnings, including commercial income.

E. Double Tax Relief and Tax Treaties

A credit is available for foreign taxes paid, up to the amount of Turkish tax applicable on the underlying foreign-source income.

Turkey has entered into double tax treaties with the following countries.

Albania	Iran	Poland
Algeria	Israel	Romania
Austria	Italy	Russian Federation
Azerbaijan	Japan	Saudi Arabia
Bangladesh	Jordan	Singapore
Belarus	Kazakhstan	Slovak Republic
Belgium	Korea (South)	Slovenia
Bulgaria	Kuwait	Spain
China	Kyrgyzstan	Sudan
Croatia	Latvia	Sweden
Czech Republic	Lithuania	Syria
Denmark	Luxembourg	Tajikistan
Egypt	Macedonia	Thailand
Estonia	Malaysia	Tunisia
Finland	Moldova	Turkmenistan
France	Mongolia	Ukraine

Germany	Netherlands	United Arab Emirates
Greece	Northern Cyprus	United Kingdom
Hungary	Norway	United States
India	Pakistan	Uzbekistan
Indonesia		

F. Entry Visas

Under Turkish law, foreign nationals, as well as Turkish citizens, who wish to enter Turkey must present their passports at the port of entry.

A nonresident must obtain a visa from the Turkish embassy or consulate in his or her home country before entering Turkey. Certain exemptions are provided under local laws and international agreements.

Nationals of European Union (EU) member countries may travel for up to three months in Turkey with tourist visas obtained at the port of entry.

G. Work Permits and Self-Employment

The reciprocity principle in international relations is considered in evaluating applications for work and residence permits. Aside from reciprocity criteria, only domestic economic problems may cause difficulties in receiving work and residence permits.

All expatriates, including EU nationals, must obtain work and residence permits to work in Turkey. However, a different procedure will apply for EU nationals after Turkey's admittance to the EU.

An expatriate may not work in Turkey without a work permit. In addition, an international executive working in private-sector enterprises must have proper qualifications. If the individual does not have a valid residence permit, he or she may file an application for such permit with the Turkish embassy or consulate. Otherwise, the individual or the Turkish firm that intends to employ the individual may file the application with the Ministry of Internal Affairs (for further details regarding residence permits, see Section H).

The Turkish firm that will employ the expatriate must file a permit application with the Ministry of Labor and Social Security after the employee has filed an application with the Turkish consulate in his or her home country.

The duration of a work permit may range from one year to an unlimited period, depending on the conditions met by the nonresident. An application for renewal should be filed before the expiration of the work permit. If an expatriate has been working in Turkey for an extended period, the permit renewal is still required but is much easier to obtain.

H. Residence Permits

Foreign nationals may obtain residence permits not based on work permits, which are valid for up to five years. However, the duration of residence permits that are based on work permits are limited to the duration of the work permits. Residence permits are renewable an unspecified number of times. The duration of the renewed permits depends on the nature and duration of the business conducted in Turkey.

I. Family and Personal Considerations

Family Members. After the foreign national obtains a residence permit, the spouse and children may apply for their own residence permits.

The working spouse of a foreign national must apply for a separate work permit.

Marital Property Regime. The ordinary marital property regime in Turkey is participation in the jointly acquired properties. However, spouses may elect a regime of separate property.

Forced Heirship. Turkish succession law provides for forced heirship. If a decedent leaves descendents and a surviving spouse, the spouse is entitled to one-quarter of the entire intestate share. Other legal portions range from one-quarter to three-quarters of the forced heir's intestate share.

Drivers' Permits. A foreign national may drive legally in Turkey for tourist purposes with his or her home country driver's license for a short period of time.

Foreign nationals intending to stay in Turkey for a long period of time must obtain a Turkish driver's license. To exchange a foreign driver's license for a Turkish driver's license, the original foreign driver's license, a copy of the driver's license translated into Turkish and ratified by the consulate or a notary public and additional documents must be submitted to the relevant traffic registration office.

Turkey is a signatory to the Vienna Agreement of 8 November 1968.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	(a)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	—	X	(b)
Value of lodging provided	X	—	(c)

Other Items	Taxable*	Not Taxable	Comments
Personal ordinary income (interest and dividends)	—	X	(d)
Capital gain from sale of personal residence in home country	—	X	(e)
Capital gain from sale of personal residence in host country	—	X	(f)
Capital gain from sale of stock in host country	—	X	(g)

* The bracketed amount reduces taxable income.

(a) Moving expense reimbursements provided to expatriate employees are not taxable if they are proved by authentic documents, such as tickets.

(b) Meals provided to the employees in the vicinity of the enterprise are not subject to tax.

(c) In general, the value of lodging is not taxable to laborers working in mines and factories. Otherwise, it is taxable.

(d) Withholding tax is imposed on dividends and interest. This withholding tax is a final tax for nonresident individuals. See Section A.

(e) Capital gains derived by nonresidents from the sale of personal residences outside Turkey are not taxable.

(f) Capital gains derived by nonresidents from the sale of personal real estate in Turkey is subject to tax if the real estate is sold within four years after acquisition.

(g) Capital gains derived from the sale of Turkish shares are not taxed if they are held for a specified time period (see Section A).

APPENDIX 2: SAMPLE TAX CALCULATION

The following is a sample 2006 tax calculation for an expatriate whose only income is remuneration received from an employer.

	NTL	NTL
Calculation of Taxable Income		
Monthly gross remuneration		10,000
Social security premium for the employee (NTL 3,451.50 at 14%)		(483.21)
Taxable income		9,516.79
Calculation of Tax		
Withholding tax (income tax):		
NTL 7,000 at 15%	1,050.00	
NTL 2,516.79 at 20%	503.36	1,553.36
Stamp duty:		
(0.6% of NTL 10,000)*		60.00
Total tax		1,613.36

* Remuneration paid by local employers is also subject to a 0.6% stamp duty.

TURKMENISTAN

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A. Income Tax

Who Is Liable. Residents are subject to tax on worldwide income. Nonresidents are taxable on Ugandan-source income only.

Individuals are considered resident in Uganda for tax purposes if they meet at least one of the following conditions:
- They maintain a permanent home in Uganda.
- They are present for 183 or more days in the tax year. The tax year runs from 1 July to 30 June.
- They are present for an average of 122 days in the tax year and the two preceding tax years.
- They are employees or officials of the government of Uganda posted abroad during the tax year.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income includes wages, salaries, vacation pay, sick pay, payment in lieu of vacation, directors' fees, commissions, bonuses, gratuities, and entertainment or other allowances received for employment. Employment income also includes most benefits in kind, including employer-provided car, housing and stock options. Travel allowances are taxable if they are deemed to be excessive.

Education cash allowances provided by the employer to all of the employer's local and expatriate staff are taxable for income tax purposes and social taxes. However, the allowances are not subject to social taxes if the employer pays directly the school fees to the school or college, or reimburses the actual fees paid by the employee.

A nonresident is subject to income tax on employment earnings if his or her employer is resident in Uganda or has a permanent establishment in Uganda. Income derived from services performed outside Uganda is exempt from tax.

Self-Employment and Business Income. Business income includes trading profits; gains from disposals of business assets, shares of profits or partnership interests; professional and management fees; and insurance compensation and legal damages for loss of profits.

Investment Income. Dividends received by residents and nonresidents are subject to final withholding tax at a rate of 15%. Royalties are aggregated with other income and are taxed at the rates set forth in *Rates*. Income received by residents from the rental of immovable property is taxed separately at a rate of 20% on net income in excess of U Sh 1.56 million. Net income is defined as 80% of gross rent received. A final withholding tax is levied on interest income received by residents at a rate of 15%.

Nonresidents are subject to withholding tax at a rate of 15% on investment income, income from the rental of real property, management fees, consultancy fees and any payments for services performed in Uganda.

Capital Gains. Capital gains derived from the disposal of business assets are subject to tax at a rate of 30%.

Deductions

Personal Deductions. No personal deductions are allowed.

Business Deductions. Expenses are deductible to the extent they are incurred in the production of income. Identified bad debts incurred in the production of taxable income are also deductible.

Certain plant and machinery qualify for both an initial allowance of either 50% or 75% and an annual capital allowance deduction. The amount of the initial allowance is subtracted from the depreciable cost of an asset.

Capital allowances for industrial buildings and certain commercial buildings are permitted on a straight-line basis over 20 years. In addition, industrial buildings qualify for an initial allowance of 20% if their construction begins on or after 1 July 2000. Plant and machinery is eligible for a wear-and-tear allowance using the declining-balance method at rates ranging from 20% to 40%.

Rates. The resident individual tax rates for the 2005-06 tax year are set forth in the following table. These rates apply to employment income and taxable business income.

Annual Taxable Income		Tax on Lower	Rate on
Exceeding U Sh	Not Exceeding U Sh	Amount U Sh	Excess %
0	1,560,000	0	0
1,560,000	2,820,000	0	10
2,820,000	4,920,000	126,000	20
4,920,000	—	546,000	30

For nonresidents, taxable income, including investment income, is taxed at the rates in the following table.

Annual Taxable Income		Tax on Lower	Rate on
Exceeding U Sh	Not Exceeding U Sh	Amount U Sh	Excess %
0	2,820,000	0	10
2,820,000	4,920,000	282,000	20
4,920,000	—	702,000	30

The amount of tax payable is reduced by tax withheld.

Income derived by resident individuals from the rental of real property is taxed at a rate of 20% on chargeable income in excess of U Sh 1,560,000.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses may be carried forward indefinitely to be offset against future profits. They may not be carried back.

B. Other Taxes

Uganda imposes a value added tax (VAT) on the sale or import of taxable goods and services. The standard VAT rate is 17%. Certain goods and services are zero rated, and others are exempt.

Uganda charges import duty on most imports except exempt imports. A traveler is allowed duty-free imports of up to US$500.

Effective from 1 February 2005, the East African Community Customs Union (EACCU) consisting of Kenya, Tanzania and Uganda, became operational. The EACCU provides for duty-free movement of goods among member states and a common external tariff (CET) on goods from third countries. The CET is imposed at a rate of 0% to 50% on goods imported from third countries into Uganda. Eligible goods from Common Market of East and Southern Africa (COMESA) and Southern African Development Community (SADC) countries continue to attract preferential treatment for 2005 and 2006. The import duty rates on goods imported into Uganda from Kenya will be reduced two percentage points per year, from 10% to 0% over the next five years. The EACC also provides various tax incentives for producers of goods for export.

Uganda charges excise duty on certain items, including spirits, beer, soft drinks, cigarettes and mobile phone airtime.

Estate and gift tax is not levied in Uganda. Net worth tax is not levied in Uganda.

C. Social Security

The National Social Security Fund (NSSF) is a statutory savings program to provide employees with retirement benefits. Employees contribute 5% of their total annual salaries, and employers contribute an amount equal to 10% of each employee's total salary.

D. Tax Filing and Payment Procedures

Tax is withheld from employees under the Pay-As-You-Earn (PAYE) system.

The tax year runs from 1 July to 30 June. Individuals with accounting periods coinciding with the tax year must file provisional returns no later than 30 September of the tax year. Individuals with other accounting periods must file provisional returns within three months after the beginning of the accounting period that ends within the tax year.

Individuals must file their final tax returns within four months after the end of the accounting year. An assessment is made based on the return, with a credit given for taxes withheld at source and for provisional taxes paid.

Nonresidents who trade in Uganda through permanent establishments are subject to the same filing requirements as residents.

E. Double Tax Relief and Tax Treaties

Residents may deduct foreign taxes paid from Ugandan income tax payable on foreign-source income. Uganda has entered into double tax treaties with Denmark, Norway, South Africa and the United Kingdom.

F. Temporary Permits

All foreign visitors must obtain valid entry visas to enter Uganda, with the exception of nationals of member countries of the Common Market of East and Southern Africa (COMESA) and nationals of the following countries.

Antigua	Grenada	Singapore
Bahamas	Italy*	Solomon Islands
Barbados	Jamaica	St. Vincent and the Grenadines
Belize	Lesotho	Tonga
Cyprus	Malta	Vanuatu
Fiji	Sierra Leone	
Gambia		

* Diplomatic passport holders only.

Visitors' passes are issued on entry into Uganda. They are valid for three months and may be extended for up to six months.

Students may obtain long-term permits called students' passes, which are valid for the duration of their courses of study.

Transit passes are normally valid for seven days.

Prohibited immigrant passes are issued to foreign nationals who, under normal circumstances, would not be granted visas. They are granted only in special cases and are valid for seven days.

When applying for passes, applicants must have valid passports or equivalent travel documents. No quota system exists for immigration purposes in Uganda.

G. Work Permits and Self-Employment

Only special passes and work permits allow foreign nationals to undertake employment in Uganda.

Temporary work permits, called special passes, are valid for three months and may be extended for up to a maximum of one year. They are issued on submission of work permit applications.

A work permit or entry permit may be issued for up to five years and may be renewed every three years. Work permits are divided into seven classes (Classes A through G), which are summarized below.

Class A permits are issued to foreign diplomats, United Nations staff and foreigners recruited to work in Uganda government service.

Class B work permits are issued to investors in agro-business and require the submission of the following documents:
- Registration certificate (certificate of incorporation);
- Bank of Uganda proof of deposit of US$100,000 (certificate of remittance);

- Memorandum and articles of association;
- Analysis of the viability of the proposed venture;
- Photocopies of the applicant's passport;
- Photographs;
- Land title;
- Cover letter (possibly from a local authority); and
- Clearance from the Ministry of Trade and Industry.

Class C work permits are issued to investors prospecting for, or mining, minerals and require the documents listed below:
- Photocopies of the applicant's passport;
- License issued by the Ministry of Natural Resources;
- Memorandum and Articles of Association;
- Analysis of the viability of the project; and
- Registration certificate.

Class D work permits pertain to general business or the retail trade. In addition to the documents listed for Class B permits, excluding the bank note and analysis of viability, the application for a Class D work permit requires photocopies of the applicant's passport, bank statements, investment license (see below) and income tax clearance.

Class E permits are issued to manufacturers. In addition to the documents required to obtain Class B permits, excluding the bank note and analysis of viability, applicants for Class E permits must produce an investment license.

Class F permits, which are issued to practicing professionals (for example, lawyers and accountants), require the submission of the same documents required for Class B applicants, excluding the bank note and analysis of viability, plus the following:
- Qualifications and references or résumés; and
- Authorization to practice in Uganda and registration with a relevant Ugandan professional association.

Class G work permits are issued to employees. Applicants are required to produce the same documents required for Class B applicants, excluding the bank note and analysis of viability, plus the following:
- Proof that the prospective employer failed to find a local Ugandan citizen suitable for the job;
- Availability of the position or job sought; and
- An employment contract.

After an individual fulfills all requirements, his or her application is subject to the approval of the Board of Immigration.

Applications for work permits may be processed from the expatriates' home countries or from within Uganda. After all documents are received from an expatriate, it takes from two weeks to two months to process a work permit and other papers.

Foreign nationals may change employers after they have obtained work permits. However, they must apply for new work permits under their new employers.

An investment license, issued by the Uganda Investment Authority, is required for all foreign business operations in Uganda. Investment incentives, including tax holidays, are available to businesses that satisfy certain conditions and bring specific amounts of capital into Uganda.

H. Residence Permits

Certificates of residence allow foreign nationals to work anywhere in Uganda.

Foreign nationals seeking certificates of residence must submit medical reports, must be at least 50 years of age and must have resided in Uganda for at least 15 consecutive years. Marriage to a Ugandan may be an additional consideration.

I. Family and Personal Considerations

Family Members. Dependants of expatriates with work permits may obtain long-term permits called dependants' passes. The length of validity of these passes depends on the duration of the expatriate's work permit.

Working spouses of work permit holders do not automatically receive the same type of pass or permit as the principal permit holder. Applications must be filed independently.

Drivers' Permits. Uganda has driver's license reciprocity with British Commonwealth countries only. Foreign nationals from a British Commonwealth country may drive legally in Uganda with their home country drivers' licenses for three months.

To obtain a local driver's license in Uganda, an applicant must obtain a provisional driver's license after paying a general fee. This enables the applicant to go to a driving school and to perform a driving test, after which he or she is issued a driving permit. No written or physical examination is required. However, a medical examination is now required before an applicant can take a driving test.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Contributions to retirement benefit scheme/fund by employee	X	—	—
Bonus	X	—	—
Gratuity	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Medical allowance	X	—	—
Employer-provided housing	X	—	(a)
Education allowance	X	—	—
Other allowances	X	—	—
Other compensation income	X	—	—
Disturbance allowance	X	—	(b)
Value of other benefits granted	X	—	—
Overtime pay	X	—	—
Leave pay	X	—	—
Payment in lieu of leave	X	—	—
Moving expense reimbursement	—	X	—
Cost of air tickets for leave	X	—	—

	Taxable	Not Taxable	Comments
Cost of passage to or from Uganda with respect to the employee's appointment or termination	—	X	(c)
Other Items			
Foreign-source income	X	—	(d)
Foreign-source employment income	—	X	(e)
Capital gains from sale of stock in home country	X	—	(f)

(a) The value of the housing benefit is the lesser of the following amounts:
- Market rent of the accommodation or housing reduced by any payment made by the employee for the use of the accommodation; and
- 15% of employment income, including the amount mentioned in the first bullet, paid by the employer to the employee for the year in which the accommodation or housing was provided.

(b) The disturbance allowance covers expenses incurred by an employee with respect to his or her settlement in a new location after a transfer.

(c) This item is considered not taxable if the employee satisfies all of the following conditions:
- He or she was recruited or engaged outside Uganda;
- He or she is in Uganda solely for the purpose of serving as an employee of the employer; and
- He or she is not a citizen of Uganda.

(d) Short-term residents are exempt from tax on foreign-source income. A short-term resident is a resident individual other than a citizen of Uganda who is present in Uganda for a period or periods not exceeding a total of two years.

(e) Foreign-source employment income derived by a resident individual is exempt from tax if the individual has paid foreign income tax on the income.

(f) The capital gains are not taxable if the expatriate is not a resident of Uganda for tax purposes.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for an expatriate who is a resident in Uganda for all of 2005 and is married with one dependant who goes to school. During 2005, the expatriate received basic salary of U Sh 4,500,000. The company provides the expatriate with an education allowance of U Sh 500,000.

The expatriate resides in a house rented for him by the company for an amount of U Sh 655,000. The expatriate receives foreign-source employment income of U Sh 1,250,000 outside Uganda, which is taxed by the foreign country at a rate of 30% before the income is remitted to the expatriate's bank account.

During the year, the expatriate traveled home for leave. The company provided two airplane tickets worth U Sh 350,000 each and a leave allowance of U Sh 500,000 with respect to such travel. The following is the tax calculation.

	U Sh	
Calculation of Taxable Income		
Basic salary	4,500,000	
Education allowance	500,000	
Housing benefit	655,000	(a)
Leave pay	500,000	
Value of air tickets	700,000	
Taxable income	6,855,000	

Calculation of Tax	**U Sh**
Tax on first U Sh 4,920,000	546,000
Tax on U Sh 1,935,000 at 30%	580,500
Total tax	1,126,500

(a) The housing benefit equals the lower of the market rent for the accommodation (U Sh 655,000) or 15% of employment income (including the market rent). Because 15% of the employment income equals 1,028,250, the housing benefit is deemed to be U Sh 655,000.

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Because Ukraine's legislative system is in a state of development and is subject to frequent and often unpredictable changes, readers should obtain updated information before engaging in transactions.

A. Income Tax

Who Is Liable. Residents of Ukraine are subject to tax on worldwide income. Individuals who are not tax residents in Ukraine are taxed on their Ukrainian-source income, which includes the following:

- Income derived from work or services performed in Ukraine;
- Income and gains from the disposal of property in Ukraine;
- Interest from deposits held in Ukraine;
- Rent from property located in Ukraine; and
- Dividends paid on shares of Ukrainian companies.

An individual is considered to be a tax resident of Ukraine if he or she has a domicile (place of residence) in Ukraine. If a person has a domicile both in Ukraine and in another country, he or she is considered Ukrainian tax resident if he or she has a permanent place of residence in Ukraine. If he or she has a permanent place of residence in both countries, he or she is considered Ukrainian tax resident if he or she has a center of vital interests (for example, resident relatives) in Ukraine. If a country where the person has a center of his or her vital interests cannot be determined or if a person does not have a permanent place of residence in any country, he or she is considered Ukrainian tax resident if he or she is present in Ukraine for 183 days or more during a tax year. For this purpose, the days of presence in Ukraine need not be consecutive. If it is impossible to determine residency status based on the above, the person is considered to be Ukrainian tax resident if he or she is a citizen of Ukraine.

Notwithstanding the above, the law allows an individual to claim tax residency in Ukraine based on an acknowledgment that Ukraine is his or her main residence or on registration as a self-employed person in Ukraine.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. The taxable employment income of residents consists of all compensation received in cash or in kind, whether the income is received in Ukraine or abroad. Nonresidents are subject to tax only on their employment income derived in Ukraine.

The taxable income of a foreign national resident in Ukraine also includes allowances paid because of residence in Ukraine (hardship and cost of living allowances) and compensation received for children's education, meals and holiday travel for the taxpayer's family to the family's home country.

Benefits provided by the employer to employees, such as free accommodation and corporate cars, are exempt from tax if these benefits are provided for in an applicable employment agreement and if the agreement or the law imposes limits on the use of the benefits. Because the law does not currently impose any such limits, the employment agreement must specify the limits.

Tax residents of Ukraine are also exempt from tax on the following types of employment income:
- Pension and social fund contributions payable by the employer on an employee's salary;
- Amounts paid by employers to educational institutions to cover educational costs for the training of its employees connected with the business activities of the employer, subject to certain limitations; and
- Amounts paid by employers from after-tax profits to cover medical assistance to employees, subject to certain limitations.

Investment Income. Dividend or other profit shares paid by Ukrainian enterprises are subject to withholding tax at a rate of 13% (15%, effective from 2007). However, stock dividends are exempt from tax, subject to certain limitations.

Interest income received by individuals from deposits in Ukrainian banks is exempt from tax until 1 January 2010. Effective from 1 January 2010, this income will be subject to withholding tax at a rate of 5%. Other interest income is taxed at the rates set forth in *Rates*.

Self-Employment and Business Income. Taxable self-employment and business income consists of gross income (receipts in cash or in kind), less appropriately documented expenses incurred in generating that income.

Exempt Income. In addition to the exempt items mentioned above, Ukrainian tax residents are exempt from tax on the following types of income:
- Tax refunds as well as payments from social security and pension funds;
- Insurance proceeds, except for long-term life and non-state pension insurance (subject to certain limitations); and

- Income received from entrepreneurial activities by an individual who pays tax under the simplified system of taxation.

Taxation of Employer-Provided Stock Options. Ukrainian law contains no specific rules for the taxation of stock option plans. Consequently, taxation of such options is based on general principles.

Under the general provisions of the Ukrainian tax law, taxable income accrues to an employee at the time an option is granted even if the option has a vesting period, provided that such a grant is documented by a derivative (this is a standard document that must contain specified items of information). The difference between the option exercise price and the fair market value of the shares on the date of exercise is considered to be taxable income to the employee. This income is subject to tax at a rate of 13%.

On the sale of the shares, the employee derives a taxable capital gain, which is equal to the difference between the sale price and the purchase price. The gain is taxed in the same manner, and at the same rate as the employee's other compensation income. The gain is not taxable if it falls within the capital gains exemption described in *Capital Gains*. Currency restrictions apply to the grant of stock options by a foreign legal entity to Ukrainian citizens. Ukrainian citizens must obtain a license from the National Bank of Ukraine to purchase shares in a foreign company. However, a license is not required if the shares are received as a gift.

Capital Gains. A capital gain is calculated as the difference between proceeds derived by a taxpayer from the alienation of property and expenses incurred in connection with the acquisition of such property.

Capital gains derived from sales of property sold are subject to tax at the tax rates described in *Rates*, but certain exemptions and special rules apply.

Personal income tax is not levied on capital gains derived from the alienation of transport vehicles and motor boats sold under a notarized agreement on which state duty (the current rate is 5%) is paid.

Capital gains derived from the alienation of investment assets, such as securities and other corporate rights, are included in taxable income to the extent that the annual gains exceed UAH 680. If the alienation of the investment assets results in a loss, such loss can be deducted against gains derived from the alienation of investment assets during the tax year, subject to certain limitations. Such loss can be carried forward to future years without limitation.

An individual who receives income from the alienation of investment assets must record the results of the transactions separately from other income and expenses and report such results in the final tax return. However, if the individual performs transactions regarding investment assets with the involvement of a securities broker in accordance with an agreement with the broker, the broker may be considered a tax agent of the individual.

Deductions. Taxable salary income received from an employer may be reduced by the social tax benefit, which varies from one to two minimal monthly wages (currently, one minimal monthly wage in Ukraine equals UAH 350; effective from 1 July 2006, UAH 375; effective from 1 December 2006, UAH 400), depending on the status of the individual (single parents, parents of handicapped children, widowers, certain categories of war veterans, disabled persons, Chernobyl victims and other categories).

The maximum amount of the social tax benefit is UAH 680 per month. The social tax benefit is being phased in gradually. For 2006, 50% of the social tax benefit is deductible. This percentage will be increased to 100% for 2007.

A Ukrainian tax resident who has a Tax Identification Code may deduct from salary income a "tax credit," which is equal to the sum of certain amounts paid to Ukrainian residents during the tax year. The following amounts may be included in the tax credit:

- Payments for the education of the individual and his or her immediate family members, subject to certain restrictions;
- Payments for medical assistance provided to an individual and his or her immediate family members, subject to certain restrictions (this measure will take effect in the year following the year when the Law of Ukraine on Mandatory Social Insurance enters into effect);
- A portion of interest paid by an individual with respect to a mortgage credit;
- Cost of charitable gifts made by a taxpayer in the amount of more than 2% but less than 5% of his or her annual taxable income;
- Long-term life insurance premiums and contributions paid by the taxpayer for himself or herself or his or her immediate family (subject to certain limitations) to the respective Ukrainian resident entities (insurance companies);
- Private pension insurance contributions made by the taxpayer for himself or herself or his or her immediate family (with certain restrictions) to the respective Ukrainian resident entities (nonstate pension funds and banking establishments);
- Payments for artificial insemination; and
- Payments for state services related to the adoption of a child.

The total amount of the income tax credit may not exceed the total amount of taxable salary income received by an individual during the tax year. In addition, any amount of the tax credit that is not used as a result of this restriction may not be carried back or forward.

To claim the tax credit, a taxpayer must file his or her tax return by the deadline specified in the law. All of the relevant expenses incurred must be properly documented with receipts and bills. Based on the tax return, the tax authorities allow the tax credit and refund any excess tax paid not later than 60 days after receipt of the tax return. A 10%, 50% or 100% fine may be imposed on the tax authorities for each day of delay in paying such refund. The percentage of the fine depends on the length of the delay.

Rates. Flat income tax rates of 1%, 5%, 13% and 26% are imposed on individuals in Ukraine. The rates vary according to the type of income.

Income or gains derived from the alienation of real estate are taxed at a rate of 1%, 5% or 13% (15%, effective 1 January 2007), depending on the following: the size of the property; the frequency of alienations; and the acquisition date of the property by the seller.

Effective from 1 January 2010, a 5% rate applies to deposit interest or discount income derived from savings or deposit certificates.

A 13% (15%, effective from 1 January 2007) rate applies to the annual worldwide income of Ukrainian tax residents, regardless of the source of the income. This tax rate also applies to Ukrainian-source income in the form of salary paid by Ukrainian resident companies to nonresidents. The 13% rate also applies to dividends and royalties received by resident and nonresident individuals in Ukraine.

Effective from 1 January 2005, gifts and inheritances received are treated as income and are subject to personal income tax at rates of 5%, 13% or 26% (the two higher rates are increased to 15% and 30%, respectively, effective from 1 January 2007). The applicable rate depends on the nature of the property and the degree of the relationship between the donor and the donee.

A tax rate of 26% (30%, effective from 1 January 2007) applies to the following types of income:
- Ukrainian-source income paid by nonresident companies to nonresidents of Ukraine.
- Prizes and gains derived from nonstatutory lotteries.
- Any other income paid by residents to nonresidents. However, this income is subject to a 13% rate if the income is paid under an agreement specifying that the 13% rate applies to the income.

The law provides a special procedure for the payment of Ukrainian-source income by a nonresident individual or company to a nonresident individual. Under such procedure, the income must be paid through an account specially opened by the recipient nonresident individual at a Ukrainian bank, which acts as a tax agent of the individual. If taxable income is paid to the individual in cash or in kind, personal tax must be settled by the individual during the 20-day period following the receipt of such income.

Income received in foreign currency is translated into Ukrainian currency at the exchange rate established by the National Bank of Ukraine on the date of receipt. The translated amount is then subject to tax at the same rates as income in Ukrainian currency. The exchange rate on 14 February 2006 is US$1 = UAH 5.05.

Relief for Losses. Loss carryforwards and carrybacks are not allowed.

B. Other Taxes

No other significant taxes currently apply to individuals in Ukraine. However, see Section A for the personal income tax rates applicable to inheritances and gifts.

C. Social Security

Ukrainian employers must contribute to the Pension, Disability and Unemployment Insurance Funds at a rate of up to 36% on salaries paid, up to a maximum monthly wage base of UAH 4,830 (equivalent to US$956) per employee. This payroll cap currently applies to all mandatory social security contributions. As a result, the payroll-related charges are fixed. Local employers are also required to contribute to the Fund for Insurance for Workplace Accidents and Diseases at rates ranging from 0.66% to 13.6%, depending on the workplace's safety rating.

Locally paid salaries are also subject to withholding for the Pension, Disability and Unemployment Insurance Funds of up to UAH 169.05 (equivalent to US$33) per employee per month.

No social security taxes are due on salaries paid from outside Ukraine by nonresident employers to expatriate employees.

D. Tax Filing and Payment Procedures

The tax year in Ukraine is the calendar year.

For most individuals, tax is payable through withholding at source. The tax is withheld by tax agents, which are entities that withhold and pay personal income tax on behalf of and at the expense of individual taxpayers in Ukraine. Ukrainian entities, including enterprises with foreign investment, must withhold income tax from the salaries of their employees.

Annual tax returns must be filed by individuals who derive income that is taxable in Ukraine if a tax agent did not withhold income tax from such income.

An individual may voluntarily file a tax return even if this is not required by law. An individual may want to voluntarily file a tax return to claim a tax refund.

An individual must file the annual income tax return before 1 April of the year following the reporting year. Under the current tax law, the individuals must estimate and settle their final Ukrainian tax liability within 10 days after the tax return filing deadline (that is by 10 April of the year following the reporting year). However, in practice, the Ukrainian tax authorities issue a tax assessment with the final tax liability of the individual, which must be settled within 30 days after receipt of the tax assessment.

Tax residents who intend to leave Ukraine must file a departure tax return no later than two months before departure. Based on the tax return, the Ukrainian tax authorities issue a tax assessment indicating the final tax liability of the individual. When this liability is settled, the tax authorities issue a tax certificate, which must be presented by the individual to the Ukrainian Immigration Services when leaving Ukraine.

In Ukraine, the tax authorities may impose an administrative fine of up to UAH 170 (US$34) for delinquent filing.

In addition, the tax authorities are monitoring the timing of tax payments very closely. The tax authorities impose late payment penalties of 0.03% of the tax due per each day of delay. They also impose an additional fine of 10% of the tax due. This fine is increased to 20% if the payment delay exceeds 30 days but is less than 90 days, and to 50% if the delay exceeds 90 days.

Self-employed individuals and private entrepreneurs are subject to special tax filing and payment requirements, which differ from the above.

E. Tax Treaties

Ukraine is currently honoring the double tax treaties entered into by the former USSR with Cyprus, Japan, Malaysia, Mongolia and Spain.

Ukraine has entered into new double tax treaties with the following countries:

Algeria	Hungary	Russian Federation
Armenia	India	Serbia and Montenegro
Austria	Indonesia	Slovak Republic
Azerbaijan	Iran	Sweden
Belarus	Italy	Switzerland
Belgium	Kazakhstan	Syria
Bulgaria	Korea	Tajikistan
Canada	Kyrgyzstan	Thailand
China	Latvia	Turkey
Croatia	Lebanon	Turkmenistan
Czech Republic	Lithuania	United Arab Emirates
Denmark	Macedonia	United Kingdom
Egypt	Moldova	United States
Estonia	Netherlands	Uzbekistan
Finland	Norway	Vietnam
France	Poland	
Georgia	Portugal	
Germany	Romania	
Greece		

Ukraine has ratified double tax treaties with Brazil, Cuba, Kuwait, Mongolia (to replace the double tax treaty entered into between the former USSR and Mongolia) and South Africa, but these treaties are not yet in force.

Ukraine has signed double tax treaties with Israel, Luxembourg and Slovenia, but these treaties have not yet been ratified.

F. Entry Visas

Ukraine requires visitors to obtain entry visas. Entry visas may be obtained from Ukrainian embassies or consulates before arrival in Ukraine. Ukraine issues business, tourist, personal, government, student, transit and other visas (see Section G for information on business visas).

Residents of member countries of the Commonwealth of Independent States (CIS) do not need visas to enter Ukraine.

Individuals may travel through Ukraine without visas if they are citizens of Andorra, Canada, European Union (EU) member countries, Iceland, Japan, Liechtenstein, Monaco, Norway, San Marino, Switzerland, the United States or Vatican City and if the duration of the stay of such citizens in Ukraine does not exceed 90 days.

G. Work Permits and Business Visas

To work in Ukraine (either based on a direct employment agreement or being assigned based on an agreement between a Ukrainian and a foreign legal entity), a foreign national must obtain a work permit. No comprehensive quota system exists in Ukraine with respect to the issuance of residence and work permits to most foreign nationals. Obtaining a work permit is a rather burdensome and time-consuming procedure. As a result, a foreign individual assigned to Ukraine by a foreign entity for consulting or control purposes on a short-term basis may wish to obtain a business visa, which allows multiple entries for short-term business trips.

However, a foreign national who will be employed in Ukraine on a long-term basis must obtain a work permit.

Business Visas. Business visas are normally valid up to 12 months. Citizens of the United States may obtain visas that are valid for up to three years. When applying for a business visa abroad, an applicant must complete an application on a special form, which may be obtained at any Ukrainian embassy, and present the following documents:

- Valid passport;
- One photograph;
- Letter of invitation from a registered business entity in Ukraine; and
- Registration certificate of the business entity.

The letter of invitation and the registration certificate are not required for citizens of Canada, EU member countries, Japan, the Slovak Republic, Switzerland, Turkey and the United States.

After all of the documents are submitted, the processing time for a business visa is approximately one to seven days. A failure to provide full documentation may result in the rejection of the visa application.

Work Permits. The State Employment Center of the Ministry of Labor issues work permits. A work permit is usually issued for a period of up to one year and may be extended.

The employer of a foreign national must apply for a work permit with the local employment center. The documents required for the issuance of a work permit include the following:

- An application (no standard form is provided);
- An explanation of the need to hire a foreign national;
- A draft employment contract and a copy of an intercompany agreement (if applicable);
- Notarized copies of the charter documents and certificate of state registration of the Ukrainian company;
- A certificate of foreign-investment registration (if available);
- A list of foreign nationals to be hired by the local company including names, passport numbers, dates of birth and qualifications;
- Confirmation of payment of the statutory fee of UAH 170 (US$34) for each work permit application;
- A copy of the document confirming the education or qualifications of the foreign national (translated into Ukrainian by a certified interpreter); and
- A certificate issued by the tax authorities confirming the prospective employer's payment of all applicable taxes and duties.

Under recent changes to the Ukrainian immigration law, work permits may be issued to employees who belong to the "internal corporate cessionary" category of personnel (directors, managers, specialists) and to "persons, providing services without establishing commercial representations in Ukraine" for a period equal to the term of their employment. However, the Ukrainian law does not provide clear definitions for the new categories of personnel mentioned above. As a result, the applicability of the new categories in practice is questionable.

When granting work permits, Ukraine considers if an employer has demonstrated that the labor of the applicant and his or her skills are necessary. No special treatment is given to EU nationals. The application procedure is the same for all foreign nationals from non-CIS countries. The work permit application process may take up to two months.

A foreign national's work permit becomes invalid if the individual changes employers.

A work permit is a basis for issuing an Immigration Visa IM-1 (a special type of entry visa, which may be obtained for the purpose of engaging in employment in Ukraine). However, this type of visa is a single-entry visa and does not allow multiple trips.

Self-Employment. No law prohibits foreign nationals from establishing or managing businesses in Ukraine. However, restrictions on foreign investment are imposed in certain industry sectors, including the military. Business activities of foreign nationals must comply with either domestic law or international treaties entered into by Ukraine.

H. Registration

Foreign citizens' passports are registered at the point of entry into Ukraine. Individuals from countries for which a visa is required to enter Ukraine are considered registered during the period of validity of their visas, up to a maximum of six months. Individuals from countries for which no visa is required are considered registered for a period of 90 days, unless otherwise provided under a relevant international agreement. A foreign citizen who remains in Ukraine longer than the valid registration period must apply for registration with the Ministry of Internal Affairs.

I. Family and Personal Considerations

Family Members. The working spouse of a work permit holder does not automatically receive a work permit. An application must be filed independently.

Marital Property Regime. A joint ownership regime applies to legally married couples in Ukraine. The regime is mandatory and applies to property acquired during marriage. Property owned by an individual before marriage, as well as property obtained during marriage by gift or inheritance, remains separate property. Separate property must be clearly identified when the couple first becomes subject to the joint ownership regime.

Although the law is silent on marital domicile, Ukraine acknowledges marriages contracted in foreign countries. Consequently, the joint ownership rules are applied to couples married outside Ukraine who divorce under Ukrainian law.

Forced Heirship. Under Ukrainian law, specified proportions of testamentary property are transferred to minor or disabled children or to a disabled spouse or parent, regardless of the contents of a will.

Drivers' Permits. A driver's license that meets the requirements of the International Convention on Road Traffic is considered valid only if a foreign individual comes to Ukraine for either tourist or assignment purposes for a period up to one year. Otherwise, an individual must obtain a Ukrainian driver's license in accordance with the Ukrainian law. However, the Ukrainian law does not impose any penalties if a new driving license is not obtained.

To obtain a local Ukraine driver's license, an applicant must pass a written examination, a medical test and a practical driving test.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Hypothetical retained tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	—	X	(a)
Employer-provided housing	—	X	(a)
Housing contribution	(X)	—	—
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement	X	—	(b)
Deferred compensation	—	X	—
Value of lodging provided	—	X	(a)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(c)
Other	X	—	—

* Bracketed amounts reduce taxable income.

(a) This item is not taxable if the following conditions are satisfied:
- It reflects actual rental expenditures; and
- The amount of housing expenses is specified in the contract between the employer and the employee.

(b) Under Ukrainian law, Ukrainian employers may not use their funds to pay the taxes of employees. Tax reimbursements are taxed as benefits to the employees.

(c) Deposit interest or discount income derived from savings or deposit certificates is taxable, effective from 1 January 2010.

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A. Income Tax

No personal taxation currently exists in the United Arab Emirates (UAE).

Laws covering corporate tax exist in most emirates but, in practice, taxes are enforced only on the following entities:

- Foreign companies dealing in oil and gas at rates set forth in their government concession agreements; and
- Branches of foreign banks at rates fixed by decree or in agreements with the rulers of the emirates where the banks operate.

B. Other Taxes

No specific capital gains tax legislation applies to taxpaying entities. Capital gains are taxed as part of regular business profits. The UAE does not impose net worth tax or estate and gift tax.

C. Social Security

The UAE does not impose social security taxes for expatriates. UAE-national employees contribute to retirement and pension funds in accordance with specific regulations.

D. Temporary Permits

All foreign nationals must obtain valid entry visas to enter the UAE, with the exception of nationals of Gulf Cooperation Council (GCC) countries. Foreign nationals may enter the UAE under transit visas, visit visas, work visas or resident visas. No quota system is imposed on immigration into the UAE.

Certain Western European citizens and GCC expatriates do not need to apply for a visit visa in advance. On entry, they receive a special free-of-charge visit visa enabling them to stay in the UAE for 60 days. This visa may be renewed once for a period of 30 days for a fee of US$140. The renewal requires a local sponsor, which can be any UAE resident or any company or hotel licensed to operate within the UAE. The only documentation required for such individuals is their passports.

Citizens of the following countries can apply for a visit visa at the time of entry into the UAE.

Andorra	Hong Kong	New Zealand
Australia	Iceland	Norway
Austria	Ireland	Portugal
Belgium	Italy	San Marino
Brunei	Japan	Singapore

Canada	Korea	Spain
Denmark	Liechtenstein	Sweden
Finland	Luxembourg	Switzerland
France	Malaysia	United Kingdom
Germany	Monaco	United States
Greece	Netherlands	Vatican City

If the person is not a citizen of one of the countries mentioned above, the sponsor (a UAE resident, or a company or hotel licensed to operate within the UAE) must apply for the person's visa before the arrival of the person. The fee is AED 175.

Transit visas are valid for up to 14 days. A visit visa is valid for 30 days and may be extended twice for periods of 30 days.

E. Work and Residence Visas and Self-Employment

Foreign nationals wishing to take up employment in the UAE must obtain work visas, which are issued by the Ministry of Labor, and residence visas, which are issued by the Department of Immigration. When granting work visas, the government considers reciprocity, as well as the current availability of UAE nationals to fill the employment vacancy.

Work visas allow foreign nationals to take up employment in the UAE with specific employers. Work visas are valid for three years and are renewable for additional three-year periods.

The application process for obtaining a work visa is completed by the sponsoring company. The company submits an application form with the following documents:
• Copy of the employee's passport;
• Copy of the trade license of the sponsoring company;
• Letter of guarantee of employment from the sponsor; and
• Authenticated educational certificates for the employee.

After all documents are submitted, it takes approximately four to six weeks to obtain a work visa.

A foreign national may not begin employment until his or her application and other papers are approved and accepted. A foreign national may change employers after completing one year of his or her initial contract.

Consultation with an advisor is generally required for those wishing to establish a business or to set up a foreign subsidiary in the UAE. This procedure requires case-by-case analysis and advice.

F. Family and Personal Considerations

Family Members. Residence visas are granted to dependents of foreign nationals who have work visas and who satisfy certain income and status conditions.

The working spouse of a work visa holder does not automatically receive a work visa. An application must be filed independently.

Drivers' Permits. Foreign nationals may not drive legally in the UAE with their home country drivers' licenses, unless they entered the country under visitor visas and are renting cars.

UAE has driver's license reciprocity with European Union (EU) member countries, Australia, Japan, New Zealand and the United States.

To obtain a local UAE driver's license, an applicant must undergo a physical exam. In addition, the applicant is tested on driving skills.

UNITED KINGDOM

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A. Income Tax

Who Is Liable. The taxation of individuals in the United Kingdom is determined by residency and domicile. Resident and ordinarily resident individuals are generally subject to U.K. income tax on their worldwide income. However, resident and ordinarily resident individuals who are domiciled outside the United Kingdom, who are employed by a non-U.K. employer and who perform their duties wholly outside the United Kingdom are taxed on compensation from that employment only if it is remitted to the United Kingdom. Resident individuals who are not ordinarily resident are taxable on compensation attributable to U.K. workdays, wherever paid, and on compensation attributable to overseas workdays, to the extent the income is paid or received in the United Kingdom. Nonresidents are subject to tax on compensation attributable to U.K. workdays.

Domicile. Under English law, individuals' domiciles are the countries considered to be their permanent homes, even though they may be currently resident in another country. It may be a domicile of origin or of choice. Under English law, every person is born with a domicile of origin, which is normally that of the father. A domicile of origin has great tenacity. Thus, individuals who were never domiciled within the United Kingdom and who work there for limited periods normally have no difficulty proving that they are domiciled in another country.

Resident. Whether a person is a U.K. resident is a question of fact generally determined under the following rules:

- If an individual comes to the United Kingdom for a period of less than two years and occupies temporary accommodation, the individual is resident for any tax year in which he or she spends 183 days or more in the country.
- If an individual's stay in the United Kingdom is likely to last for a period of two years or more, the individual is regarded as resident from the date of arrival.
- If visits to the United Kingdom over four consecutive tax years average 91 days or more per year, an individual is regarded as resident from the beginning of the fifth year. If the visits were planned from the outset, the individual may be regarded as resident from the start of the visits.

The residence status of an individual who comes to work in the United Kingdom is normally established in accordance with these rules.

Living accommodation is disregarded in determining if a temporary visitor is a U.K. resident. However, the availability of long-term accommodation is relevant in determining whether an individual is ordinarily resident (see *Ordinarily Resident*). Visitors are considered resident if they spend more than 183 days in the United Kingdom during the tax year or if they satisfy the 91-day-average test described above.

Ordinarily Resident. Whether individuals are considered ordinarily resident depends on their intentions when entering the United Kingdom, on the accommodation they occupy and on their intended or actual lengths of stay. In general, if individuals are considered resident as a result of repeat visits (91 days or more on average each tax year over a four-year period), they are deemed to be ordinarily resident.

If employees come to the United Kingdom with no definite intentions concerning the length of their stay and if they occupy only temporary accommodation, they are normally considered ordinarily resident from the beginning of the tax year following the third anniversary of their arrival.

Individuals who intend from the outset to remain in the United Kingdom for three or more years are regarded as ordinarily resident from the outset.

Individuals not ordinarily resident who either change their intention so that they expect to stay for at least three years or who move to accommodation that implies a stay of at least three years are considered ordinarily resident from the start of that tax year.

In the April 2002 budget, the government announced its intention to review the United Kingdom's complex residence and domicile rules by the end of 2002. In April 2003, a background paper was published, seeking consultation with interested parties but not making any specific proposals for reform. As of the time of writing, no further developments have occurred with respect to this matter.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. An employee is taxed on all remuneration and benefits from employment received during a tax year (ending on 5 April). Consequently, an employee is taxable not only on basic salary but also on most perquisites or benefits in kind, including company cars, meals, permanent housing, tuition for dependent children, medical insurance premiums and imputed interest on loans below market rates. Employer-paid moving expenses in excess of £8,000 are also taxable. However, travel expenses for international moves are not taxable and are not included in the £8,000 tax-free allowance. Employer-paid education expenses for employees and life insurance premiums may be taxable in certain circumstances. Contributions by an employer to an Inland-Revenue-approved occupational pension plan, however, are not taxed.

All salaries and fees earned by directors are taxable as employment income. Directors and employees earning £8,500 or more in a tax year, including benefits and expenses, are assessed on a wider range of benefits in kind than other employees.

Compensation (or employment income, in U.K. terminology) for non-U.K. domiciliaries and nonresidents includes salaries, bonuses, commissions, various expatriate allowances (for education, housing and cost of living) and tax reimbursements. In addition, non-U.K. domiciliaries and nonresidents are taxed on foreign-service premiums and on hardship allowances. Employer-paid pension contributions to a foreign government plan, a private plan or a tax-favored plan are taxable, unless a claim is made under the Migrant Member Relief measures, which apply from 6 April 2006 (see *Pensions*). Subject to certain limits and conditions, individuals assigned temporarily to the United Kingdom for periods of less than 24 months are not taxed on employer-paid temporary housing or reimbursed costs of subsistence.

The extent to which the earnings of a nondomiciled individual employed by a nonresident employer are subject to U.K. tax is determined by the residence status of the employee and the nature of the employment arrangements.

Employees not domiciled, but resident and ordinarily resident, in the United Kingdom who carry out employment duties wholly or partly in the United Kingdom are subject to U.K. tax on their total earnings from that employment, regardless of whether the earnings are paid or received in the United Kingdom.

Individuals who are separately employed by a nonresident employer and who perform their duties wholly outside the United Kingdom are taxed on the earnings from that employment only if the earnings are received in or remitted to the United Kingdom.

Employees who are resident but not ordinarily resident are taxed on the part of their earnings relating to duties performed in the United Kingdom. If the employee works wholly or partly abroad, the earnings relating to the overseas duties are subject to U.K. income tax only if they are paid in or remitted to the United Kingdom.

Employees not resident in the United Kingdom who work there for a short time are subject to tax on their earnings for duties performed in the United Kingdom. A double tax treaty may grant an exemption from U.K. taxation to employees of an overseas company (see Section E).

Education allowances provided by employers to their expatriate and local employees' children are taxable for income tax and social security purposes.

Self-Employment Income. Self-employment income includes income from a trade, profession or vocation. Whether a person is considered to be employed or self-employed is determined by the individual's particular circumstances.

A self-employed taxpayer is taxed on business profits. A self-assessment system applies, which means that self-employed individuals are generally taxed on the business profits earned during an accounting period ending in the current tax year.

For tax purposes, profits are usually determined in accordance with normal accounting principles, but adjustments may be necessary. Any nontrading income, including interest, must be excluded and taxed under the applicable rules.

Investment Income. Income from most investments in the United Kingdom is received after tax is withheld or paid at source. Tax on savings income other than dividends is limited to 20% for basic-rate (22%) taxpayers (the rate is reduced to 10% if the income falls within the starting rate band of £2,090). This 20% rate also applies to savings income earned abroad by U.K.-domiciled residents who are basic-rate taxpayers. Dividends are subject to a nonrefundable 10% notional withholding tax. Dividends are taxed at a rate of 10% if included in income up to the higher rate threshold of £32,400, and at a rate of 32.5% if included in income above that threshold.

Banks, building societies and other financial institutions must withhold tax on interest income at a rate of 20%. If an individual is subject to tax at a rate higher than the basic rate, tax is assessed on net investment income received plus the tax withheld, and credit is given for the 20% tax already withheld.

In the following illustration, a taxpayer subject to tax at a higher rate (40%) than the basic rate receives building society interest of £80. The tax due is calculated as follows:

Net interest received	£80
Basic tax withheld (20%)	£20
Taxable amount	£100
Tax on £100 x 40%	£40
Less tax paid	(£20)
Tax due at the higher rate	£20

Special provisions enable certain investors to certify to a deposit taker that they are unlikely to be subject to tax (for example, if their total income is less than their allowances), thereby exempting them from withholding on interest payments.

Unless the Inland Revenue issues a direction not to withhold tax, withholding tax is levied by the leasing agent on income derived from the rental of real property paid to a nonresident landlord. If no leasing agent is involved, the tenant must levy the withholding tax on rent paid to a nonresident landlord, unless the Inland Revenue issues a direction not to withhold the tax. Net profit from rentals is included in taxable income and taxed at the rates set forth in *Rates*.

Individuals who are resident but not domiciled in the United Kingdom are subject to U.K. tax on non-U.K. investment income only to the extent it is received in or remitted to the United Kingdom. This rule also applies to individuals who are both resident but not ordinarily resident, and citizens of a Commonwealth country or the Republic of Ireland.

A nonresident individual's income derived from certain investments in the United Kingdom may be paid without deducting tax. These investments include government securities and interest from bank and building society accounts. Other investment income, including interest other than bank and building society interest, annuities and royalties, is subject to withholding tax, normally at the basic rate of tax. However, withholding tax may be reduced if the United Kingdom has a double tax treaty with the individual's country of residence.

Stock Options and Share Incentive Schemes. Detailed, complicated legislation applies to the taxation of share incentives provided to employees by their employers. This legislation was substantially revised by the 2003 Finance Act and now covers "securities," which includes, but is not limited to, shares in the employer company. Professional advice should be sought on the implications of this legislation to a particular case.

Effective from 6 April 2005, share option income is sourced from granting to vesting rather than from granting to exercise if a double tax treaty applies, unless the relevant double tax treaty specifically mentions that the sourcing period is from granting to exercise.

Unapproved Employee Share Schemes. If an employee is resident and ordinarily resident at the date a share option is granted under an unapproved employee share scheme, income tax applies at the date the option is exercised. An option granted to a resident and ordinarily resident employee is not taxed at the grant date. No tax applies to the exercise of an option granted before an individual takes up residence in the United Kingdom, unless the grant was made specifically in anticipation of U.K. duties.

For options granted after 26 November 1996, the employer must withhold income tax in most circumstances. Social security contributions are levied on the exercise of options granted after 5 April 1999.

The value of shares awarded to an employee is subject to income tax and social security contributions on the date of the award, unless the shares are subject to a risk of forfeiture for a period of up to five years, in which case the liability arises on the date the award vests. Various employer and employee joint elections are available to change the date of taxation and the taxable value of such securities.

For options granted under unapproved schemes after 5 April 1999, an employer may avoid paying social security contributions on the option spread by entering into a voluntary agreement with the employee. Under the agreement, the employee pays any employer-owed social security contributions due on the exercise of the options; the employee may then offset the contributions paid against the employee's own tax liability. This treatment is available only if the social security liability arose on or after 28 July 2000.

Approved Employee Share Schemes. The United Kingdom currently has several approved employee share schemes that are usually not subject to withholding tax or to National Insurance contributions. These include the Approved Company Share Option Plan, the Approved SAYE Share Option Scheme, the Share Incentive Plan (formerly the All Employee Share Ownership Plan) and the Enterprise Management Incentives. Each scheme has different characteristics and is therefore relevant to particular employer and employee circumstances. The advantage of the schemes over unapproved schemes is that they generally put employer shares into the hands of employees free of income tax and National Insurance. The principal disadvantage is that the value of awards that may be made to employees is limited.

In general, the underlying shares acquired from approved schemes are still subject to capital gains tax when they are sold. (However, shares in a Share Incentive Plan subject to a minimum holding period may be exempt from U.K. capital gains tax on disposal.) If the qualifying conditions are not met and if the gain either on the exercise of the options or on the release of the shares is already charged to income tax, the cost of the shares for capital gains tax purposes is considered to be the share value at the time of exercise.

Pensions. Effective from 6 April 2006, the tax rules governing all pension schemes is greatly simplified. Under the simplification, one set of rules replace the varying rules under the prior law. Individuals now have greater flexibility because they may contribute any amount into a registered pension scheme. However, the following principal restrictions apply:

- The annual amount of contributions eligible for tax relief is the lower of 100% of annual earnings or £215,000, effective from 6 April 2006. This amount will increase to £255,000 by 2010).
- The total savings that may be accrued in a lifetime without penalties being incurred is £1.5 million for 2006. This amount will increase to £1.8 million by 2010.

Pension rights built up before 6 April 2006 may be protected if a claim is registered with the U.K. tax authorities by 5 April 2009.

For nonregistered pension schemes, a tax charge is no longer imposed when contributions are made. This charge is deferred until the time of payment. However, any corporate tax deduction available for companies (companies typically fund the unregistered schemes) is also deferred until the time of payment, and no tax deduction may be claimed for employee contributions.

Contributions to nonregistered foreign pension plans can be claimed as tax-effective under the Migrant Member Relief provisions, which will apply from 6 April 2006. However, stringent monitoring processes apply, and substantial penalties are imposed for noncompliance. If a claim is made, employee contributions are deductible, and employer contributions are eligible for corporate tax deductions.

Deductions

Deductible Expenses. U.K. tax law is not generous with deductions. Most deductions must be incurred wholly, exclusively and necessarily in the performance of an employee's duties, a condition that precludes the deduction of many employment-related expenses.

For example, no deduction is normally available for the purchase of business attire or for travel between home and work. Nevertheless, membership subscriptions to approved professional bodies are specifically deductible, as are contributions by an employee to an Inland Revenue-approved occupational pension plan, within specified limits.

Personal Deductions and Allowances. A U.K. taxpayer is entitled to a limited number of personal deductions and allowances.

Relief for alimony and maintenance payments is available only if the arrangement was entered into after March 1988 and at least one of the spouses was 65 years of age or older on 5 April 2000.

All U.K. resident taxpayers are entitled to personal allowances reflecting their personal circumstances. For the 2005-06 tax year, £4,895 of assessable income is exempt from tax. Married couples also qualify for the married couples allowance if one or both of the spouses is 65 years of age or older on 5 April 2000. The maximum amount of this allowance is £5,975, depending on the taxpayers' age and income. This relief may be taken only at a rate of 10%.

Nonresident British Commonwealth subjects and European Economic Area (EEA) nationals, as well as residents and nationals of some countries with which the United Kingdom has double tax treaties, are entitled to the full personal allowance of £4,895.

Business Deductions. Losses and other allowable tax deductions may be offset against each individual's personal income and gains. In calculating the taxable profit or allowable loss, the taxpayer may not deduct certain expenses, including the following:
- Entertainment and gifts (except for certain inexpensive gifts bearing conspicuous advertising);
- Depreciation, other than the capital allowances described below;
- Expenses not incurred wholly and exclusively for the purposes of the business;
- Costs of a capital nature; and
- Profits or capital withdrawn from the business.

Although deductions for depreciation and expenditure of a capital nature are not allowed, deductions in the form of capital allowances (tax depreciation) are available. For most plant and machinery, capital allowances are deductible at a rate of 25% a year on a declining-balance basis or at a rate of 6% a year on a declining-balance basis for long-life assets. Allowances are also available for expenditure on industrial buildings, scientific research, know-how, agricultural buildings, mineral extraction and hotels. To promote investment in information and technology, first-year allowances are available for small and medium-sized companies. Effective from 17 April 2002, investments in certain energy-saving assets may be eligible for accelerated capital allowances.

Rates. The basic rate of tax for the 2005-06 tax year is 22%. The following table presents the graduated rates for the 2005-06 tax year.

Taxable Income		Tax on Lower Amount	Rate On Excess
Exceeding £	Not Exceeding £	£	%
0	2,090	0	10
2,090	32,400	209	22
32,400	—	6,668	40

For sample tax calculations, see Appendix 2.

Relief for Losses. Trading losses may be offset against a taxpayer's total taxable income in both the year a loss is incurred and in the prior year. For married couples, losses may be offset only against the income of the spouse incurring the loss. Special rules provide for the carryback of losses incurred in early trading years. In addition, a taxpayer may carry forward unused trading losses to offset future income from the same trade. Special rules apply at the cessation of an individual's trade or business.

B. Other Taxes

Capital Gains Tax. An individual resident or ordinarily resident in the United Kingdom is taxed on gains arising on disposals of assets situated anywhere in the world. However, an individual not domiciled in the United Kingdom is taxed on disposals of overseas assets only if the proceeds are remitted to the United Kingdom. The taxable gain is prorated if only a portion of the proceeds is remitted to the United Kingdom. An individual who leaves the United Kingdom to reside abroad, but who expects to return permanently without spending five complete tax years abroad, remains subject to capital gains tax (CGT) on gains derived from the disposal of assets held at the date of departure. However, gains on the disposal of assets acquired while the individual is nonresident and sold while the individual is still nonresident are not subject to CGT.

Gains derived from the disposal of chargeable assets may be subject to CGT. In general, only net gains accruing after 31 March 1982 are taxed. Gains on assets acquired before 1 April 1982 are normally measured by using asset values at that date. An allowance for inflation (the indexation allowance) was given based on the cost of an asset or, if an asset was acquired prior to 1 April 1982, on its market value on 31 March 1982; however, the indexation allowance for individuals is frozen at 1 April 1998. Assets acquired before 1 April 1998, and sold after 1 April 1998, qualify for the allowance based on the retail price index for April 1998. However, the 1982 rebasing may not increase a gain or allowable loss compared to the gain or loss calculated under the old rules. If the parties involved are related, the open-market value of an asset must be substituted for the actual sales price.

After the indexation allowance was frozen in April 1998, a Taper Relief was introduced. This Taper Relief reduces the amount of taxable gain arising from the disposal of a particular asset. The relief is applied to net gains after deducting losses incurred in that year or carried forward from an earlier year before subtracting the annual exemption. The amount of the relief depends on the number of complete years defined as consecutive periods of 12 months of ownership after 5 April 1998 that the asset was held before disposal, and on whether the asset qualifies as a business asset (for example, shares in a company in which the person is a full-time working officer or employee).

If the shares do not qualify as a business asset, Taper Relief applies to shares held for at least three years prior to disposal (or two years for shares acquired before 17 March 1998), after which the percentage of taxable gain is reduced by 5% per complete year of ownership. The maximum nontaxable percentage is 40% after 10 years.

If the shares qualify as business assets, Taper Relief applies after one year of ownership. The percentage of taxable gain is reduced by 50% for assets held for one year, then by 75% for assets held for two or more years.

Certain assets, including automobiles and government securities, are exempt from CGT. Generally, the gain derived from the disposal of a sole or primary residence is also exempt from CGT. Capital gains realized on the disposal of business assets may be deferred if the proceeds are reinvested in new business assets. This rule generally applies to gains on disposals of real property used in a business.

Capital losses may be deducted from capital gains in the same year. Any unused losses may be carried forward indefinitely to relieve future gains.

After subtracting an £8,500 annual exemption for capital gains for 2005-06, individuals are taxed on net capital gains at their marginal rate of tax (using the rates for savings income, 10%, 20% or 40%). Personal allowances may not be used against net capital gains.

Inheritance and Gift Tax. Inheritance tax (IHT) may be levied on the estate of a decedent who was domiciled in the United Kingdom or who was not domiciled in the United Kingdom, but owned assets situated there. An individual who does not have a U.K. domicile for IHT purposes is taxed only on U.K.-located assets. For IHT purposes, the concept of domicile is extended to include residence in the United Kingdom for substantial periods (currently defined as residence in the United Kingdom for 17 of the last 20 U.K. tax years).

IHT is levied on the probate (confirmed) value of an individual's estate at death. If the deceased was domiciled in the United Kingdom for IHT purposes, the taxable estate includes worldwide assets; otherwise, it includes only U.K. assets.

For 2005-06, the rate of inheritance tax is 40%, and the tax applies to cumulative chargeable transfers in excess of £275,000.

IHT is also levied on gifts made by the deceased within seven years prior to death.

Exemptions and deductions are available for *inter vivos* gifts and for estate transfers at death. Gifts between spouses are exempt, but the exemption is limited to £55,000 if the transferor is domiciled in the United Kingdom but the transferee is not. *Inter vivos* transfers into discretionary trusts are subject to IHT at half the normal rates. Relief provisions to reduce the tax ultimately levied on gifts made within seven years prior to death are set forth in the following table.

Years Between Gift and Death		Percentage of Full
Exceeding	Not Exceeding	IHT Charge
0	3	100
3	4	80
4	5	60
5	6	40
6	7	20

To prevent double taxation, the United Kingdom has entered into inheritance tax treaties with France, India, Ireland, Italy, the Netherlands, Pakistan, South Africa, Sweden, Switzerland and the United States. It is currently negotiating an inheritance tax treaty with Germany.

C. Social Security

Contributions. In general, National Insurance contributions are payable on the earnings of individuals who work in the United Kingdom. Special arrangements apply to individuals working temporarily in or outside of the United Kingdom. Under certain conditions, an employee is exempt from contributions for the first 52 weeks of employment in the United Kingdom.

The contribution for an employed individual is made in two parts—a primary contribution from the employee and a secondary contribution from the employer. For 2006-07, the employee contribution is payable at a rate of 11% on weekly earnings between £97 and £645 and at a rate of 1% on weekly earnings in excess of £645.

An employer contributes at a rate of 12.8% on an employee's earnings above £97, with no ceiling. If, however, the employee contracts out of the state second pension (S2P), which is permitted if the employee is a member of an approved occupational pension scheme, the employer's and employee's required contribution rates are reduced. Except under certain circumstances related to the exercise of a share option or the award of restricted securities, the employer is not entitled to reimbursement for any secondary contributions made, but these contributions are an allowable expense for purposes of determining the employer's income tax or corporation tax. Contributions are collected under the Pay-As-You-Earn (PAYE) system (see Section D).

Employers are also required to pay National Insurance contributions on the provision of taxable benefits in kind (for example, employer-provided car or housing).

Different rules apply to self-employed individuals. For 2006-07, a weekly contribution of £2.10 is due if annual profits are expected to exceed £4,465. In addition, a self-employed individual must make a profit-related contribution on business profits or gains, which is collected together with income tax. The 2006-07 profit-related contribution rates are 8% on annual profits ranging from £5,035 to £33,540 and 1% on annual profits in excess of £33,540. Nonresident self-employed individuals are not subject to profit-related contributions.

The 2006-07 National Insurance contribution rates for employed individuals are set forth in the following tables.

Not Contracted Out

Total Weekly Earnings Exceeding £	Total Weekly Earnings Not Exceeding £	Employer's Contribution %	Employee's Contribution %
0	97	0	0
97	645	12.8	11
645	—	12.8	1

Contracted Out

Total Weekly Earnings Exceeding £	Total Weekly Earnings Not Exceeding £	Employer's Contribution COSR (a) Scheme %	Employer's Contribution COMP (b) Scheme %	Employee's Contribution %
0	97	0 (d)	0 (d)	0 (c)
97	645	9.3	11.8	9.4
645	—	12.8	12.8	1

(a) Contracted out salary related.
(b) Contracted out money purchase.
(c) Additional employee National Insurance contribution rebate at a rate of 1.6% due on weekly earnings from £79 to £91.
(d) Additional employer National Insurance contribution rebate at a rate of 3.5% for employers with COSR schemes or 1% for employers with COMP schemes on weekly earnings from £84 to £97.

Totalization Agreements. Contribution liability for individuals transferring to or from the United Kingdom varies, depending on whether the individual is covered under the European Community (EC) social security agreement or another reciprocal agreement or whether the assignment is to or from a country with which the United Kingdom has not entered into a social security agreement. Each category is discussed below.

EC Social Security Agreement. Under the European Union (EU) social security regulations, an individual who is “legally resident” within the EU normally pays social security contributions in one member country only, usually the country where their employment duties are performed, even though they may not live there.

Under an exception to this rule, an individual who is “legally resident” within the EU and is seconded to work in the United Kingdom normally remains subject to social security contributions in his or her home country if the secondment is for 12 months or less. This period may be extended by agreement for an additional 12 months.

Individuals may remain in their home country scheme for a significantly longer period if they are deemed to work partly in more than one member country, or if they are considered special cases by virtue of specific skills or knowledge.

Reciprocal Agreements. The United Kingdom has reciprocal social security agreements with several non-EEA countries, although the terms of the agreements vary. Therefore, to determine an individual's liability or benefit entitlement, it is important to consult the particular agreement relating to the individual's home country.

Without Reciprocal Agreement. If no reciprocal agreement exists between the home country of an individual and the United Kingdom, the individual is subject to both the domestic law of his or her home country and the law of the United Kingdom. For these individuals who come to work temporarily in the United Kingdom, exemption from payment of certain contributions for the first 52 weeks of their stay is common. The exemption depends on both the employee and the employer meeting various requirements.

To prevent double social security taxes and to assure benefit coverage, the United Kingdom has entered into totalization agreements with the following jurisdictions.

EEA countries (a)	Jamaica	New Zealand (c)
Barbados	Japan	Philippines
Bermuda	Jersey	Switzerland (d)
Canada	Korea	Turkey
Cyprus (e)	Malta (e)	United States
Guernsey	Mauritius	Yugoslavia (b)
Israel		

(a) Some of the "old" U.K. agreements with these countries continue to apply for non-EU nationals. The following countries joined the EU, effective from 1 May 2004: Cyprus; Czech Republic; Estonia; Hungary; Latvia; Lithuania; Malta; Poland; Slovak Republic; and Slovenia.
(b) The United Kingdom honors the Yugoslavia treaty with respect to Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro and Slovenia. New agreements are being negotiated.
(c) This agreement applies for benefits only.
(d) The EC social security rules apply to assignments to and from Switzerland, effective from 1 January 2002.
(e) The EC social security rules apply to assignments to and from these countries, effective from 1 May 2004.

D. Tax Filing and Payment Procedures

The tax year for individuals in the United Kingdom runs from 6 April to 5 April of the following year.

Whether compensation is subject to U.K. tax and how it is taxed depend on the employee's residence status at the time the compensation is earned. Taxable compensation is actually taxed in the year of receipt. Earnings, including bonuses and commissions earned in one year but not paid until a subsequent tax year are taxed when received. If an individual receives a salary of £30,000 during the year ending 5 April 2005, and earns a bonus of £20,000 for that tax year which is not paid until December 2005, the salary is subject to tax in 2004-05, but the bonus, earned in the same period as the salary, is subject to tax in 2005-06, when it is received. The term "receipt" is broadly defined for this purpose and includes payment as well as entitlement to payment.

Married persons are taxed as separate individuals. Spouses are responsible for their own tax returns, are assessed on their own income and gains, and are given tax relief for their own allowable deductions and allowances. Individuals are entitled to their own tax-band rates and capital gains tax exemptions.

Income from jointly held assets is divided equally between spouses and taxed accordingly. However, if a husband and wife are beneficially entitled to unequal shares of an investment in certain property and to the resulting income, or if either spouse is beneficially entitled to the capital or income to the exclusion of the other, a declaration may be made to the Inland Revenue to ensure the income is assessed according to its beneficial interest.

Advance Payment of Taxes. Income tax and social security contributions on cash earnings are normally collected under the Pay-As-You-Earn (PAYE) system. All employers must use the PAYE system to deduct tax and social security contributions from wages or salaries.

Although expense reimbursements and many noncash benefits are not directly subject to withholding, they must be reported to the Inland Revenue by employers after the end of the tax year and by employees on their tax returns. The Inland Revenue accounts for reimbursements and noncash benefits when it dictates the appropriate PAYE code.

Income Tax Returns. The United Kingdom has a self-assessment tax system. Under the self-assessment system, individuals who receive a tax return from the Inland Revenue may choose to have the Inland Revenue calculate and assess their tax liability or to calculate and assess the tax due themselves. Individuals who choose to have the Inland Revenue calculate and assess tax must complete and submit their tax returns by 30 September following the end of the tax year. Individuals who choose to calculate and assess tax themselves must complete and submit their tax returns by 31 January following the end of the tax year.

If tax is due as calculated on the return, it must be paid by 31 January following the end of the tax year. Provisional payments of tax on income not subject to withholding are payable in two installments, on 31 January in the tax year and on the following 31 July.

Each installment must equal 50% of the previous year's tax liability not withheld at source.

Interest is automatically charged on tax not paid by the due dates. A 5% surcharge is also imposed if the tax is not paid within 28 days after the final payment date.

A fixed penalty of £100 is imposed if a return is not filed by 31 January, and an additional £100 penalty is imposed if the return is still not filed by the following 31 July. The late filing penalty may equal 100% of the tax due if a return is submitted later than one year after it is due. Penalties also apply to incorrect returns.

Individuals subject to tax who do not receive a tax return must inform the Inland Revenue by 5 October following the end of the tax year.

Capital Gains Tax. Capital gains are reported on the income tax return, and capital gains tax must be included with the final payment of tax for the year.

Inheritance Tax. Inheritance tax is usually payable by the deceased's personal representative when probate (confirmation of the estate) is obtained. Some liabilities, however, must be paid by the trustees of settled property and by recipients of lifetime gifts.

E. Double Tax Relief and Tax Treaties

Unilateral relief for double taxation is available in the absence of treaty relief, and a credit is given for any withholding tax incurred. However, relief for overseas tax may not exceed the U.K. tax on the same foreign-source income.

The United Kingdom has entered into double tax treaties with many countries covering taxes on income and capital gains. The following countries have entered into double tax treaties with the United Kingdom.

Algeria (d)	Guyana	Oman
Antigua and Barbuda	Hong Kong (d)	Pakistan
Argentina	Hungary	Papua New Guinea
Australia	Iceland	Philippines
Austria	India	Poland
Azerbaijan	Indonesia	Portugal
Bangladesh	Iran	Romania
Barbados	Ireland	Russian Federation
Belarus (c)	Isle of Man	Saudi Arabia (d)
Belgium	Israel	Seychelles
Belize	Italy	Sierra Leone
Bolivia	Jamaica	Singapore
Botswana	Japan	Solomon Islands
Brazil (d)	Jersey	South Africa
Brunei	Jordan	Spain
Bulgaria	Kazakhstan	Sri Lanka
Cameroon (d)	Kenya	St. Kitts and Nevis
Canada	Korea	Sudan
Chile	Kuwait (d)	Swaziland
China	Latvia	Sweden
Côte d'Ivoire	Lebanon (d)	Switzerland
Cyprus	Lesotho	Taiwan
Czechoslovakia (b)	Lithuania	Thailand
Denmark	Luxembourg	Trinidad and Tobago
Egypt	Malawi	Tunisia
Estonia	Malaysia	Turkey
Ethiopia (d)	Malta	Turks and Caicos (e)
Falkland Islands	Mauritius	Uganda
Fiji	Mexico	Ukraine
Finland	Mongolia	USSR (c)
France	Montserrat	United States
Gambia	Morocco	Uzbekistan
Georgia (f)	Netherlands	Venezuela
Germany	Netherlands Antilles	Vietnam
Ghana	New Zealand	Yugoslavia (a)
Greece	Nigeria	Zaire (d)
Grenada	Norway	Zambia
Guernsey		Zimbabwe

(a) The United Kingdom honors the Yugoslavia treaty with respect to Croatia and Slovenia. The status with respect to Bosnia-Herzegovina and the remaining republics is uncertain.
(b) The United Kingdom honors the Czechoslovakia treaty with respect to the Czech Republic and the Slovak Republic.
(c) The United Kingdom honors the USSR treaty with respect to Belarus until a new treaty is ratified.
(d) The provisions of these treaties relate to shipping and air transport only.
(e) These treaties cover savings income only.
(f) This treaty is in force in the United Kingdom from 6 April 2006.

F. Entering the United Kingdom

Individuals entering the United Kingdom, including those with the right of abode (see Section G), must possess some sort of identification. A passport or, for EEA nationals, an identity card, satisfies this requirement. In addition, the nationals of certain foreign and British Commonwealth countries must have visas if they wish to enter the United Kingdom for any reason. This requirement applies primarily to nationals of countries in Africa, Asia and Eastern Europe.

Certain foreign nationals must register with the police after entering the United Kingdom. If registration is required, the foreign national's Entry Clearance is endorsed with this requirement or his or her passport is endorsed, at the time of entry into the United Kingdom.

Visitors. In general, tourists and foreign individuals coming to the United Kingdom to stay with family or friends or to attend business meetings are granted admission on arrival for a maximum period of six months. Visitors are strictly prohibited during this period from taking employment. They may carry out certain business activities only. To avoid difficulties on entry, a letter from one's employer specifically stating the purpose and duration of the visit is recommended. However, this letter does not guarantee the individual's entry into the United Kingdom.

Visitors must possess return tickets on entering the United Kingdom.

A foreign national who is deemed a "visa national" does not need to apply for the appropriate visa before traveling to the United Kingdom in this category.

Students. Foreign students are granted admission if they can prove acceptance to a qualifying educational program at a recognized educational establishment. The program must be genuine and must involve at least 15 hours of daytime study per week.

Students must be able to support themselves financially while in the United Kingdom, but may be employed during their free time and vacations, subject to certain restrictions.

Students are granted admission to the country only for the period of time that corresponds to their studies. Extensions are possible and are usually granted, unless the student seems to be changing courses without any intention of bringing his or her studies to a close.

Working Holidays. A special status of admission exists for British Commonwealth citizens 17 to 30 years of age to visit the United Kingdom for extended vacations before settling down in their home countries. These individuals may undertake employment without work permits, but this special status is subject to certain restrictions. The special status is valid for up to two years.

G. Work Permits and Self-Employment

Under the Immigration Act of 1971 and the British Nationality Act of 1981, certain individuals are given the right of abode, which in most cases entitles the bearer to live and work in the United Kingdom without restriction. As a result, in certain cases, these acts preclude the necessity for entry clearance (permission to enter the United Kingdom) for qualified individuals. Individuals who do not qualify for the right of abode and who wish to live and work in the United Kingdom must apply for appropriate entry documents and entry clearance and, in most cases, work permits.

European Economic Area and Swiss Nationals. Nationals of European Economic Area (EEA) countries or Switzerland may enter the United Kingdom without prior consent to accept or look for employment, to set up a business or to be self-employed. Effective from 1 May 2004, these rules also apply to nationals of the 10 EU Accession countries. Individuals from these countries may come to the United Kingdom to seek and take up employment. However, nationals from the EU Accession countries, except for Cyprus and Malta, must register their employment with the Home Office Work Permits (UK) within the first month of employment.

After an EEA or Swiss national begins employment, he or she may apply to the Home Office for a Registration Certificate, but this is not mandatory. The certificate is usually valid for five years and confirms the right of the individual to live and work in the United Kingdom.

Non-European Economic Area Residents. In general, any national of a non-EEA country (except Switzerland; see above) entering the United Kingdom to work must have a work permit. Certain exceptions exist for people who fall into one of the exempt categories described in *Exemption from Permits*.

An employer who wishes to hire a foreign national must apply to the Home Office. The burden of proof is on the employer to demonstrate that no suitable individual in the United Kingdom, the EEA or Switzerland meets the requirements for the position.

Permits are available to employees with recognized professional qualifications or high levels of skill and experience. A work permit is issued only for a particular job with a particular employer. The permit holder is admitted to the United Kingdom for a specific period of time that relates directly to the employment situation.

In certain circumstances, an employer may apply for a work permit for an individual who is in the United Kingdom. Applications may take up to four weeks to process; however, it may be possible to visit the United Kingdom during the processing period. If the permit is issued for a period of longer than six months, the individual is required to obtain entry clearance at a British Diplomatic Post in his or her country of legal residence. Within six months after issuance, the work permit must be presented to an Immigration Officer at a point of entry to the United Kingdom, or it will become invalid.

Foreign nationals who are deemed as “Visa Nationals” require a work visa to enter the United Kingdom, regardless of the approved length of the stay.

Extensions to permits are available by applying to both Work Permits (UK) and the Home Office. The application must explain why the foreign national needs to remain in the United Kingdom. The application for an extension must be made before the original permit expires, but not earlier than three months before the expiration date.

The Work Permit Scheme also allows overseas nationals to gain work experience or on-the-job training, if the foreign national is hired in addition to normal staffing requirements. This type of permit is known as the Training and Work Experience Scheme (TWES) permit. TWES permits are normally granted for the period of the training program or, for permits for work experience, no longer than 24 months. An individual who comes to the United Kingdom under this scheme usually may not remain longer for regular employment, and is restricted from immediately returning to the United Kingdom. For example, if an individual was on a TWES permit for up to 12 months, he or she may not be eligible to return as a permit holder until he or she spends 12 months outside the United Kingdom. If an individual was on a TWES permit for over 12 months, he or she may not be eligible to return as a permit holder until he or she spends 24 months outside the United Kingdom.

Exemption from Permits. Certain types of employment situations do not require the issuance of work permits. However, anyone who enters the United Kingdom for employment in certain categories must have prior entry clearance. This entry clearance is issued by a British Embassy, Consulate-General or High Commission for the following foreign nationals:

- Sole Representatives (representatives of foreign companies that have no established branch, subsidiary or other representative in the United Kingdom);
- Persons coming to the United Kingdom as representatives of a foreign government or as employees of the United Nations or another international organization;
- Representatives of foreign newspapers, broadcasting agencies or news agencies on long-term assignment in the United Kingdom; and
- British Commonwealth citizens with a grandparent born in the United Kingdom.

Sole Representative status is a common method used by overseas companies to introduce their products into a new market with relative ease. This status enables a company's first employee to go to the United Kingdom to set up operations.

To acquire Sole Representative status, the applicant must prove that he or she is the sole representative in the United Kingdom of the particular overseas company, that his or her presence is necessary in the United Kingdom and that the company's presence will benefit the United Kingdom. After entering the United Kingdom, the Sole Representative must establish a subsidiary or a branch of the foreign entity.

The application process for entry clearance takes approximately four weeks, but this may vary according to location. A Sole Representative is initially given entry clearance for 24 months. After the expiration of the initial clearance period, it is possible to extend the clearance for an additional 36 months if evidence is provided to confirm the establishment in the United Kingdom of a branch or a subsidiary.

Self-Employment. An applicant must satisfy the following conditions to enter the United Kingdom for self-employment:

- The applicant must have financial resources to invest in the business. The investment must be no less than £200,000, and evidence must be produced proving that this amount is controlled

by the applicant and is disposable in the United Kingdom (this amount is flexible at the discretion of the Home Office for certain categories of investments).
- The financial investments must be proportional to the interests of the business.
- Individuals must show that they can bear their share of the liabilities.
- The applicant must demonstrate that he or she will be occupied full-time with running the business.
- A genuine need for the particular services developed by the business must exist.

In addition to these requirements, the applicant must have evidence of sufficient funds to support any dependants who are being brought into the country.

If the application is for an individual who wishes to take over a business or to join as a partner, he or she must demonstrate, in addition to the prerequisites above, that the applicant's share of the profits is sufficient to support the family, including spouse and children. This may be substantiated by presenting audited accounts of the business for previous years, along with a statement that includes the terms of the business contract. It is unlawful for a partnership to disguise employment to avoid obtaining a work permit.

All applicants, regardless of their proposals, must demonstrate that their businesses will provide new, paid, full-time employment for people already located in the United Kingdom (at least 2 new jobs over the first 12 months).

For details regarding entry clearance requirements and the valid term under this program, see *Investors*.

Innovators. The Innovator scheme enables individuals with proven entrepreneurial skills and innovative ideas to establish businesses in the United Kingdom similar to the Self-Employment scheme, (see *Self-Employment*) but exempt from the requirement to show evidence of £200,000 to invest in the business.

The Innovator scheme utilizes a points-based system. Applicants must score at least 100 points and meet the minimum score requirement in each of the following areas:
- Business experience and qualifications;
- Financial, commercial, and technical viability and a management plan (sufficient initial funding must be in place for the business for at least the first six months); and
- Economic benefit to the United Kingdom.

The applicant must show that, within 12 months, the business will lead to the creation of at least two full-time jobs for persons settled in the United Kingdom.

For information regarding obtaining entry-clearance requirements, see *Investors*. The initial term under the Innovator scheme is 24 months, after which an individual's stay may be extended for another 36 months.

Highly Skilled Migrant Program. The Highly Skilled Migrant Program (HSMP) is designed to encourage skilled workers to transfer to or remain in the United Kingdom. Individuals wishing to enter the United Kingdom under this scheme must provide evidence that they score a minimum of 65 points in the following six areas:

- Educational qualifications;
- Work experience;
- Past earnings;
- Achievement in a chosen field;
- HSMP priority applications for doctors entitled to work as general practitioners; and
- Achievements of their domestic partner.

In addition to scoring at least 65 points, applicants must also demonstrate the following:

- Proficiency in English;
- Intent to make the United Kingdom their primary home;
- Ability to continue to work in their chosen field in the United Kingdom;
- Ability to support themselves without recourse to public funds;
- No prior convictions of any criminal or civil offenses; and
- No prior bankruptcies and are not considered discharged bankrupt.

The application must be submitted to the Home Office in the United Kingdom. If sufficient documentary evidence is provided to substantiate the points, an HSMP permit is granted.

For details regarding entry clearance requirements and the valid term under this program, see *Investors*.

Investors. To qualify for Investor status, the applicant must show either of the following:

- He or she has money of his or her own under his or her control in the United Kingdom, amounting to at least £1 million; or
- He or she owns personal assets that have a value exceeding £2 million, taking into account any liabilities to which he or she is subject.

The applicant must intend to invest not less than £750,000 of the fund in U.K. businesses (other than property investment companies) or in government bonds. The remaining £250,000 may be invested in property. An applicant must commit to making the United Kingdom his or her primary home and can work only as a self-employed individual while in the United Kingdom.

The applicant must demonstrate an intent to invest the minimum required amount (£750,000) in active and trading British limited companies when granted entry to the United Kingdom. Evidence of funds, such as savings accounts with readily accessible capital, must be supplied with the application. Shares with property investment companies and deposits maintained in banks or building societies in the United Kingdom do not count towards the required amount.

Investors with a personal net worth of at least £2 million may use funds loaned by an authorized financial institution to invest in the United Kingdom.

All applications submitted through the individual's local British Embassy, Consulate-General or High Commission are automatically referred to the Home Office in the United Kingdom. The Home Office will then look primarily at the intent to invest and the individual's ability to maintain these investments at the required levels.

Individuals wishing to enter the United Kingdom under the Self-Employment, Innovator, Highly Skilled Migrant and Investor schemes must obtain entry clearance from the nearest British Diplomatic Post. Certain individuals currently residing in the United Kingdom may be eligible to switch their status in the country. Successful Investor applicants are granted permission to enter or remain in the United Kingdom for an initial term of 24 months. Thereafter, the Home Office will consider extending their stay for an additional 36 months.

H. Resident Status

Holders of various types of immigration status (including participants of the Self-Employment, Innovator, Highly Skilled Migrant and Investor schemes and the majority of work permit applicants and their dependants) may apply for permanent resident status after they have been continuously employed in the United Kingdom under one category for 60 months. Applications for permanent resident status are submitted to the Home Office.

Permanent resident status grants the right to settle permanently in the United Kingdom and to undertake any employment. The rights granted are extended to all dependants who are in the United Kingdom at the time the status is granted to the expatriate.

Permanent resident status may be retained indefinitely if the individual resides in the United Kingdom. The status may also normally be maintained during a period of absence if the individual returns to the United Kingdom for permanent settlement within 24 months after departure.

I. Family and Personal Considerations

Family Members. The dependants of a non-EEA (and non-Swiss) national admitted to the United Kingdom under most categories are admitted for the same period and are eligible to take employment. Dependants generally include the permit holder's spouse and children under 18 years of age. Dependants must obtain entry clearance, however, before accompanying the parent or spouse to the United Kingdom. Entry clearance is obtained through the British Embassy, Consulate-General or High Commission in the applicant's home country.

The spouse and dependants (including children under 21 years of age, parents and grandparents) of an EEA national or a Swiss national, regardless of whether they are EEA or Swiss nationals themselves, are also granted entry rights including the right to work, for the same period as the employed individual.

EEA or Swiss nationals and their dependants are not required to register with the police (see Section F).

Marital Property Regime. It is necessary to distinguish between the legal system of England and Wales and that of Scotland. Neither legal system includes a community property regime or other similar marital property regime. The discussion below focuses on the marital property regime applicable in England and Wales.

As a matter of public policy, English courts generally do not enforce the terms of prenuptial agreements. However, the English courts' attitude toward prenuptial agreements has recently softened, therefore, they may be more willing to respect the terms of an agreement entered into voluntarily by both parties.

It is possible that the courts in England and Wales would enforce a foreign marital agreement (or the community property regime of a foreign jurisdiction) if the courts determine that the relevant law is that of a community property jurisdiction (or a jurisdiction that respects marital agreements). In general, if the married parties are domiciled in different jurisdictions, English law provides that the matrimonial domicile (which usually follows the domicile of the husband) determines the law applicable to the couple's movable property. Therefore, if the husband is domiciled in a jurisdiction that would enforce a marital agreement, the terms of such agreement should be applicable regarding the ownership of the marital property. The courts of England and Wales recognize the application of a community property regime of another legal jurisdiction with respect to an individual's immovable property situated in that jurisdiction.

Forced Heirship. It is necessary to distinguish between the legal system of England and Wales and that of Scotland.

The legal system of England and Wales does not provide for a forced heirship regime. However, the forced heirship regimes of other legal jurisdictions may be recognized by the English courts with respect to an individual who is domiciled in another jurisdiction or who owns immovable property situated there. In addition, the Inheritance (Provision for Family and Dependents) Act 1975 requires the provision of reasonable financial support from an estate for persons who are financially dependent on the decedent at the time of his or her death. The act empowers the court, if adequate provision is not made for these persons, to order that part of the estate be transferred to them or held for their benefit.

The Scottish legal system includes a forced heirship regime. Under this regime, if an individual dies leaving a spouse and no children, the surviving spouse is entitled to one-half of the movable estate. If the individual leaves both a spouse and children, the spouse is entitled to one-third, and the children are jointly entitled to one-third, of the movable estate. The balance of the deceased's estate in each case passes according to the terms of the deceased's will or, if no will is left, according to the rules of intestacy.

Drivers' Permits. Foreign nationals may drive legally in the United Kingdom with their home country drivers' licenses for 12 months.

The United Kingdom provides driver's license reciprocity with all EU member countries, as well as with Australia, Barbados, British Virgin Islands, Cyprus, Finland, Hong Kong, Japan, Kenya, Malta, New Zealand, Singapore, Sweden, Switzerland and Zimbabwe.

Individuals from nonreciprocal countries must take a practical driving examination after 12 months in the United Kingdom.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	(b)
Housing allowance	X	—	(b)
Employer-provided housing	X	—	(b)
Housing contribution	(X)	—	—
Education allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	—	X	(c)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(b)(e)
Company pension and profit-sharing contributions	X	—	(a)
Private use of an automobile	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(f)
Capital gain from sale of personal residence in home country	—	X	(g)
Capital gain from the sale of stock in home country	X	—	(h)

* Bracketed amounts reduce taxable income.

(a) In principle, company contributions to non-U.K. pension plans, savings plans or profit-sharing plans are taxable in the United Kingdom. However, on application, the Inland Revenue may determine that a plan corresponds to a U.K. approved plan. In such circumstances, employer contributions are not taxed as additional income and employee contributions may be tax-deductible, subject to certain limits. Alternatively, relief may also be available under an income tax treaty between the United Kingdom and the home country of the expatriate.

(b) Employees required to work at a temporary workplace for a period not expected to exceed 24 months usually may claim a deduction for the cost of accommodation and subsistence at the temporary workplace.

(c) Home-leave travel costs are generally tax-free if paid by the employer. However, they are generally not tax-deductible if paid by the employee. This exemption covers an unlimited number of trips by the employee, and up to two trips each per tax year for the employee's family. It generally applies for the first five years of the employee's assignment.

(d) The moving expense reimbursement also covers the cost of temporary accommodation (for example, a hotel) while employees locate permanent housing. In general, only the first £8,000 is tax-free.

(e) The value of meals provided is not taxable if the meals are provided in a staff restaurant that is available to all members of the company's staff.
(f) For a typical expatriate, the income is taxable if derived from U.K. sources or if remitted to the United Kingdom from non-U.K. sources (for further details, see Section A).
(g) A pro rata portion of the gain may be taxable if the property has not been the sole or principal residence throughout the period of ownership.
(h) For a typical expatriate, the gain is taxable if it is derived from U.K. sources or if the sales proceeds are remitted to the United Kingdom from non-U.K. sources (for further details, see Section A).

APPENDIX 2: SAMPLE INCOME TAX CALCULATIONS

The examples below illustrate the calculation of the U.K. tax liability for individuals who are not domiciled in the United Kingdom. In all three cases, the individual earns £60,000 and works 75% of the time in the United Kingdom and 25% outside the United Kingdom.

In Case A, the individual is resident but not ordinarily resident in the United Kingdom, has one non-U.K. resident employer and receives compensation from the employer in a bank account outside the United Kingdom.

In Case B, the individual is resident and ordinarily resident and has one non-U.K. employer.

In Case C, the individual has an employment contract for U.K. duties with a non-U.K. resident employer and a separate employment contract for duties outside of the United Kingdom with a different non-U.K. resident employer. The individual receives compensation from the employer in a bank account outside the United Kingdom.

In Cases A and C, the individuals limit their remittances to the United Kingdom to no more than £45,000.

	Case A £	Case B £	Case C £
Total compensation	60,000	60,000	60,000
Nontaxable portion	(15,000)	—	(15,000)
Taxable compensation	45,000	60,000	45,000
Allowances	(4,895)	(4,895)	(4,895)
Taxable income	40,105	55,105	40,105
Income tax	9,959	15,959	9,959

As a result of the complexities of U.K. tax laws and the interaction of the laws with tax treaties, it is suggested that expatriates seek professional assistance regarding the determination of their income tax liabilities and the implementation of planning techniques to minimize that liability.

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A. Income Tax

Who Is Liable

Territoriality. U.S. citizens and resident aliens are subject to tax on their worldwide income, regardless of source. U.S. citizens and resident aliens may exclude, however, up to $80,000 of their foreign-earned income plus certain housing expenses if they meet specified qualifying tests and if they file U.S. tax returns to claim the exclusion.

A nonresident alien is subject to U.S. tax on income that is effectively connected with a U.S. trade or business and on U.S.-source fixed or determinable, annual or periodic gains, profits and income (generally investment income, including dividends, royalties and rental income). U.S.-source investment income is taxed on a gross basis at a flat rate of 30%. Income effectively connected with a U.S. trade or business is taxed after subtracting related deductions at the graduated rates listed in *Rates*. Portfolio interest and, generally, capital gains from the sale of stock in a U.S. company are exempt from the 30% tax. Moreover, an election to tax rental income on a net basis is available. However, gains from sales of U.S. real property interests are usually considered to be effectively connected income, and special complex rules apply.

Definition of Resident. Residence for income tax purposes generally has no bearing on an individual's immigration status. Generally, foreign nationals may be considered resident aliens if they are lawful permanent residents (green card holders) or if their physical presence in the United States lasts long enough under a substantial presence test. Under the substantial presence test, a foreign national is deemed to be a U.S. resident if the individual fulfills both of the following conditions:

- The individual is present in the United States for at least 31 days during the current year.
- The individual is considered to have been present for at least 183 days during a consecutive three-year test period that includes the current year, using a formula weighted as follows:

Current year	100.00%
1st preceding year	33.33%
2nd preceding year	16.67%

Using the above formula, an average of 122 days' presence during each of three consecutive years causes a foreign national to be considered a U.S. resident under the substantial presence test.

Among several exceptions to the substantial presence test are the following:

- Days present as a qualified student, teacher or trainee, or if a medical condition prevented departure, are not counted;
- An individual might claim to be a nonresident of the United States by virtue of having a closer connection (such as a tax home) to a foreign country; and
- Income tax treaties may override internal U.S. tax rules for dual residents.

The Internal Revenue Service (IRS) has issued regulations that require individuals to file statements with the IRS setting forth the facts that prove their claims for exemption.

In certain circumstances, it may be beneficial for an individual to be considered a resident of the United States for income tax purposes. An individual may make what is known as a first-year election to be treated as a resident in the year of arrival if certain conditions are met.

Income Subject to Tax. In general, gross income must be segregated into the following three separate baskets:

- Earned income: generally salary and earnings from active trades or businesses;
- Portfolio income: generally investment income, including interest, dividends, certain royalties and gains from the disposition of investment property; and
- Passive income: generally income from traditional tax-shelter investments including real estate.

Examples of items that are not included in taxable income are gifts, unrealized appreciation in the value of property, interest received on municipal bonds, amounts received under a life insurance contract, certain employer-paid education costs, employer-paid retirement planning services and qualified distributions from Roth individual retirement accounts (IRAs) or education savings accounts.

For a table outlining the taxability of income items, see Appendix 1.

Employment Income. In addition to cash payments, taxable salary generally includes all employer-paid items, except qualifying moving expenses, medical insurance premiums, pension contributions to a U.S. qualified plan and, for individuals on short-term assignments of one year or less, meals and temporary housing expenses.

Education allowances provided by employers to their employees' children are taxable for income and social security tax purposes.

In general, a nonresident alien who performs personal services as an employee in the United States at any time during the tax year is considered to be engaged in a U.S. trade or business. An exception to this rule applies to a nonresident alien performing services in the United States if all of the following conditions apply:
- The services are performed for a foreign employer;
- The employee is present no more than 90 days during the tax year; and
- Compensation for the services does not exceed $3,000.

These conditions are similar to those contained in many income tax treaties, although the treaties often expand the time limit to 183 days and increase or eliminate the maximum dollar amount of compensation.

If an employee does not fall under the above statutory exception or under a treaty exception, all U.S.-source compensation received in that year is considered effectively connected income (not just the amount exceeding the $3,000 limitation or the dollar limitation under a treaty). This income includes wages, bonuses and reimbursements for certain living expenses paid to, or on behalf of, the employee.

Compensation is considered to be from a U.S. source if it is paid for services performed in the United States. The place where the income is paid or received is irrelevant in determining its source. If income is paid for services performed partly in the United States and partly in a foreign country, and if the amount of income attributable to services performed in the United States cannot be accurately determined, the U.S. portion is determined on a workday ratio basis. Fringe benefits that meet certain requirements are sourced to the person's principal place of work. These benefits include moving expenses, housing, primary and secondary education for dependants and local transportation.

Effectively connected income retains its character even if received before or after a U.S. trade or business ceases operations. Consequently, wages for services performed in the United States, but received during a year in which a nonresident alien reports no U.S. workdays, are taxed at the graduated rates instead of the flat 30% rate.

States often follow the federal tax treatment in determining if a nonresident alien's income is subject to state taxation; however, certain states tax income of a nonresident regardless of federal tax treatment or treaty relief.

Self-Employment Income. In general, a nonresident alien who performs independent personal services in the United States at any time during the tax year is considered to be engaged in a U.S. trade or business.

Although subject to tax at the graduated rates, compensation paid to a nonresident alien for performing independent personal services in the United States is subject to a 30% withholding tax. A nonresident alien must file a U.S. tax return to claim a refund or to pay any additional tax due. If compensation is exempt from U.S. tax under an income tax treaty or if the amount paid is not greater than the personal exemption amount ($3,300 in 2006), a nonresident alien may request exemption from withholding by preparing Form 8233, Exemption from Withholding on Compensation for Independent Personal Services of a Nonresident Alien Individual, and then giving it to the withholding agent (payer). In addition, many U.S. income tax treaties contain separate provisions affecting the taxation of independent personal services income.

Investment Income. Dividends, interest income and capital gains are considered portfolio income and are generally taxed at the ordinary rates (however, see *Capital Gains and Losses*, and *Dividends*). Certain types of interest income, including interest on certain state and local government obligations, are exempt from federal tax, but may be subject to alternative minimum tax (AMT, see *Rates*).

Net income from the rental of real property and from royalties is aggregated with other income and taxed at the rates set forth in *Rates*.

Directors' Fees. In general, directors' fees are considered to be earnings from self-employment (see *Self-Employment Income*).

Deferred Compensation and Participation in Foreign Pension Plans. The United States has very complex rules regarding the taxation of deferred compensation. If a plan of deferral does not meet the requirements of the law, significant penalties and interest may be charged. Complex rules apply to the taxation related to participation in a non-U.S. retirement plan. In many cases, continued participation in the home country plan may result in income that is taxable in the United States. Certain newer income tax treaties attempt to address this issue.

Taxation of Employer-Provided Stock Options

Qualified Stock Option Plans. Under incentive stock option (ISO) rules, options provided to employees under qualified stock option plans are not subject to tax at the time the option is granted or at the time the employee exercises the option and buys the stock. However, at the time of exercise, the difference between the exercise price and the fair market value of the stock at the date of exercise is considered a tax preference item for AMT purposes (see *Rates*). Tax is levied at capital gains tax rates when the employee sells the stock (see *Capital Gains and Losses*). The employee's basis in the stock is the amount paid for the stock at the time the option is exercised. Consequently, the employee recognizes a capital gain or loss in the amount of the difference between the sale price and the grant price. For purposes of determining whether the capital gain is long-term or short-term, the holding period begins on the date after the option is exercised, not on the date the option is granted. Stock purchased under an incentive stock option may not be sold within two years from the grant date and within one year from the exercise date. If the stock is sold before the expiration of the required holding period, any gain on the sale is treated as ordinary income.

Nonqualified Stock Option Plans. A stock option provided to an employee under a nonqualified plan is taxed when it is granted if the option has a readily ascertainable fair market value at that time. An option that is not actively traded on an established market has a readily ascertainable fair market value only if all of the following conditions are met:

- The option is transferable;
- The option is exercisable immediately and in full when it is granted;
- No conditions or restrictions are placed on the option that would have a significant effect on its fair market value; and
- The fair market value of the option privilege must be readily ascertainable.

The above conditions are seldom satisfied. Consequently, most nonqualified options that are not traded on an established market do not have a readily ascertainable fair market value and are not taxable at the date of grant.

The exercise of a nonqualified stock option triggers a taxable event. An employee recognizes ordinary income in the amount of the value of the stock purchased, less any amount paid for the stock or the option. When the stock is sold, the difference between the sale price and the fair market value of the stock at the date of exercise, if any, is taxed as a capital gain.

Capital Gains and Losses. Net capital gain income is taxed at ordinary rates, except that the maximum rate for long-term gains is limited to 15% (5%for individuals in the 10% or 15% bracket). Net capital gain is equal to the difference between net long-term capital gains over net short-term capital losses. Long-term refers to assets held longer than 12 months. Short-term capital gains are taxed as ordinary income at the rates set forth in *Rates*.

Investors who hold qualified small business stock for longer than five years may be entitled to exclude 50% of the gain realized on disposition of the stock.

Once every two years, U.S. taxpayers, including resident aliens, may exclude up to $250,000 ($500,000 for married taxpayers filing jointly) of gain derived from the sale of a principal residence. To be eligible for the exclusion, the taxpayer must generally have owned the residence and used it as a principal residence for at least two of the five years immediately preceding the sale. However, if a taxpayer moves due to a change in place of employment, for health reasons or as a result of unforeseen circumstances, a fraction of the maximum exclusion amount is allowed in determining whether any taxable gain must be reported. The numerator of the fraction is the length of time the home is used as a principal residence, and the denominator is two years. The repayment of a foreign currency mortgage obligation may result in a taxable exchange-rate gain, regardless of any economic gain or loss on the sale of the principal residence.

Capital losses are fully deductible against capital gains. However, net capital losses are deductible against other income only up to an annual limit of $3,000. Unused capital losses may be carried forward indefinitely. Losses attributable to personal assets (for example, a personal residence or an automobile) are not deductible.

Dividends. Dividends received by individuals from domestic corporations and “qualified foreign corporations” are treated as net capital gains for purposes of applying the capital gain tax rates for both the regular tax and the alternative minimum tax. Consequently, dividends are taxed at a rate of 15% (5% for taxpayers with income in the lower brackets). To qualify for the 15% tax rate, the shareholder must hold a share of stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date.

Deductions

Deductible Expenses. Certain types of deductions, including amounts related to producing gross income, are subtracted to arrive at adjusted gross income. Alimony payments to a former spouse and qualifying unreimbursed moving expenses are among the most commonly claimed deductions in this category. Qualifying employer-reimbursed moving expenses are not included in income. Alimony (but not child support) must meet certain criteria, and must be included in the recipient's gross income, to be deductible by the payer. A tax of 30% generally must be withheld (and remitted to the IRS) from alimony paid by a U.S. citizen or resident to a nonresident-alien former spouse. Certain U.S. income tax treaties may reduce the 30% withholding tax rate (see Section E).

An individual whose tax home is outside the United States may be able to deduct away-from-home travel and living expenses that relate to work in the United States. U.S. tax law provides for the deduction of ordinary and necessary travel and living expenses in performing services while an individual is temporarily away from home. U.S. assignments of one year or less are usually presumed to be temporary, and assignments of more than one year are generally considered permanent.

Complex rules determine eligibility for other deductions from gross income. For example, depending on the taxpayer's income level, interest of up to $2,500 on qualified educational loans, qualified higher education expenses of up to $4,000 and individual retirement account (IRA) contributions of up to $4,000 may be deducted. In addition, eligible moving expenses not paid directly by an employer are deductible from gross income.

After adjusted gross income is determined, a citizen or resident alien is entitled to claim the greater of itemized deductions or a standard deduction. The amount of the standard deduction varies, depending on the taxpayer's filing status. For 2006, the standard deduction is $10,300 for married individuals filing a joint return, $7,550 for a head of household, $5,150 for a single (not married) individual and $5,150 for a married taxpayer filing a separate return.

Itemized deductions include the following items:
- Unreimbursed medical expenses to the extent that they exceed 7.5% of adjusted gross income;
- Income and property taxes of states and localities;
- Foreign income taxes paid if a foreign tax credit is not elected;
- Certain interest expense, generally home mortgage interest and investment interest expense;
- Casualty and theft losses to the extent that they exceed 10% of adjusted gross income;
- Charitable contributions made to qualified U.S. charities; and

- Unreimbursed employee business expenses and other miscellaneous itemized deductions, to the extent that the net total exceeds 2% of adjusted gross income.

For 2006, itemized deductions, other than medical expenses, casualty and theft losses, and investment interest expense, must be reduced by an amount equal to 3% of the taxpayer's adjusted gross income in excess of $150,500 ($75,250 for married individuals filing separately). For 2006 and 2007, the reduction amount is decreased by one-third, and decreased by two thirds for 2008 and 2009. The reduction amount may not reduce the deductible amount by more than 80%.

A nonresident alien may not use the standard deduction instead of actual itemized deductions. Also, the types of itemized deductions a nonresident alien may claim are limited to casualty losses, charitable contributions made to qualified U.S. charities, certain miscellaneous deductions, and state and local taxes imposed on effectively connected income. A nonresident alien may not claim an itemized deduction for medical expenses, taxes (other than state and local income taxes) or most interest expenses. In addition, a nonresident alien is normally entitled to only one personal exemption. Nonresident aliens are subject to the phase-out thresholds for both itemized deductions and the personal exemption according to their tax rate group.

Personal Exemptions. Individuals who are not dependants of other taxpayers are entitled to deduct a personal exemption in arriving at taxable income. For 2006, each personal exemption equals $3,300. U.S. citizens and residents are generally each entitled to claim an additional personal exemption for a spouse if a joint return is filed. However, if the spouse is a nonresident alien and a joint return is not filed, the taxpayer may claim this exemption only if the spouse has no U.S.-source gross income and is not a dependant of another taxpayer. Additional personal exemptions may be claimed for each qualified dependant who is a U.S. citizen or, in certain circumstances, a resident of the United States, Canada or Mexico for some part of the tax year. U.S. income tax treaties may modify the preceding rules.

Personal exemptions are phased out by 2% for each $2,500 (or part thereof) by which the adjusted gross income exceeds $225,750 (married persons filing jointly), $188,150 (head of household) or $150,500 (single persons). For married persons filing separately, the exemptions are phased out by 2% for each $1,250 by which adjusted gross income exceeds $112,875. The phase-out is reduced by one-third for 2006 and 2007, and reduced by two-thirds for 2008 and 2009.

Business Deductions. Self-employed individuals are entitled to the same deductions as employees, except that they may also deduct directly related ordinary and necessary business expenses. However, special rules may apply to limit business deductions if a taxpayer's business activity does not result in a profit for three out of five years. In this situation, the activity may be classified as a hobby, and the expenses are deductible only if they qualify as itemized deductions. Self-employed individuals may establish, and may deduct contributions paid to, their own retirement plans, subject to special limitations.

Rates. The applicable U.S. tax rates depend on whether an individual is married or not and, if married, whether an individual elects to file a joint return with his or her spouse. Certain individuals also qualify to file as heads of households.

Unmarried nonresident aliens are taxed under the rates for single individuals. Married nonresidents whose spouses are also nonresidents are generally taxed under the rates for married persons filing separately.

The tax brackets and rates for 2006 are set forth in the tables below. The income brackets in these tables are indexed annually for inflation.

Married Filing Joint Return

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
$	$	$	%
0	15,100	0.00	10
15,100	61,300	1,510.00	15
61,300	123,700	8,440.00	25
123,700	188,450	24,040.00	28
188,450	336,550	42,170.00	33
336,550	—	91,043.00	35

Married Filing Separate Return

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
$	$	$	%
0	7,550	0.00	10
7,550	30,650	755.00	15
30,650	61,850	4,220.00	25
61,850	94,225	12,020.00	28
94,225	168,275	21,085.00	33
168,275	—	45,521.50	35

Head of Household

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
$	$	$	%
0	10,750	0.00	10
10,750	41,050	1,075.00	15
41,050	106,000	5,620.00	25
106,000	171,650	21,857.50	28
171,650	336,550	40,239.50	33
336,550	—	94,656.50	35

Single Individual

Taxable Income		Tax on Lower	Rate on
Exceeding	Not Exceeding	Amount	Excess
$	$	$	%
0	7,550	0.00	10
7,550	30,650	755.00	15
30,650	74,200	4,220.00	25
74,200	154,800	15,107.50	28
154,800	336,550	37,675.50	33
336,550	—	97,653.00	35

The above rates are used to compute an individual's regular federal tax liability. The United States also imposes AMT at a rate of 26% on alternative minimum taxable income, up to $175,000, and at a rate of 28% on alternative minimum taxable income exceeding $175,000 (long-term capital gains and qualified dividends are taxed at a rate of 15%, see *Capital Gains and Losses* and *Dividends*). The primary purpose of AMT is to prevent individuals with substantial income from using preferential tax deductions (such as accelerated depreciation), exclusions (such as certain tax-exempt income) and credits to substantially reduce or to eliminate their tax liability. It is an alternative tax because, after an individual computes both the regular tax and AMT liabilities, the greater of the two amounts constitutes the final liability.

For sample federal tax calculations, see Appendix 2.

Some states, cities and municipalities also levy income tax. City or municipal income tax rates are generally 1% or lower. However, the top 2006 rate for residents of New York City is 3.648%. State income tax rates generally range from 0% to 12%. Therefore, an individual's total income tax liability depends on the state and the municipality where the individual resides or works. For a list of maximum state and certain local tax rates, see Appendix 3.

Credits. Tax credits directly reduce income tax liability rather than taxable income and therefore provide a dollar-for-dollar benefit. Most credits are limited, depending on the taxpayer's income level. Credits include a maximum $10,960 credit for qualified adoption expenses, a $1,000 child tax credit for dependants under 17 years of age and two alternative higher education credits, with maximums of $2,000 and $1,650, respectively.

Relief for Losses. In general, passive losses, including those generated from limited-partnership investments or rental real estate, may be offset only against income generated from passive activities.

Limited relief may be available for real estate rental losses. For example, an individual who actively participates in rental activity may use up to $25,000 of losses to offset other types of income. The $25,000 offset is phased out for taxpayers with adjusted gross income of between $100,000 and $150,000, and special rules apply to married individuals filing separate tax returns.

Disallowed losses may be carried forward indefinitely and used to offset net passive income in future years. Any remaining loss may be used in full when a taxpayer sells the investment in a transaction that is recognized for tax purposes.

B. Other Taxes

Net Worth Tax. No federal tax is levied on an individual's net worth. However, some states and municipalities impose a tax on an individual's net worth.

Estate and Gift Tax. U.S. estate and gift taxes are imposed at graduated rates ranging from 18% to 46% on the value of property transferred by reason of death or gift. In general, citizens and residents are entitled to a limited lifetime credit. Currently, the credit equals the amount of transfer tax on $2,000,000. The estate tax rates will be reduced, with a maximum rate of 45% applying in 2007. In 2010, the estate tax is repealed; however, in 2011, it is reinstated. The estate tax “exemption” increases to $3.5 million in 2009. The gift tax rate is also reduced over time. In 2010, the highest gift tax rate will be equal to the highest individual income tax rate, which is scheduled to be 35%. The gift tax “exemption” was increased to $1 million in 2002 and remains at that level.

In general, transfers between spouses who are U.S. citizens, as well as transfers from a non-U.S. citizen to a U.S. citizen spouse, are not subject to estate or gift taxes. However, transfers from a U.S. citizen to a non-U.S. citizen spouse may be subject to estate or gift tax. Nonresident aliens are allowed a marital deduction for transfers to spouses who are U.S. citizens.

Like U.S. income tax rules, U.S. estate and gift tax rules differ, depending on whether a foreign national is considered to be a resident or nonresident alien. However, the distinction between residents and nonresidents differs from that under U.S. income tax rules. For estate and gift tax purposes, a nonresident is a foreign national who is not a U.S. citizen and whose domicile is outside the United States at the date of death. A person’s domicile is defined generally as the place the individual regards as his or her permanent home—that is, the place where he or she intends to return, even after a period of absence.

Application of U.S. estate and gift tax rules may be modified if a nonresident alien is a resident of a country that has entered into an estate and gift tax treaty with the United States. The United States currently has estate and/or gift tax treaties with Australia, Austria, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, Norway, South Africa, Sweden, Switzerland and United Kingdom.

Gift Tax. U.S. citizens and resident aliens are subject to gift tax on transfers of all property, tangible and intangible, regardless of the location of the property. Tax is imposed on the fair market value of property on the date of the gift, at graduated rates determined by the individual’s cumulative lifetime transfers.

Each year, a donor is entitled to exclude from taxable income gifts of present interests valued at up to $12,000 for each recipient. A husband and wife may elect to treat gifts made by one spouse as being made one-half by each spouse. This gift-splitting election on joint gifts increases the annual exclusion to $24,000 for each recipient. Gifts in excess of the annual exclusion are subject to taxes ranging from 18% to 46%. However, a credit may be used to offset this liability. See the discussion above for changes to the rates and exemption amounts that came into effect in 2001.

A U.S. citizen or resident is exempt from gift tax on annual transfers of up to $120,000 to a non-U.S. citizen spouse.

Foreign nationals who are not domiciled in the United States must generally pay gift tax on transfers of real property and tangible personal property located in the United States. Intangible property, including stocks and bonds, is generally exempt. The gift tax rates for nonresidents are the same as those for citizens and residents.

Nonresidents are allowed to give up to $12,000 annually to each recipient with no gift tax consequences, but they may not split gifts with their spouses.

Gifts in excess of $12,760, in aggregate, received from foreign persons must be reported, but they are generally not subject to tax. However, the IRS has not required gifts from foreign individuals or foreign estates to be reported unless the aggregate gifts exceed $100,000.

Estate Tax. The estate of a U.S. citizen or resident includes all property, tangible and intangible, regardless of location.

Property transferred at death from a U.S. citizen to a non-U.S. citizen spouse is generally not excluded from the decedent's gross estate, unless the property is placed in a qualified domestic trust before the estate tax return is due. To be considered a qualified domestic trust, a trust must satisfy the following conditions:
- At least one trustee of the trust must be a U.S. citizen or a domestic corporation, and no distribution from the trust may be made without a trustee's approval;
- The trust must meet the requirements prescribed by Treasury Department regulations; and
- The executor must make an irrevocable election to be treated as a qualified domestic trust on the estate tax return.

Estate tax is levied on the property in the trust if any of the following events occurs:
- The trust ceases at any time to meet the above requirements;
- The corpus is distributed prior to the surviving spouse's death, except in cases of hardship; or
- The surviving spouse dies.

For U.S. tax purposes, the estate of a nonresident includes only tangible, intangible and real property located within the United States at the time of death. For this purpose, shares of U.S. corporations, U.S. partnership assets, U.S. property owned by a trust and certain debt obligations of U.S. residents are considered to be property located in the United States. The estate tax rates are the same as those for citizens and residents. An estate tax return must be filed if the value of a nonresident alien's gross estate exceeds $60,000. This exemption amount is not scheduled to increase.

Expatriation Tax. Although the United States does not currently have an exit tax, former U.S. citizens and former long-term permanent residents are subject to reporting requirements and potentially to U.S. income tax under a complex set of rules. These requirements generally apply for 10 years following expatriation.

C. Social Security Taxes

Social Security Tax. Under the Federal Insurance Contributions Act (FICA), social security tax is imposed on wages or salaries received by individual employees to fund retirement benefits paid by the federal government. For 2006, the social security tax of 15.3%, which includes a 2.9% Medicare tax, is imposed on the first $94,200 of annual employment income. However, no limit applies to the amount of wages subject to the Medicare portion of the social security tax. Half of the tax is withheld from the employee's wages, and half is paid by the employer.

FICA tax is imposed on compensation for services performed in the United States, regardless of the citizenship or residence of the employee or employer. Consequently, absent an exception, nonresident alien employees who perform services in the United

States are subject to FICA tax, even though they may be exempt from U.S. income tax under a statutory rule or an income tax treaty. Certain categories of individuals are exempt from FICA tax, including foreign government employees, exchange visitors in the United States under J visas, foreign students holding F, M or Q visas, and individuals covered under social security totalization agreements between the United States and other countries. These agreements allow qualifying individuals to continue paying into the social security system of their home countries, usually for a period of five years.

Totalization agreements are currently in effect with Australia, Austria, Belgium, Canada, Chile, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. An agreement with Mexico was signed in 2004, but it is not yet in force.

Self-Employment Tax. Self-employment tax is imposed under the Self-Employment Contributions Act (SECA) on self-employment income, net of business expenses, that is derived by U.S. citizens and resident aliens. For 2006, SECA tax is imposed at a rate of 15.3%, which includes a 2.9% Medicare tax, on self-employment income, up to $94,200. However, no limit applies to the amount of income subject to the Medicare portion of SECA tax. Self-employed individuals must pay the entire tax but may deduct 50% as a trade or business expense on their federal income tax return. No tax is payable if net earnings for the year are less than $400. If a taxpayer has both wages subject to FICA tax and income subject to SECA tax, the wage base subject to FICA tax is used to reduce the income base subject to SECA tax. SECA tax is computed on the individual's U.S. income tax return. Nonresident aliens are not subject to SECA tax.

Federal Unemployment Tax. Federal unemployment tax (FUTA) is imposed on employers' wage payments to employees. FUTA is imposed on income from services performed within the U.S., regardless of the citizenship or residency of the employer or employee. It is also imposed on wages for services performed outside the U.S. for a U.S. employer by U.S. citizens. The 2006 tax rate is 6.2% on the first $7,000 of wages of each employee. Most states also have unemployment taxes that are creditable against FUTA tax when paid. Self-employed individuals are not subject to FUTA tax.

D. Tax Filing and Payment Procedures

The U.S. system of tax administration is based on the principle of self-assessment. U.S. taxpayers must file tax returns annually with the IRS and with the state and local tax authorities under whose jurisdiction they live if those governments impose income or net worth taxes.

On the federal return, taxpayers must report income, deductions and exemptions and must compute the tax due. Taxes are generally collected by employer withholding on wages and salaries and by individual payment of estimated taxes on income not subject to withholding. Normally, tax due in excess of amounts withheld and payments of estimated tax must be paid with the return when filed. The taxpayer may also claim a refund of an overpayment of tax on the annual return. Substantial penalties and interest are usually imposed on a taxpayer if a return is not filed on time or if tax payments, including estimated payments, are not made by the applicable due dates.

Tax returns may be selected for an audit at later dates by the IRS or state auditors. Failure to provide adequate support for amounts claimed as deductions on the return may result in the disallowance of deductions and in a greater tax liability, on which interest and/or penalties are levied from the original due date. In general, taxpayers must maintain supporting documentation for at least three years after a return is filed.

U.S. citizens and resident aliens file Form 1040, U.S. Individual Income Tax Return, or one of the simplified forms, including Form 1040A (for taxpayers with taxable income under $100,000 who do not itemize deductions) or Form 1040EZ (for single or married filing jointly taxpayers with taxable income under $100,000, no itemized deductions, no adjustments to income and no dependants). The due date for calendar-year taxpayers is normally 15 April (three and one-half months after the year-end for fiscal-year taxpayers). Extensions to file tax returns may be obtained by filing a request with the IRS. However, an extension to file a return is not an extension to pay tax. To prevent interest and penalties from being charged on unpaid tax, a calendar-year taxpayer should pay any tax due by 15 April.

Nonresident aliens with reportable U.S. gross income must generally file Form 1040NR, U.S. Nonresident Alien Income Tax Return. This return is required even if a taxpayer has effectively connected income but no taxable income or if income is exempt under a tax treaty. Beginning with 2005 tax returns, an exception from filing a return applies to a nonresident alien with income effectively connected with a U.S. trade or business if the amount of the income is less than the amount of one personal exemption ($3,200 in 2005). In addition, nonresident aliens are not required to file Form 1040NR if they are not engaged in a U.S. trade or business during the tax year and if any tax liability on U.S.-source investment (passive) income is satisfied by the 30% (or lower treaty rate) withholding tax.

If required, Form 1040NR is due on 15 April for nonresident aliens who earn wages subject to withholding; otherwise, the due date is normally 15 June. Extensions to file the return (but not to pay tax due) may be obtained by filing a request with the IRS.

An employer (U.S. or foreign) is responsible for withholding U.S. income or social security taxes from nonresident alien employees.

For years in which a foreign national is both a resident alien and a nonresident alien, two returns are generally prepared, attached to each other, and filed simultaneously. One return reports income and deductions for the residence period, and the other reports income and deductions for the nonresidence period. The income from the nonresident period that is effectively connected with the taxpayer's U.S. trade or business is combined with all income from the resident period for computation of the tax on income subject to graduated tax rates. The includible income and deductions are different for both portions of a dual-status year. For a cash-basis taxpayer, income is taxable when received. Therefore, foreign-source income earned while a taxpayer was a nonresident alien is taxable if it is received while the individual is a resident alien. Conversely, non-effectively connected foreign source income earned while a taxpayer was a resident alien is not taxed if it is received when the taxpayer is a nonresident alien. As a result, to avoid U.S. tax on wages or a bonus for services performed outside of the United States, a foreign national transferring to the United States generally should receive the amount before arriving in this country.

Two elections are available to married aliens that enable them to file one tax return and qualify for the lower married filing joint return tax rates. The first election may be made by an individual who, at the close of the year, was a nonresident alien married to a U.S. citizen or resident. The second election is available to an individual who, at the beginning of the year, was a nonresident alien and who, at the close of the year, was a resident alien married to a U.S. citizen or resident. Under these elections, both spouses must make the election to be entitled to file the joint return. Under both elections, the nonresident alien spouse and part-year resident spouse is treated as a U.S. resident for the entire year.

In addition to the income tax return filing requirements discussed above, the United States has information reporting rules, which affect certain U.S. residents and citizens. The rules cover interests in foreign bank accounts, corporations, trusts and partnerships. They are extremely complex, and penalties for failure to comply with the reporting requirements can be significant.

E. Double Tax Relief and Tax Treaties

A foreign tax credit is the principal instrument used by U.S. individuals to avoid being taxed twice on foreign-source income—once by a foreign government and again by the United States. In general, the foreign tax credit permits a taxpayer to reduce U.S. tax by the amount of income tax paid to a foreign government, subject to certain limitations.

The foreign tax credit is generally limited to the lesser of actual foreign taxes paid or accrued and U.S. tax payable on foreign-source income. Separate limitations must be calculated for several categories of income, including passive income and high-withholding-tax interest income. Income not separately categorized is included in an overall limitation category. For example, employment income (earned income) is included in the overall category. Under the separate limitation rules, foreign taxes paid on a particular category of income are available for credit against U.S. tax imposed on foreign-source taxable income only in that category. Beginning in 2007, the number of categories will be reduced to two. A foreign tax credit is allowed against AMT liability (see Section A). Unused credits may be carried back 1 year and carried forward 10 years.

Special rules apply to nonresident aliens who are residents of countries that have income tax treaties with the United States. For example, a treaty may reduce or eliminate the 30% tax rate applicable to dividends, interest and royalties. Treaties may also limit or eliminate the taxation of visitors who work in the United States on short-term assignments or may provide exemption from tax for teachers, professors, trainees, students and apprentices.

Even if a treaty provides for exemption from, or a reduction of, the 30% tax, this does not mean that the reduced rate applies automatically. Nonresident aliens must first claim their treaty benefits. For example, income tax withholding applies unless nonresident alien employees file statements with their employers (foreign or U.S.) stating why they qualify for exemption from U.S. tax under an income tax treaty clause. Similarly, foreign students, teachers and researchers must each complete Form 8233 and file it with their U.S. institution or employer. Treaty benefits for other types of income, including royalties or interest, are obtained by filing the appropriate W-8 form.

If applicable, the withholding agent must notify the nonresident alien of the gross amounts paid and taxes withheld by 15 March of the following year. This is done on Form 1042S, Foreign Person's U.S.-Source Income Subject to Withholding. This form, when attached to the nonresident alien's U.S. income tax return (Form 1040NR), provides proof of amounts withheld to the IRS.

The United States has entered into double tax treaties with the following countries.

Australia	Indonesia	Poland
Austria	Ireland	Portugal
Barbados	Israel	Romania
Belgium	Italy	Russian Federation
Canada	Jamaica	Slovak Republic
China	Japan	Slovenia
Cyprus	Kazakhstan	South Africa
Czech Republic	Korea	Spain
Denmark	Latvia	Sweden
Egypt	Lithuania	Switzerland
Estonia	Luxembourg	Thailand
Finland	Mexico	Trinidad and Tobago
France	Morocco	Tunisia
Germany	Netherlands	Turkey
Greece	New Zealand	Ukraine
Hungary	Norway	USSR*
Iceland	Pakistan	United Kingdom
India	Philippines	Venezuela

* The United States honors the USSR treaty with respect to Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan.

F. Nonimmigrant Visas

In general, foreign nationals who wish to enter the United States for any purpose must obtain visas. Visas are endorsed in passports and indicate that evidence of a legally sufficient purpose for admission was presented to a U.S. consular official.

U.S. immigration laws clearly distinguish between foreign nationals seeking temporary admission (nonimmigrants) and those intending to remain in the United States permanently (immigrants).

At immigration control at the port of entry, foreign nationals are inspected or questioned to determine their eligibility to enter the United States and the duration of their initial periods of stay. Nearly all nationals admitted to the United States for temporary periods receive arrival documents (Form I-94), which are stapled into their passports and indicate both their visa categories and the last date that they may remain in the United States.

Nonimmigrant visas allow visa holders to enter the United States for a temporary period ranging from a few days to several years, depending on the visa category. In general, holders of nonimmigrant visas must intend to remain in the United States for a temporary period, not exceeding the validity of their Form I-94 arrival document. Without this intent, the applicant may be considered to be an intending immigrant, and must apply for an immigrant visa (see Section G).

Different nonimmigrant visas authorize a variety of activities in the United States, including visiting, studying and working. The categories are identified by combinations of letters and numbers that authorize the particular visas, for example, B-1 visitors for business. Every nonimmigrant category permits a maximum length of stay and a range of permissible activities. The most commonly used categories of nonimmigrant visas are described in detail below.

While a nonimmigrant is in the United States, he or she may apply to change to another nonimmigrant category or to extend the length of stay. However, most nonimmigrant visa categories have maximum stay limitations. Some categories of nonimmigrants may also become eligible for permanent residence status (see Section G).

Business-Related Nonimmigrant Visas. A business that requires the immediate services of a particular employee ordinarily brings the employee to the United States first on a nonimmigrant visa. If the employee wishes to remain in the United States on a permanent basis, the immigrant visa application process may begin while the employee is in the United States.

Several business-related nonimmigrant visa categories are described below.

Visitor for Business—B-1 Visa. B-1 visas are issued to people temporarily visiting the United States to engage in business on behalf of foreign employers. B-1 visa holders may not be employed by U.S. employers, but may negotiate contracts, sell company products, develop business leads and attend conferences on behalf of their foreign employers. A temporary business visitor may not receive salary or other remuneration from a U.S. source, but may accept reimbursement for incidental expenses. Business visitors must perform services that directly benefit a permanent foreign employer. B-1 visitors must retain unrelinquished domicile in the foreign countries where they intend to return at the end of their temporary U.S. stay.

In general, business visitors with B-1 visas may enter the United States for periods of up to six months. However, B-1 status is often granted for a shorter period, usually not exceeding 30 days, unless the business visitor can justify a longer period. Applications for an extension beyond the initial entry period can be sought from the United States Citizenship and Immigration Service (USCIS, formerly known as the Immigration and Naturalization Service, or INS).

B Visa Waiver Program. The B Visa Waiver Program (VWP) allows nationals of the following countries to visit the United States for business or pleasure for up to 90 days without first obtaining B visas from U.S. consular posts overseas: Andorra; Australia; Austria; Belgium; Brunei Darussalam; Denmark; Finland; France; Germany; Iceland; Ireland; Italy; Japan; Liechtenstein; Luxembourg; Monaco; the Netherlands; New Zealand; Norway; Portugal; San Marino; Singapore; Slovenia; Spain; Sweden; Switzerland; and the United Kingdom. (This list is updated occasionally; readers are advised to contact their local U.S. embassy or consulate to confirm status before traveling.) Visa waiver status is strictly limited; an extension of stay or a change in status is generally not authorized. However, in an emergency situation, a local USCIS office may grant a 30-day extension. Business necessity is not generally considered an emergency situation for these purposes. In addition, visa waiver applicants who are found to be not admissible to the United States may be expeditiously removed without trial, or right to confer with counsel. At a minimum, machine-readable passports are required to take advantage of the visa waiver program. New passport requirements are being implemented, and at some point, travelers using the visa waiver program will be required to have passports with digital photos and biometrics or computer chips.

Specialty Occupations—H-1B Visa. The H-1B category covers foreign nationals employed in specialty occupations that require a theoretical and practical application of highly specialized knowledge, as well as a bachelor's degree or the equivalent in the field.

Before applying for an H-1B visa, an employer must file a labor condition application with the Department of Labor (DOL) and certify that, among other things, the foreign national will be paid at least the prevailing wage for the proffered position. A prospective employer must also provide notice of filing the application to the bargaining representative (if any) of the company's employees in the occupation for which foreign nationals are sought. If no bargaining representative exists, the employer must post notice of filing the application in two conspicuous locations at the employment site for at least 10 consecutive business days. Special, less onerous procedures and a specific quota apply to and is set aside for citizens of Chile and Singapore, stemming from free trade agreements between those countries and the United States.

If the employer meets the requirements for an extension, the holder of an H-1B visa is entitled to a maximum six-year stay in the United States.

In specified circumstances, extensions beyond the six year limit may be available. For the 2006 and subsequent fiscal years, only 65,000 H-1B visas are made available. In addition, regulations allow a further 20,000 H-1B visas to be issued to persons having a masters or higher degree from qualifying U.S. post-secondary institutions. Readers are advised to consult with the USCIS to ensure that the H-1B visa cap has not been changed by Congress or has not been reached for the current fiscal year.

Spouses and children of H-1B visa holders are eligible for H-4 status, which does not allow such dependants to be employed in the United States.

Specialty Occupations—Trainees—H-3 Visas. H-3 visas may be issued to foreign nationals to enter the United States for up to two years to receive training and to develop skills that will be used in their careers abroad.

Trainees must participate in structured training programs at U.S. companies. The programs must incorporate theoretical and practical instruction, and may not consist solely of on-the-job training. The training must be unavailable in the foreign national's home country, and the skills acquired must apply to work outside the United States.

For short-term training assignments (typically up to three months), an H-3 visa may not be required (for someone who falls under the Visa Waiver Program or who does not require a U.S. visa), because the USCIS recognizes the "B-1 in lieu of an H-3" visa. Therefore, rather than relying on consular processing for a visa, in limited circumstances, an individual may apply at the border for entry under the B-1 category to attend short-term training.

Spouses and unmarried children of H-3 visa holders are eligible for H-4 status, which does not allow such dependants to be employed in the United States.

Treaty Traders and Treaty Investors—E Visas. Foreign nationals who are citizens of countries that have treaties of friendship, commerce and navigation with the United States (see list below) may be admitted to the United States to invest in businesses or to engage in international trade under two categories of treaty-based visas, called E visas.

The E-1 treaty trader category permits foreign nationals to enter the United States to engage in substantial trade in goods, services or technology with treaty countries. The U.S. enterprise for which the foreign national works must be majority-owned by treaty-country nationals (either companies or individuals). An E-1 treaty trader must be employed in a supervisory or executive capacity or in a capacity that requires skills essential to the company.

The E-2 treaty investor category enables investors who are nationals of treaty countries and who invest substantial amounts of money in active U.S. businesses to remain in the country to develop, direct and oversee the businesses. Managers, executives or employees with essential skills from treaty countries are also admissible on E-2 visas.

For E visa purposes, the nationality of an enterprise is determined by the nationality of the entity owning at least 50% of the enterprise.

Spouses and unmarried children under 21 years of age, regardless of nationality, may receive derivative E visas to accompany the principal visa holder. Spouses of E visa holders may apply for an Employment Authorization Document (EAD) following their entry into the United States. An EAD allows the spouse to work in the United States, and is not restricted to any particular employer.

Agreements between the United States with the following countries authorize treaty trader (E-1) and treaty investor (E-2) classifications for nationals of these countries.

Albania (b)
Argentina
Armenia (b)
Australia
Austria
Azerbaijan (b)
Bahrain (b)
Bangladesh (b)
Belarus (c)
Belgium
Bolivia
Bosnia-Herzegovina
Brunei (a)
Bulgaria (b)
Cameroon (b)
Canada
Colombia
Congo (b)
Costa Rica
Croatia
Czech Republic (b)
Denmark (a)
Ecuador (b)
Egypt (b)
Estonia
Ethiopia
Finland
France
Georgia (b)
Germany
Greece (a)
Grenada (b)
Haiti (c)
Honduras
Iran
Ireland
Israel (a)
Italy
Jamaica (b)
Japan
Jordan (c)
Kazakhstan (b)
Korea (South)
Kyrgyzstan (b)
Latvia
Liberia
Lithuania (b)
Luxembourg
Macedonia
Mexico
Moldova (b)
Mongolia (b)
Morocco (b)
Netherlands
Nicaragua (c)
Norway
Oman
Pakistan
Panama (b)
Paraguay
Philippines
Poland (b)
Romania (b)
Russian Federation (c)
Senegal (b)
Slovak Republic (b)
Slovenia
Spain
Sri Lanka (b)
Suriname
Sweden
Switzerland
Taiwan
Thailand
Togo
Trinidad and Tobago (b)
Tunisia (b)
Turkey
Ukraine (b)
United Kingdom
Uzbekistan (c)
Yugoslavia

(a) Limited to E-1 status.
(b) Limited to E-2 status.
(c) Awaiting ratification of treaty limited to E-2 status.

E-3 Visas for Australians. The E-3 visa is a new category of visa, which is available to nationals of Australia (as well as their children and spouses), limited to 10,500 per fiscal year. The E-3 visa allows nationals of Australia to be admitted into the United States to work temporarily in a "specialty occupation" for an initial period of 24 months. The requirements for qualification for the new E-3 visa are very similar to the requirements for the H-1B visa. After arrival in the United States, the spouse of an E-3 visa holder may apply directly to the USCIS for employment authorization in the United States. The spouse does not need to be a national of Australia to be eligible for employment authorization.

Intracompany Transferees—L-1 Visas. The L-1 visa allows foreign companies with affiliated operations in the United States to transfer needed personnel to their U.S. facilities. L-1 visas may be issued to foreign nationals who are employed abroad in executive or managerial positions, or who hold positions involving specialized knowledge. Typically, these individuals must have been employed by the related foreign entity for at least one continuous year during the three years preceding admission to the United States. On arrival in the United States, the beneficiary must assume an executive, managerial or specialized knowledge position with the U.S. affiliate, parent, subsidiary or branch office.

Managers and executives may be issued and retain L-1A status for up to seven years; L-1B specialized-knowledge personnel may remain in the United States in that status for up to five years.

For start-up operations, L-1 visas are granted initially for one year. For visa extensions, start-up companies must prove at the end of the year that they are "doing business" in the United States and have made progress toward becoming viable operating entities needing the services of managers, executives or personnel with specialized knowledge.

L-1B specialized knowledge visa holders may no longer work primarily at a worksite other than that of the petitioning employer if either of the following conditions will apply:

- The work to be carried out will be controlled by a different employer; or
- The offsite arrangement will provide labor for hire, rather than service related to the specialized knowledge of the petitioning employer.

The L-2 category is set aside for immediate family members (spouse and child) of the L-1 beneficiary. A spouse of an L-1 visa holder may apply for an Employment Authorization Document following his or her entry into the United States. This document allows them to be employed with any employer in the United States.

Extraordinary Ability—O-1 Visas. The O-1 visa category is for persons of extraordinary ability in the sciences, arts, education, business or athletics. Separate tests for demonstrating extraordinary ability exist for the following categories of individuals: foreign nationals in the motion picture and television industries; and other foreign nationals. Most foreign nationals must prove their claim of extraordinary ability by providing evidence of sustained national or international acclaim. They may enter the United States only to work in their fields, and U.S. immigration authorities must determine that their entry substantially benefits the United States. O-1 petitions are submitted to the USCIS for adjudication, and in some instances must be accompanied by proof of consultation with appropriate U.S. labor unions (particularly those representing individuals in the arts, entertainment or athletics).

The O-3 category is set aside for spouses and minor children of O visa holders. No employment authorization is available to holders of O-3 category visas.

Performing Artists and Athletes—P Visas. The P visa category is reserved for certain performing artists and athletes. This visa status contains the following subcategories: P-1, internationally recognized entertainers and athletes; P-2, reciprocal exchange artists and entertainers; P-3, culturally unique artists and entertainers; and P-4, family members of P-1 to P-3 visa holders.

Employment Visas as Part of a Course of Study. Several nonimmigrant visa categories, which are outlined below, apply specifically to business trainees, researchers and students.

Exchange Visitors—J-1 Visas. Visas for exchange visitors (J-1 visas) enable certain sponsoring institutions with exchange programs to bring students, researchers, business and industrial trainees, and others to the United States to participate in training programs administered by the Department of State's Bureau of Educational and Cultural Affairs and the Office of Exchange Coordination and Designation. The following J-1 categories, each having their own specific rules, exist: post-secondary students; secondary students; short-term scholars; summer work travel applicants; trainees; teachers; professors and research scholars; alien physicians; au pairs; and other categories.

Subject to the Department of State's approval, a firm may establish its own training program or work with an organization already recognized for sponsoring training programs. A trainee may be engaged in any productive employment that provides knowledge of specific firm practices in the United States or of U.S. business procedures in general. Typically, a trainee's stay in J-1 status is limited to 18 months.

J-1 regulations focus on the distinction between work—that is, gainful employment—and legitimate training. Prospective training sponsors must submit detailed descriptions of their training programs and of their goals and objectives.

Derivative J-2 visas may be issued to a spouse or unmarried child under age 21, and J-2 spouses may apply for Employment Authorization Documents.

Academic Students—F Visas. Students enrolled in academic institutions may be allowed to work on campus during their studies and during school vacations. Students also may be authorized to engage in practical training at any U.S. employer during their studies or for one year after graduation. Students seeking post-graduation practical training must obtain school approval and employment authorization documents from the USCIS before they begin working.

Nonacademic Students—M Visas. Students who have completed a course of nonacademic education may engage in practical training for up to six months, depending on the length of the educational program.

Change of Address After Entering the United States. All non-U.S. citizens remaining in the country for 30 days or more must report any change in address within 10 days after the change by filing Form AR-11 with the USCIS.

G. Immigrant Visas

Permanent resident or immigrant visas, which are commonly referred to as "green cards," are issued to those intending to reside permanently in the United States. Immigrant visa holders may live and work in the United States with few restrictions. After a period of physical presence and continuous residence of either three or five years (depending on the basis on which the individual obtained the green card), immigrant visa holders may, but are not required to, apply for U.S. citizenship.

Nine preference categories of immigrant visas are available to foreign nationals. Four categories are based on family relationships, and five are based on permanent offers of employment (see details below).

Immigrant visas may also be obtained in accordance with the diversity immigration visa program (visa lottery). Under this program, 50,000 diversity visas are available annually to nationals of many, but not all, foreign countries. Such individuals may qualify for diversity visas if they have completed at least a high school education or its equivalent, or if they have worked at least two years in occupations that require two or more years of training or experience. Each diversity visa applicant may file only one application per year; multiple applications void all previous petitions. Foreign nationals are chosen at random and are eligible to receive diversity visas only in the fiscal year in which they are selected. In most cases, persons qualify on the basis of the country in which the applicant was born. However, a person may be able to qualify in two other ways. Under the first alternative, if a person was born in a country whose natives are ineligible but his or her spouse was born in a country whose natives are eligible, such person can claim the spouse's country of birth, provided both the applicant and spouse are issued visas and enter the United States simultaneously. Under the second alternative, if a person was born in a country whose natives are ineligible, but neither of his or her parents was born there or resided there at the time of his or her birth, such person may claim nativity in one of the parents' country of birth, provided the natives of such country qualify to apply for the program.

Potential applicants should check the availability of diversity visas with respect to their nationality before applying. Currently, natives of the following countries are not eligible to apply under the visa lottery: Canada; China (People's Republic of China-born only); Colombia; Dominican Republic; El Salvador; Haiti; India; Jamaica; Korea (South); Mexico; Pakistan; Philippines; the Russian Federation; the United Kingdom (except Northern Ireland) and its dependent territories; and Vietnam.

Categories of Employment-Based Immigrant Visas. The five categories of immigrant visas described below may allow foreign nationals to immigrate to the United States on an employment-related basis.

First Preference—Priority Workers. Foreign nationals who fall into one of the following categories are classified as priority workers; no labor certification (see *Steps for Obtaining Employment-Based Immigrant Visas*) is required for these workers:

- Foreign nationals with extraordinary ability in the sciences, arts, education, business or athletics who satisfy the following conditions:
  - They have received sustained national or international acclaim;
  - Their achievements are recognized through extensive documentation;
  - They intend to work in their area of ability; and
  - Their contribution would substantially benefit the United States in the future.

  No offer of employment is required.
- Professors and researchers who have received international recognition as outstanding in a specific field who satisfy the following conditions:
  - They have at least three years' experience in teaching or research in their field; and
  - They have been offered tenure or tenure-track teaching or research positions.
- Multinational executives and managers who have been employed in executive or managerial capacities with their sponsoring employers abroad for at least one year in the three years preceding

application, and who intend to continue to work for those employers, subsidiaries or affiliates.

Second Preference—Professionals Holding Advanced Degrees and Aliens of Exceptional Ability. Foreign nationals holding advanced degrees (or the equivalent) and aliens of exceptional ability may be issued immigrant visas. Labor certifications are required for these individuals. Individuals who fulfill the following certifications may qualify:

- They have earned an advanced degree: master's degree or bachelor's degree plus five years' progressively more responsible experience in the field; and
- They have exceptional ability in the sciences, arts or business.

Third Preference—Skilled Workers, Professionals Holding Basic Degrees and Other Workers. Individuals in certain categories may be issued immigrant visas on job-related bases. Labor certifications are required for these individuals. The following are the categories:

- Skilled workers, not temporary or seasonal, with a minimum of two years' training or experience;
- Professionals with baccalaureate degrees; and
- Other workers, including unskilled laborers, who are neither temporary nor seasonal.

Fourth Preference—Special Immigrants. Foreign nationals classified as special immigrants (including religious workers, certain medical doctors who have continuously practiced medicine in the United States since 1978 and long-time U.S. government workers abroad), may be issued immigrant visas on job-related bases. These individuals do not require labor certifications.

Fifth Preference—Immigrant Investors. Foreign nationals investing at least $1 million in a U.S. commercial enterprise that preserves or provides full-time employment for at least 10 U.S. workers may be issued immigrant visas. Investment of as little as $500,000 in targeted employment areas may qualify an investor for this status. Although no offer of employment or labor certification is required, strictly passive investments do not qualify. Although a maximum of 10,000 such visas are available each year under this category, in most years no more than approximately 1,000 visas under this category have been issued.

Steps for Obtaining Employment-Based Immigrant Visas. To obtain permanent residence under an employment-based immigrant visa is a two or three-step process. The following are the steps:

- A labor certification application (for second and third preference categories only);
- An immigrant visa petition; and
- An application for permanent residence status.

Labor Certification. Obtaining a labor certification approval is very complex, and it is highly advisable to seek legal counsel.

For certain employment-based immigrant visa categories, labor certification is the first step in the process of immigrating to the United States. The employer petitions the DOL to certify that a shortage of qualified, available U.S. workers for the position exists and that the immigrant's employment will not adversely affect wages or working conditions in the United States. Under new regulations published in December 2004 and effective from 28

March 2005, labor certifications will be issued in accordance with regulations for the permanent employment of aliens in the United States and under the Program Electronic Review Management (PERM) process.

To obtain labor certification, an employer must make genuine efforts to recruit U.S. workers for the position by following detailed and specified procedures, including advertising the position in a publication most likely to produce a qualified U.S. citizen or resident worker.

A labor certification will not be issued if the recruitment process produces an applicant who is qualified for the position, even if the foreign national is more qualified than the U.S. citizen or resident candidate.

The employer must also follow specific methods and offer a salary that is equal to or greater than the prevailing wage paid to workers with comparable job duties in the region that the position is being offered. Filing with the Department of Labor must be made by mail to the State Workforce Agency (SWA), based on the place of employment.

Schedule A: Precertified Occupations. For certain positions requiring labor certification, active recruitment may be avoided. The DOL has established certain precertified positions and acknowledges that hiring foreign nationals for these jobs does not adversely affect U.S. workers or wages. These jobs, referred to as Schedule A positions, currently include the following two major groups of occupations:
- Group 1: Physical therapists and professional nurses; and
- Group 2: Aliens of exceptional ability in the sciences and arts who are outstanding in their fields.

Schedule B: Jobs with a Surplus of U.S. Workers. In addition to the list of precertified occupations, the DOL publishes a list of jobs for which it has found that sufficient qualified U.S. workers are available and that hiring foreign nationals would adversely affect working conditions. These jobs, or Schedule B positions, usually require little education or experience and pay low wages. They include hotel and motel cleaners, clerks and typists, short-order cooks, taxicab drivers, household domestic workers and nurses' aides.

In many cases, labor certification may not be obtained for a Schedule B position. However, it is possible to submit the information normally required for labor certification and to request a waiver of the Schedule B disqualification. Schedule B waivers are frequently granted for certain occupations.

Multinational Executives and Managers: Exempt Labor Certification. Foreign nationals applying for lawful permanent resident status under the employment-based, first preference, multinational manager or executive category do not require a labor certification.

Immigrant Visa Petition. After the labor certification petition is approved (if required), the second step to obtain an immigrant visa, and ultimately permanent residence, is filing an immigrant visa petition. The prospective employer must petition the USCIS to classify the foreign national under a recognized occupational preference classification. The employer must prove that the foreign national is qualified for the position and that the employer has the ability to pay the offered wage.

Application for Permanent Residence Status. A foreign national must apply for status as a lawful permanent resident within a preference classification. Applications may be filed for lawful permanent resident status immediately after the immigrant visa petition is approved or, under certain circumstances, may be filed concurrently with the immigrant visa petition. The principal foreign national and his or her spouse and unmarried children younger than 21 years of age must each file separate applications.

Many immigrant visas are processed overseas at U.S. embassies and consulates in the immigrants' home countries. Applicants not physically present in the United States must ordinarily remain outside the country during the permanent residence processing periods. In most cases, foreign nationals who have entered with visas should apply for permanent residence in the United States in a proceeding known as an adjustment of status (see below), but it is sometimes beneficial for them to submit an application for an immigrant visa at a U.S. embassy or consulate abroad.

Processing Overseas at a U.S. Consulate. Notice of USCIS approval of immigrant visa petitions is transmitted to the U.S. consulate where the foreign national resides. The consulates furnish the applicants with visa interview instructions, including applications for permanent residence as well as information regarding the proper forms for financial support documents and certificates of birth, marriage and divorce. Foreign nationals must submit police certificates from all places where they have resided for longer than six months since the age of 16. Foreign nationals must also pass a medical examination.

Adjustment of Status in the United States. Foreign nationals who have maintained lawful nonimmigrant status in the United States may be allowed to apply for permanent residence through an adjustment of status application. Application for adjustment of status is made at the USCIS office where the applicant resides. If a foreign national violates his or her nonimmigrant status, he or she may still be eligible to file for an adjustment of status in the United States; however, that determination is made on an individual basis. As a result of substantial backlogs, it is not unusual for adjustment applications to take one to two years to adjudicate. However, efforts are being made to reduce such processing backlogs.

After filing an adjustment of status application, an applicant ordinarily must remain in the United States. Departing without prior USCIS permission cancels the application. If overseas travel is required because of personal emergency or business necessity, the applicant should apply to the USCIS for an advance parole. Advance parole grants permission to re-enter the United States and prevents the USCIS from concluding that an adjustment of status application has been abandoned. Advance parole applications should be filed well in advance of the intended travel date.

Applicants for adjustment of status (including family members) may apply for and obtain an Employment Authorization Document permitting them to be employed by any employer pending the finalization of the adjustment application.

Categories of Family-Based Immigrant Visas. Under existing rules, many but not all family relationships may qualify an individual for lawful permanent residence status. Qualifying relationships allow the sponsorship of family members, including immediate relatives, such as the following:

- Spouses of U.S. citizens;
- Minor unmarried children under age 21 of U.S. citizens;
- Parents of U.S. citizens who are at least age 21; and
- In limited circumstances, spouses of deceased U.S. citizens.

In addition, family preference categories allow for the submission of an immigrant petition on behalf of the following:

- Unmarried sons or daughters of U.S. citizens;
- Spouses or children lawfully admitted for permanent residence;
- Unmarried sons or daughters of foreign nationals admitted for permanent residence;
- Married sons or daughters of U.S. citizens; and
- Brothers or sisters of U.S. citizens who are at least age 21.

Loss of Permanent Residence Status. Foreign nationals may lose their U.S. permanent residence status in several ways. The most common means is through abandonment, either by intent or by an act deemed to indicate intent to abandon residence, for example, continuous absence from the United States over a long period of time. Permanent residents may also lose their status if they commit a prohibited act, including conviction for certain crimes. Permanent residence may also be rescinded if an application is found to have been fraudulent.

Absence of less than six months from the United States by a permanent resident usually does not constitute abandonment if the foreign national returns to an unrelinquished U.S. domicile. Permanent residents who remain outside the United States for longer than six months should consider obtaining re-entry permits. A re-entry permit is evidence of both permanent residence status and temporary stay abroad, and allows an otherwise eligible individual to re-enter the United States after up to two years of continuous absence.

Obtaining a re-entry permit requires a statement that the foreign national intends to leave the United States only temporarily. The application for a re-entry permit may be denied if the permanent resident has been living overseas with only occasional visits to the United States, if he or she expresses no intent to return to a U.S. residence within a fixed period of time, or if he or she has no real or personal U.S. property.

H. Family and Personal Considerations

Family Members. The spouse and minor children of a nonimmigrant visa holder may accompany the nonimmigrant to the United States for the duration of the principal foreign national's visa. Specific nonimmigrant visas are issued to accompanying family members (see Section F). Spouses and children of the primary visa holder may attend school during the family's stay in the United States without a separate student visa. Spouses of L and E visa holders may apply for permission to work in the United States, and spouses of J visa holders are usually granted work authorization in case of economic necessity. Spouses of holders of other types of visas and dependent children seeking to work must qualify independently for a working visa. In addition, unmarried partners who are not otherwise eligible for derivative visas as a principal applicant's spouse (for example, unmarried cohabiting partners and same-sex partners) may be eligible for an extended B-2 visitor for pleasure visas, which allows them to accompany a nonimmigrant to the United States.

The spouse and children of a potential immigrant may file accompanying applications for permanent resident status. They are issued permanent residence simultaneously if the principal foreign-national immigrant is granted permanent residence and if they are not individually ineligible to receive immigrant visas.

Marital Property Regime. In community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin), property acquired by a husband and wife during marriage is generally regarded as community property. Under the provisions of the Wisconsin Marital Property Reform Act, the rights of spouses in Wisconsin may also be considered community property. Although each of the community property states provides exceptions in classifying income as separate or community property, the general rule states that salaries, wages and other compensation for the services of either spouse are community income.

Income derived from community property is also considered to be community property. In California, Idaho, Louisiana, Texas and Wisconsin, income derived from the separate property of a spouse is community income, with one-half allocable to each spouse. In other community property states, however, income derived from separate property is separate income. The states also differ in their treatment of property acquired by inheritance or intestate succession. The IRS may disallow the benefit of a community property law to a spouse with respect to separate income if that spouse fails to notify the other spouse of the nature and the amount of the income.

If separate returns are filed by a married couple residing in a community property state, one-half of the community income must be reported by each spouse.

A U.S. citizen or resident who is married to a nonresident alien may elect to file a joint return if both agree to be taxed on their worldwide income. If the couple does not make this election and has community property income, certain community property laws are inapplicable for income tax purposes. In addition, a special one-time election permits a nonresident alien spouse to file a joint return with his or her resident spouse for the year in which the former becomes a U.S. resident. If both spouses are nonresident aliens and one spouse's income is connected with a U.S. trade or business, such income is treated as income of that spouse only, regardless of the provisions of foreign community property law.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to Section 401(k) plan	(X)	—	—
Bonus	X	—	—

	Taxable*	Not Taxable	Comments
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	(a)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(b)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	(c)
Capital gain from the sale of stock in home country	X	—	—

* Bracketed amounts reduce taxable income.

(a) Reimbursements for the expenses of transporting the taxpayer and his or her family to a new location and the cost of shipping household goods and personal effects are excluded from income. All other reimbursements for moving expenses are included in income, and no offsetting deduction is allowed.

(b) A portion or all of these expenses may qualify as away-from-home expenses and may be deductible if a foreign national is temporarily on assignment in the United States for a period of one year or less.

(c) Taxpayers who owned the residence and occupied it as a principal residence for at least two of the five years before the sale can claim an exclusion of up to $500,000 (for joint filers) of the gain.

APPENDIX 2: SAMPLE FEDERAL TAX CALCULATIONS

The following are sample 2006 federal tax calculations for married individuals with two dependent children.

	Resident Alien $		Nonresident Alien $	
Calculation of Taxable Income				
Salary earned in the United States	120,000		120,000	
Interest income	3,000		—	(a)
Dividend income	2,000		—	(b)
Total income	125,000		120,000	
Adjustments to income	—		—	
Adjusted gross income	125,000		120,000	
Itemized deductions	(15,300)	(c)	(3,105)	(d)
Standard deduction	—	(c)	—	(d)
Personal exemptions	(13,200)	(e)	(3,036)	(f)
Taxable income	96,500		113,859	

	Resident Alien $	
Calculation of Tax		
Resident Alien		
$15,100 at 10%	1,510	
$46,200 at 15%	6,930	
$35,200 at 25%	8,800	
$96,500	17,240	(g)(h)
Nonresident Alien		
$7,550 at 10%	755	
$23,100 at 15%	3,465	
$31,200 at 25%	7,800	
$32,375 at 28%	9,065	
$19,634 at 33%	6,479	
$2,000 at 30% (h)	600	(i)
$115,859	28,164	(h)(j)

(a) Assumed to be portfolio interest which is not taxable to a nonresident alien.
(b) Assumed to be subject to a 30% flat tax rate (see footnote [i]).
(c) These are itemized deductions, which consist of $4,000 in charitable contributions, $4,000 in real estate taxes and $7,300 in home mortgage interest.
(d) A nonresident alien may claim only limited itemized deductions and may not claim the standard deduction. In this example, the nonresident alien paid $4,000 in state income taxes. However, the taxpayer must reduce the total of itemized deductions otherwise allowed by 3% of adjusted gross income in excess of $75,250. In this example, the 3% reduction amount equals $1,342.50. However, for 2006, the 3% reduction amount is decreased by one-third. As a result, the reduction amount is decreased to $895 ($1,342.50 – $447.50), and the deductible amount of itemized deductions is $3,105 ($4,000 – $895).
(e) Assumed personal exemptions for husband, wife and two children ($3,300 x 4 = $13,200).
(f) In general, a nonresident alien is allowed only one personal exemption. Personal exemptions are phased out by 2% for each $1,250 (or part thereof) by which the adjusted gross income of a married individual filing separately exceeds $112,875. Accordingly, the taxpayer must reduce the personal exemption amount of $3,300 by 12%. In this example, the reduction amount equals $396. However, for 2006, the reduction amount is reduced by one-third. As a result, the reduction amount is $264 ($396 – $132), and the amount of the personal exemption is $3,036 ($3,300 – $264).
(g) The rates for married persons filing joint returns are used.
(h) Under laws in effect at time of publication, the alternative minimum tax (AMT) would apply to the taxpayers in the example. The resident alien would pay an additional $622 of tax, and the nonresident would pay an additional $1,136 of tax. It is expected that retroactive legislation will be enacted which will restore the exemption amounts to at least the 2005 levels, thereby eliminating the AMT for these middle income taxpayers.
(i) This is the 30% tax on the dividend income of $2,000 (see Section A).
(j) A married nonresident alien must use the rate for married persons filing separate returns on effectively connected income, such as salary. The listed figure includes the 30% tax on the dividend income of $2,000 (see Section A).

APPENDIX 3: STATE AND LOCAL TAX RATES

The following table presents the maximum state and certain local individual income tax rates for 2005. The rates are applied to taxable income unless otherwise noted. Other local taxes may be imposed.

State	Highest Marginal Rate
Alabama	5%
Alaska	None
Arizona	5.04%
Arkansas	7%
California	9.3%
Colorado	4.63%
Connecticut	5%

State	Highest Marginal Rate
Delaware	5.95%
District of Columbia	8.7%
Florida	None
Georgia	6%
Hawaii	8.25%
Idaho	7.8%
Illinois	3%
Indiana	3.4%
Iowa	8.98%
Kansas	6.45%
Kentucky	6%
Louisiana	6%
Maine	8.5%
Maryland	4.75%
Baltimore	3.05%
Massachusetts	5.3%
Michigan	3.9%
Minnesota	7.85%
Mississippi	5%
Missouri	6%
Montana	6.9%
Nebraska	6.84%
Nevada	None
New Hampshire	5% on interest and dividends
New Jersey	8.97%
New Mexico	5.7%
New York	6.85%
New York City	3.648%
North Carolina	8.25%
North Dakota	5.54%
Ohio	6.87%
Oklahoma	6.65%
Oregon	9%
Pennsylvania	3.07%
Philadelphia	
Resident	4.564% on compensation and net profits
Nonresident	3.967% on compensation and net profits
Rhode Island	9.9%
South Carolina	7%
South Dakota	None
Tennessee	6% on interest and dividends
Texas	None
Utah	7%
Vermont	9.5%
Virginia	5.75%
Washington	None
West Virginia	6.5%
Wisconsin	6.75%
Wyoming	None

U.S. VIRGIN ISLANDS

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A. Income Tax

Who Is Liable. The U.S. Virgin Islands income tax system mirrors the U.S. income tax system. The applicable law is the U.S. Internal Revenue Code, with "U.S. Virgin Islands" substituted for all references to the "United States." For a description of the income taxation of individuals who are bona fide residents of the U.S. Virgin Islands, refer to the chapter in this book on the United States and substitute "U.S. Virgin Islands" for each reference to the "United States."

Bona fide residents of the U.S. Virgin Islands are taxed on their worldwide income. The U.S. Virgin Islands tax liability of other U.S. citizens or of residents with U.S. Virgin Islands-source income is based on the ratio of their adjusted gross income derived from U.S. Virgin Islands sources to their adjusted gross income worldwide.

Under the American Jobs Creation Act of 2004 (AJCA), which was enacted on 22 October 2004, an individual is considered to be a bona fide resident of the U.S. Virgin Islands if he or she satisfies all of the following conditions:
- He or she is present for at least 183 days during the year in the U.S. Virgin Islands. This determination is made under the applicable rules under the substantial presence test.
- He or she does not have a tax home outside the U.S. Virgin Islands during the tax year.
- He or she does not have a closer connection to the United States or a foreign country than to the U.S. Virgin Islands.

The 183-day presence test applies for tax years beginning after 22 October 2004.

Individuals who are not U.S. citizens or bona fide residents of either the United States or the U.S. Virgin Islands must pay taxes on U.S. Virgin Islands-source income and on income effectively connected with a U.S. Virgin Islands trade or business. Under the AJCA, rules similar to the rules for determining whether income is income from sources within the United States or is effectively connected with the conduct of a trade or business within the United States apply for purposes of determining whether income is from sources within the U.S. Virgin Islands. However, any income treated as income from sources within the United States or as effectively connected with the conduct of a trade or business within the United States may not be treated as income from sources within the U.S. Virgin Islands or as effectively connected with the conduct of a trade or business within the U.S. Virgin Islands.

The above sourcing rules apply for income earned after 22 October 2004.

Income Subject to Tax. Income tax provisions in the U.S. Virgin Islands governing the computation of taxable income, including employment and business income, directors' fees, investment income and capital gains, as well as the availability of deductible expenses and personal deductions and allowances, are the same as those in the United States. The taxation of employer-provided stock options in the U.S. Virgin Islands is the same as in the United States.

The rules for the taxation of nonresidents are the same as the U.S. rules for nonresidents of the United States, except that the withholding tax rate is 10% instead of 30%.

For a table outlining the taxability of income items, see Appendix 1.

Rates. The income tax rates are the same as those in the United States.

For a sample tax calculation, see Appendix 2.

B. Estate and Gift Taxes

U.S. Federal Estate and Gift Taxes. The U.S. federal estate tax applies in the U.S. Virgin Islands and is administered by the U.S. Internal Revenue Service (IRS). Federal estate tax returns are filed with the IRS in the United States. Federal estate tax is payable by all U.S. Virgin Islands estates with a value that exceeds total exemptions granted by the U.S. Internal Revenue Code. Persons who are U.S. citizens because they are born or naturalized in the U.S. Virgin Islands and who are U.S. Virgin Islands residents at the time of their death are treated as nonresidents, not as citizens of the United States, for federal estate tax purposes. These U.S. Virgin Islands residents are subject to estate tax on the part of their gross estate that is situated in the United States at the time of their death.

U.S. citizens residing in the U.S. Virgin Islands who make gifts exceeding the annual exclusion (generally $11,000 for each recipient in 2005) must file a federal gift tax return with the IRS. A limited exemption may apply to gifts of U.S. Virgin Islands assets made by persons naturalized or born in the U.S. Virgin Islands.

U.S. Virgin Islands Inheritance and Gift Tax. The rates of U.S. Virgin Islands inheritance and gift taxes vary, depending on the relationship of the beneficiary or donee to the deceased or donor. The rates range from 2.5% to 7.5%. The exemptions included in the law are so broad, however, that these taxes usually apply only to inheritances received in the U.S. Virgin Islands from persons who neither reside in the U.S. Virgin Islands nor own property in the U.S. Virgin Islands, and to gifts of U.S. Virgin Islands property made by persons who do not reside in the U.S. Virgin Islands.

C. Social Security

U.S. social security (FICA) and self-employment taxes are imposed in the U.S. Virgin Islands. Payments are remitted to the U.S. mainland rather than to the Virgin Islands Bureau of Internal Revenue.

D. Tax Filing and Payment Procedures

In general, the tax year for individuals in the U.S. Virgin Islands is the calendar year. The U.S. Virgin Islands system of tax administration is based on the principle of self-assessment. In general, taxpayers must file returns with the Virgin Islands Bureau of Internal Revenue or the IRS, depending on their residence status and the source of their income. Taxes are generally collected by employer withholding on wages and salaries and by individual payment of estimated taxes on income not subject to withholding. Normally, tax due in excess of amounts withheld and payments of estimated tax must be paid with the return when filed. Taxpayers may claim refunds of overpayments of tax on annual returns. Substantial penalties and interest are usually imposed on taxpayers if returns are not filed on time or if tax payments, including estimated payments, are late.

Tax returns may be selected for audit at a later date by the Bureau of Internal Revenue. Failure to adequately support amounts claimed as deductions on a return may result in the disallowance of deductions and in a greater tax liability, on which interest and penalties are levied from the original due date. In general, taxpayers must maintain supporting documentation for at least three years after a return is filed.

U.S. Virgin Islands Resident. A bona fide resident of the U.S. Virgin Islands (as determined under the AJCA; see Section A) must file a U.S. annual return (Form 1040) with the Virgin Islands Bureau of Internal Revenue. The return is due on or before the fifteenth day of the fourth month following the close of the tax year. A U.S. Virgin Islands resident with income from sources outside the U.S. Virgin Islands must also complete and attach Form 1040 INFO to their tax return to report such income to the U.S. Virgin Islands Bureau of Internal Revenue. A person who is a bona fide resident of the U.S. Virgin Islands on the last day of the year is not required to file a tax return with the IRS if the taxpayer reports and pays tax on income from all sources to the U.S. Virgin Islands and identifies the sources of the income on the return.

U.S. Citizen or Resident Alien. A U.S. citizen or resident alien who is not a bona fide resident of the U.S. Virgin Islands and who has income from sources in the U.S. Virgin Islands or income effectively connected with the conduct of a trade or business in the U.S. Virgin Islands, must file identical returns with the United States and the U.S. Virgin Islands. The amount of tax that must be paid to U.S. Virgin Islands is computed using Form 8689 by multiplying the total tax on the U.S. return (after certain adjustments) by a decimal, which is computed by dividing the adjusted gross income from the U.S. Virgin Islands by worldwide adjusted gross income. Tax due is paid to the U.S. Virgin Islands.

Individuals Not U.S. Citizens, U.S. Virgin Island Residents, or U.S. Residents. Individuals who are not U.S. citizens or residents of the United States or U.S. Virgin Islands must file Form 1040 NR with the U.S. Virgin Islands and pay taxes to the U.S. Virgin Islands on Virgin Islands-source income.

E. Double Tax Relief and Tax Treaties

A foreign tax credit is available to U.S. Virgin Islands residents. It is computed using the rules under the U.S. Internal Revenue Code.

Double tax treaties entered into by the United States are inapplicable in the U.S. Virgin Islands. The U.S. Virgin Islands may not enter into separate tax treaties with foreign governments.

The IRS and the Virgin Islands Bureau of Internal Revenue have established a mutual agreement procedure to resolve inconsistent treatment of tax items. Requests for assistance under this procedure should be addressed to the Tax Treaty Division of the IRS.

F. Visas

The rules concerning eligibility for visas that allow foreign nationals to work in the U.S. Virgin Islands are identical to those of the continental United States. For more detailed information, including information regarding the duration of visas, please see the chapter on the United States in this book.

The visas most often obtained by foreign nationals are described briefly below.

Immigrant Visas. An immigrant visa entitles a foreign national to enter the United States or the U.S. Virgin Islands as a permanent resident. The identity card issued to a permanent resident is commonly referred to as a "green card."

Nonimmigrant Visas. Various nonimmigrant visas allowing foreign nationals to enter the United States and the U.S. Virgin Islands are described below.

B-1 Visa—Temporary Business Visitor. The B-1 Visa is issued to aliens visiting the United States or the U.S. Virgin Islands temporarily for business purposes on behalf of a foreign employer. B-1 Visa holders may not be employed in the United States or in the U.S. Virgin Islands or receive remuneration from a U.S. or U.S. Virgin Islands source, other than reimbursement for incidental expenses.

E-1 Visa—Treaty Trader. The E-1 Visa is issued pursuant to a treaty of commerce and navigation to employees of foreign-owned companies that are involved predominantly in international trade between the United States or the U.S. Virgin Islands and the country of common nationality of the employers and the E-1 employees.

E-2 Visa—Treaty Investor. E-2 Visas are issued pursuant to a treaty of commerce and navigation to nationals of the treaty country so that they may develop and direct the operations of businesses in the United States or the U.S. Virgin Islands that are majority-owned by nationals of the treaty country and in which a substantial amount of capital has been invested, and to nationals of the treaty country who are employed by such businesses in executive, managerial or specialist capacities.

H-1B Visa—Specialty Occupations. H-1B Visas are issued to professionals and other specialty-occupation workers entering the United States or the U.S. Virgin Islands to perform services that require their particular skills.

H-3 Visa—Trainee. The H-3 Visa is issued to allow an individual to receive training in the United States or the U.S. Virgin Islands that is unavailable in the individual's home country.

J-1 Visa—Exchange Visitor. J-1 Visas are issued to aliens under a program approved by the U.S. State Department for the purpose of teaching, studying, conducting research, training or demonstrating special skills. The U.S. Information Agency (USIA) has exclusive authority to designate sponsors and to approve the terms for each exchange visitor program. J-1 status is generally authorized for the program's duration as approved by the USIA, typically one and a half years for business trainees. Some program participants are required to return to their home country for two years before they become eligible to re-enter the United States or the U.S. Virgin Islands.

L-1 Visa—Intracompany Transferee. The L-1 Visa is issued to executives or managerial employees or employees with specialized knowledge who have been employed abroad for at least one of the preceding three years, so that they may perform services in the United States or the U.S. Virgin Islands for the same or an affiliated employer. Employees with specialized knowledge may remain in the U.S. or the U.S. Virgin Islands under L-1 classification only for a total of five years.

G. Family and Personal Considerations

Family Members. Please refer to the United States chapter of this publication for information on the procedures and requirements necessary to obtain a visa for family members of visa holders.

Marital Property Regime. In general, the U.S. Virgin Islands recognizes that property acquired during marriage is subject to division and equitable distribution, and therefore, constitutes marital property. The U.S. Virgin Islands recognizes as separate property, distinguishable from marital property, any property acquired prior to marriage and all property derived by either of the spouses during the marriage through inheritance, gift or devise.

Forced Heirship. Under the forced heirship rules in effect in the U.S. Virgin Islands, the real estate of a deceased person, not devised, and the surplus of his or her personal property after payment of debts and legacies, if not bequeathed, is distributed to the surviving spouse and children as follows: one-third to the surviving spouse, and the residue in equal portions to the children, or to the legal representatives of the children if any of them predeceased the parent. Different rules apply if the heirs are other than the surviving spouse and children.

Drivers' Permits. If a person holds a valid driver's license issued by a state, a territory or a possession of the United States, he or she may drive legally in the U.S. Virgin Islands with that license for 90 days. If the person holds a license from a foreign country, the police commissioner may issue a temporary permit for 30 days on payment of a fee prescribed by law.

The following are the basic requirements to obtain a driver's license in the U.S. Virgin Islands:

- Completed application form;
- Two photos;
- Medical exam; and
- The original and a copy of the home country driver's license.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	—
Capital gains from sale of stock in home country	X	—	—

* Bracketed amounts reduce taxable income.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for an expatriate who is a resident of the U.S. Virgin Islands for all of 2005 and is married with two dependent children under 18 years old. During 2005, the expatriate received compensation of $150,000, $100,000 of which was paid in the U.S. Virgin Islands and the balance deposited in a home country bank account and not remitted to the U.S. Virgin Islands. The individual's employer also provided housing at a cost to the company of $60,000. The expatriate earned dividends from home-country investments of $3,000, $1,000 of which was remitted to the U.S. Virgin Islands. The following is the tax calculation.

	$	$
Calculation of Taxable Income		
Income:		
Salary	150,000	
Taxable housing	60,000	
Foreign dividends	3,000	
Total income		213,000

	$	$
Less:		
Standard deduction	(10,000)	
Four personal exemptions	(12,800)	
Total deductions and exemptions		(22,800)
Taxable income		190,200

Calculation of Tax

Tax on first $182,800	40,916
Tax on $7,400 at 33%	2,442
Tax payable	43,358

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The introduction of a personal income tax in Uruguay is being discussed. Because of the possible introduction of a personal income tax in Uruguay, readers should obtain updated information before engaging in transactions.

A. Income Tax

Individuals are not subject to income tax in Uruguay.

Uruguay does not impose a tax on capital gains. However, a 4% transfer tax is imposed on sales of real estate.

B. Other Taxes

Net Worth Tax. Individuals owning assets in Uruguay must pay tax on their net worth at year-end at progressive rates ranging from 0.7% to 3%. They are entitled to deduct a tax-free allowance (approximately US$55,000).

Inheritance and Gift Taxes. Transfers of real estate by gift or inheritance are subject to a 4% transfer tax.

C. Social Security

Contributions. Self-employed individuals pay social security taxes on notional amounts of income rather than on actual earnings. The amounts are established by law.

Contributions are paid by employers and employees at the rates set forth in the following table.

Type	Employer %	Employee %	Self-Employed %
Pension fund	12.5 (a)(b)	15 (a)(b)	27.5
Medical care	5	3	8
Tax on salaries (c)	1.125	0.125 to 6.125	1.25 to 7.25

(a) This rate applies to the portion of income that does not exceed approximately US$1,300.
(b) This rate is 0% for income derived from certain industrial activities, transportation and land freight companies.
(c) This is a tax on salaries that is paid to the social security body (BPS).

Totalization Agreements. To provide relief from double social security taxes and to assure benefit coverage, Uruguay has entered into totalization agreements, which usually apply for a maximum period of one year, with Argentina, Brazil and Paraguay.

D. Tax Filing and Payment Procedures

Married persons have the option to be taxed jointly or separately for purposes of the net worth tax.

E. Tax Treaties

Uruguay has entered into double tax treaties with Germany and Hungary.

F. Temporary Visas

Most foreign nationals must obtain valid entry visas to enter Uruguay. However, foreign nationals of certain countries, including Germany, Italy, Japan, Portugal, South American countries, Spain and the United States, do not need entry visas to enter Uruguay.

Foreign nationals may enter Uruguay under temporary or permanent visas.

Different types of temporary visas are available in Uruguay to the following individuals:
- Tourists;
- Scientists, teachers and technicians;
- Business visitors;
- Artists and athletes;
- Employees under contract by companies with business activities in Uruguay;
- Clergy;
- Passengers in transit; and
- Crew members of ships and airplanes.

The first six temporary visa categories listed above are valid for 90 days. Visas for passengers in transit are valid for 30 days. All of these visas are renewable for an additional term, not to exceed the original period granted.

G. Work Permits

A foreign national may work in Uruguay under a permanent visa, or under one of the temporary visas described above, for a period lasting the length of the employment contract.

An applicant may work in Uruguay while his or her work permit application and other papers are being processed.

No limitations are imposed on foreign nationals wishing to start businesses or head subsidiaries in Uruguay.

H. Permanent Residence Visas

Permanent visas are issued to foreign nationals who intend to establish permanent residence in Uruguay.

To obtain a permanent visa, an application must be filed either in the foreign national's home country or in Uruguay, accompanied by the following documents:
• Passport or equivalent document;
• Health certificate; and
• Proof of financial means.

After all documents are submitted, the approximate time for obtaining a visa is six to eight weeks.

I. Family and Personal Considerations

Family Members. The working spouse of a work permit holder is not automatically authorized to work in Uruguay; a separate application must be filed at the same time as that of the expatriate.

Drivers' Permits. A foreign national may drive legally in Uruguay with his or her home country driver's license only while he or she is applying for a local driver's license.

To obtain a local driver's license in Uruguay, an applicant must pass a written exam on specific Uruguayan traffic rules, as well as a physical exam.

Uruguay does not have driver's license reciprocity with other countries.

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A. Income Tax

Who Is Liable. Individuals are subject to tax in Uzbekistan based on their tax residency status. A resident is defined as an individual who is physically present in Uzbekistan for 183 days or more in any period up to 12 months beginning or ending in a calendar year. Individuals not meeting this test are considered to be nonresidents. Residents are taxed on their worldwide income. Nonresidents are taxed only on their Uzbek-source income.

Income Subject to Tax. In general, all income and benefits-in-kind are taxable in Uzbekistan, unless they are specifically exempt. Income that is specifically exempt from tax includes alimony, severance pay (up to a maximum amount) and state pension income.

The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Employment income includes all cash and non-cash remuneration, allowances and benefits arising from employment.

Self-Employment and Business Income. In general, self-employment and business income is included in an individual's gross income and taxed at the general individual income tax rates (see *Rates*). However, a special tax regime applies to private entrepreneurs, who may be subject to tax at fixed rates, which vary depending on the activities of the entrepreneurs and the location of the activities. The fixed rates vary from 1.5 minimum wages (approximately US$12) to 17.5 minimum wages (approximately US$139) per month.

Directors' Fees. Directors' fees are generally included in gross income and are subject to individual income tax at the general individual income tax rates (see *Rates*).

Investment Income. Dividends and interest income received from Uzbek companies are subject to withholding tax at a rate of 10%. Royalties and other investment income are generally taxable at the general individual income tax rates (see *Rates*). However, interest income of individuals received from certificates of deposits, bank deposits and government securities is exempt from tax.

Taxation of Employer-Provided Stock Options. The Uzbek law does not provide any specific measures regarding the taxation of stock options.

Capital Gains and Losses. Capital gains derived from the sale of discounted securities are subject to tax at a rate of 15%. Capital gains derived from the sale of other securities are subject to tax at the general individual income tax rates (see *Rates*). Capital gains derived from the sale of private nonbusiness property are exempt from tax. Capital losses are not deductible.

Deductions. No significant tax deductions are allowed for individuals.

Rates. The current monthly individual income tax rates are set forth in the table below. As of 1 October 2005, one minimum wage (MW) is UZS 9,400 per month (approximately US$8).

Monthly Taxable Income		Tax on	Rate on
Exceeding MW	Not Exceeding MW	Lower Amount MW	Excess %
0	5	0	13
5	10	0.65	20
10	—	1.65	29

The following is an annual tax rate table using U.S. dollars, based on the exchange rate of UZS 1,058 = U$1.

Annual Taxable Income Exceeding US$	Annual Taxable Income Not Exceeding US$	Tax on Lower Amount US$	Rate on Excess %
0	478	0	13
478	956	62	20
956	—	158	29

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses may not be carried forward or back in Uzbekistan.

B. Other Taxes

Wealth Tax and Net Worth Tax. Uzbekistan does not impose a wealth tax or net worth tax.

Property Tax. Property tax is imposed on buildings and apartments of individuals. The rates are 0.5% of the revalued cost of property and 7% of the cost of property that is not revalued.

Inheritance, Estate and Gift Taxes. Inheritances and gifts received from other individuals are not taxable. Gifts from an employer valued above 6 MWs per year are taxable at the general individual income tax rates (see *Rates*).

Land Tax. An individual granted permanent possession of a land plot may be subject to land tax at a fixed rate, depending on the location of the land. For example, in the city of Tashkent, the rates vary from UZS 24.9 to UZS 108.3 per square meter, depending on the location of the land plot.

Tax on Consumption of Gasoline, Diesel Fuel and Liquid Gas. The tax rate on the consumption of gasoline, diesel fuel and liquid gas by individuals is UZS 60 per liter of gasoline and diesel fuel, and UZS 60 per kilogram of liquid gas. This tax is added to the retail price of fuel and collected at fuel stations.

C. Social Security

Uzbek citizens are subject to a pension fund contribution at a rate of 2.5% of their salaries. Employers make mandatory monthly contributions to individual accumulative pension accounts of citizens at a rate of 1% of salaries of employees, and the amounts of such contributions are subtracted from accrued individual income tax. Employers are subject to social fund contributions on the payroll of local employees at a total rate of 25%. Foreign citizens are not subject to social fund contributions.

D. Tax Filing and Payment Procedures

An annual tax declaration must be completed and filed by 1 April of the year following the reporting year. Payment of any additional tax liability must be made by 1 June of the year following the reporting year. Preliminary declarations estimating income must be filed within one month after arrival in Uzbekistan. In addition, the annual tax declaration must contain an income estimate for the current year. Three-quarters of the estimated tax liability based on the estimated income for the year is payable in three equal installments on 15 May, 15 August and 15 November during the year. An individual leaving Uzbekistan must file a final declaration one month before departure.

E. Double Tax Relief and Tax Treaties

Uzbekistan has entered into double tax treaties with the following countries.

Austria	Israel	Russian Federation
Azerbaijan	Kazakhstan	Slovak Republic
Belarus	Korea (South)	Switzerland
Belgium	Kyrgyzstan	Thailand
Canada	Latvia	Turkey
China	Lithuania	Turkmenistan
Czech Republic	Luxembourg	Ukraine
Finland	Malaysia	United Kingdom
Georgia	Moldova	Vietnam
Germany	Netherlands	
Greece	Pakistan	
India	Poland	
Indonesia	Romania	

Uzbekistan also honors the double tax treaty between the former USSR and Japan.

To obtain treaty benefits, a written application for treaty relief must be submitted to the Uzbekistan tax authorities on specified forms. The application must be accompanied by a certificate from the applicant's home country tax authorities stating that the applicant is resident in that country.

F. Temporary Visas

In general, all foreign nationals are required to obtain a visa to enter Uzbekistan. The general visa requirements do not apply to the following individuals:

- Nationals of the Commonwealth of Independent States, except for nationals of Kyrgyzstan, Tajikistan and Turkmenistan, who do require a visa; and
- Passengers in transit who continue their journey within 24 hours by the same or first connecting aircraft if they hold valid onward or return documentation and if they do not leave the transit area.

The visa requirements are subject to frequent changes and, consequently, individuals should verify them before planning a trip to Uzbekistan.

Business Visa. To obtain a business visa for Uzbekistan, the following documents must be submitted to the Ministry of Foreign Affairs:

- An invitation letter from the hosting organization (for example, a business partner or an Uzbek company) that is processed through the Ministry of Foreign Affairs in Tashkent (not applicable to citizens of Austria, Belgium, France, Germany, Italy, Japan, Latvia, Spain, Switzerland and the United Kingdom);
- Completed and signed visa application form;
- Valid passport; and
- One passport-size picture.

All entries must be typed or printed in Uzbek. Incomplete visa applications are not accepted. A personal interview with an applicant may be required. Visas are issued within two working days to citizens of Austria, Belgium, France, Germany, Italy, Japan, Latvia, Spain, Switzerland and the United Kingdom. For citizens of other countries, the processing of business visa applications may take up to 10 working days.

Private Invitation Visa. To obtain a private invitation visa to Uzbekistan, the following documents must be submitted:

- An original note of invitation (faxes or copies are not accepted) that is obtained by the inviting person from the Ministry of Internal Affairs of Uzbekistan (not applicable to citizens of Austria, Belgium, France, Germany, Italy, Japan, Latvia, Spain, Switzerland and the United Kingdom);
- Completed and signed visa application form;
- Valid passport; and
- One passport-size picture.

All entries must be typed or printed in Uzbek. Incomplete visa applications are not accepted. A personal interview with the applicant may be required.

Transit Visa. An individual traveling through Uzbekistan to another country needs a transit visa for Uzbekistan. To obtain a transit visa, the following documents must be submitted:

- Completed and signed visa application form;
- Valid visa to the country of destination;
- Confirmed round-trip airplane ticket; and
- Valid passport and one passport-size picture.

All entries must be typed or printed in Uzbek. Incomplete visa applications are not accepted. A personal interview with an applicant may be required.

Additional Information. If an individual's stay in Uzbekistan exceeds three days, he or she is required to register with the local department of the Ministry of Internal Affairs within three business days after arrival. A registration stamp is placed on the individual's passport. The following are significant aspects of registration:

- If the individual stays in a hotel, the hotel administration registers the individual automatically;
- If the individual stays in a private apartment or house, the passport must be registered with the local department of the Ministry of Internal Affairs in the district where this apartment or house is located; and
- A fee for registration must be paid in soum (the national currency of Uzbekistan) in an amount of US$20 or more, depending on the length of stay.

An individual's passport is checked on departure from Uzbekistan. A failure to register may result in fines of US$20 or more, depending on the period of time the passport was not registered.

G. Work Visas and Permits and Self-Employment

A foreign citizen may work in Uzbekistan only if he or she obtains a confirmation for the employment (work permit), and his or her Uzbek employer obtains a license for employment of foreign specialists (license).

The Consulate Department of the Ministry of Foreign Affairs issues a work visa to the foreign citizen only if the foreign citizen and his or her Uzbek employer obtained the work permit and license.

Uzbek law does not contain any measures allowing a foreign citizen to be self-employed in Uzbekistan.

H. Residence Visas

The local offices of the Ministry of Internal Affairs can issue residence visas to foreign citizens residing in Uzbekistan for at least six months on the submission of the package of required documents.

The residence visa is issued for up to five years and can be renewed five times for the same period.

I. Family and Personal Considerations

Family Members. The spouse and dependants of a working expatriate must obtain separate work permits to be employed legally in Uzbekistan. In addition, they must apply for their entry visas independently of the employed expatriate.

Marital Property Regime. Property acquired by a couple during marriage is considered their common property unless the law or a marital agreement provides otherwise. In addition, property gifted to or inherited by one of the spouses is considered the personal property of that spouse.

Forced Heirship. Under Uzbek succession law, a testator is free to distribute his or her property in any manner he or she sees fit.

Drivers' Permits. Foreign citizens may drive legally in Uzbekistan with their home country drivers' license on obtaining an official translation of their drivers' license from the Diplomatic Service under the Ministry of Foreign Affairs. The official translation applies for the period of accreditation of the foreign citizen, which usually does not exceed one year.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Hypothetical tax withheld	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	(a)
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Daily allowance (per diem)	X	—	(b)
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	X	—	(b)

Other Items	Taxable*	Not Taxable	Comments
Foreign-source personal ordinary income (interest and dividends)	X	—	(c)
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	X	—	(c)

* Bracketed amounts reduce taxable income.
(a) This item refers to the portion of rent paid by the employee to the employer or withheld by the employer.
(b) If classified as "business trip" expense, the allowance is not taxable within statutory limits. These limits are established for various countries that are business trip destinations.
(c) If the individual is a nonresident in Uzbekistan for tax purposes, the income and gains are not taxable.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2005 is provided below for an expatriate who is a resident in Uzbekistan for all of 2005. During 2005, the expatriate received compensation of UZS 50,000,000, UZS 30,000,000 of which was paid in Uzbekistan and the balance deposited in a home country bank account and not remitted to Uzbekistan. The individual's employer also provided housing at a cost to the company of UZS 20,000,000. The expatriate earned income of UZS 15,000,000 from leasing a personal residence in the expatriate's home country, UZS 5,000,000 of which was remitted to Uzbekistan. The following is the tax calculation.

	UZS
Calculation of Taxable Income	
Salary	50,000,000.00
Housing	20,000,000.00
Leasing income	15,000,000.00
Taxable income	85,000,000.00
Calculation of Tax	
Tax on first UZS 467,475 (5 annual minimum wages [MWs]) at 13%	60,771.75*
Tax on next UZS 467,475 (5 annual MWs) at 21%	98,169.75
Tax on remaining UZS 84,065,050 at 30%	25,219,515.00
Income tax payable	25,378,456.50

* The annual MW for 2005 equals UZS 93,495 ([UZS 6,530 x 4 months] + [UZS 7,835 x 5 months] + [UZS 9,400 x 3 months). The monthly MW was changed from UZS 6,530 to UZS 7,835, effective from 1 May 2005, and from UZS 7,835 to UZS 9,400, effective from 1 October 2005.

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A. Income Tax

Who Is Liable. Resident individuals are subject to tax on their net worldwide income. Residents are subject to tax if their annual worldwide gross income exceeds 1,500 tax units or if their annual worldwide taxable income exceeds 1,000 tax units. For the 2006 tax year, the value of a tax unit is Bs. 33,600. For the 2005 tax year, the value of the tax unit was Bs. 29,400. The bolivar to tax unit ratio is modified each year by the tax administration subject to the approval of the National Assembly. Nonresident individuals are taxed on all income earned in Venezuela.

Individuals are considered resident for tax purposes if they are present in Venezuela for more than 183 days in the current or immediately preceding calendar year. An individual resident in a jurisdiction with which Venezuela has entered into a double tax treaty is protected under the independent or dependent personal services clause.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable employment income consists of income from all sources earned for or relating to services performed in Venezuela, regardless of where the income is paid.

Severance indemnities received by employees or their beneficiaries and travel-expense reimbursements related to rendering personal services are excluded from total gross income.

Nonresident individuals are subject to a final withholding tax at a flat rate of 34% on salary income derived from Venezuela.

Self-Employment and Business Income. Self-employed resident individuals are subject to income tax in accordance with the rules described in *Employment Income*.

Annual gross income in excess of 1,500 tax units or net taxable income in excess of 1,000 tax units must be formally declared. To determine net taxable income, individuals may deduct all costs and expenses necessary to produce self-employment and business income.

Nonresident individuals are subject to a final withholding tax at a flat rate of 34% on income derived from Venezuela.

Directors' Fees. Directors' fees relating to activities performed in Venezuela and received from resident companies are taxed as employment income at the rates described in *Rates*.

In addition, an individual is subject to social security contributions on directors' fees. The contribution is based on a percentage of monthly salary earned.

Investment Income. Interest received by resident and nonresident individuals from savings instruments issued by Venezuelan banks and other financial institutions are tax-exempt. Other interest is aggregated with other income and taxed at the rates described in *Rates*.

Nonresident individuals are subject to a final withholding tax at a rate of 34% on royalties derived from Venezuela.

Effective from January 2001, dividends paid by Venezuelan companies are subject to withholding tax at a rate of 34% to the extent that income before taxes exceeds net taxable income for tax years beginning on or after the effective date. "Income before taxes" is defined as financial income before tax reconciliation, and "net taxable income" is income subject to tax after tax reconciliation. Recipients are subject to tax at the same rate on dividends from non-Venezuelan companies, less any foreign taxes paid.

Capital Gains. Capital gains are taxed with other income according to the Tariff No. 1 rates described in *Rates*.

Deductions

Personal Deductions and Personal Tax Credit. Resident individuals are allowed to deduct the following items from gross income:
- Mortgage interest payments for a principal dwelling, limited to an amount equivalent to 1,000 tax units, rent payments for a principal dwelling, limited to an amount equal to 800 tax units.
- Payments to educational institutions in Venezuela for taxpayers and their children under 25 years of age. The age limit does not apply to expenses incurred on the education of handicapped children and adults under the tutelage of the taxpayer.
- Premiums for surgery, hospitalization and maternity insurance paid in Venezuela to domiciled companies (no limit).
- Medical, dental and hospitalization expenses incurred in Venezuela for the taxpayer, spouse and ascendants or descendants (no limit).

Deductible expenses incurred in Venezuela may offset only Venezuelan-source gross income. Foreign-source deductible expenses may offset only foreign-source income. The supporting documents for the tax return must contain the taxpayer's tax information number.

Resident individuals have the option of applying a standard personal deduction equivalent to 774 tax units in lieu of the abovementioned deductions.

Resident individuals receive an additional annual personal tax credit of 10 tax units. They are also entitled to a credit of 10 tax units for the spouse and each ascendant and descendant residing in Venezuela who is under legal age or who is disabled and incapable of working.

Business Deductions. Individuals may deduct all expenses necessary to produce self-employment and business income.

Rates. Resident individuals are subject to the tax rates of Tariff No. 1, which are applied to taxable income expressed in tax units (see *Who Is Liable*). The following are the applicable rates.

Taxable Income Exceeding Tax Units	Not Exceeding Tax Units	Rate %
0	1,000	6
1,000	1,500	9
1,500	2,000	12
2,000	2,500	16
2,500	3,000	20
3,000	4,000	24
4,000	6,000	29
6,000	—	34

Relief for Losses. Business losses of a self-employed person may be carried forward for three years. No loss carrybacks are allowed.

B. Inheritance and Gift Taxes

Residents, resident foreigners and nonresidents are subject to inheritance and gift taxes only on assets located in Venezuela. Inheritance tax is levied at the following rates, which vary depending on the relationship of the beneficiary to the deceased or donor.

Beneficiary	Rate (%)
Spouse, ascendants and descendants	1 to 25
Siblings, nephews and nieces	2.5 to 40
Other relatives	6 to 50
Unrelated persons	10 to 55

C. Social Security

The social security system provides the following benefits:

- Medical assistance for the worker and the worker's spouse, parents and children;
- Indemnities for temporary disability and death; and
- Pensions for disability, old age and dependent survivors.

Employers and employees are required to make social security contributions in accordance with the following table.

Type of Contribution	Amount of Contribution %
Social security contributions on monthly salary of each employee, up to a ceiling of five minimum salaries; paid by	
Employer	9/10/11
Employee	4
Unemployment and training contributions on monthly salary of each employee, up to a ceiling of five minimum salaries; paid by	
Employer	2
Employee	0.5

	Amount of Contribution %
Housing policy contributions on total monthly salary of each employee up to 15 minimum salaries; paid by	
Employer	2
Employee	1
National Institute of Cooperative Education contributions (required if employer has five or more employees); paid by	
Employer, on total employee remuneration	2
Employee, on any profit-sharing received from the employer at the year-end	0.5

D. Tax Filing and Payment Procedures

For individuals, the tax year in Venezuela is the calendar year. Tax returns must be filed no later than 31 March of the year following the tax year. The tax liability indicated on the return may be paid in three installments. The first is due when the return is filed, the second within 20 days after filing the return and the third within 40 days after the return is filed.

Married persons are taxed either jointly or separately, at the taxpayers' election, on all types of income.

Receipts and vouchers must be retained as support for deductions and attached to the return.

E. Double Tax Relief and Tax Treaties

Income is separated into two baskets, one for foreign-source income and expenses and another for domestic-source income and expenses. Foreign taxes paid on the foreign-source income may offset the Venezuelan tax on that income only. However, losses in the Venezuelan-source basket may be offset against foreign-source income.

Venezuela is a member of the Andean Pact together with Bolivia, Colombia, Ecuador and Peru. Venezuela has also entered into double tax treaties with Barbados, Belgium, Canada, China, Cuba, the Czech Republic, Denmark, France, Germany, Indonesia, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Trinidad and Tobago, the United Kingdom and the United States. Venezuela has also signed double tax treaties with Brazil, Iran, Kuwait and Mexico, which have not yet entered into force. Treaties are currently under negotiation with Austria, Chile, Finland, India, Korea and the Russian Federation.

F. Temporary Visas

Venezuela issues tourist visas. Foreign nationals with tourist visas may not work as employees or engage in business in Venezuela. Business visas allow individuals to conduct commercial affairs or to provide technical assistance.

G. Work Visas and Permits

Under the Migration Law, foreign citizens who intend to render services in Venezuela for more than 90 days must obtain a labor permit (authorization) and a labor visa (Working Transient Visa; known as "TR-L"). The company that intends to employ the foreign citizen requests the labor permit. If a foreign citizen will not be in Venezuela for more than 90 days, neither a labor permit nor a labor visa is required.

To obtain a TR-L, the foreign citizen must have a passport that had been issued by the respective authority at least 6 months before the request for the TR-L, as well as an employment agreement with a Venezuelan entity. The visa has a term of one year and may be renewed for an additional term of one year. The holder of the TR-L may make multiple entries into Venezuela or may stay in Venezuela for the entire period of the visa.

To obtain a labor visa and labor permit, the company must file an application with the Office of Migration and the Ministry of Labor, which will issue the labor visa and the labor permit respectively, within 15 business days following the request. In practice, the period for the issuance of the visa may be extended for an additional 15 days.

Work Visa. To obtain a work visa, the following documents must be submitted to the Office of Migration (Dirección de Extranjería):
- Proof of payments by the employer to the National Institute of Educational Cooperation (Instituto Nacional de Cooperación Educativa, or INCE);
- Proof of last three payments by the employer to the social security system;
- Copy of municipal patent of the company;
- Copy of last income tax return of the company;
- Authorization letter;
- Justification letter (providing reasons for requesting labor visa);
- Entry request form, issued by National Office for Identification and Foreign Purposes (Oficina Nacional de Identificación y Extranjería, or ONIDEX);
- Two wallet-sized photos of the foreign worker;
- Copy of the entire passport (including blank pages);
- Notarized employment agreement (original);
- University or college or technical or associate degree, translated into Spanish if in another language, and legalized in the country of residence before the Venezuelan consulate, or annotated; and
- Résumé, translated into Spanish if it is in another language, and legalized in the country of residence before the Venezuelan consulate, or annotated.

Work Permit. To obtain a work permit, the following documents must be filed with the Ministry of Labor:
- Copy of the document of incorporation and bylaws of the contracting company;
- Copy of the employment agreement notarized;
- Employment declaration form and hours worked (this form is issued by the Ministry of Labor);
- Justification letter (providing reasons for requesting labor permit);
- Format of job offer issued by Ministry of Labor (original and 2 copies); and
- Information filed with the Spanish Inspectoría del Trabajo (employment agency), including a copy of the Tax Information Registry Number (Registro Unico de Información Fiscal, or RIF) of the contracting company, company name, number of employees and workers and authorization letter.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(a)
Education reimbursement	X	—	(a)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	—	X	(b)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(c)
Capital gain from sale of personal residence in home country	X	—	(c)
Capital gains from sale of stock in home country	X	—	(c)

* The bracketed amount reduces taxable income.

(a) These items are taxable, but the expatriate may deduct them. The deduction for the housing allowance is limited to 800 tax units or 1,000 tax units (Bs. 23,520,000 or Bs. 29,400,000).

(b) These expenses must be incurred during company business, such as trips or seminars.

(c) U.S. tax residents may be taxed only in the United States if they meet the tiebreaker rules under the tax treaty between Venezuela and the United States.

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A. Income Tax

Who Is Liable. The following individuals are subject to income tax in Vietnam: Vietnamese citizens; individuals who do not have Vietnamese nationality but reside in Vietnam; and foreigners working in Vietnam who earn income.

Residence for tax purposes is not premised on an individual's nationality, place of birth or place of domicile. Instead, a foreigner's tax residence status is determined by the duration of his or her stay in Vietnam.

Residents are subject to tax on their worldwide income. Nonresidents are subject to tax only on their Vietnam-source income.

Foreigners must declare the number of days they spend or will spend in Vietnam. The duration of the residence of a foreigner in Vietnam is determined by counting the number of days he or she stays or will stay in Vietnam during any 12-month period from the date of arrival. After the first consecutive 12-month period, residence is determined on a calendar-year basis. A person who spends 183 days or more in Vietnam is taxed as a resident. A person who qualifies as a resident in one year is automatically treated as a resident in the following year.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Taxable income is categorized into regular income and irregular income. Regular income includes salaries, wages, bonuses, allowances, differentials, premiums, directors' fees and remuneration, housing benefits (with a tax concession), income tax and benefits paid by the employer, allowances and other payments for employment services rendered. Income that is not regular income is classified as irregular income. Tax on regular income is provisionally paid on a monthly basis. Tax on irregular income is calculated for each payment made. Income received in foreign currency is converted to Vietnamese dong in calculating taxable income.

Rental payments made by an employer on behalf of an expatriate for accommodation are taxable to the expatriate based on the lower of the amount actually paid or 15% of his or her total taxable income. If the individual uses part of the business premises for a residence, the taxable income is based on the rent or depreciation expenses, calculated for the percentage of the area of the house that is used by the individual, and is capped at 15% of his or her total taxable income.

The following categories of employment income are exempt from tax:

- Reimbursement for business travel expenses (for example, accommodation, transportation and meals);
- Subsidies for shift work and dangerous or harmful occupations;
- Subsidies for working in isolated areas (mountainous areas and offshore islands);
- Remuneration for technical innovation and invention; and
- Certain compensation for relocating to Vietnam that is substantiated by supporting documents or vouchers.

Self-Employment and Business Income. All profits accruing in Vietnam are subject to tax.

Professional artists, performers and athletes may exclude 25% of their income from taxable income.

Investment Income. Dividends and interest income are temporarily not subject to tax.

Taxation of Employer-Provided Stock Options. Effective from 1 July 2004, gains derived from the exercise of employer-provided stock options are taxable. However, it is unclear when and how the gain is determined for tax purposes. Under general principles, personal remuneration is taxed on a cash basis. The value of a benefit, including a stock option, is taxed only if it is clearly quantifiable and if entitlement to the benefit is immediate. Consequently, options are taxed at the time of exercise if the exercise price is partly or wholly funded by the employer, and at the time the shares are sold.

Capital Gains. Except for gains derived from the "transfer of capital," including an interest in an investment license, capital gains are currently not taxable in Vietnam. Gains derived from capital transfers are taxed at a rate of 28% or at a lower rate specified in the investment license of the transferor.

Deductions

Deductible Expenses. Social and health insurance contributions, which are made by Vietnamese employees only, are deductible for personal income tax purposes.

Personal Deductions and Allowances. No personal allowances or reliefs are deductible from regular income.

Rates. To calculate tax due using the tables below, multiply taxable income by the tax rate, then subtract the bracket adjustment so that total taxable income benefits from the lower progressive rates.

Tax Rates. The following table presents the average monthly tax rates on regular income for Vietnamese residents.

Residents' Average Monthly Income Exceeding VND (thousands)	Residents' Average Monthly Income Not Exceeding VND (thousands)	Tax Rate %	Bracket Adjustment VND (thousands)
0	5,000	0	0
5,000	15,000	10	500
15,000	25,000	20	2,000
25,000	40,000	30	4,500
40,000	—	40	8,500

The following table presents the average monthly tax rates on regular income for resident aliens.

Resident Aliens' Average Monthly Income Exceeding VND (thousands)	Not Exceeding VND (thousands)	Tax Rate %	Bracket Adjustment VND (thousands)
0	8,000	0	0
8,000	20,000	10	800
20,000	50,000	20	2,800
50,000	80,000	30	7,800
80,000	—	40	15,800

Individuals who stay in Vietnam less than 30 days in a tax year are no longer exempt from PIT. For expatriates who stay in Vietnam for fewer than 183 days, taxable income is the total income derived from Vietnam during their stay. The tax rate is 25% of total regular income.

For a sample tax calculation, see Appendix 2.

Relief for Losses. The personal income tax system does not provide relief for business losses.

B. Other Taxes

Net worth, estate and gift taxes are not levied in Vietnam.

C. Social Security

Vietnamese employees are required to contribute 5% of their compensation as social insurance and 1% of their compensation as health insurance. Their employers are required to contribute 15% of salaries as social insurance and 2% of salaries as health insurance. No ceiling applies to the amount of compensation subject to social security contributions. These contributions do not apply to foreign employees.

D. Tax Filing and Payment Procedures

For regular income, the employer must withhold income tax from the monthly salary of its employees and remit the tax withheld to the state, after retaining a commission.

Foreigners may pay their tax liabilities directly to the tax authorities if they do not have an employer in Vietnam or if their application for direct tax filing is approved by the local tax office. In such circumstances, they must register with and submit a monthly tax declaration to the local tax department. Foreigners then receive a tax notice and directly pay the monthly tax payable directly to the tax office if no changes in their income occur. If the amount of income changes, the foreigner must submit a revised tax declaration to the tax office in order to adjust the monthly tax payable.

At the end of the calendar year or after the termination of an employment contract, expatriates must complete a tax finalization return and submit it to their employers or to the tax authorities (if they are paying their taxes directly) by 28 February of the following year or 30 days after the termination of the contract.

The employer or the tax authorities must verify the accuracy of the tax declaration and ascertain whether additional tax is payable by, or a refund is due to, the expatriate. The employer or the expatriate, if paying his or her taxes directly, must settle the tax liabilities by 10 March of the following year or within 30 days from the termination date of the contract.

For irregular income, income tax is deducted by the payer from each payment. If tax is not deducted from irregular income subject to tax, the payee must make a declaration and pay the income tax directly to the tax authorities at his or her place of work.

E. Tax Treaties

Vietnam has entered into double tax treaties with the following countries.

Algeria*	Iceland	Philippines
Australia	India	Poland
Bangladesh*	Indonesia	Romania
Belarus	Italy	Russian Federation
Belgium	Japan	Seychelles*
Bulgaria	Korea (North)*	Singapore
Canada	Korea (South)	Spain*
China	Laos	Sri Lanka*
Cuba	Luxembourg	Sweden
Czech Republic	Malaysia	Switzerland
Denmark	Mongolia	Taiwan
Finland	Myanmar	Thailand
France	Netherlands	Ukraine
Germany	Norway*	United Kingdom
Hungary	Pakistan	Uzbekistan

* This treaty is not yet in force.

F. Entry Visas

All foreign nationals must obtain valid entry visas to enter Vietnam. Foreign nationals may enter Vietnam under tourist or multiple-entry business visas.

A single-entry tourist visa is issued to foreign nationals who intend to visit Vietnam for recreational purposes only. It is valid for 15 days and is renewable.

Business visas are issued to foreign nationals who intend to do business in Vietnam. This type of visa is valid for periods of up to 3, 6 or 12 months and is renewable.

An applicant must submit the following documents to obtain a multiple-entry business visa:
- An application form (standard forms are available in Vietnamese embassies);
- An invitation letter from an entity in Vietnam stating the purpose of the visit and the time of entry; and
- A copy of the applicant’s passport or equivalent document.

Three-, six- and twelve-month multiple-entry visas are generally renewable twice for additional six-month periods. Subsequent renewals must be requested by submitting new applications.

G. Work Permits

To work in Vietnam, a foreign national must obtain a business visa and apply for a work permit. Work permits are issued to foreigners only for positions requiring a high level of professional or managerial skill. Permits are issued for a maximum of 36 months.

The employer must submit an application dossier to the authorized state body of the Ministry of Labor. The application dossier must contain the following items:
- Letter requesting the issuance of work permit for the employee;
- Application document of the employee; and
- Application for recruitment of foreign employees.

The application document of the prospective foreign national employee must contain the following items:
- Application form and assignment letter.
- Copies of certificates attesting to the individual's university or professional qualifications.
- Legal record issued by the Department of Justice for the locality in Vietnam where the foreigner resides. Foreign nationals who have resided in Vietnam for more than six months at the time of application for a work permit are also required to obtain a legal record from the competent authority in their home country.
- Three photos of the applicant.
- Health certificate.
- Résumé (standard form issued by Vietnam Labor Department).

Any document certified in a foreign country must be translated into Vietnamese and legally notarized.

The following individuals do not need work permits:
- Foreign employees working in Vietnam less than 3 months or foreign employees engaged in emergency situations;
- Foreign employees who are members of an enterprise's board of management;
- Chief representatives of representative offices or branches in Vietnam; and
- Foreign lawyers with a permit to work in Vietnam.

A foreign national may establish a business or head a foreign subsidiary in Vietnam. The following three options for foreign investment are available: a business cooperation contract; a joint venture; or a 100% foreign-owned company.

H. Residence Permits

Foreign nationals intending to reside in Vietnam can apply for residence permits with a duration of up to two years by submitting the following items to the immigration office:
- Official letter requesting a residence permit;
- Application letter;
- Copy of the residential lease contract;
- Copy of a work permit issued by the Vietnamese authorities; and
- Two photos of the applicant.

Residence permits are available after registration with the local People's Committee.

No permanent permits for foreign nationals are available.

I. Family and Personal Considerations

Family Members. The spouse of a multiple-entry business visa and work permit holder does not automatically receive the same type of authorization. A separate application must be filed jointly with the expatriate's application.

Forced Heirship. Forced heirship rules do not apply in Vietnam.

Drivers' Permits. A foreign national may not drive legally in Vietnam with his or her home country driver's license. Vietnam does not have driver's license reciprocity with any other country.

To obtain a local Vietnamese driving license, an applicant must take written and physical exams.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	—	X	(a)
Bonus	X	—	—
Retained hypothetical tax	—	X	(b)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(c)
Employer-provided housing	X	—	(d)
Housing contribution	X	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(e)
Tax reimbursement (current and/or prior, including interest, if any)	—	X	—
Value of hotel provided	—	X	(f)
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

(a) The contributions are not taxable if they are compulsory in the home country and if they are supported by proper documentation or evidence.
(b) The hypothetical tax withheld is deductible from taxable income if it is supported by proper documentation or evidence.
(c) If the company pays the housing allowance in cash directly to the employee, the entire amount of the allowance is taxable.
(d) If a lease for accommodation provided to an employee is in the name of the employer and if the rent is settled directly between the employer and the landlord, the taxable value of the housing benefit equals the lower of the actual housing cost or 15% of the employee's taxable income.
(e) Moving expense reimbursements are not taxable if the amounts are supported by invoices or vouchers.
(f) The value of hotel accommodation provided to an employee is not taxable if the following conditions are satisfied: the hotel accommodation is related to business; the employee is reimbursed dollar for dollar for the cost of the accommodation; and the reimbursement is supported by invoices or receipts.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample tax calculation for 2006 is provided below for an expatriate, who is a resident of Vietnam for all of 2006 and is married with two dependent children under 18 years old. During 2006, the expatriate received net compensation of VND 740,800,000, VND 380,400,000 of which was paid in Vietnam. The balance was deposited in a home-country bank account and not remitted to Vietnam. The individual's employer also provided housing at a cost to the company of VND 285,300,000. The expatriate earned dividends from home-country investments of VND 50,000,000, VND 25,000,000 of which were remitted to Vietnam (a). The following is the tax calculation.

	Annual VND	Monthly VND
Calculation of Taxable Income		
Grossed-up income	924,571,428	77,047,619
Taxable value of housing (lower of VND 285,300,000 or 15% of VND 924,571,428)	138,685,716	11,557,143
Taxable income	1,063,257,144	88,604,762
Calculation of Tax		
Tax on VND 8,000,000 at 0%	0	0
Tax on VND 12,000,000 at 10%	14,400,000	1,200,000
Tax on VND 30,000,000 at 20%	72,000,000	6,000,000
Tax on VND 30,000,000 at 30%	108,000,000	9,000,000
Tax on VND 8,604,762 at 40%	41,302,860	3,441,905
VND 88,604,762 (b)		
Income tax payable	235,702,860	19,641,905

(a) Under the tax law, in principle, dividends received on home-country investments are not taxable. However, if dividends are remitted to Vietnam, the tax authorities may view the dividends as part of the expatriate's remuneration and accordingly subject to tax. To prevent the taxation of such dividends in Vietnam, individuals may want to consider not having the dividends remitted to Vietnam.

(b) This is the amount of monthly taxable income.

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A. Income Tax

Who Is Liable. Residents are subject to income tax on income derived, or deemed to be derived, from a source in Zambia.

Nonresidents are subject to withholding taxes only.

A person who lives and works in Zambia for more than 183 days in a tax year is considered resident for tax purposes.

Income Subject to Tax

Employment Income. All salaries paid and benefits given in consideration for work performed in Zambia, regardless of where paid, are subject to tax in Zambia. Employers are subject to tax on certain benefits they provide, including accommodation and the personal use of a company vehicle.

Self-Employment and Business Income. Any individual who earns income from a source or a deemed source in Zambia is subject to tax for the year in which the income is earned. Partners are subject to tax individually on their respective shares of partnership income.

Business income for tax purposes includes all profits and gains, except capital gains, arising from a business.

Nonresidents are subject to withholding tax at a rate of 15% on income from management and consulting fees.

Directors' Fees. Directors' fees received from resident companies are included in taxable income.

Investment Income. Resident individual shareholders are subject to final tax on dividends at a rate of 15%.

Bank interest is subject to a final withholding tax at a rate of 25%. For residents, other interest is included in taxable income and subject to tax at the rates described in *Rates*. The tax withheld at source from other interest is credited against tax payable. For nonresidents, a withholding tax of 15% on interest is a final tax. For both residents and nonresidents, the first K 750,000 of interest income received is exempt from income tax.

Nonresidents are subject to withholding tax at a rate of 15% for royalties.

Capital Gains. Capital gains tax is not levied in Zambia. However, before property may be transferred, Property Transfer Tax (PTT) is levied at a rate of 3% on the realizable value of property. For purposes of PTT, property includes any land in Zambia (land also includes a building, structure or other improvements) and any shares issued by a company in Zambia.

Deductions

Personal Exemption. Individuals are exempt from tax on the first K 3,840,000 of their annual income, effective from 1 April 2006.

Business Deductions. Expenses (except capital expenses) incurred in earning taxable income are deductible.

Rates. Effective from 1 April 2006, the following income tax rates apply to individuals.

Taxable Income Exceeding K	Taxable Income Not Exceeding K	Tax on Lower Amount K	Rate on Excess %
0	3,840,000	0	0
3,840,000	9,858,240	0	30
9,858,240	54,768,000	1,805,472	35
54,768,000	—	17,523,888	37.5

Relief for Losses. Losses may be carried forward for up to five years and deducted from income from a similar source.

B. Estate and Gift Taxes

Zambia does not levy estate or gift tax.

C. Social Security

Zambia does not levy social security taxes.

D. Tax Filing and Payment Procedures

The tax year ends on 31 March. Returns must be filed by 30 September following the end of the tax year.

Employers must withhold taxes from remuneration under the Pay-As-You-Earn (PAYE) system and remit the taxes monthly to the Zambia Revenue Authority.

Individuals with business or self-employment income must pay estimated taxes in quarterly installments.

Penalties are imposed for late filing and late payment of taxes.

E. Tax Treaties

Zambia has entered into double tax treaties with the following countries.

Belgium
Canada
Denmark
Finland
France
Germany
India
Ireland
Italy
Japan
Kenya
Netherlands
Norway
Romania
South Africa
Sweden
Switzerland
Tanzania
Uganda
United Kingdom

F. Temporary Visas

Foreign nationals must possess visas to enter Zambia unless they are nationals of certain British Commonwealth countries or countries with which Zambia has signed visa-waiver agreements. Although certain categories of visitors are automatically granted entry visas at ports of entry, others must obtain visas prior to their arrival in Zambia. Transit, tourist/business, re-entry and other short-term visas are available for foreign nationals visiting Zambia.

Transit visas are granted to foreign nationals wishing to travel through Zambia en route to destinations outside the country. To obtain transit visas, foreign nationals must prove that they will be admitted to their destination outside the country and must be in possession of tickets to such destination. A transit visa is valid for a maximum period of seven days.

Tourist/business visas are issued to foreign nationals intending to visit Zambia for recreational purposes or to do business within the country without taking up employment. A tourist/business visa is valid for a cumulative total of 90 days in any 12-month period. Foreign nationals who exhaust the 90-day validity period and who still have unfinished business in Zambia may obtain temporary permits for a prescribed fee.

Entry visas may be single- or multiple-entry. Visitors wishing to leave Zambia and then return must obtain re-entry visas. For foreign nationals holding tourist/business visas, the re-entry visa is valid for seven days; for holders of valid work or entry permits, it is valid for 90 days. Re-entry visas may be obtained at immigration offices in Zambia upon payment of a certain specified fee.

Visas generally are issued upon payment of a certain specified fee. Details of fees and a list of countries whose citizens are subject to these fees are available at Zambian diplomatic missions.

Zambia does not grant permanent visitor permits or permanent work permits.

G. Work and Self-Employment Permits

Work Permits. Foreign nationals must possess work permits to engage in paid employment with a Zambian employer. Zambia does not have quotas limiting the number of foreign nationals employers may engage.

Applicants must submit to the Chief Immigration Officer a completed application form, a firm offer of employment (an employment contract), a letter from the prospective employer, a certified copy of professional qualifications, a certified copy of the relevant passport pages and two passport-size photographs.

The application for a work permit is processed and issued while the applicant is outside Zambia. All applicants must submit prescribed forms and fees before consideration by the Zambia authorities.

Work permits in conjunction with a work contract are granted for a minimum period of two years.

Holders of work permits do not need to obtain separate residence permits.

Self-Employment Permits. Foreign nationals investing in Zambia must possess self-employment permits. These may be obtained by submitting to the Chief Immigration Officer a completed application form, accompanied by the company's certificate of incorporation, a list of directors, investment license (if applicable) or a certificate of registration, and copies of relevant passport pages. Self-employment permits may be issued while the applicant is in Zambia. A fee is required for self-employment permits.

H. Residence Permits

Long-term entry permits (residence permits) issued for periods exceeding three years are available for certain categories of persons, including foreign investors holding self-employment permits (see Section G). A long-term entry permit allows the holder to remain in Zambia indefinitely, as long as the holder continues to meet the conditions specified by the permit.

Foreign nationals who hold long-term entry permits may apply for Zambian citizenship after residence in Zambia for 10 years.

I. Family and Personal Considerations

Family Members. The spouses of holders of work, self-employment and entry permits, as well as their children under 18 years of age, enjoy the same status as the principal permit holders. They do not need to apply for separate visas.

Marital Property Regime. Zambia does not have a community property or similar marital property regime and does not enforce community property claims brought between couples who establish a marital domicile in Zambia.

Forced Heirship. Zambia applies a type of forced heirship rule at the discretion of the court if the deceased does not provide adequately for his or her surviving spouse, parent or child.

Drivers' Permits. Foreign nationals may drive legally with their home country drivers' license for the first 90 days after their arrival in Zambia. Upon expiration of the 90-day period, they must apply for a Zambian driver's license. To obtain a Zambian driver's license, the applicant must take a driving test.

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The 2006 Finance Bill introduced several significant tax changes, including changes to the income tax brackets and exemption levels, and the introduction of a 10% capital gains tax rate for unlisted investments. Most of the changes contained in the bill are effective from 1 September 2006, but certain changes apply retroactively. Because these changes are not reflected in the following chapter, readers should obtain updated information before engaging in transactions.

A. Income Tax

Who Is Liable. Residents are subject to income tax on income accrued, or deemed to accrue, from a source in Zimbabwe. Compensation for services rendered in Zimbabwe is deemed to be derived from a Zimbabwean source, regardless of where the payment is made or where the payer resides.

The term “resident” is not legislatively defined. Residential status depends on the facts and circumstances indicating a degree of presence. A person living and working temporarily in Zimbabwe is considered resident, for example, but a transient visitor is not considered resident.

Income Subject to Tax. The taxation of various types of income is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment Income. Tax is levied on salary, wages and the value of employment benefits.

Income tax liability is calculated in the following manner:

Step I: Calculate the income tax on the taxable income according to the tax rate structure set out below.

Step II: Calculate the tax credit entitlement discussed in *Personal Credits*.

Step III: Deduct the amount in Step II from the amount in Step I to determine the income tax payable.

Step IV: Add 3% AIDS levy to the amount computed in Step III to determine the total amount payable.

Education allowances provided by employers to their employees’ children 18 years of age and under are taxable for income tax purposes, but not for social security purposes.

Nonresidents are taxed on their employment income in Zimbabwe at the rates described in *Rates*.

Self-Employment and Business Income. Partners are individually subject to tax on their share of business profits.

Income tax is levied on all income (other than capital gains) received or accrued from a Zimbabwean source, less noncapital expenditures incurred in the production of income or for business purposes. Certain specific types of income are exempt from tax.

Income from sources other than employment is subject to tax at a rate of 30.9%.

Registered taxpayers and government and statutory bodies must withhold and remit to the Commissioner General 10% of all payments for goods and services unless the payee provides a certificate of clearance from the Zimbabwe Revenue Authority. Amounts withheld can be offset against income tax due on quarterly payment dates or on assessment.

Tax at a rate of 20% must be withheld from gross payments to freelance insurance agents, insurance brokers and property negotiators. Amounts withheld can be offset against income tax due on quarterly dates or on assessment.

Nonresidents are taxed on business income at a rate of 30.9%. Withholding taxes are imposed on nonresidents at a rate of 20% on fees for technical, managerial, administrative and consulting services. The withholding tax is allowed as a credit against tax assessed at the normal rates. The amount of the credit is limited to the lesser of the tax assessed or the withholding tax.

Directors’ Fees. Directors’ fees paid to working directors are taxed with other employment income at the rates described in *Rates*. Fees paid to nonworking directors are taxed at a rate of 30.9%.

Investment Income. Resident individuals are subject to a final withholding tax at a rate of 15% on dividends derived from companies listed on the Zimbabwe Stock Exchange, and to a 20% final withholding tax on all other domestic dividends.

Interest paid to residents on deposits with local building societies, banks and other financial institutions is exempt from income tax, but it is subject to a final withholding tax at a rate of 20%. Individuals aged 60 and older are exempt from withholding tax on the first Z$24 million of such income.

Income from treasury bills and discounted instruments traded by financial institutions is exempt from income tax, but it is subject to a final withholding tax at a rate of 20% at the time of disposal or maturity of the instrument. Individuals aged 60 and older are exempt from withholding tax on the first Z$24 million of such income.

Other interest is not subject to withholding tax and is taxed at a rate of 30.9%.

Foreign-source dividends and interest paid to residents are deemed to be from a Zimbabwean source. Foreign-source dividends received by a Zimbabwe resident are subject to income tax at a rate of 20% of the gross dividend. Credits may be granted for foreign tax withheld on interest income and dividends, up to the amount of Zimbabwe tax on the foreign-source income.

Net rental income is taxed at a rate of 30.9%. Individuals aged 60 and older are exempt from tax on the first Z$72 million of such income.

Nonresidents are taxed on investment income at a flat tax rate of 30.9%. Withholding taxes for nonresidents are levied at rates of 10% on interest and 20% on dividends, fees and royalties. The withholding tax is allowed as a credit against tax assessed at the normal rates. The amount of the credit is limited to the lesser of the tax assessed or the withholding tax.

Taxation of Employer-Provided Stock Options. Employer-provided options to acquire stock at below the stock's market value are subject to tax on the date the options may first be exercised at the rates set forth in *Rates*.

Capital Gains and Losses. Capital gains derived from sales of marketable securities listed on the Zimbabwe Stock Exchange, unlisted securities and real property are subject to tax at a rate of 20%. Capital gains tax is imposed on the sales price of the shares or property after deducting the cost plus an amount calculated by applying the annual inflation percentage to the cost for each year of ownership. A 15% tax is withheld from the gross proceeds derived from sales of immovable property and a 5% tax is withheld from the gross proceeds derived from sales of marketable securities. The withholding tax is credited against the capital gains tax. Individuals aged 60 and older are exempt from tax on the sale of their principal private residence and on the first Z$24 million of total proceeds received during the year from the sale of marketable securities.

Rollover relief is available for sales of real property used in a trade or business if individuals or companies sell business premises and purchase replacement premises or if individuals sell business premises to a company under their control, subject to the condition in both cases that the business continues to be carried on in the new premises.

Rollover relief is also available for the sale and replacement of a principal private residence.

Capital gains of Z$5,000 or less are exempt from tax.

Capital losses in excess of Z$1,000 may be carried forward indefinitely.

Deductions

Deductible Expenses. Pension contributions, up to a maximum annual amount of Z$72 million, may be deducted from taxable income. If both pension and retirement fund contributions are made, the maximum combined deduction is Z$72 million.

Personal Credits. The following tax credits are deductible from basic income tax payable for the tax year ending 31 December 2006 and for subsequent tax years.

Type of Credit	Amount
Taxpayers 60 years of age and older	Z$12 million
Blind or disabled person	Z$12 million
Medical expenses, cost of invalid appliances and contributions to medical aid societies	50%

Business Deductions. A deduction of 50% of cost is granted for additions to fixed assets, other than land and certain buildings, in the first year of use, and a deduction of 25% of cost is allowed in each of the succeeding two years. Allowable deductions are subject to recapture when the assets are sold or otherwise disposed of.

Rates. The following income tax rates apply to employment income for the tax year ending 31 December 2006 and for subsequent years.

Taxable Income		Tax on Lower	Rate on
Exceeding Z$ (thousands)	Not Exceeding Z$ (thousands)	Amount Z$ (thousands)	Excess %
0	84,000	0	0
84,000	192,000	0	20
192,000	336,000	21,600	25
336,000	480,000	57,600	30
480,000	—	100,800	35

A 3% AIDS levy is imposed on the tax payable.

For a sample tax calculation, see Appendix 2.

Relief for Losses. Losses may be carried forward for six years. Mining losses derived from specific mining locations may be carried forward indefinitely. Losses from business or investment activities are not deductible from employment income.

B. Other Taxes

Estate and Gift Taxes. Estate tax is levied on the estates of all deceased persons with assets located in Zimbabwe or with foreign assets arising from Zimbabwean sources. The family home is not included in the dutiable value of the estate. The first Z$10 billion of the dutiable value is tax free. The rate of the estate tax on the balance of the dutiable value is 5%.

To prevent double taxation, Zimbabwe has entered into estate tax treaties with South Africa and the United Kingdom.

Zimbabwe does not levy gift tax. However, the market value of a donation of marketable securities or real property is subject to capital gains tax (see Section A).

Presumptive Tax. Presumptive tax at various rates is imposed on informal traders, small-scale miners and operators of taxicabs, omnibuses, specified goods vehicles and driving schools. Presumptive tax paid is allowed as a credit against income tax due on assessment.

C. Social Security

Social security contributions equal to 3% per month of employees' monetary earnings, with a maximum monthly contribution of Z$150,000 are withheld by employers and paid to the National Social Security Authority, together with equal amounts contributed by the employer.

D. Tax Filing and Payment Procedures

Employers withhold tax under the Pay-As-You-Earn (PAYE) system.

Under the PAYE system, remuneration paid in foreign currency is translated to local currency at the official interbank exchange rate at the date of accrual. The amount to be withheld under the PAYE system is retranslated into the currency in which the remuneration was earned, using the same exchange rate, and is payable in that currency.

Individuals employed by a single employer for a full fiscal year are taxed under the Final Deduction System and are not required to file returns unless they receive taxable income from another source.

The tax year in Zimbabwe is the calendar year. Tax returns are issued in February or March and must be filed within one month after the date of issuance. Late returns may incur penalties.

Nonresidents are generally subject to the same filing requirements as those applicable to residents, but are usually allowed 90 days to file returns.

Tax must be paid within one month after assessment. Quarterly provisional tax payment dates are prescribed by law. Transitional rules apply to the number and percentage of provisional tax payments for the 2006 tax year. For the 2006 tax year, the following are the provisional tax payment dates and percentages of estimated tax payable: 25 March 2006, 5%; 25 June 2006, 10%; 25 September 2006, 20%; 20 December 2006, 35%; 25 March 2007, 15%; and 25 June 2007, 15%. For 2007 and subsequent tax years the following are the provisional tax payment dates in the tax year and the percentages of the estimated tax payable: 25 March, 10%; 25 June, 40%; 25 September, 40%; and 20 December, 10%.

Married persons are taxed separately on all types of income.

E. Double Tax Relief and Tax Treaties

A credit is available for foreign taxes paid, limited to Zimbabwe taxes payable on the underlying foreign-source income.

Zimbabwe has entered into double tax treaties with Bulgaria, Canada, France, Germany, Malaysia, Mauritius, the Netherlands, Norway, Poland, South Africa, Sweden and the United Kingdom.

F. Temporary Entry Permits

Entry visas are required for all foreign nationals. The government of Zimbabwe issues single- and multiple-entry visas. Certain categories of visitors (specified by the immigration authorities) are automatically granted entry at the port of entry. Others are required to obtain visas before reaching the port of entry.

Visitors' Entry Certificates. Visitors' entry certificates are valid for up to six months and may be obtained on entry. This type of permit does not allow the holder to engage in any work, occupation or activity for gain, unless prior authority is given.

Student and Scholars' Permits. A student permit may be issued for the purpose of attending any educational institution other than a school. This type of permit is valid for one year from the date of issue and may be extended for additional periods.

A scholar's permit authorizes a foreign national to attend any school approved by the Chief Immigration Officer. This type of permit remains valid for a period of one school term from the date of issue and may be extended for further study. The permit remains valid automatically if the scholar remains at the same school for which the scholar's permit is issued.

The holder of a student or a scholar's permit may not engage in any gainful occupation except during school holidays.

Business Visitors' Permits. Visitors to Zimbabwe on business must enter under business visitors' permits. This type of permit is valid for six weeks and may be extended by the Chief Immigration Officer.

G. Work Permits

The assistance of expatriate experts for a relatively short period is welcome if their skills are not available locally and if the employer trains a local substitute.

Any person who wishes to engage in an occupation (including work for gain or in the interests of any business undertaking) in Zimbabwe must obtain a valid temporary employment permit (TEP). TEP holders must train Zimbabweans to develop the skills for which the foreign nationals were admitted. Applications for temporary residence permits (see Section H) must be submitted in conjunction with TEP applications.

A TEP may be issued for a maximum period of three years and may be extended for a maximum period of five years if approved by the Chief Immigration Officer.

A TEP is subject to the following conditions:
- The permit holder may not engage in any occupation other than the occupation specified;

- If the permit is issued on application by a particular employer, the holder may not take up employment with any other employer;
- The holder and all the persons authorized to enter with him or her must leave Zimbabwe on or before the expiration of the period stated in the permit; and
- The permit must be surrendered to an immigration officer before leaving Zimbabwe.

To recruit staff from outside the country, an employer in Zimbabwe must comply with the following procedures:
- Obtain TEP application forms and temporary residence permit application forms from the Department of Immigration Control.
- Submit the completed TEP application to the Chief Immigration Officer together with an offer of employment to the prospective employee. This offer should indicate the salary and conditions of service.
- Submit an application for a temporary residence permit completed by the prospective employee.

It is government policy to give Zimbabweans precedence over foreign workers; therefore, the employer must justify the employment of an expatriate rather than a Zimbabwean by submitting copies of the following documents:
- Press advertisements of the position in question;
- Letters from employment agencies indicating that no suitable Zimbabwean is available to fill the position;
- Application letters and résumés received;
- List of all applicants; and
- A cover letter from the employer indicating why none of the Zimbabwean applicants is suitable for the position.

All applicants for TEPs are referred by the Department of Immigration to the Ministry of Public Service, Labor and Social Welfare for approval.

After submission of the application to the Department of Immigration Control, the applicant should receive a letter confirming that the documents are in order and are being processed. Delays of one month or more may be expected in processing applications, depending on the volume of work in the ministries concerned. Prospective employees must remain outside Zimbabwe while applications are being considered.

On approval of the permit, the prospective employee is sent a letter confirming the application for a TEP, which must be presented to the appropriate offices of the Department of Immigration Control at least 14 days after entering the country to obtain the permit. The employee must present the following documents with the letter:
- Passport; and
- Valid radiological certificate of freedom from active pulmonary tuberculosis.

All TEP applicants must submit the following items together with the permit application:
- Two full-face photographs of the applicant, the spouse and each child younger than 18 years of age, if the spouse and children are accompanying the applicant or joining him or her later;
- A certified copy of the birth certificate of the applicant and, if applicable, of the spouse and children;

- One certified copy of the marriage certificate, if married; and
- Documentary evidence, in English, of qualifications and experience in the proposed occupation of the applicant.

H. Residence Permits

Permission to reside in the country permanently is very difficult to obtain. A residence permit for an indefinite period may be issued to any person who meets any of the following conditions:

- Is a dependent of a resident who will support the person (dependents may be any close relatives).
- Possesses substantial financial means and will invest in a business venture in Zimbabwe. The following are the investment thresholds in this category:
  - — US$100,000 if the foreign national is a professional or technical person who is involved in a joint venture with a bona fide Zimbabwean partner;
  - — US$300,000 if the foreign national wants to introduce a single venture; and
  - — US$1 million if the foreign national wants an unrestricted or indefinite permit for an investment project.
- Holds a TEP and has been resident in Zimbabwe for a continuous period of no less than five years.

I. Personal and Family Considerations

Family Members. An applicant's spouse and children younger than 18 years of age may be included under a TEP, but a separate work permit must be obtained for a working spouse.

Children younger than 18 years of age may attend school in Zimbabwe if they are included under a parent's TEP.

Marital Property Regime. The default marital property regime in Zimbabwe is a separate property system. However, couples may elect into a community property regime. Zimbabwe enforces community property claims brought between spouses married outside Zimbabwe.

Drivers' Permits. Most foreign drivers' licenses may be used in Zimbabwe for up to one year after the date of entry into Zimbabwe. After the expiration of this period, a Zimbabwean license must be obtained. The validity of the foreign license is extended to three years for expatriates entering Zimbabwe on government-to-government contracts.

If no driver's license reciprocity exists between Zimbabwe and the country that issued the foreign license, an international driver's license is necessary. An international driver's license is valid for two years after the date of entry into Zimbabwe.

To obtain a local Zimbabwean driver's license, an applicant must first obtain a provisional driver's license. The provisional license, which is valid for one year, entitles a person to drive a car with learner license plates if he or she is accompanied by a qualified driver. Possession of a foreign driver's license provides exemption from the requirement to drive with a qualified driver if the Zimbabwean provisional license is obtained within the first year of residence in Zimbabwe.

A competence test taken during the period of validity of the provisional license must be passed to obtain a driver's license.

APPENDIX 1: TAXABILITY OF INCOME ITEMS

	Taxable*	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to home country benefit plan	X	—	(a)
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(b)
Housing contribution	(X)	—	—
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Net benefit from tax paid on behalf of or reimbursed to employee	X	—	(c)
Value of hotel provided	X	—	—
Other Items			
Foreign-source personal ordinary income (interest and dividends)	—	X	—
Capital gain from sale of personal residence in home country	—	X	—
Capital gains from sale of stock in home country	—	X	—

* The bracketed amount reduces taxable income.

(a) The contributions are taxable if they are paid by the employer and if they are not recoverable from the employee.

(b) The taxable amount is the value of the benefit to the employee. In general, this value equals the market rental for employer-owned property or the actual rent paid by the employer that is not recoverable from the employee.

(c) This net benefit equals the tax paid or payable on behalf of or reimbursed to an employee less amounts recovered or recoverable from the employee or retained from the employee's other entitlements. The grossed-up taxable amount is included in taxable income. This amount equals the tax paid on behalf of or reimbursed to the employee, plus the tax on the tax paid.

APPENDIX 2: SAMPLE TAX CALCULATION

A sample calculation for 2006 is provided below for an expatriate, who is resident in Zimbabwe for all of 2006 and is married with two dependent children under 18 years old. During 2006, the expatriate received compensation equal to Z$480 million from his home country employer. The equivalent of Z$20 million of this amount was paid in Zimbabwe, the equivalent of Z$100 million was withheld for income tax, and the balance was deposited in a home-country bank account and not remitted to Zimbabwe. The individual's home-country employer also provided housing at a cost to the employer of Z$76 million. The expatriate earned dividends from home-country investments equal to Z$12 million, of which the equivalent of Z$2 million was remitted to Zimbabwe. The income tax is payable monthly under the Pay-As-You-Earn (PAYE) system. The following is the tax calculation.

	Z$	Z$
Calculation of Taxable Income		
Salary		480,000,000
Housing benefit		76,000,000
Taxable income before tax paid benefit		556,000,000
Net tax paid benefit	31,222,000 (a)	
Tax on gross tax paid benefit	17,600,517	
Gross tax paid benefit		48,822,517 (b)
Taxable income after tax paid benefit		604,822,517
Calculation of Tax Payable (c)		
Tax on first Z$480,000,000		100,800,000
Tax on Z$124,822,517 at 35%		43,687,881
		144,487,881
AIDS levy at 3% of the tax payable		4,334,636
Total tax payable		148,822,517

(a) The following is the calculation of the net tax paid benefit.

	Z$
Tax on first Z$480,000,000	100,800,000
Tax on Z$76,000,000 at 35%	26,600,000
	127,400,000
AIDS levy at 3% of the tax payable	3,822,000
Income tax payable	131,222,000
Withheld by home country employer	(100,000,000)
Net tax paid benefit	31,222,000

(b) The following calculation confirms the amount of the gross tax paid benefit shown in the example.

	Z$
Total tax payable	148,822,517
Less tax withheld by home country employer	(100,000,000)
Gross tax payable benefit	48,822,517

(c) PAYE is calculated using rates on a sliding scale. Separate calculations of PAYE are required for local currency and foreign currency earnings. PAYE on local currency earnings is computed in the normal manner using the lower rates. PAYE on foreign currency earnings is calculated on the earnings translated to local currency at the official interbank exchange rate. The PAYE computed in local currency, using the higher rates, is payable in the foreign currency in which remuneration was earned using the same exchange rate.

FOREIGN CURRENCIES

The following list sets forth the names and symbols for the currencies of jurisdictions discussed in this book.

Country	Currency	Symbol
Albania	Lek	ALL
Angola	Kwanza	Kz
Argentina	Peso	AR$
Aruba	Aruban Florin	Afl
Australia	Dollar	A$
Austria	Euro	€
Azerbaijan	Manat	AZN
Bahamas	Dollar	B$
Bahrain	Dinar	BD
Barbados	Dollar	BDS$
Belarus	Ruble	Br
Belgium	Euro	€
Bermuda	Dollar	$
Bolivia	Boliviano	Bs
Botswana	Pula	P
Brazil	Real	R$
British Virgin Islands	U.S. Dollar	US$
Brunei Darussalam	Dollar	B$
Bulgaria	Leva	BGN
Cameroon	Franc CFA	FCFA
Canada	Dollar	C$
Cayman Islands	Dollar	$
Chile	Peso	CH$
China	Renminbi Yuan	RMB
Colombia	Peso	Col$
Congo	Franc CFA	FCFA
Costa Rica	Colon	¢
Côte d’Ivoire	Franc CFA	FCFA
Croatia	Kuna	HRK
Cyprus	Pound	£
Czech Republic	Koruna	CZK
Denmark	Krone	DKK
Dominican Republic	Peso	RD$
Ecuador	U.S. Dollar	US$
Egypt	Pound	LE
El Salvador	Colon	SVC¢
Equatorial Guinea	Franc CFA	FCFA
Estonia	Kroon	EEK
Ethiopia	Birr	Birr
European Monetary Union	Euro	€
Fiji	Dollar	F$
Finland	Euro	€
France	Euro	€
Gabon	Franc CFA	FCFA

Country	Currency	Symbol
Georgia	Lari	GEL
Germany	Euro	€
Ghana	Cedi	¢
Greece	Euro	€
Guam	U.S. Dollar	US$
Guatemala	Quetzal	Q
Guernsey	Pound	£
Guinea	Guinea Franc	FG
Honduras	Lempira	L
Hong Kong	Dollar	HK$
Hungary	Forint	HUF
Iceland	Krona	ISK
India	Rupee	Rs.
Indonesia	Rupiah	Rp
Ireland	Euro	€
Isle of Man	Pound	£
Israel	New Shekel	NIS
Italy	Euro	€
Jamaica	Dollar	J$
Japan	Yen	¥
Jersey	Pound	£
Jordan	Dinar	JD
Kazakhstan	Tenge	Tenge
Kenya	Shilling	KSH
Korea (South)	Won	W
Kuwait	Dinar	KD
Latvia	Lats	LVL
Lebanon	Pound	LL
Lesotho	Maloti	M
Liechtenstein	Swiss Franc	CHF
Lithuania	Litas	LTL
Luxembourg	Euro	€
Macau	Pataca	MOP
Macedonia	Denar	MKD
Malawi	Kwacha	K
Malaysia	Ringgit	RM
Maldives	Rufiyaa	Mrf
Malta	Lira	Lm
Mauritania	Ouguiya	MRO
Mauritius	Rupee	Rs.
Mexico	Peso	P
Moldova	Leu	MDL
Monaco	Euro	€
Montenegro	Euro	€
Morocco	Dirham	DH
Mozambique	Metical	MT
Namibia	Dollar	N$
Netherlands	Euro	€
Netherlands Antilles	Guilder	ANG
New Zealand	Dollar	NZ$
Nicaragua	Cordoba	C$
Nigeria	Naira	₦
Northern Mariana Islands	U.S. Dollar	US$

Country	Currency	Symbol
Norway	Krone	NOK
Oman	Rial	RO
Pakistan	Rupee	Rs.
Palestine	None	–
Panama	Balboa	B/.
Paraguay	Guarani	G
Peru	New Sol	S/.
Philippines	Peso	P
Poland	Zloty	PLN
Portugal	Euro	€
Puerto Rico	U.S. Dollar	US$
Qatar	Rial	QR
Romania	Leu	RON
Russian Federation	Ruble	RUR
Rwanda	Franc	Frw
Saudi Arabia	Riyal	SR
Senegal	Franc CFA	FCFA
Serbia	Dinar	CSD
Seychelles	Rupee	SR
Singapore	Dollar	S$
Slovak Republic	Koruna	SKK
Slovenia	Tolar	SIT
South Africa	Rand	R
Spain	Euro	€
Sri Lanka	Rupee	Rs.
Swaziland	Lilangeni	E
Sweden	Krona	SEK
Switzerland	Franc	CHF
Syria	Pound	SYP
Taiwan	Dollar	NT$
Tanzania	Shilling	TSHS
Thailand	Baht	Baht
Trinidad and Tobago	Dollar	TT$
Tunisia	Dinar	TD
Turkey	Lira	YTL
Turkmenistan	Manat	TMM
Uganda	Shilling	U Sh
Ukraine	Hryvnia	UAH
United Arab Emirates	Dirham	AED
United Kingdom	Pound	£
United States	Dollar	$
U.S. Virgin Islands	U.S. Dollar	US$
Uruguay	New Peso	N$
Uzbekistan	Soum	UZS
Venezuela	Bolivar	Bs.
Vietnam	Dong	VND
Zambia	Kwacha	K
Zimbabwe	Dollar	Z$

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