The 2011 global executive

Individual tax, social security and immigration

Ernst & Young
Quality In Everything We Do

Preface

The Global Executive (TGE) summarizes the personal tax systems and immigration rules for expatriates in more than 150 countries. The content is based on information current on 1 January 2011, unless otherwise indicated in the text of the chapter.

Tax information

The chapters in TGE provide information on personal income tax, other taxes, social security, tax filing and payment procedures, double tax relief and tax treaties, temporary visas, work visas and permits, residence visas and permits, and family and personal considerations. TGE also contains a list of contacts for emerging markets and appendices containing tables on the taxability of income items and sample tax calculations. For the reader's reference, a chapter listing the names and symbols of the foreign currencies mentioned in the guide can be found at the end of the publication.

This publication should not be regarded as offering advice or a complete explanation of the tax matters referred to and is subject to changes in the law and other applicable rules. Also, this publication does not provide guidance on the local application of the law in practice. Local publications of a more detailed nature are frequently available, and readers are advised to consult their local Ernst & Young professionals for further information.

Each year, Ernst & Young also produces the *Worldwide Corporate Tax Guide* (WCTG), which provides summaries of corporate tax regimes in more than 150 countries, and the *Worldwide VAT, GST and Sales Tax Guide* (WVGSG), which covers value-added tax, goods and services tax and sales tax systems in more than 90 countries and the European Union.

Electronic versions of TGE, the WCTG and the WVGSG, as well as other tax guides and publications, are available on ey.com and in digital format.

Directory

Office addresses, as well as names, direct telephone numbers and email addresses of international executive and expatriate tax and immigration contacts, are provided for the Ernst & Young member firms in each country. Certain countries also list their International High Net Worth Group contacts. These contacts are professionals who focus on specific planning for individuals who have significant personal wealth.

The international telephone country code is listed in each country heading and, if presented as part of a telephone or fax number, is preceded by a plus sign (+). Telephone and fax numbers are presented without the domestic prefix (1, 9, or 0) sometimes used within a country.

Ernst & Young
August 2011

About Ernst & Young's Tax services

Your business will only achieve its true potential if you build it on strong foundations and grow it in a sustainable way. At Ernst & Young, we believe that managing your tax obligations responsibly and proactively can make a critical difference. Our global teams of talented people bring you technical knowledge, business experience and consistent methodologies, all built on our unwavering commitment to quality service — wherever you are and whatever tax services you need.

Effective compliance and open, transparent reporting are the foundations of a successful tax function. Tax strategies that align with the needs of your business and recognize the potential of change are crucial to sustainable growth. So we create highly networked teams who can advise on planning, compliance and reporting and maintain effective tax authority relationships — wherever you operate. You can access our technical networks across the globe to work with you to reduce inefficiencies, mitigate risk and improve opportunity. Our 25,000 tax people, in over 135 countries, are committed to giving you the quality, consistency and customization you need to support your tax function. It's how Ernst & Young makes a difference.

Contents

Ernst & Young Global Tax contacts

London	GMT

Ernst & Young Global
Becket House
1 Lambeth Palace Road
London SE1 7EU
England

+44 20 7980 0000
Fax: +44 20 7980 0275 (Tax)

Ernst & Young Global Tax

Mark A. Weinberger, *Global Vice Chairman – Tax*
Washington, D.C.: +1 202 327 7720
London: +44 20 7980 0455
Mobile: +1 202 744 1998
Efax: +1 866 851 6680
Fax: +1 202 327 6718
Email: mark.weinberger@ey.com

Area tax leaders

Americas

Kate J. Barton
New York: +1 212 773 8762
Boston: +1 617 585 6820
Mobile: +1 617 230 1500
Efax: +1 866 854 9928
Email: kate.barton@ey.com

Asia-Pacific

Michael Sanders
+852 2629 3708
Mobile: +852 6852 5301
Efax: +852 3753 8808
Email: michael.sanders@hk.ey.com

Europe, Middle East, India and Africa

Stephan Kuhn
+41 58 286 44 26
Mobile: +41 58 289 44 26
Fax: +41 58 286 31 44
Email: stephan.kuhn@ch.ey.com

Japan

Kenji Amino
+81 3 3506 2164
Mobile: +81 80 1394 9144
Fax: +81 3 3506 2412
Email: kenji.amino@jp.ey.com

Global Tax Center leaders

Paul Antrobus, *Global Tax – People Leader*
+420 225 335 811
Mobile: +420 731 627 015
Fax: +420 225 335 222
Email: paul.antrobus@cz.ey.com

Mark Goudsmit, *Global Leader – Tax Quality & Risk Management*
+44 20 7980 0074
Mobile: +31 6 2908 3420
Fax: +44 20 7980 0275
Email: mark.goudsmit@nl.ey.com

David Holtze, *Global Chief Operating Officer – Tax*
+44 20 7980 0019
Mobile: +44 7825 938 783
Fax: +44 20 7980 0275
Email: david.holtze@uk.ey.com

James D. Miller,
Director – Global Tax Finance and Infrastructure
+44 20 7951 4547
Mobile: +44 7768 818 456
Fax: +44 20 7980 0275
Email: jim.miller@uk.ey.com

Aidan O'Carroll,
Global Leader – Tax Markets
+44 20 7980 0789
Mobile: +44 7768 911 551
Fax: +44 20 7980 0275
Email: aidan.o'carroll@uk.ey.com

Diana Peltier,
Director – Global Tax Communications
+1 202 327 7807
Mobile: +1 301 848 8353
Efax: +1 866 210 0728
Email: diana.peltier@ey.com

Global Tax Subservice Lines

Business Tax Services

Jim Hunter,
Global Director
+44 20 7980 0989
Mobile: +44 7717 158 404
Fax: +44 20 7980 0275
Email: jim.hunter@uk.ey.com

Human Capital

Dina A. Pyron,
Global Director
New York: +1 212 773 7667
Houston: +1 713 750 8816
Mobile: +1 713 818 9847
Efax: +1 866 543 6963
Fax: +1 212 773 2722
Email: dina.pyron@ey.com

Indirect Tax

Philip Robinson,
Global Director and Europe, Middle East, India and Africa Indirect Tax Leader
Mobile: +41 58 289 31 97
Email: philip.robinson@uk.ey.com

International Tax Services

James J. Tobin,
Global Director
+1 212 773 6400
Mobile: +1 917 365 9466
Efax: +1 866 862 1314
Email: james.tobin@ey.com

Transaction Tax

Aidan Stokes,
Global Director and Europe, Middle East, India and Africa Transaction Tax Leader
+44 20 7980 0046
Mobile: +44 7769 672 519
Fax: +44 20 7980 0275
Email: aidan.stokes@uk.ey.com

Editor – The Global Executive

Ronald Anes
+1 732 516 4551
Efax: +1 866 863 4590
Email: ronald.anes@ey.com

Afghanistan

(Country code 93)

Kabul **GMT +4½**

Ernst & Young
Ford Rhodes Sidat Hyder & Co.
Afghanistan mail address:
Park Plaza, 2nd Floor
Torabaz Khan Road
Shehre Nou, Kabul
Afghanistan

Street address:
Park Plaza, 2nd Floor
Torabaz Khan Road
Shehre Nou, Kabul
Afghanistan

Executive and immigration contacts

Nasim Hyder *(resident in Karachi, Pakistan)*	+92 21 3565 0007 11 Fax: +92 21 568 1965 Email: nasim.hyder@pk.ey.com
Salman Haq *(resident in Karachi, Pakistan)*	+92 21 3565 0007 Email: salman.haq@pk.ey.com
Basheer Juma *(resident in Kabul, Afghanistan)*	(75) 205-5025 Email: basheer.juma@pk.ey.com

A. Income tax

Who is liable. Taxation in Afghanistan is based on an individual's residential status for tax purposes. In general, tax residents of Afghanistan are taxed on their worldwide income, while nonresidents are taxed on their Afghan-source income only. However, a nonresident person may be exempt from income tax in Afghanistan if the person is from a foreign country that grants a similar exemption to Afghan residents based in that country.

An individual is considered to be a tax resident of Afghanistan if any of the following three conditions are met:

- The person has his or her principal home in Afghanistan at any time during the tax year.
- The person is present in Afghanistan for a period aggregating 183 days in a tax year (21 March to 20 March).
- The person is an employee or official of the government of Afghanistan and has been assigned to perform services abroad at any time during the tax year.

Income subject to tax

Employment income. Income from salary is Afghan-source income if it is attributable to employment exercised in Afghanistan. No exceptions exist. As a result, all cash and noncash benefits received with respect to employment in Afghanistan may be considered taxable.

Business income. All residents and nonresidents who are engaged in economic, service or business activities are taxed on their business income.

Natural persons who engage in business activities and meet both of the following conditions are subject to fixed tax:

- Their income is neither exempt nor subject to withholding tax.
- Their total gross income is less than Afs 3 million for the tax year.

Natural persons who have total income of less than Afs 60,000 from all sources, including business activities, are exempt from fixed tax.

The following are the rates of the fixed tax.

Gross income Exceeding Afs	Not exceeding Afs	Annual amount of tax
0	60,000	0
60,000	150,000	Afs 2,000 (paid in equal quarterly installments)
150,000	500,000	Afs 8,000 (paid in equal quarterly installments)
500,000	3,000,000	3% of gross income, or income tax and business receipt tax (BRT; see below)

A person who is required to pay 3% tax on gross income received may elect to pay BRT (see Section B) and annual income tax under the normal tax regime. The election to pay income tax and BRT is irrevocable for a period of three years.

All natural persons who meet the conditions described above are required to file an income tax return.

Investment income. In general, dividend, interest and royalty income derived by nonresident natural persons is subject to a final tax of 20%, which is withheld at source. For resident individuals, this tax is treated as advance tax that may be credited against the eventual tax liability of the taxpayer.

Any gain derived from the sale, exchange, or transfer of assets is treated as taxable income.

Entertainment income. Income derived from entertainment exhibitions such as movies, radio or television, music, sport competitions and other similar activities, is subject to a 10% fixed tax.

Rental income. Income derived from the renting or leasing of tangible property owned by natural persons is subject to income tax that is withheld at source. The tax withheld is treated as advance tax, which may be credited against the taxpayer's final tax liability calculated using the normal income tax rates (see *Rates*).

Payments of rent by natural persons with respect to immovable property used for commercial, industrial and other economic purposes are subject to withholding tax at a rate of 10% or 15%, depending on the amount of the monthly rent.

Other income. Income from prizes, rewards, lotteries, gratuities, bonuses and service charges is subject to a final withholding tax at a rate of 20%.

Exempt income. The following types of income are not subject to tax in Afghanistan:
- Grants, gifts and awards of the state, foreign governments, international organizations or nonprofit organizations, for contribution to science, art, literature, social progress or international understanding

- Scholarships, fellowships, and other grants for professional and technical training
- Health, accident, and unemployment insurance benefits and life insurance paid on death
- Compensation or damages for personal injuries or sickness or restitution of reputation
- Proceeds of borrowing and proceeds from stocks and bonds issued by companies
- Acquisition of assets in connection with mergers of domestic corporations and other legal persons
- Acquisition of movable or immovable property through expropriation of property of debtors
- Payments on principal received from debtors
- Interest on bonds issued by the state or municipalities
- Income representing self-consumption of food, fuel or other goods by the producer or by members of their household
- Pensions of government employees
- Any other receipts according to the provisions of the law

Taxation of employer-provided stock options. Employer-provided stock options are taxed at the time the options are exercised. The taxable amount is the difference between the market value of the shares on the date of issuance and the amount paid by the employee.

Capital gains and losses. Gains derived from the sale of capital assets used in business, including depreciable assets, shares of stock, trades or businesses, are taxed at the normal individual tax rates provided in *Rates*. However, capital gains derived from the sale, exchange or transfer of such assets held for more than 18 months are subject to tax at special rates. The special rate is calculated based on the average tax rate derived from distributing the gain equally over the holding period with 2% being the lowest rate.

If a natural person transfers an immovable or movable personal asset, the price received or receivable from such transfer is subject to a 1% tax at the time of transfer of ownership of the property. This fixed tax is imposed instead of income tax. This measure does not apply to capital gains derived from the sale or transfer of movable or immovable property acquired by inheritance. Such capital gains are not subject to tax.

Capital losses may offset capital gains only.

Partnerships. General and special partnerships are treated as flow-through entities with partners being taxed on their share of profits at the applicable individual tax rates. However, limited liability companies are taxed as corporations, and their distributions are treated as dividends for tax purposes.

Deductions

Deductible expenses. Expenses of production, collection and preservation of income are allowed as deductions from business income if these expenses have been incurred during the tax year or one of the preceding three years. The following is a list of deductible expenses:

- Rent paid on leased property used for the purposes of the business
- Noncash benefits provided to employees if the providing of the benefits is directly related to the employer's business

- Losses of property used for the production, collection, or preservation of income, resulting from fires, earthquakes, casualties or any disasters to the extent that such losses are not reimbursed by insurance
- Premiums paid for insurance of property

Nondeductible expenses. The following personal expenses are not deductible:
- Costs and expenses incurred in providing benefits for owners, officers and management that are not necessary for the conduct of business
- Payments made to persons for their own benefit or enjoyment or their family's benefit and enjoyment
- Costs of maintenance, repair, construction, improvement, furnishing, and other expenses with respect to the taxpayer's family house or residence or any property devoted to the taxpayer's own personal or family use
- Interest on personal loans
- Costs of commuting to and from work and cost of travel for personal purposes
- Cost of life, accident, health, and liability insurance for the protection of the taxpayer and his or her family
- Cost of any type of insurance for the protection of property used for personal purposes

Rates

The following tax rates apply to income derived by individuals.

Taxable income		Tax on lower amount	Rate of tax
Exceeding Afs	Not exceeding Afs	Afs	%
0	60,000	0	0
60,000	150,000	0	2
150,000	1,200,000	1,800	10
1,200,000	—	106,800	20

Withholding tax. All natural persons who employ two or more employees are required to withhold taxes from salaries and wages paid.

The tax withheld must be deposited together with the Report of Tax Withholding and Bank Deposit Form for Employers into an account determined by the Ministry of Finance (MoF) no later than 10 days after the end of the month in which the amounts are withheld.

For information regarding other withholding, see *Income subject to tax*.

Relief for losses. Business losses of approved and registered enterprises are entitled to carry forward the net operating loss to offset profits of subsequent years until the losses are fully offset.

Credits. Foreign tax credits are generally available if foreign tax is paid on foreign-source income.

If a resident person derives income from more than one foreign country, he or she may claim a foreign tax credit against the tax on his or her foreign-source income from each country. The foreign tax credit for each country is proportionate to the foreign-source income derived from that country as compared to worldwide income. A foreign tax credit is available in full.

B. Business receipt tax

Natural persons who have business income of Afs 3 million or more per year are subject to a 2% business receipt tax (BRT). BRT is imposed on the total income (gross receipts) received before any deductions. The following exceptions apply:

- Hotels, guest houses and restaurants that have total income of more than Afs 3 million per year are subject to BRT at a rate of 5%.
- All clubs and halls are subject to BRT at a rate of 5%.
- Telecommunication, airline services, hotels and restaurants providing premium services are subject to BRT at a rate of 10%.

BRT paid is deductible in calculating taxable income.

C. Tax filing and payment procedures

Tax Identification Number. All natural persons who are liable to pay tax or custom duties must have a Tax Identification Number (TIN).

A TIN can be obtained by requesting an application form from the MoF or a *mustofiat* office that has a TIN office located on the premises.

Income tax returns. The tax year in Afghanistan for all natural persons is from 21 March to 20 March.

All natural persons who are subject to income tax must file a detailed tax return and balance sheet and submit it to the relevant tax office by the end of the third month of the following year (that is by 21 June of the following tax year).

Taxpayers who are subject to income tax, but are exempt from tax under an international agreement or treaty, must file an income tax return reflecting the effect of the exemption. The relevant agreement or portion of the treaty must be attached to the tax return together with an explanation as to why the agreement or treaty applies.

All residents and nonresidents who intend to leave the country, and who will be out of the country when their tax return is due must prepare and file their tax return two weeks before departing the country.

Tax payments. Taxpayers who are subject to fixed tax are required to pay their tax quarterly by the 15th day of the month following the end of each quarter.

The income tax (or any tax instead of income tax) on shows, exhibitions, theaters, cinemas, concerts and sports must be paid by the 15th day of the following month. If the shows are not continuous, income tax must be paid after the end of each show.

Any income tax payable must be paid when the return is filed.

Business license. All nonresidents planning to conduct business activities in Afghanistan must obtain a business license from the Afghanistan Investment Support Agency (AISA).

The license needs to be renewed every year. The license may be renewed on the filing of the annual return and obtaining a clearance certificate. The applicant or an authorized representative must be personally present at the office of AISA to complete the license registration process.

D. Bilateral agreements

A bilateral agreement between Afghanistan and the United States exists in the form of Diplomatic Notes exchanged between the countries. Under the Diplomatic Notes, tax exemption is provided to the U.S. government and its military, contractors and personnel engaged in activities with respect to the cooperative efforts in response to terrorism, humanitarian and civic assistance, military training and exercises, and other activities that the U.S. government and its military may undertake in Afghanistan.

Military and technical agreements have also been entered into with International Security Assistance Forces (ISAF), which allow similar exemptions.

Exemptions available under these agreements are subject to private rulings obtained from the MoF. In addition, the agreements generally do not provide exemptions from the obligation to withhold tax from all payments to employees, vendors, suppliers, service providers, lessors of premises and other persons, as required under the local tax laws.

E. Visas

To promote domestic and foreign investment, the Afghan government has begun implementing a policy to strengthen and consolidate its relations with the international community. To carry out this policy, Afghanistan has introduced various types of visas. Details regarding the various types of visas issued by Afghanistan are provided below.

Business visa. An entry visa is issued for business, economic, commercial, cultural, industrial purposes and for employment with nongovernmental organizations. A single-entry visa is used to obtain a work permit visa, followed by a multiple-entry or stay visa. A business visa can be obtained from the Consulate Section of the Afghan Ministry of Foreign Affairs. The employer or sponsor must directly contact the relevant department of the Ministry of Foreign Affairs. To obtain the visa, the following documents must be submitted:
- Complete visa application form
- Two recent passport-size photos (size of ¾ centimeter)
- Valid passport, with a remaining validity period of at least six months
- Employment letter or a letter of introduction from the employer/sponsor stating the purpose and duration of the individual's stay
- Visa processing fee (usually payable in local currency)
- *Curriculum vitae* (CV) of employee
- Copy of educational certificates

A short interview may also be required.

Tourist visa/visit visa. A tourist visa/visit visa is issued for foreign nationals who intend to travel to Afghanistan individually or with a group for the purpose of touring Afghanistan or visiting their relatives. Afghan missions issue this type of visa. This type of visa is valid for one month, which can be extended only once by the Ministry of Interior with the agreement of the Afghan Tourism Organization.

Work permit visa. A work permit visa is usually issued to foreign nationals who are interested in working in Afghanistan. The

Ministry of Labor and Social Affairs issues a work permit visa for a normal fee of US$150. The following documents must be submitted with respect to an application for a work permit visa:

- Application for work permit on company letterhead
- Original passport and entry visa
- Original educational certificates (attested by foreign office of individual's country)
- Employee job description
- Copy of invitation letter from the employer that was sent for entry visa
- Four latest passport-size photographs of employee
- Color photocopy of passport of employee, including pages with picture and particulars of the passport holder
- Copy of registration certificate of company or firm registered in Afghanistan or with AISA (original must be ready for presentation at all times)
- Contract letter with Ministry of Labor and Social Affairs (this is a pro forma contract available at all ministries)

Resident visa. The Ministry of Interior issues resident visas to foreign nationals holding ordinary passports who have already entered Afghanistan with a proper visa. The validity of this type of visa is from one month to six months and can be extended.

Diplomatic visa. The diplomatic visa is issued to diplomatic passport holders who intend to travel to Afghanistan. Diplomatic passport holders can obtain this type of visa from the Afghan missions abroad. However, they must contact the Section of Diplomatic Passport and Diplomatic Visa of the Afghan Ministry of Foreign Affairs directly through their mission in Kabul.

Exit visa. An exit visa is issued to the foreign nationals who have entered the country with a work permit visa. The validity of this type of visa is one to six days. In some circumstances, its duration can be extended. All Afghans with dual citizenship are required to obtain a visa exception letter from Afghan embassies or consulates abroad.

Other information and regulations. The Ministry of Foreign Affairs strongly recommends all visitors extend their visa prior to expiration, if they wish to stay longer than the permitted duration. If the visa is not extended by the expiration date, a penalty of US$2 for each day during the first 10 days of the delay is imposed on the holder of the passport, and a penalty of US$4 per day is imposed for the next 10 days of the delay (the penalty can be paid at ports). If the delay is more than 30 days, an additional penalty of US$10 per day is imposed, and the holder is deported.

Visitors are strongly recommended to register with their embassy in Kabul, the local Afghan Police Department and the Afghan Tourist Organization (if the visit is for tourism purposes only) on arrival.

Albania

(Country code 355)

Tirana	**GMT +1**

Ernst & Young
Dibra Str. “Observator” Building
7th Floor
1001 Tirana
Albania

Executive and immigration contacts

Dr. Alexandros Karakitis	(4) 241-9571, Ext.111 Email: alexandros.karakitis@al.ey.com
Anisa Jasini	(4) 241-9575, Ext.131 Email: anisa.jasini@al.ey.com

Albania is in transition from a direct-command economy to a free-market economy, and new commercial laws, rules and regulations are being adopted. The government of Albania is proposing an economic restructuring of the country. As a result, many of the past laws, rules and regulations are being reviewed, modified or superseded. Because the tax and other legislation in Albania is still evolving and is subject to change and because of the lack of established tax precedents, it is difficult to predict the tax results of transactions with the same confidence that could be expected in many other European countries. For these reasons, readers should obtain updated information and seek professional advice before engaging in transactions.

A. Income tax

Who is liable. Individuals who are resident in Albania are subject to tax on their worldwide income. Nonresidents are subject to tax on income derived from Albania sources only.

The following individuals are considered resident for tax purposes in Albania:
- Individuals who have a permanent residence, family or vital interests in Albania.
- Albanian citizens serving in a consular, diplomatic or similar position outside Albania.
- Individuals who reside in Albania consecutively or nonconsecutively for at least 183 days during a tax year, regardless of their nationality or country of vital interests. The calculation of the residence period in Albania includes all of the days of physical presence, including holidays.

Residents of the countries with which Albania has entered into double tax treaties regarding income and capital may benefit from the provisions in such treaties.

Income subject to tax. Individuals are subject to tax on the following types of income:
- Employment income
- Self-employment income
- Dividends
- Interest from bank deposits and securities
- Royalties
- Income from rentals and leases of real property and loans
- Income derived from transfers of ownership rights over immovable property
- Income derived from transfers of quotas and shares
- Income derived from gambling and other games of chance
- Other income

These categories of income are described below.

Employment income. Employed persons are subject to income tax on remuneration and all benefits received from employment. Employment income includes the following:
- Salaries, wages, allowances, bonuses, and other remuneration and benefits granted for services rendered in a public office or in private employment
- Directors' fees

Self-employment income. Self-employed individuals must register as individuals with the Commercial Register for tax purposes. Income derived by individuals from independent professional services and self-employment activities that generate more than ALL 2 million are subject to tax at a rate of 10%. The tax base equals the difference between total gross income and total deductible expenses.

Small businesses that generate annual turnover of up to ALL 2 million are subject to a fixed tax obligation that varies according to the type of business activity and the location of the business. The following table provides the annual small business tax rates for businesses located in the municipalities of Durres and Tirana.

Type of activity	Tax (ALL)
Retail sales	45,000
Wholesale	45,000
Production	33,000
Services	25,000
Independent professional services and self-employment	38,000
Mobile sales (sales by ambulatory merchants)	8,000

Dividends. Dividends received by individual shareholders or partners in commercial companies are subject to tax.

Amounts received for decreases in the total of participation quotas or capital withdrawals by partners or owners of initial capital are considered dividends received and are taxed to the extent that the amounts are paid out of the company's capitalized profits and not from contributions in cash or in kind by the owners.

Interest from bank deposits or securities. Bank interest and interest on securities, other than interest generated from government treasury bills or other securities, issued before the law "On income tax" entered into force in 1999, are included in taxable income.

Royalties. Royalties (intellectual ownership payments) are considered to be income generated from the use of, or the right to use, literature, artistic or scientific works, including movies, tapes, radio records, patents, trademarks, sketches or models, designs, secret formulas, technological processes and industrial, commercial or scientific information.

Income from rentals and leases of real property and loans. Income from rentals and leases of real property and loans includes any periodic compensation in cash or in kind that an individual generates from the leasing of real estate and lending of replaceable items (for example, funds).

Income derived from transfers of ownership rights over immovable property. The taxation of income derived from transfers of ownership rights over immovable property is discussed in *Capital gains*.

Income derived from transfers of quotas or shares. The taxation of income derived from transfers of participation quotas or capital shares is discussed in *Capital gains*.

Income derived from gambling and other games of chance. The payer of income from gambling and other games of chance must withhold a 10% tax and remit it to the tax authorities within 24 hours after making the payment.

Other income. Other forms of income include all types of income that are not identified in the categories mentioned above. This category includes the following:
- Income from sponsoring (for example, individuals not registered with tax bodies receive sponsoring from different sources and use the sponsorship for artistic or sports activities).
- Income from professional activities, including teaching, training and publishing articles in newspapers if the beneficiary is not registered with tax bodies and if such activities are of a temporary or secondary character.
- Income realized from collecting and selling metals.
- Cash contributions to share capital. Such contributions are taxable if they have not yet been taxed or if no sufficient evidence exists that they originate from sources that are excluded from the scope of Albanian taxation or that they are exempt from tax for other reasons.

Exempt income. The following types of income are exempt from personal income tax:
- Income received from obligatory and voluntary schemes for life, social and health insurance and allowances for families or individuals with no or low income.
- Awards up to the limit specified in the law, regardless of the source of the payment.
- Allowances received for diseases or disasters, up to 20% of the annual employment income earned by the recipient of the allowances.
- Benefits in cash or in kind granted to former landowners as remuneration for the dispossession required by the government for the public interest. This exemption must be proven by legal documentation explaining the nature of the income.
- Compensation for damages received from insurance companies.
- Income in kind, such as food (antidotal), received from businesses that are allowed to pay such income under the law.
- Income excluded by international agreements approved by the Albanian parliament.
- Indemnities received by former political prisoners.

Taxation of employer-provided stock options. No specific rules in Albania govern the tax treatment of employer-provided stock options. Stock options are subject to personal income tax at the moment of exercise.

Capital gains

Transfers of ownership rights over immovable property. Capital gains derived from disposals of real estate are subject to tax. The tax base equals the amount by which the sale price exceeds the acquisition cost. For real estate transfers, the sale price taken into account may not be less than the "reference price" for such property. For this purpose, the "reference price" is the objective value per meter in the relevant area, as indicated in the reference table published by the Albanian Institute of Statistics for the main Albanian cities.

Transfers of quotas or shares. Capital gains derived from transfers of participation quotas or capital shares include income from sales of quotas owned by partners in businesses or partnerships, income from sales of shares and income from sales or liquidations of businesses. The tax base is equal to the following:

- Shares: difference between the sales value of the shares and nominal value or the purchase value
- Capital participation quotas: difference between the sales value and nominal value or the purchase value
- Liquidation: difference between the sales value or liquidation value of a business and book value

Capital losses. Capital losses are not deductible for tax purposes.

Deductible expenses. In general, the gross amount of income is subject to tax and deductions do not apply.

Rates

Employment income. For 2011, wages, salaries and compensation relating to employment are taxed at the rates set forth in the following table.

Monthly taxable income		
Exceeding ALL	Not exceeding ALL	Rate
0	10,000	0%
10,000	30,000	10% of amount above ALL 10,000
30,000	—	10% of total taxable income

The tax is withheld by the employer and the employee is not required to file a tax return reporting this income.

Other types of income. Albanian resident entities, government institutions and other specified entities must withhold a 10% tax from all other types of income. This tax is considered to be a final tax. For a discussion of the types of income subject to tax in Albania, see *Income subject to tax*. An individual must file a personal income tax return for any income that has not been taxed at source, including self-employment income, income from rentals and leases of real property and loans, royalties and foreign-source income.

B. Other taxes

Annual Real Estate Tax. Annual Real Estate Tax (ARET) is imposed annually on all completed buildings based on the area in square meters of the building for each floor of the building above and below the ground. The annual tax ranges from ALL 5 to ALL 200 per square meter, depending on the municipality where the property is located. The annual tax is ALL 200 per square meter for buildings located in the municipalities of Durres and Tirana.

Tax on hotel accommodation. The tax on hotel accommodation equals 5% of the accommodation price and is payable in the municipality or the commune by the fifth day of the following month.

Annual registration tax on vehicles. Annual registration tax on vehicles is levied at a rate of ALL 600 to ALL 8,000 per year.

Tax on environment and waste control. The tax on environment and waste disposal is determined at the municipality level. It is payable by individuals and legal entities residing or performing economic activity in the municipality.

C. Social security

Employers and employees contribute to a social security fund a percentage over the calculated monthly salary. The total contribution is 27.9%, of which 16.7% is paid by the employer, and 11.2% is paid by the employee. The contribution consists of a social security contribution of 24.5% and a health security contribution of 3.4%. The contribution is calculated on the monthly salary, from a minimum amount of ALL 18,000 to a maximum amount of ALL 84,100. The contribution must be paid to the tax authorities by the 20th day of the following month.

Self-employed persons must pay a contribution of 30% calculated on the amount exceeding the minimum amount of salary, which is ALL 16,820.

D. Filing and payment procedures

The tax year in Albania is the calendar year.

Employers must withhold personal income tax from wages and compensation paid, and they must pay the withholding tax to the tax administration by the 20th day of the following month. Employers must maintain records of payments in accordance with instructions issued by the Ministry of Finance.

Individuals earning income subject to personal income tax during the tax year must file a declaration with the tax administration of the relevant jurisdiction by 30 April of the following year, unless the tax liability has been settled through tax withholding. Individuals earning less than ALL 800,000 can deduct expenses on social security, education loans and medical care.

E. Double tax relief and tax treaties

Tax treaties. Albania has entered into double tax treaties with the following jurisdictions.

Austria	Hungary	Poland
Belgium	Italy	Romania
Bosnia-Herzegovina	Kosovo	Russian Federation
Bulgaria	Latvia	Serbia and Montenegro
China	Lithuania	Slovenia
Croatia	Macedonia	Spain
Czech Republic	Malaysia	Sweden
Egypt	Malta	Switzerland
France	Moldova	Turkey
Greece	Netherlands	
	Norway	

Albania has signed tax treaties with Estonia, Germany, Ireland, Kuwait, Luxembourg and Singapore, but these treaties have not yet entered into force.

Foreign tax credit. Resident taxpayers may credit the foreign income tax paid in other countries on the income realized in such countries. The amount of the foreign tax credit may not exceed the amount of tax calculated for Albania.

F. Entry visas

Albania issues the following temporary visas:
- Tourist visas, which are issued to foreign tourists who visit Albania for tourism or similar purposes. These visas are issued for up to six months. Holders of tourist visas may not undertake employment or engage in any profit-seeking activities.
- Study visas, which are issued to foreigners who intend to attend courses or universities in Albania. The term of the visa depends on the studies.
- Work visas, which are issued to foreigners who will engage in business activities in Albania.
- Medical visas, which are issued to foreigners who will perform medical visits or seek medical treatment in Albania.
- Transit visas, which permit a visit of 48 hours or a transit passage. Holders of transit visas may not undertake employment or engage in any profit-seeking activities.
- Visas for 72 hours, which are issued to foreign citizens who are required to make a prior application for a visa but who, for a valid reason, cannot present a visa to customs. Within the 72-hour period, foreign citizens may make an application to obtain another type of visa.

G. Work permits

The Labor and Social Issues Ministry is in charge of the policies for the employment of foreign citizens. Work permits are issued to foreigners by local institutions (labor office, sector of immigration) and the Directory of Immigration in Labor and Social Issues.

Various types of work permits are issued. Foreigners may apply for a type A/P work permit if they have legally entered Albania, fall in the list eligible for this type of visa and have regular employment contracts. To obtain a Type A/P work permit, the following documents must be submitted:
- Application form
- Passport (expiration date at least three months after the visa expiration date)
- Copy of passport information regarding generalities and other important information
- Individual employment contract or secondment contract between the foreign entity, the local entity and the individual employee
- If the above documents are filed by an authorized party instead of the individual, an authorization signed by the individual
- University degree certificate
- Five passport-size pictures
- Receipt for fee payment (ALL 6,000)

H. Residence permits

The duration of a residence permit may be three months, six months, one year, five years or permanent. Residence permits with the first three periods of duration can be renewed up to three consecutive times. Foreigners may apply for a five-year residence permit if they have had a legal residence in Albania for two consecutive years and have a permanent activity. To obtain a residence permit, the following documentation must be submitted:

- Application form
- Passport (valid for at least three months after the expiration date of the visa)
- Copy of passport information regarding generalities and other important information
- Criminal Records Clearance of the individual extracted in the last six months
- Rent or purchase contract for an apartment or house in Albania
- Personal/Family Certificate translated in Albanian, released in the last six months
- Two passport-size pictures
- Declaration from the host or employer about the purpose of stay
- Photocopy of the work permit or the professional license
- Medical report (for citizens of and coming from countries affected by epidemics)
- Fee payment receipt

The amount of the application fee depends on the duration of the resident permit. The following are the amounts of the fee.

Duration of permit	Fee
3 months	ALL 5,000 + document charge
6 months	ALL 5,000 + document charge
1 year	ALL 10,000 + document charge
2 years	ALL 15,000 + document charge
Permanent	ALL 25,000 + document charge

I. Personal and family considerations

Marital property regime. A court may require one of the ex-spouses to pay a contribution to the other spouse to compensate for the inequality of the divorce. The court decides whether the contribution will be a lump-sum amount or a periodic amount and how the contribution will be paid. The contribution is determined according to the needs of the beneficiary ex-spouse and the income of the other spouse. The duration of the compensation is also determined by the court in accordance with the needs of the ex-spouse.

In making the above determination, the court takes into consideration the following:

- Age and medical condition of the ex-spouses
- Time spent and expenses for children's education
- Professional education of the ex-spouses
- Current and future rights of the ex-spouses
- Capital or income of the ex-spouses after the divorce

If the house is the property of one of the ex-spouses and if the other ex-spouse does not own a house, the court may decide to permit the usage of the house by the other ex-spouse in the following cases:

- The other ex-spouse has custody of the children.
- The divorce is requested by the ex-spouse who is the owner of the house.

The court decides the duration of usage and the rent to be paid to the owner of the house based on the ex-spouse's income. If the other ex-spouse remarries, he or she loses the right to use the house.

Forced heirship. Albanian succession law provides for forced heirship for children under 18, and disabled dependants.

Drivers' licenses. Expatriates with valid residence permits may drive legally in Albania with their home-country drivers' licenses if their home-country licenses are valid and if they have official translations of their licenses into Albanian or English.

Appendix 1: Taxability of income items

	Taxable	Not taxable	Comments
Compensation			
Base salary	X	—	(a)
Business travel expenses	—	X	(b)
Travel allowances	—	X	(c)
Directors' fees	X	—	—
Other items			
Self-employment	X	—	—
Personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of immovable properties	X	—	—
Capital gains	X	—	—
Royalties	X	—	—

(a) Employment income includes the basic wage and all the permanent increments added to the basic wage, including a seniority bonus, and additional payments and allowances because of a strenuous job, distance from the workplace or special nature of the work or services, as well as other allowances. Further allowances include all income or remuneration arising from the individual's employment. All further allowances are taxed in the respective month in which they are added to the salary.
(b) Business travel expenses must be substantiated by the relevant service days inside or outside Albania and must be justified by the relevant travel documents, such as transport tickets and passports (showing exit and entry stamps from Albania).
(c) For travel within Albania, travel allowances include per diems not exceeding the limit of ALL 3,000 per whole service days and ALL 1,000 per half-service days. For travel outside Albania, the per diems may not exceed €60 per whole service days and €30 per half-service days.

Appendix 2: Sample tax calculation

The following is a sample tax calculation for a month in 2011.

	ALL
Calculation of taxable income	
Monthly gross remuneration	70,000
Taxable income	70,000
Calculation of tax	
Withholding tax (income tax): (ALL 70,000 at 10%)	7,000
Social security and health insurance premium for the employee (11.2% of ALL 70,000)	7,840
Total of tax and social security premium	14,840
Monthly net salary: (ALL 70,000 – ALL 14,840)	55,160

Angola

(Country code 244)

Luanda	GMT +1

Ernst & Young
Avenida 4 de Fevereiro
95 – 2nd Floor
Luanda
Angola

Executive contacts

António Neves		+351 217 912 249
(resident in Lisbon)		Fax: +351 217 957 592
		Email: antonio.neves@pt.ey.com
Alexandre Fernandes		222-371-390/461
	Lisbon:	+351 217 912 295
		Fax: 222-336-295
	Lisbon fax:	+351 217 957 592
		Email: alexandre.fernandes@pt.ey.com

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 compensation is paid by an Angolan entity or 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*). In certain cases, business income is subject to Industrial Tax (corporate income tax).

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, interest on bonds and royalties are taxed at a rate of 10%.

Deductions

Deductible expenses. No deductions from employment income are allowed, except for social security contributions.

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
- 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 Exceeding Kz.	Not exceeding Kz.	Tax on lower amount Kz.	Rate on excess %
0	25,000	0	0
25,000	30,000	0	5
30,000	35,000	250	6
35,000	40,000	550	7
40,000	45,000	900	8
45,000	50,000	1,300	9
50,000	70,000	1,750	10
70,000	90,000	3,750	11
90,000	110,000	5,950	12
110,000	140,000	8,350	13
140,000	170,000	12,250	14
170,000	200,000	16,450	15
200,000	230,000	20,950	16
230,000	—	25,750	17

Individual business owners receiving salary income are taxed at a flat rate of 20%.

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 Industrial Tax (corporate income tax) rate of 35%.

Capital losses may not be carried forward or back. However, under the Industrial Tax, tax losses may be carried forward for three years.

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, which is determined based on charged or deemed rent.

Property transfer tax. Property transfer tax is levied at rates ranging from 2% to 10% with respect to transfers of immovable property, including long-term leases (20 years or more).

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.

Employees working transitorily in Angola are not required to make social security contributions if they can prove that they are covered by the social security system in another country.

Self-employed persons are subject to social security contributions based on a predefined monthly notional salary. The rate of the contributions is 8%, but it may be increased to 11% if additional benefits are covered.

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 under a Pay-As-You-Earn (PAYE) system, 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.

E. Tax treaties

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

Argentina

(Country code 54)

Buenos Aires	**GMT -3**

Ernst & Young – Pistrelli, Henry Martin y Asociados SRL
25 de Mayo 487
Fourth and Fifth Floors
C1002ABI Buenos Aires
Argentina

Executive and immigration contacts

Eduardo Perelli	(11) 4510-2274 Fax: (11) 4318-1777 Email: eduardo.perelli@ar.ey.com
Florencia Fernández	(11) 4318-1681 Fax: (11) 4318-1777 Email: florencia.fernandez@ar.ey.com
Javier Sabin	(11) 4318-1681 Fax: (11) 4318-1777 Email: javier.sabin@ar.ey.com
Vanesa Politis	(11) 4318-1681 Fax: (11) 4318-1777 Email: vanesa.politis@ar.ey.com
María Bárbara López Lagoria	(11) 4318-1681 Fax: (11) 4318-1777 Email: maria-barbara.lopez-lagoria @ar.ey.com
Ernesto Marzik	(11) 4318-1681 Fax: (11) 4318-1777 Email: ernesto.marzik@ar.ey.com

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
- 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 ARS 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:

- Mandatory 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 ARS 996.23 annually
- Life insurance premiums, up to ARS 996.23 annually
- Mortgage interest, up to ARS 20,000 annually, for the purchase of a dwelling destined to be a permanent abode
- Tax on Bank Debits and Credits, subject to certain limitations
- Contributions made to Mutual Guarantee Companies (SGRs; special companies that guarantee loans)
- Compensation and employer contributions related to domestic help personnel, up to ARS 12,960 annually

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 2011 are ARS 14,400 for a spouse, ARS 7,200 for each child and ARS 5,400 for each other dependant. To qualify, dependants must reside in Argentina for more than six months in the tax year and may not have income in excess of ARS 12,960.

A deduction of ARS 12,960 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 ARS 62,208 for employees and ARS 12,960 for self-employed persons.

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 2011 range from 9% to 35%.

The following table presents the 2011 individual income tax rates.

Taxable income		Tax on lower	Rate on
Exceeding ARS	Not exceeding ARS	amount ARS	excess %
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 with total assets subject to tax of up to ARS 305,000 are exempt from the personal assets tax. Individuals domiciled in Argentina with assets totaling more than ARS 305,000 are required to pay the personal assets tax for 2011 at the rates listed in the following table.

Total value of taxable assets		
Exceeding ARS	Not exceeding ARS	Rate %
305,000	750,000	0.50
750,000	2,000,000	0.75
2,000,000	5,000,000	1.00
5,000,000	—	1.25

Under the Substitute Taxpayer Regime, individuals domiciled in foreign countries are subject to personal tax on Argentine assets only at a rate of 1.25%. In this case, the minimum of ARS 305,000 does not apply.

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 to be domiciled in Argentina but they are taxed only on personal assets located in Argentina.

C. Social security

Contributions. Social security contributions are paid by employees, employers and self-employed persons.

Employees. Employees' social security contributions are withheld from their monthly salary.

Employees make contributions to the Pension Fund at a rate of 11%, to the Retiree's Fund at a rate of 3% and to the health-care system at a rate of 3%. The maximum monthly tax base for the calculation of these contributions is ARS 11,829.21 for January 2011 and February 2011 and ARS 13,879.25 from March 2011 through December 2011.

Monthly salary that exceeds the maximum tax base is not subject to contributions. For this purpose, a year comprises 13 months.

Employers. 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. The tax base for employer social security contributions and health care contributions is not capped.

Other. No employee or employer social security taxes are payable with respect to directors' fees. However, a director must pay fixed monthly amounts that are allocated to the social security's Self-Employed System.

The social security tax law provides an exemption for all professionals, researchers, scientists, and technicians who are contracted outside of Argentina to render services in 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 as well as of their coverage for death, disability and old age in their home countries or countries of residence. This exemption is available only once and, after being granted, it 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	Paraguay	Southern Common Market (Mercado Común del Sur, or MERCOSUR) countries
Chile (a)	Peru (b)	Spain
Colombia (b)	Portugal	Uruguay
Greece	Slovenia (b)	
Italy		

(a) This treaty is partially in force.
(b) This treaty is not yet in force.

D. Tax filing and payment procedures

The tax year for individual taxpayers is the calendar year. Tax returns must be filed between 14 April and 20 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.

For the 2011 fiscal year, national and foreign employees must file an income and personal assets tax return for informational purposes if their gross compensation exceeds ARS 144,000 per year. If their compensation is higher than ARS 96,000, but lower than ARS 144,000, national and foreign employees must file tax returns reporting only their assets as of 31 December of the current year with the tax authorities.

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 also required for purposes of the personal assets tax (see Section B).

For married couples, 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	Finland	Russian Federation
Belgium	France	Spain
Bolivia	Germany	Sweden
Brazil	Italy	Switzerland
Canada	Netherlands	United Kingdom
Chile	Norway	
Denmark		

F. Types of visas

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

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

G. Transitory business visas

Transitory business visas are issued to foreign nationals who were invited by a local commercial entity established in Argentina and will engage in 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 multiple entries for a short 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 the Hong Kong 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, Barbados, Belgium, Brazil, Bulgaria, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Guyana, the Hong Kong SAR, Hungary, Iceland, Ireland, Japan, Korea (South), Latvia, Lithuania, Malaysia, the Netherlands, New Zealand, Nicaragua, Norway, Poland, Puerto Rico, Romania, the Russian Federation, San Cristobal, Santa Lucia, San Vicente, Singapore, Slovenia, South Africa, Sweden, Thailand, Trinidad and Tobago, Turkey, 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 (South) establish a special immigration regime for business visas. Individuals from Korea (South) 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 90 days during each trip for the duration of a 5-year period. In both of the above cases, multiple entrances are allowed during the validity term if the 30- or 90-day limits are observed.

Citizens from Brazil, France, Iceland, 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).

Brazilian 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.

To obtain the visa, nationals from other countries must request an authorization from the National Immigration Board (NIB) before attending the consular interview. 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.

When entering Argentina as tourists or businesspersons, nationals from specified countries must pay a reciprocity fee, which is identical to the fee that Argentine citizens pay when entering into the corresponding countries. The payment of this fee does not result in the grant of a tourist visa to the nationals of these countries because such individuals are exempt from the visa requirements for tourists and businesspersons (except for Canadian businesspersons). The following are the reciprocity fees:

- Australian nationals: US$100 (one entry is allowed)
- Canadian nationals: US$70 (one entry is allowed) or US$140 (multiple entries allowed)
- U.S. nationals: US$140 (paid only once; the fee has a 10-year validity period and multiple entries are allowed)

H. Residence permits

Under the immigration system in Argentina, foreign individuals may be granted the following categories of legal residence in Argentina:

- Transitory technical work, business and foreign entities' representative visas
- Temporary residence
- Temporary visa
- Permanent residence

Transitory technical work or business visa. Foreign nationals who enter Argentina with the intention of performing technical or business activities for a short time period must apply for a transitory visa with the respective Argentine consulate abroad or at the NIB after they have entered Argentina as tourists.

The transitory technical work visa allows foreign workers to reside and work legally for a local entity and perform either remunerated or nonremunerated activities for up to 30 days. Before the expiration of the visa, these workers may apply to the local migratory authority to have the visa extended twice. A foreign worker who needs to remain for a longer term in Argentina under such migratory status must leave Argentina and re-enter as a tourist to begin a new migratory process or apply for a temporary work visa or residence.

MERCOSUR nationals may hold a transitory technical work visa for Argentina for a maximum 60-day term.

The transitory business visa allows foreign businesspersons and foreign entities' representatives to reside and perform business in Argentina legally for a local entity for up to 60 days. Before the expiration of the visa, these individuals may apply to the local migratory authorities to have the visa extended once. They must leave Argentina after the term of the visa elapses because no further renewals are allowed under such status in the same year.

Temporary residence permits and visas. Persons in the following categories may be granted temporary residence permits:

- Parents, spouses or single sons or daughters (younger than 21 years of age or handicapped) of temporary residents (or of applicants for 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
- Investors
- Proprietors or pensioners
- Natives of countries with which Argentina has established special immigration relationships (for example, Chile)
- 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
- Foreign nationals from countries that, for geographical, historical, economic or health reasons, are deemed to deserve special treatment

Persons in the following categories may be granted temporary visas:

- Parents, spouses or single sons or daughters (younger than 21 years of age or handicapped) of temporary residents (or of applicants for 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
- Investors
- Proprietors or pensioners
- Natives of countries with which Argentina has established special immigration relationships (for example, Chile)

The temporary residence permit is normally granted for a one-year period (except for temporary residence under the MERCOSUR agreement, which is granted for up to a two-year period). It may be renewed for an additional identical term. Alternatively, permanent residence may be required after the first period of temporary residence elapses (in the case of residence under the MERCOSUR agreement) or after an individual holding a temporary residence permit or visa remains in Argentina for at least three years. The temporary visa is normally granted for a one-year period and it may be renewed for an additional one-year period without limitation. Temporary residents may work in the country while the temporary work residence permits or visas 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)

In addition, the NIB grants permanent residence permits to the following individuals:
- Foreign nationals who have been granted temporary residence permits or visas and have legally resided in the country for an uninterrupted period of three years
- MERCOSUR nationals who have exceeded the two-year period of temporary residence

Entrepreneurs or businesspersons. 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.
- 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.

As a result of recent changes to the migratory legislation, visas for entrepreneurs and businesspersons are granted only on a transitory basis (see *Transitory technical work or business visa*).

Investors. The NIB considers an investor to be a person who makes a minimum investment of ARS 1,500,000 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. The investor must provide evidence as to the origin and legality of funds as well as their delivery to Argentina through a local bank account or financial institution authorized by the Central Bank of Argentina. If the investment is made after the application for a residence permit, the availability of the ARS 1,500,000 may be proved by a certificate of deposit in a bank or a money order.

In addition, an investment project of a foreign national that involves a productive, commercial or service activity to be performed in Argentina must be analyzed in a feasibility report issued by a public accountant and legalized by the respective Public Accountants Board. Commercial references, background information or recommendations must also be filed.

Foreign company's representative. 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 its legal existence must also be filed with the NIB.

As a result of recent changes to the migratory legislation, visas for foreign companies' representatives are granted only on a transitory basis (see *Transitory technical work or business visa*).

Application procedures. Application for admittance into Argentina may be made by the applicant or his or her attorney before the Argentine consular authorities abroad or before the NIB. Foreign nationals wishing to apply for residence permits may do so in one of two ways. If the foreign national is already in Argentina, he or she may apply for his or her residence permit 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 for the respective visa through the prospective employer or another person. In both cases, applicants must submit certain notarized declarations and documents.

For applicants for temporary work visas, the most common procedure for obtaining such visas is through a request made by a local company that has executed an employment agreement with the foreign national. 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 notify the consulates as to 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 reaches 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. After the admission is authorized, the foreign individual must appear before the Argentine consulate corresponding to the individual's current foreign domicile of residence.

National Decree No. 836/2004 provides that only attorneys specifically appointed by the employer company or the individual with respect to the NIB can make filings because they have been authorized by the immigration authorities to act on the individual or 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 MERCOSUR must register with the National Registry of

Foreign Personnel Requestors (Registro Nacional Único de Requirentes de Extranjeros, or RENURE), which was 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 head office of the NIB) or an NIB office address.
- The company's articles of incorporation registered before the relevant authorities.
- Proof of regular registration before the tax authorities regarding value-added tax (VAT), income tax, social security tax and turnover tax.
- The company's financial statements.
- Power of attorney of the local entity's signatory.
- The Board of Directors' Act through which the local company's authorities are appointed.
- Sworn statement issued by the NIB through which the local entity's attorney registered with NIB indicates knowledge of all migratory rights and duties for local employers in Argentina with respect to the hiring of foreign personnel, signed by the respective local company officials, with the signature certified by a public notary.

An individual requesting his or her own temporary residence permit or a temporary residence permit or visa for a foreign employee must file with the NIB a Certificate of No Penal Record from Argentina, through which his or her 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 temporary residence permits or visas need to be requested. The documentation must be filed regardless of whether the employees enter Argentina with temporary residence permits or visas, or transitory business visas.

However, to allow the NIB to keep its records up-to-date, the following documentation must be filed annually:

- The company's financial statements
- The Board of Directors' Act through which the local company's authorities are appointed

Whether the application for a temporary work visa 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 that 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)
- 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:
- 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
- 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
- Certificate that evidences the local entity's registration with the RENURE
- Income, value-added tax and turnover tax returns as well as tickets that evidence the filings and payments related to the last three months
- Social security tax returns as well as tickets that evidence the filings and payments related to the last six months
- Full copies of all pages of the individual's passport
- The birth certificate of the individual, *apostilled* or legalized with the respective Argentine consular officials abroad

If the company makes the filing, it should also submit an original power of attorney of the company's representative who 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 of the other requirements are met. The consul then requests an entry permit from the NIB and grants them the corresponding visa.

If the application is made before the NIB while the foreign national is still abroad, an entry 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 total ARS 600 per entry permit. The renewal fee is ARS 600 per individual.

When applying for the renewal, the following documents must be filed:
- Copies of the entry permits.
- Birth and marriage certificates if children under 21 years old are involved.

- A letter of authorization issued by the requestor with his or her signature certified. This letter must authorize the individual handling the process to file the passports on behalf of the requestor and his or her family and state that such attorney is specifically authorized by the local entity or individual to handle the renewal process on behalf of the requestor.
- The legal entity's certificate of tax identification code.
- The Letter of Request for the renewal by Argentina of the temporary work visa.
- The individual's Certificate of No Penal Record for Argentina.
- The individual's pay slips related to his or her last nine months.
- Passports.
- Official certificate issued by the respective Argentine tax authorities evidencing that the local entity and the individual have made all employer and employee social security contributions in Argentina in the last year.
- Certificate that evidences the local entity's registration with the RENURE.

On entering Argentina, foreign residents who have been granted temporary visas must submit to the immigration authorities their passports containing visas issued by the Argentine consulate.

One of the consular envelopes, which contain birth and marriage certificates and fingerprints taken at the consulate, is held by the immigration authorities, on the entrance of the foreign resident into the country. These documents are subsequently sent to the NIB for the issuance of the identity documents to the applicant and his or her family. The other consular envelope must be filed with the NIB when applying for the National Identity Card (Documento Nacional de Identidad, or DNI). For additional details on consular envelopes, see *National Identity Cards*.

The consular fees for temporary 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 (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 The Hague Apostille rules if the country of origin of the foreigner has adhered to the Hague Convention.

As a result of recent changes to the immigration law in Argentina, foreign individuals (other than those nationals of a country in MERCOSUR) who have entered Argentina as tourists may modify their immigration status without first leaving the country. Such individuals may apply for his or her residence permit directly to the NIB personally or through an attorney-in-fact specifically appointed by the applicant for that purpose. Under both alternatives, the following information and documents are generally required:

- 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 individual's home country (country of nationality), stating that the individual does not have a criminal record.
- Certificate of No Penal Record from each of the countries where the individual has resided in the last five years.

- Certificate of No Penal Record for Argentina, which is requested from the respective authorities after the individual enters the country.
- The respective documentation requested for each immigration category by the NIB (for example, a copy of the labor agreement under which the foreign national is hired).
- Four-by-four centimeter photographs, front, in black and white or in color with a light blue background.
- Valid passport.
- Letter of authorization to the third person handling the filing (if applicable).
- Certificate that evidences the local entity's registration with the RENURE.
- Policial certificate from the expatriate's domicile. This is a certificate issued by the respective policial authority (for example, a police station), corresponding to the individual's current place of residence in Argentina. This certificate confirms that the individual effectively lives in a certain place (that is, it is his or her current place of abode).

The process takes approximately 60 to 90 days.

On filing of the documentation described above, the NIB issues a Certificate of Precarious Residence, which allows the individual's legal residence in Argentina for 90 days. Although the Certificate of Precarious Residence can be renewed once for an identical term, the NIB usually takes three or four weeks to issue a Certificate of Temporary Residence, which has a term of one year. This certificate is renewable for as many times as necessary. As a result, the renewal of the Certificate of Precarious Residence is rarely requested. In the two months following the migratory interview, the DNI is delivered to the expatriate's domicile.

The NIB fees are ARS 600 per residence permit. The renewal fee is ARS 600 per individual.

Appointments with the NIB must be requested in advance after the individual has applied for the Certificate of No Penal Record for Argentina.

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 or are associated with MERCOSUR. Under these rules, nationals from Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela may apply for two-year temporary residence after entering Argentina. This residence is granted based on the individual's country of origin. They may have legal residence in the country for the two-year period, regardless of the type of activities or services to be performed in the country.

The nationals from the MERCOSUR countries may apply for a residence permit directly to the NIB or through an attorney-in-fact specifically appointed by the applicant for that purpose.

Under both scenarios, 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 individual's home country (country of nationality), stating that the individual does not have a criminal record
- Certificate of No Penal Record for Argentina, which is requested from the respective authorities after the individual has entered into the country
- Certificate of No Penal Record from each of the countries where the individual has resided in the last five years
- Four-by-four centimeter photographs, front, in black and white or in color with a light blue background
- Valid passport
- Policial certificate from the expatriate's domicile

The process takes approximately 60 days.

On filing of the documentation described above, the NIB issues a Certificate of Precarious Residence (for further details, see above).

The NIB fees are ARS 300 per residence permit. The renewal fee is ARS 300 per individual. When applying for the renewal, the following documents must be filed:
- Birth and marriage certificates if children under 21 years old are involved.
- A letter of authorization issued by the requestor with his or her signature certified. This letter must authorize the individual handling the process to file the passports on behalf of the requestor and his or her family and state that such attorney is specifically authorized by the local entity or individual to handle the renewal process on behalf of the requestor.
- The Letter of Request for the renewal by Argentina of the temporary work residence for Argentina.
- The individual's Certificate of No Penal Record for Argentina.
- Passports.

Because the NIB is overloaded with temporary MERCOSUR residence applications, a four-month delay currently exists for the granting of appointments. Temporary MERCOSUR residences for Argentina can be obtained more quickly through a filing for an entry permit with the NIB. For such filing, the legal entity hiring the foreign national or the foreign national must submit, among other documents, the following:
- The Letter of Request for the entry permit.
- A letter of authorization issued by the requestor with his or her signature certified. This letter must authorize the individual handling the process to file passports on behalf of the requestor and his or her family and state that such attorney is specifically authorized by the local entity or individual to handle the renewal process on behalf of the requestor.
- Full copies of all pages of the requestor's passport, duly *apostilled* or legalized with the respective Argentine consular officials abroad.
- The requestor's birth certificate, duly *apostilled* or legalized with the respective Argentine consular officials abroad.

If the application is made before the NIB while the foreign national is still abroad, an entry permit is issued within 10 working days by NIB 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 30 days.

The foreign national must stay abroad when the process is started and remain abroad until the process is finished.

The NIB fees total ARS 600 per entry permit. The renewal fee is ARS 600 per individual.

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 or temporary residence, the DNI should also be renewed.

To obtain DNIs, foreign nationals generally must visit the NIB office corresponding to the applicants' domicile in Argentina. 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 NIB:

- Valid passport.
- Copies of the passport.
- Original and copy of Certificate of Temporary Residence (if applicable).
- 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 NIB. 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 *apostilled* or legalized by the respective Argentine consulate abroad and translated and legalized in Argentina.
- Marriage certificate *apostilled* or legalized by the respective Argentine consulate abroad, and translated and legalized in Argentina, if children less than 21 years old are being documented.
- Certificate of Domicile in Argentina issued by the police.

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 beginning the proceedings to obtain a DNI, an applicant must pay ARS 30 in fees. The NIB 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 and delivered to the expatriate's domicile, according to the policial certificate of domicile filed for such purposes. These certificates are required for the follow-up proceedings and are withdrawn when the final DNIs are granted.

The duration of the proceedings, which varies among jurisdictions, is approximately three months.

At the end of the proceedings, the applicant may go to the NIB with the certificate mentioned above to obtain the final DNI or, in certain cases, to comply with further demands after NIB officials have visited the expatriate's home at least twice to personally grant the expatriate the documents. The DNI is personally given to the expatriate because the expatriate needs to sign the receipt evidencing that the DNI has been delivered to the expatriate.

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

- The certificate granted by the NIB showing that the proceedings for the DNI have begun
- Any document showing the identity of the applicant (for example, a passport)

DNIs must be renewed after the temporary work visa/residence permit for Argentina is renewed. The renewal fee is ARS 30.

I. Family and personal considerations

Residence permits and visas for family members. Family members of foreign nationals may be granted residence permits and visas. 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 or visa for a one- or two-year period). The granting of visas implies that the members of the family have the right to reside legally in the country. However, they cannot carry out remunerated activities because they are not specifically authorized to perform such duties. The rule mentioned in the preceding sentence does not apply to citizens of MERCOSUR countries.

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 Tránsito) 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 photocopies of the first, second pages and the page of changes of domicile of the DNI.
- Show passport and visa evidencing that the individual is a legal resident of Argentina.
- Show Certificate of Temporary Residence (if applicable).
- Show a valid license in the individual's foreign country of origin.
- Pay a fee of ARS 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).

The local driver's license for Argentina must be renewed after the DNI is extended. The renewal fee is ARS 30.

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.

A birth certificate must be carried together with the personal documentation to prove the familial bonds to the respective immigration officials even if the child is leaving the country with both parents. In addition, if a child is accompanied by only one of his or her parents, a special authorization from the parent not accompanying the child must be filed.

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 2011 tax calculation for an individual, married with two children, who is resident in Argentina and has annual compensation of ARS 200,000 (paid over 13 months). The individual makes monthly contributions to the Private Pension System.

	ARS	ARS
Calculation of taxable income		
Base salary		200,000
Less: social security		(29,976.13)
Net income		170,023.87
Deductions:		
Spouse	(14,400)	
Two children	(14,400)	
Nontaxable income	(12,960)	
Special deduction	(62,208)	
Total deductions		(103,968.00)
Taxable income		66,055.87
Calculation of tax		
Income tax		12,735.09
Social security tax		29,976.13
Total tax		42,711.22

Armenia

(Country code 374)

Please direct all inquiries regarding Armenia to the persons listed below from the Tbilisi, Georgia office.

Yerevan **GMT +4**

Ernst & Young
1 Northern Avenue
Yerevan 0001
Armenia

Executive and immigration contacts

Zurab Nikvashvili *(resident in Tbilisi, Georgia)*	+995 32 439 375, Ext. 2104 Fax: +995 32 439 376 Email: zurab.nikvashvili@ge.ey.com
Eka Kiknadze *(resident in Tbilisi, Georgia)*	+995 32 439 375, Ext. 2114 Fax: +995 32 439 376 Email: eka.kiknadze@ge.ey.com

A. Income tax

Who is liable. Resident individuals are subject to income tax on their worldwide income. Nonresident individuals are subject to income tax on only income received from Armenian sources.

For tax purposes, an individual is considered resident if he or she satisfies either of the following conditions:

- He or she resides in Armenia for 183 or more cumulative days in any continuous 12-month period ending in the current tax year (same as a calendar year).
- His or her center of vital interests (the place of a person's family or economic interests) is in Armenia.

For the purpose of determining the residency status, days spent abroad by an individual as a civil servant of the Republic of Armenia (RA) are considered as days spent in the RA.

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 types of compensation or benefits, whether received in cash or in any other form, subject to certain exemptions.

Self-employment and business income. Tax is levied on an individual entrepreneur's annual income, which consists of gross income less expenses (except for nondeductible or partially nondeductible expenses) contributing to the generation of the income.

Directors' fees. Directors' fees are included in taxable income.

Investment income. A 10% withholding tax is imposed on interest income and other compensation received by individuals from loans. Interest derived from treasury bonds and other state securities is not taxable.

Exempt income. "Exempt income" represents part of the gross income of a taxpayer. However, it is also shown as a deduction from gross income. "Income that is not considered to be taxable income" does not represent part of gross income.

Income derived by individuals that is considered to be exempt income includes the following:
- Dividends
- Income of servicemen and similar persons received with respect to military service
- Compensation paid within the norms specified in the legislation of the RA, with the exception of compensation paid for unused leave days in the event of quitting work
- Property and cash received from individuals as inheritance or gifts
- Amount of monetary and in-kind assistance provided to individuals within the scope of charter activities of noncommercial organizations established in accordance with the procedures specified by the law of the RA and registered with the tax authorities
- Amount of financial assistance provided on the basis of decisions of the state administration and local government bodies of the RA, as well as financial assistance provided by foreign states and international (intergovernmental) organizations
- Grants received under procedures established by the law of the RA
- Proceeds from the sale of property to nonentrepreneur individuals, with the exception of amounts received from the sale of property within the scope of entrepreneurial activity
- Positive differences between the face value and the purchase price of privatization certificates in cases of acquisition and investment of privatization certificates according to the procedures established by the legislation of the RA
- Scholarships and stipends paid by the state to students and postgraduates of higher educational institutions, students of specialized-secondary and vocational schools and attendees of religious seminaries

- Insurance compensation with the exception of insurance compensation received under the voluntary accumulative pension insurance system
- Income derived from the sale of shares, treasury bonds and other state securities
- Amounts received as compensation for damages under the law, with the exception of compensation for lost income
- Amount of severance pay received in cases of dismissal under the law of the RA and lump-sum amounts paid on the death of an employee or his or her family members
- Prizes won at international competitions and contests by athletes and coaches participating for the national team of the RA, and state awards (prizes)
- Monetary and in-kind winnings of the participants in lotteries implemented according to the procedures and terms specified by the law of the RA
- Insurance payments up to AMD 10,000 (approximately US$27) per month per head made by the employers for health insurance of their employees
- Income derived from the sale of agricultural production, as well as income received from other activities by individuals involved in agricultural production, to the extent that the income from such activities does not exceed 10% of the income received from agricultural operations

Income that is not considered to be taxable income includes the following:

- State benefits paid under the legislation of the RA, with the exception of benefits for temporary work disability
- All types of pensions paid under the law of the RA with the exception of pensions received under the voluntary accumulative pension insurance system
- One-time compensation paid under the law of the RA to families of deceased or disabled servicemen
- Alimony paid according to the law of the RA
- Amounts received by individuals for donated blood, breast milk and other types of donorship
- Income received from securities that certify taxpayers' participations in investment funds

Taxation of employer-provided stock options. Employer-provided stock options are taxable benefits.

Capital gains and losses. Capital gains are subject to regular income tax when they are realized. Unrealized capital gains are not subject to tax.

Individual entrepreneurs may offset their capital losses against capital gains. If the capital loss cannot be offset in the year in which it is incurred, it can be carried forward to offset gross income in the following five years.

Deductions

Personal deductions and allowances. Gross income is reduced by AMD 32,500 (approximately US$87) for each month income is received. A tax agent (a legal entity, including a representative or branch office of a foreign entity, or an individual entrepreneur who is required by law to withhold tax at the source of payment and transfer it to the state budget) deducts this amount from gross income of an individual, regardless of whether similar deductions are made by other tax agents from other income received by the same individual. A tax agent does not make such deductions for payments made to foreign citizens.

Business deductions. Taxpayers may deduct all necessary and documented expenses incurred directly and exclusively for the purpose of generating taxable income (for example, expenditure for materials, depreciation allowances, lease payments, salaries and wages and interest paid), except for nondeductible or partially nondeductible expenses.

Nondeductible or partially nondeductible expenses include the following:
- Environmental pollution charges exceeding 0.5% of the gross income of the tax year
- Advertising, staff training, marketing and business trip expenses incurred abroad that exceed the norms established by the government of the RA
- Representative expenses exceeding 0.5 % of the gross income for the tax year
- Fines, penalties and other proprietary sanctions transferred to the state and municipal budgets, including those for the required social security payments
- Assets provided free of charge and remitted (forgiven) debts
- Expenses related to generation of income that is exempt from income tax
- Interest paid on loans and borrowings above the established limit of 24% per year
- Repair and maintenance expenses with respect to fixed assets in excess of 10% of the acquisition cost of the corresponding fixed asset

Depreciation allowances for fixed and intangible assets used in economic activities are deductible for tax purposes in accordance with the terms and conditions provided by the Law of the RA on "Profit Tax." The annual value of depreciation allowances is calculated by dividing the acquisition cost or revalued cost (if the revaluation is carried out according to the procedure established by the law of the RA) of fixed assets by the depreciation period determined for the appropriate group of fixed assets or for intangible assets. The following minimum periods are established for depreciation purposes.

Group	Assets	Minimum depreciation period (years)
1	Buildings and constructions of hotels, boarding houses, rest homes, sanitariums and educational institutions	10
2	Other buildings, constructions and transmission devices	20
3	Robot equipment and assembly lines	3
4	Calculating devices and computers	1
5	Other fixed assets, including growing cattle, perennial plants, and investments intended for improving the land	5

The minimum depreciation period for fixed assets with a value up to AMD 50,000 (approximately US$133) is one year.

Intangible assets are depreciated over their useful economic lives. If it is impossible to determine the useful life of an intangible asset, the minimum depreciation period of such asset is set at 10 years, but it may not be longer than the period of the taxpayer's activity.

Land is not subject to depreciation.

For the purposes of determination of taxable income a taxpayer may choose a different depreciation period for fixed assets at his or her discretion, but it may not be less than one of the above-mentioned periods for the appropriate group.

Rates. The personal income tax rates are provided below.

Tax agents calculate income tax using the following rates.

Monthly taxable income		Tax on lower	Income
Exceeding AMD	Not exceeding AMD	amount AMD	tax rate %
0	80,000	0	10
80,000	—	8,000	20

Tax on income not taxed by tax agents (that is, not subject to tax at source) is calculated using the following rates.

Annual taxable income		Tax on lower	Income
Exceeding AMD	Not exceeding AMD	amount AMD	tax rate %
0	960,000	0	10
960,000	—	96,000	20

A 10% rate applies to the following types of income derived by tax residents of Armenia:
- Royalties, income gained from property leases and income from sale of tangible assets (if subject to tax)
- Interest income
- Income from the sale of property to tax agents

Income paid to foreign citizens and stateless persons is taxed by tax agents at the source of payment at the following rates.

Type of income	Rate (%)
Insurance payments and income received from freight	5
Royalties, interests, lease payments, realized capital gains from the sale of property and other passive income received from sources in Armenia (with the exception of income from freight)	10

For a sample tax calculation, see Appendix 2.

Credits. The income tax liability of Armenian tax residents is reduced by the amount of tax payable by them abroad under foreign law, with the exception of the amount of foreign tax paid on income that is exempt from tax under the law of the RA. However, the foreign tax credit may not exceed the amount of tax that would be due in the RA on this income.

Relief for losses. Individual entrepreneurs may carry forward operating losses for up to five years. No carryback is allowed.

B. Other taxes

Inheritance and gift taxes. Armenia does not impose inheritance and gift taxes.

Wealth tax. Armenia does not impose wealth tax or net worth tax.

Property tax. For individuals and individual entrepreneurs, buildings and constructions and vehicles are subject to property tax.

For purposes of the property tax, buildings and constructions include the following:
- Residential construction units
- Multi-flat dwelling buildings
- Nonresidential areas of residential buildings
- Separate constructions for the parking of vehicles that are built on plots
- Constructions for public use
- Constructions for production use
- Incomplete (semi-built) construction units

The tax base of buildings and constructions is considered to be the cadastral value assessed under procedures defined by the Law of the RA on Property Tax. The property tax rates for buildings and constructions range from 0% to 1%.

For purposes of the property tax, vehicles include the following:
- Motor vehicles
- Watercrafts
- Snowmobiles
- Quattro cycles
- Motorcycles

The tax base for vehicles is motor power (horsepower or kilowatt). The property tax for motor vehicles is calculated at the following annual rates.

Type	Tax amount
Motor cars with up to 10 passenger seats	
From 1 to 120 horsepower	AMD 200 per horsepower
From 121 to 250 horsepower	AMD 300 per horsepower and additional AMD 1,000 for each horsepower above 150
251 and more horsepower	AMD 500 per horsepower and additional AMD 1,000 for each horsepower above 150
Motor cars with 10 or more passenger seats and trucks	
From 1 to 200 horsepower	AMD 100 per horsepower
201 and more horsepower	AMD 200 per horsepower
Watercrafts, snowmobiles and quattro cycles	AMD 150 for each horsepower
Motorcycles	AMD 40 for each horsepower
Trucks of more than 20 years	0

Property tax on motor vehicles used for up to three years is calculated at 100%. The amount of property tax on motor vehicles used for more than three years is reduced for each year following the third year by 10% but not by more than a total of 50% of the tax amount. The time in use is calculated from the date on which the motor vehicle is produced.

Land tax. Landowners and permanent users of state-owned land are considered payers of land tax. The land tax rate for the agricultural lands (including land lots allotted for housing in settlements, and garden plots) is 15% of the net income determined by cadastral evaluation. The land tax rate for nonagricultural lands ranges from 0.5 to 1% of the value determined by cadastral evaluation.

C. Social security

Coverage. The social security system generally covers pension and disability (for example, sickness, maternity and work-related accidents) insurance. Participation in the social security system is mandatory for all citizens of the RA and noncitizen employees, employers, individual entrepreneurs and notary officers.

Contributions. Employers, employees, individual entrepreneurs and notary officers are subject to mandatory social security contributions at the rates described below.

The following table sets forth the social security contributions for employers.

Monthly gross salary		
Exceeding AMD	Not exceeding AMD	Amount of social security payment
0	20,000	AMD 7,000
20,000	100,000	AMD 7,000 plus 15% of the amount exceeding AMD 20,000
100,000	—	AMD 19,000 plus 5% of the amount exceeding AMD 100,000

Employees make social security contributions in the amount of 3% of gross salary.

The following table sets forth the social security contributions for individual entrepreneurs and notary officers.

Monthly gross salary		
Exceeding AMD	Not exceeding AMD	Amount of social security payment
0	1,200,000	15% of total income but not less than AMD 60,000
1,200,000	—	AMD 180,000 plus 5% of the amount exceeding AMD 1,200,000

Individual entrepreneurs must make minimum monthly social security payments in the amount of AMD 5,000 by the 15th day of the following month.

Totalization agreements. Armenia has not entered into any international agreements regarding contributions to social funds.

D. Tax filing and payment procedures

The tax year in Armenia is the calendar year.

Individuals must submit tax returns regarding their annual taxable income to the tax authorities by 15 April of the year following the tax year, except in the following cases:

- The taxpayer received exempt income only.
- The taxpayer received only income subject to taxation at source by a tax agent, regardless of the amount of such income during the tax year.

The amount of income tax calculated must be paid to the state budget by 1 May of the year following the tax year.

In the event of termination of the activity (source of income) and departure from Armenia before the end of tax year, the tax return must be submitted by the individual not later than one month before the departure. The amount of the income tax calculated in accordance with the tax return must be paid to the state budget within five days after the final calculation of the payment.

Individual entrepreneurs engaged in economic activities in Armenia must make advance payments of the income tax during the tax year, each equal to one-sixth of the amount of income tax for the preceding tax year. The advance payments must be made quarterly by the 15th day of the last month of each quarter.

Individual entrepreneurs are not required to make advance payments if they satisfy any of the following conditions:
- They incurred losses in the preceding tax year.
- Their income tax for the preceding tax year did not exceed AMD 500,000.
- They were not required to be registered for value-added tax (VAT) in the preceding tax year.

Before the calculation of the amount of income tax for the preceding year, a taxpayer must make the first advance payment of income tax by 15 March in an amount not less than the last advance payment of the preceding tax year.

Taxpayers beginning new business activities are not required to make advance payments of income tax until 15 June of the following tax year.

At the end of the reporting year, a taxpayer calculates the amount of income tax based on the accrued taxable income, setting off the amounts of advance payments made for such reporting year.

E. Double tax relief and tax treaties

Armenia has entered into tax treaties with the following countries.

Austria	Greece	Poland
Belarus	Hungary	Qatar
Belgium	India	Romania
Bulgaria	Iran	Russian Federation
Canada	Italy	Switzerland
China	Kazakhstan	Syria
Croatia	Latvia	Thailand
Czech Republic	Lebanon	Turkmenistan
Estonia	Lithuania	Ukraine
Finland	Luxembourg	United Arab Emirates
France	Moldova	
Georgia	Netherlands	

If a foreign citizen who is nonresident for tax purposes in Armenia receives income from Armenian sources and meets the conditions of a double tax treaty, a tax agent can apply the treaty exemption on the basis of a tax residency certificate issued by the competent tax authority of the foreign country.

F. Visas

One of the legal bases for a foreign citizen's stay in Armenia is the entry visa. In general, entry visas are issued by the Passport and Visa Department of the Police of the RA or by the Ministry of Foreign Affairs of the RA in diplomatic missions or consular posts of the RA, at border-crossing points or on the territory of Armenia. The Ministry of Foreign Affairs of the RA also provides electronic entry visas to foreign citizens. Citizens of certain countries (principally the countries of the former USSR) are not required to have a visa to enter Armenia and stay in the country for up to 90 days during a calendar year.

Armenian entry visas are provided for a period of stay up to 120 days, with the possible extension for a maximum of 60 days, and are issued for single or multiple entries. The following types of Armenian visas are available:
• Visitor visa
• Official visa
• Diplomatic visa
• Transit visa

Currently, at the border-crossing points of the RA, visa services of the Passport and Visa Department of the Police of the RA issue the following visas only:
• Single-entry, 3-day transit visas
• Single-entry, 21-day visitor visas
• 120-day visitor visas

Electronic visas are valid for entry at all border-crossing points of the RA.

Citizens of the following countries may apply for Armenian entry visas only to Armenian diplomatic representations or consular posts abroad and only on the basis of an invitation letter.

Afghanistan	Niger	Somalia
Bangladesh	Nigeria	Sri Lanka
Cameroon	Pakistan	Sudan
Egypt	Palestinian Authority	Syria
Iraq	Saudi Arabia	Vietnam
Nepal		

Citizens of China and India may apply for Armenian entry visas at only Armenian diplomatic representations or consular posts abroad. However, they do not need an invitation letter.

Visa application forms are usually processed at the diplomatic missions and consular posts of the RA within three working days. In some cases, additional checking may be required and processing time can be extended.

G. Work permits

Under the Law of the RA on "Foreign Persons," employers may enter into labor contracts with foreign employees and employ them based on work permits issued by the competent authority. The issuance of work permits to foreign employees is based on the procedures and terms established by the government of the RA.

However, such procedures have not yet been established by the authorized body of the government of the RA. As a result, foreign citizens are not currently required to obtain work permits to work in Armenia.

The Law of the RA on "Foreign Persons" provides that certain categories of foreign citizens are not required to obtain work permits for work in Armenia. These include, among others, the following:

- Foreign nationals having permanent and special residence status in Armenia
- Close family members (parents, brothers, sisters, spouses, children, grandparents and grandchildren) of Armenian citizens or foreign citizens having permanent residence status (legally residing) in Armenia, during their temporary residence status period
- Close family members of employees of authorized diplomatic missions, consular posts, international organizations and their representations in Armenia
- Founders, directors or authorized representatives of commercial organizations with foreign capital participation
- Employees of foreign commercial organizations coming to Armenia for the purpose of working in representative offices located in Armenia
- Professionals or other persons arriving in Armenia under authority of international agreements
- Lecturers from foreign educational institutions coming to Armenia for the purpose of lectureship in Armenian educational institutions
- Certified representatives of foreign organizations practicing journalistic activities
- Foreign citizens and stateless persons who have the status of refugees and have received political asylum with a term not exceeding the period of residence
- Students working within the framework of job exchange for vacation time by virtue of international agreements

H. Residence permits

The types of residence status provided by the Law of the RA on "Foreign Persons" are described below.

The Passport and Visa Department of the Police of the RA grants temporary residence status to the following foreign citizens:

- Individuals studying in Armenia
- Individuals having a work permit in Armenia
- Individuals married to citizens of Armenia or legally residing foreigners in Armenia
- An individual who is a close family member (parent, brother, sister, spouse, child, grandmother, grandfather, grandchild) of a citizen of Armenia or a foreigner having permanent residence status in Armenia
- Individuals engaged in entrepreneurial activities in Armenia
- Individuals of Armenian ancestry

Temporary residence status is granted for up to a one-year term with possible extension periods of one year per extension.

Permanent residence status is granted by the Passport and Visa Department of the Police of the RA to a foreign citizen who satisfies all of the following conditions:

- The individual proves the presence of a close family member (parent, spouse, brother, sister, child, grandparent or grandchild) in Armenia.
- The individual is provided with housing and means for living in Armenia.
- The individual has been legally residing in Armenia for at least three years before submitting an application for permanent residence status.

Permanent residence status can also be granted to a foreigner of Armenian ancestry as well as to a foreigner engaged in entrepreneurial activities in Armenia.

Permanent residence status is granted for a 5-year term with possible extensions of five years per extension.

The President of Armenia may grant special residence status to foreign citizens of Armenian ancestry and to foreign citizens who are engaged in economic or cultural activities in Armenia. The special residency status is granted for a 10-year term. It can be granted several times.

The documents establishing types of residence status in Armenia described above are temporary or permanent residence certificates and special passports.

I. Drivers' permits

A foreign national with an international driver's license may legally drive in Armenia using this license. Citizens of Commonwealth of Independent States (CIS) countries may drive legally in Armenia with their home-country driver's licenses for up to one year. A foreigner may obtain an Armenian driver's license after passing written and practical examinations.

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	—	—
Payment of a debt or obligation by employer on behalf of employee	X	—	(e)
Insurance premiums	X	—	(f)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—

	Taxable	Not taxable	Comments
Moving (relocation) expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	—	X	(b)
Reimbursement of per diems	—	X	(g)
Reimbursement of representation expenses	—	X	—
Other items			
Foreign-source personal ordinary income (dividends and interest)	X	—	(h)
Capital gain from sale of personal residence in home country	—	X	(i)
Capital gain from sale of shares in home country	—	X	(j)

(a) This concept does not exist in Armenia.

(b) Reimbursements of housing (hotel) expenses incurred on business trips are not taxable if they are within the norms established by the government of the RA. The norms vary according to the country. Otherwise, housing is taxable.

(c) Reimbursement of expenses incurred for the education of an employee is not taxable if it is directly related to business needs as opposed to personal needs. All other educational reimbursements are taxable.

(d) The receipt of an automobile for private use is taxable.

(e) The amount taxable is the amount of the debt or obligation.

(f) Insurance premiums up to AMD 10,000 (approximately, US$27) per month per individual paid by employers for health insurance of their employees are exempt.

(g) Reimbursements of per diems (daily allowances) during a business trip within the norms established by the government of the RA are not taxable. The amount of the daily allowance varies according to the country.

(h) Dividends are not taxable in Armenia. Interest received from abroad by resident individuals must be included in taxable income. However, withholding tax paid abroad can be claimed as a tax credit.

(i) Capital gains derived from the sale of property to those who are not considered tax agents are not subject to tax, with the exception of proceeds from the sale of property within the scope of entrepreneurial activities.

(j) Capital gains derived from the sale of shares are not taxable in Armenia if either of the following conditions is satisfied:
- They are not actually received as a payment for goods, works or services, or do not substitute for such payments.
- They are not connected with special activities of brokers or dealers.

Appendix 2: Sample tax calculation

A sample tax calculation for 2011 is provided below for an expatriate who is a tax resident of Armenia for 2011 and is married with two dependent children under 18 years old. During 2011, the expatriate received gross salary of AMD 12 million. The expatriate's employer also provided a living accommodation for the whole year, which was rented at an annual cost of AMD 3 million, and reimbursed the expatriate AMD 500,000 for the cost of the education of one of the expatriate's children. The expatriate earned AMD 2 million of interest from a deposit in a home-country bank account and received dividends in the amount of AMD 400,000 from a home-country investment.

The following is the tax calculation.

	AMD	AMD
Salary		12,000,000
Benefits:		
Living accommodation	3,000,000 (a)	
Education reimbursement	500,000	
Total benefits		3,500,000
Gross income from Armenian sources		15,500,000 (b)
Social security payment at 3%		(465,000)
Tax base for income tax		15,035,000
Income tax payable on gross income:		
AMD 960,000 at 10%		96,000
AMD 14,075,000 at 20%		2,815,000
Income tax on interest (10% of AMD 2,000,000)		200,000
Income tax credit ([AMD 32,500 x12] at 20%)		(78,000) (c)
Income tax on dividends		0 (d)
Total income tax payable		3,033,000 (e)

(a) The receipt of a living accommodation for private use is considered to be salary income. The tax base is the annual rental expense of the employer with respect to this living accommodation.
(b) Marital status and dependants are not taken into account in the calculation of taxable income.
(c) On the submission of a tax return, an expatriate receives a tax credit of 20% of the personal deduction amount (AMD 32,500 per month). See Section A.
(d) Income from dividends is exempt from tax.
(e) If the expatriate paid income tax on the interest received in the home country, he or she may claim a credit for the foreign tax against the tax payable in Armenia by presenting appropriate documents verifying such payments to the relevant tax authorities. However, the amount of credit may not exceed the amount of tax that would be due in Armenia on such interest in accordance with the rules and rates in force in Armenia.

Aruba

(Country code 297)

Oranjestad **GMT -5**

Ernst & Young
Mail address:
P.O. Box 197
Oranjestad
Aruba

Street address:
Vondellaan 4
Oranjestad
Aruba

Executive and immigration contacts

Bryan Irausquin *(resident in Willemstad, Curaçao)*
+5999 430 5075
Fax: +5999 465 6770
Email: bryan.irausquin@an.ey.com

Luenne Gomez-Pieters
521-4444
Fax: 582-6548
Email: luenne.gomez-pieters@an.ey.com

A. Income tax

Who is liable. An Aruba resident’s worldwide income is subject to income tax in Aruba. Specific categories of a nonresident’s income generated in Aruba are subject to income tax in Aruba. In principle, Aruba can grant unilateral or bilateral tax relief.

Income subject to tax

Employment income. Taxable employment income consists of income derived from (current or past) employment, including directors' fees, less a fixed deduction and less pension and social security contributions paid or withheld, if applicable.

A nonresident individual is subject to income tax on income derived from (current or past) employment actually carried on in Aruba. In addition, a nonresident 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 that must be applied consistently.

A nonresident individual generating income out of an enterprise carried on in Aruba personally or through a permanent representative is subject to Aruban income tax.

The fair market value of items received in kind for professional and entrepreneurial activities performed is also included in income.

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

Investment income. Dividends, interest, royalties and rental income, less deductions, are generally taxed as ordinary income. Interest received from savings accounts at acknowledged local and foreign banks is exempt from Aruba income tax.

A 10% dividend withholding tax is imposed on dividends distributed by companies resident for tax purposes in Aruba to individuals.

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 tax 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	Up to 58.95
Capital gains realized on the liquidation of a company or the repurchase of shares by the company in excess of the paid-up capital	25
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 expenses related to an employment relationship, up to a maximum of Afl. 1,500 per year.

A resident taxpayer is entitled to more deductions than a nonresident taxpayer. Resident individuals may deduct the following:

- Interest and costs paid with respect to mortgage loans for home ownership
- Interest paid on all types of personal loans, up to a maximum of Afl. 5,000 per year
- Life insurance premiums that entitle individuals to annuity payments, up to a maximum of Afl. 5,000 per year
- Extraordinary expenses (for example, medical expenses, expenses for the support of relatives and education expenses) and qualifying gifts in excess of a certain threshold amount

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

Deduction	**Amount Afl.**
Fixed tax credit	20,252
Each child under 18 years of age	750
Each child from 16 to 27 years of age	1,200
Each child 16 to 27 years of age studying abroad	5,000
Each disabled child 16 to 27 years of age who is not able to earn at least 50% of the salary of "healthy" children	1,200

The maximum amount of the old-age deduction equals Afl. 2,443 (for a married couple if at least one of the spouses is at least 60 years old).

Saving funds. Employees may claim an annual tax-free allowance of Afl. 3,360 with respect to employee saving funds and provision funds (covering special events, such as weddings and burials).

Business deductions. Business expenses are fully deductible. In addition, self-employed persons may claim an entrepreneur's deduction of Afl. 2,400.

Rates. Residents and nonresidents are subject to income tax at the same progressive rates, which range from 7% to 58.95%.

Relief for losses. Taxpayers may carry losses forward for five years.

B. Inheritance and gift taxes

Inheritance 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.

Inheritance 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 amount inherited or received 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

Coverage. All resident individuals are subject to social security contributions.

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. 65,052. 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 these social security contributions.

General medical insurance (AZV) provides coverage for hospitals, physician consults (for example, visits to the family doctor) and treatments. Premiums are paid on employees' salaries at a rate of 8.9% by the employer and at a rate of 2.6% by the employee, up to a maximum annual salary of Afl. 85,000.

The General Disablement Insurance Act (OV) and the General Sickness Insurance Act (ZV) offer coverage for employees. 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 2.65% of the annual salary of the employees, but only for employees earning a salary up to and including Afl. 4,550 per month. The employer is not insured for sickness risks if the employee is earning more than Afl. 4,550 per month.

Totalization agreements. In principle, nonresidents earning income from employment in Aruba are 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 wage tax returns on a monthly basis. These returns are due by the 15th day of the following month.

The required wage tax and social premiums withholdings are made for each salary payment period. They are included in a monthly payment. Wage tax is an advance levy with respect to the income tax.

The income tax return for the preceding calendar year must be filed within two months after issuance of the income tax return form by the Aruba tax administration, unless a filing extension is obtained. Any income tax owed in addition to prior withholdings is due within two months after receipt of the assessment. Married couples are taxed separately on their employment income unless they request combined taxation.

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

An inheritance tax return normally must be filed within six 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 Arrangement for the Kingdom of the Netherlands, which regulates relations between the countries of the Kingdom of the Netherlands for fiscal purposes, contains provisions for exchange of information and avoidance of double taxation between Aruba and Curaçao, Sint Maarten and the Netherlands (including the extraordinary overseas municipalities, which are Bonaire, St. Eustatius and Saba). It applies to, among other items, income tax, inheritance tax and gift tax.

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

Aruba has entered into tax information exchange agreements with the following countries.

Antigua and Barbuda	Cayman Islands	St. Kitts and Nevis
Australia	Denmark	St. Lucia
Bermuda	Faroe Islands	St. Vincent and the Grenadines
British Virgin Islands	Finland	Sweden
Canada	Greenland	United Kingdom
	Iceland	United States
	Norway	

Aruba has not entered into any treaties providing double tax relief.

Australia

(Country code 61)

Sydney, New South Wales **GMT +10**

Ernst & Young
Ernst & Young Centre
680 George Street
Sydney, New South Wales 2000
Australia

Executive contacts

Nick Pond	(2) 8295-6490 Email: nick.pond@au.ey.com
Asher Joseph	(2) 8295-6014 Email: asher.joseph@au.ey.com

Immigration contacts

Kathy McCombie	(2) 9248-4424 Email: kathleen.mccombie@au.ey.com
Michael Wall	(2) 9248-5576 Email: michael.wall@au.ey.com
Wayne Parcell	(2) 9248-5163 Email: wayne.parcell@au.ey.com

A. Income tax

Who is liable. Australian residents are subject to Australian tax on worldwide income. Nonresidents are subject to Australian tax on Australian-source income only. An exemption from Australian tax on certain income is available for individuals who qualify as a "temporary resident." Temporary residents are generally exempt from Australian tax on foreign-source income (including foreign investment income but not foreign employment income) and capital gains realized on assets that are not taxable Australian property (TAP). For details regarding TAP, see *Capital gains and losses*.

As discussed below, the Australian tax treatment differs for residents, nonresidents and temporary residents.

In general, a resident is defined as a person who resides in Australia according to the ordinary meaning of the word, and includes a person who meets either one of the following conditions:
- He or she is domiciled in Australia, unless the tax authority is satisfied that the person's permanent place of abode is outside Australia.
- He or she is actually present in Australia continuously or intermittently for more than half of the tax year, unless the tax authority is 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 tests can be 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.

A nonresident is a person who does not satisfy any of the above tests.

A "temporary resident" refers to an individual who satisfies the following conditions:
- 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 F).
- The individual must not be a resident of Australia for social security purposes (this covers Australian citizens, permanent residents, special visa categories such as refugees and certain New Zealand citizens).
- The individual's spouse (legal or de facto) must not be a resident of Australia for social security purposes.

The second and third conditions described above must be satisfied at all times. No time limit applies to the temporary resident status. If an individual applies for Australian permanent residency, temporary resident status ends on the date on which permanent residency is granted and the individual is taxable as a resident (that is, taxable on worldwide income) thereafter.

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. Taxable income is calculated by subtracting deductible expenses and losses from the assessable income of the taxpayer.

Employment income. Salary, wages, allowances and most cash compensation is included in the employee's assessable income in the year of receipt. Most noncash employment benefits received by an employee are subject to Fringe Benefits Tax (FBT), payable by the employer.

Self-employment and business income. The taxable income from self-employment or from a business is subject to Australian tax. Each partner in a partnership is taxed on his or her share of the partnership's taxable income.

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

Dividends. The assessable income of resident shareholders includes all dividends received. Franked dividends (that is, dividends paid from taxed corporate profits) paid by Australian corporations are grossed up for the underlying corporate taxes paid. The shareholders may claim the underlying corporate tax as a credit in their personal tax return. Whether additional tax must be paid on the franked dividends by a shareholder depends on the individual's marginal tax rate. Under certain circumstances, excess credits may be refunded.

Dividends from Australian sources that are paid to nonresidents are generally subject to a final withholding tax of 30% (or 15% under applicable treaties) on the unfranked portion (that is, the portion paid from untaxed corporate profits).

The treatment of foreign-source dividends is more complex. Under the foreign tax offset rules, foreign-source dividends are included in the assessable income of Australian residents. If tax was paid in the foreign country, the net dividend is grossed up to include the foreign tax, and a tax credit (equal to the lower of the foreign tax paid or the amount of the Australian tax payable) is allowed. If the dividends are paid out of income attributed under the Australian attribution tax system (see *Accrued foreign company income*), Australian residents may receive a foreign tax offset for the taxes withheld on remittance of the dividends, even though the dividends are exempt from Australian tax.

Temporary residents (see *Who is liable*) are not assessable on foreign source investment income and gains.

Interest, royalties and rental income. Interest, royalties and rental income derived by residents are included in assessable income with a deduction allowed for applicable expenses. Eligibility for building depreciation deductions on a rental property depends on the building's nature and its construction date.

If tax is paid in the foreign country on the foreign rental income, the resident may claim a foreign tax offset (equal to the lower of the foreign tax paid or the amount of the Australian tax payable). If the foreign investment results in a tax loss (that is, deductible expenses exceed assessable income), the tax loss can be offset against all assessable income in Australia.

Temporary residents are not assessable on foreign investment income, and they may not offset foreign interest expenses (for example) against other assessable income.

Interest paid by a resident to a nonresident lender is subject to a final withholding tax of 10%. Interest paid by a temporary resident to a nonresident lender (for example, an overseas mortgagee) is exempt from the interest withholding tax. Royalties paid to nonresidents are generally subject to a final withholding tax of 30% (or 10% to 15% under applicable treaties).

Accrued foreign company income. Australian law contains several attribution rules that seek to tax residents (but not temporary residents) on income and gains accumulating in certain foreign companies and foreign trusts, even though no actual distribution of income or gains is received by the resident. If a resident taxpayer has a controlling interest in the foreign company or trust and if the company is a resident of a country that does not have a comparable tax system to that of Australia, the attribution rules tax the resident on the resident's share of the foreign company's accrued income. Interests in foreign investment funds held by Australian residents may also be subject to tax if the resident does not have a controlling interest, unless an exemption applies. The attribution rules prevent resident investors from deferring tax by accumulating income offshore through controlling and noncontrolling interests in foreign entities (for example, offshore companies and trusts). The legislation focuses on the passive activities of the foreign entity.

Temporary residents are exempt from the above tax rules and the associated complex reporting obligations.

The Australian government has introduced draft legislation to repeal and replace the above rules.

Converting transactions denominated in foreign currency into Australian dollar amounts. Taxpayers are generally required to convert income amounts denominated in foreign currency into Australian dollar (A$) amounts at the time of derivation of the income. Likewise, taxpayers 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 residents (but not temporary residents) who have acquired or disposed of foreign currency rights and liabilities. For resident taxpayers, these rules normally 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.

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

The above rules provide limited exceptions for certain existing assets and obligations.

Temporary residents may be exempt from the above tax rules on certain foreign-currency denominated accounts that are located outside Australia.

Concessions for individuals who are considered to be living away from home. If an individual is considered to be living away from home (LAFH), several tax-free benefits can be provided. For example, a Living Away From Home Allowance (LAFHA) is an allowance that can be paid to an individual to compensate him or her for the additional expenses incurred as a result of being required to be LAFH to perform his or her employment duties. The

LAFHA can consist of an exempt accommodation component and an exempt food component. If the LAFHA is properly calculated and satisfies certain FBT requirements, neither the employer nor the employee is subject to FBT or income tax on the benefit received. Certain other LAFH benefits may be provided on a concessional basis for tax and FBT purposes.

Taxation of employer-provided stock options. Discounts provided to employees on shares or options acquired under an employee share scheme are generally included as ordinary income in the employee's assessable income in the year they are acquired.

For grants made before 1 July 2009 of "qualifying" shares or options, 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
- The end of 10 years

Alternatively, an employee may elect to be taxed in the year of the grant.

A "qualifying" share or option is a share or option acquired under an employee share scheme that satisfies certain prescribed conditions.

For grants made after 1 July 2009, the time at which tax is payable by the employee is based on the terms of the plan. The extent to which taxation can be delayed from the time of grant to the "deferred taxing point" depends on whether a real risk of forfeiture of the shares or options exists under the conditions of the scheme. A real risk of forfeiture exists if the employee could lose or forfeit the interest other than by disposing of it or exercising it. The taxing time is the later of when the risk of forfeiture ceases or when genuine disposal restrictions present at the outset cease to have effect. The alternative of employees electing to be taxed in the year of grant no longer exists for grants made after 1 July 2009.

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 the greater of the following two amounts:
- The amount equal to the share value less exercise price
- The value determined according to a formula similar to the Black and Scholes model for valuing exchange-traded options.

For options and shares granted overseas after 26 June 2005, and for options and shares granted overseas to an employee who becomes subject to Pay As You Go (PAYG) tax withholding on salary and wages after 26 June 2005 when the option or share 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. Effective from 1 July 2009, Australian residents are likely to be subject to tax on the entire discount, with a foreign tax offset for any foreign tax paid (up to the Australian tax otherwise payable). Apportionment of the discount would continue for temporary residents.

No tax withholding obligation is imposed in Australia with respect to benefits under employee share schemes unless the employee fails to provide his or her Australian Tax File Number (TFN) to the employer by the end of the financial year.

Employers providing benefits under employee share schemes are required to comply with annual employer reporting obligations to disclose, among other items, the number of awards made and the estimated taxable value of these awards.

Capital gains and losses. Residents (but not temporary residents) are taxable on their worldwide income, including gains realized on the sale of capital assets. 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. However, trading stock acquired for the purpose of resale is not subject to capital gains treatment.

Employee shares or options disposed of within 30 days of the cessation time or deferred taxing point (see *Taxation of employer-provided stock options*) are not subject to capital gains tax (CGT).

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

Assets acquired before 19 September 1985 are generally exempt from CGT. In general, any gain (or loss) derived from the sale of an individual's principal residence is ignored for CGT purposes. However, special rules may apply if the principal residence had been used to generate rental income.

Capital losses in excess of current year capital gains (before the 50% discount is applied, if applicable) are not deductible against other income, but may be carried forward to be offset against future capital gains.

Nonresidents and temporary residents are taxable only on gains arising from disposals of "taxable Australian property" (TAP). The following assets are considered to be TAP:
- Australian real property
- An indirect interest in Australian real property
- A business asset of a permanent establishment in Australia
- An option or right to acquire any of the CGT assets covered by the first three items above
- A CGT asset that is deemed to be TAP as a result of the taxpayer making an election to disregard any deemed gain or loss arising on leaving Australia

Antiavoidance measures ensure that nonresidents and temporary residents continue to be taxable on disposals of interests in companies whose balance sheets are largely comprised of real property assets, including mining interests.

Australian residents who are not temporary residents just before breaking residence are subject to a CGT charge on the deemed disposal of all assets held at the date of breaking residence that are not TAP. The taxpayer may elect that this deemed disposal charge not apply. However, such an election deems the asset to be TAP until residence is resumed or the asset is disposed of (even if the asset would not otherwise be TAP). As a result a CGT charge is imposed if the assets are disposed of while the individual is non-resident.

Temporary residents are generally exempt from tax on gains derived from assets that are not TAP. However, temporary residents who acquire shares and options under employee share schemes may be subject to CGT on a portion of gains derived from disposals of these 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 for all expenses 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 temporary residents. Tax offsets are subtracted from tax calculated on taxable income. The amount of offset that may be claimed varies depending on the income of the taxpayer and spouse (if applicable) and whether the taxpayer or spouse is eligible for Family Tax Benefits.

Nonresidents may not claim tax offsets.

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.

Deductions are allowed for salaries and wages paid to employees, as well as for interest, rent, repairs, commissions and similar expenses incurred in carrying on a business.

Expenditure for the acquisition or improvement of assets is not deductible, but a capital allowance may be claimed as a deduction. Expenditure for acquisitions or improvements may be added to the cost base of an asset for CGT purposes and may reduce any taxable gain arising from a later disposition.

Rates. Income tax for the 2010–11 tax year (1 July 2010 to 30 June 2011) is levied on residents 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	37,000	0	15
37,000	80,000	4,650	30
80,000	180,000	17,550	37
180,000	—	54,550	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. Resident taxpayers may be liable for the 1.5% Medicare Levy (see Section B) in addition to income tax at the above rates.

Income tax for the 2010–11 tax year is levied on nonresidents at the following rates.

Taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
A$	A$	A$	%
0	37,000	0	29
37,000	80,000	10,730	30
80,000	180,000	23,630	37
180,000	—	60,630	45

Nonresidents are not liable for the Medicare Levy.

For a sample tax calculation, see Appendix 2.

B. Flood levy

Individuals who have a taxable income over A$50,000 in the 2011–12 financial year will be liable to the flood levy. This levy, which will be imposed for one year only, is designed to assist affected communities recover from various natural disasters.

The flood levy is levied at the following rates.

Taxable income		Levy on lower	Rate on
Exceeding	Not exceeding	amount	excess
A$	A$	A$	%
0	50,000	0	0
50,000	100,000	0	0.5
100,000	—	250	1

C. Social security

Medicare Levy. Technically, Australia does not have a social security system. However, a Medicare Levy of 1.5% of taxable income is payable by resident individuals for health services (provided that they qualify for Medicare services). This is the only levy imposed in Australia that is equivalent to a social security levy. An exemption from the Medicare Levy may apply if the individual is from a country that has not entered into a Reciprocal Health Care Agreement with Australia.

No ceiling applies to the amount of income subject to the levy. However, 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.

Superannuation (pension). Australia also has a compulsory private superannuation (pension) contribution system. Under this system, employers must contribute an amount at least equal to 9% of the employee's "ordinary time earnings" (OTE) base to a complying superannuation fund for the retirement benefit of its employees. In general, OTE consists of salary and wages and most cash compensation items paid for ordinary hours of work. Transitional measures can apply for certain pre-existing superannuation earnings base arrangements. The maximum OTE base for each employee for the year ending 30 June 2011 is A$42,220 per quarter. No obligation is imposed to make contributions with respect to OTE above that level.

If an employee comes from a country with which Australia has entered into a bilateral social security agreement, it may be possible to keep the employee in his or her home country social security system under a certificate of coverage issued by his or her home country and therefore remove the obligation to make the Australian superannuation contributions outlined above. Australia has entered into such agreements with Belgium, Chile, Croatia, Finland, Germany, Greece, Ireland, Japan, Korea (South), Macedonia, the Netherlands, Norway, Portugal, Switzerland and the United States.

An exemption from superannuation may be available in limited circumstances for senior foreign executives who hold a certain business visa.

D. 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) tax withholding system. Income other than salary and wages, such as investment income, is subject to quarterly or annual PAYG installments.

E. Double tax relief and tax treaties

Foreign tax offset system. An offset is available for payments of foreign tax that are similar to the Australian income tax payable on the same income. Both Australian and foreign resident taxpayers may claim a tax offset (equal to the lower of the foreign tax paid or the amount of the Australian tax payable) for an amount included in the taxpayer's assessable income on which they have paid foreign income tax.

Under revised rules effective from 1 July 2008, excess foreign tax offsets may not be carried forward. However, transitional rules apply to excess foreign tax offsets relating to the five income tax years preceding 1 July 2008.

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

Argentina	Italy	Russian Federation
Austria	Japan	Singapore
Belgium	Kiribati	

Canada
Chile
China
Czech Republic
Denmark
Fiji
Finland
France
Germany
Hungary
India
Indonesia
Ireland
Korea (South)
Malaysia
Malta
Mexico
Netherlands
New Zealand
Norway
Papua New Guinea
Philippines
Poland
Romania
Slovak Republic
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Taiwan
Thailand
Turkey
United Kingdom
United States
Vietnam

F. Temporary visas

Nonresidents seeking entry to Australia, including for tourist purposes, must obtain visas before entry. Citizens of New Zealand are exempt from this requirement. Individual eligibility requirements and relevant immigration legislation for each visa category must be considered before applying for a visa.

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 are generally not eligible for public health benefits in Australia, unless Australia has a reciprocal health care agreement with the country of the visa holder.

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. A Business Electronic Travel Authority (ETA) is an electronically stored authority to travel to Australia for short-term business entry and is available to citizens of more than 30 eligible countries. A Business ETA can be applied for through a travel agent or airline or online through the immigration department website. The Business ETA allows a stay in Australia for up to three months for business meetings and related activities and is available for a single entry or multiple entries.

An eVisitor visa is essentially the same visa as a Business ETA. It is available to certain European nationals not eligible for the ETA. The eVisitor visa must be applied for online through the immigration department website.

Individuals from non-ETA/eVisitor-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, eVisitor or Subclass 456 visa holder may work in Australia if the work is short term (generally not more than six weeks), not ongoing 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 work in Australia may apply for a Subclass 457 visa. The Subclass 457 visa is valid for up to four years and may be renewed, provided the application criteria are met each time.

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.
• The individual completes the visa application.

Each step has separate eligibility criteria which must be met. These include business operational requirements, minimum skill and experience levels and health and character criteria.

In particular, employers must demonstrate (by meeting specific training benchmarks) that they provide for the training of their Australian employees. Employers must also attest to their strong record or commitment to employing local labor and to following nondiscriminatory employment practices. In addition, employers can only nominate occupations listed on the relevant *Government Gazette* notice and they must ensure that all foreign nationals are employed in Australia at market salary rates or higher rates. Business sponsors must meet several business sponsor obligations with respect to all sponsored Subclass 457 visa holders (and any accompanying family members). The immigration department monitors all sponsors, and sanctions are imposed on sponsors that do not meet their sponsorship obligations.

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, Cyprus, Denmark, Estonia, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Korea (South), 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, and 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.

Work and Holiday. The Work and Holiday visa is similar to the Working Holiday visa described above, but has its own individual eligibility requirements. This visa is available to passport holders of Bangladesh, Chile, Indonesia, Malaysia, Thailand, Turkey and the United States. Holders of Iranian passports who are currently in Australia may also apply.

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 provide them with skills that they will use on returning to their home country. The employer must also apply for and be granted by the immigration department the status of Occupational Trainee sponsor.

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.

Investor retirement. The Investor 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 have sufficient net assets and undertake to make a significant investment in state or territory government bonds.
- They are sponsored by an appropriate regional authority of a territory or state government.
- Their presence in Australia will be without cost to Australia's social and welfare services.

The Investor Retirement visa application must be supported by the government of the state where the individual intends to reside. Consequently, individuals must check with the relevant state government body regarding its specific requirements.

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 Subclass 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.

G. 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 Employer Nomination Scheme, Australian employers may nominate highly skilled individuals from overseas for permanent residence for highly skilled positions that are on the Employer Nomination Scheme Occupation List 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.
- They are nominated for a senior management position that attracts a base salary of at least A$250,000.

General Skilled-Points Test. Individuals may apply for permanent residence on the basis of their skills for an occupation listed on Australia's Skilled Occupation List. Applicants are assessed based on a General Skilled-Points Test, which awards points for employability factors, including qualifications, age, employment experience and language capabilities. Threshold "pass mark" points' requirements may change with little notice. Sponsorship from eligible relatives who are Australian citizens or Australian permanent residents may allow for a lower pass mark. Visa applicants must 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.

Partner Program. Under the Partner Program, spouses (including de facto and same-sex relationships) of Australian citizens or Australian permanent residents may apply for permanent residence through sponsorship by their Australian spouse. In most cases, applicants are issued a two-year temporary visa which converts to permanent residence if the partner relationship is ongoing after the two-year period.

H. Family and personal considerations

Family members. Spouses (including de facto and same-sex 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. Family members who are not included in a temporary resident's initial visa application may generally apply for a visa at a later date.

If sponsorship or nomination is a requirement for the primary applicant, spouses and dependants must be included in the sponsorship or nomination.

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.

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	—	—
Employer contributions to home country benefit plan	—	X	(b)
Bonus	X	—	(a)
Retained hypothetical tax	(X)	—	(a)
Cost-of-living allowance	X	—	(a)
Housing allowance	—	X	(c)
Employer-provided housing	—	X	(c)
Housing contribution	(X)	—	(a)
Education reimbursement	—	X	(c)
Hardship allowance	X	—	(a)
Other allowance	X	—	(a)
Foreign service premium	X	—	(a)
Home leave	—	X	(d)
Other compensation income	X	—	(a)
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, 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. Limited concessions may apply to temporary residents.
(b) Amount is regarded as a fringe benefit and is subject in full to the Fringe Benefits Tax. However, employer contributions made to a foreign benefit plan on behalf of a temporary resident are exempt.
(c) Amount is regarded as a fringe benefit. However, it is eligible for exemption from FBT if it is provided to an expatriate who is living away from his or her usual residence and if certain other conditions are met. It is also exempt from income tax.
(d) Amount is regarded as a fringe benefit, but concessional rules apply in determining the taxable value of an amount provided to an expatriate. Fringe benefits are exempt from income 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 in Australia.
(f) The capital gains are subject to income tax if received by residents (but not temporary residents). However, an offset 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. Special rules apply to employer-provided shares or options.

Appendix 2: Sample tax calculation

A sample tax calculation for the 2010–11 tax year is set out below. The tax calculation is based on the following factual assumptions:

- The taxpayer is married with two children under age 12.
- The taxpayer is a full-year tax resident of Australia but qualifies as a temporary resident.
- All workdays are spent in Australia.
- The taxpayer received A$1,500 interest from taxable U.S. sources and A$1,000 from Australian sources.
- All other income and deductions are listed below.
- All amounts are in Australian dollars.
- The assignment is for a two-year period.

The calculation is also based on the following tax assumptions:

- Moving expenses are assumed to be a reimbursement of actual costs and accordingly exempt from Fringe Benefits Tax (FBT).
- The housing allowance is assumed to qualify as an exempt accommodation component of a Living Away From Home Allowance (LAFHA) and accordingly exempt from FBT.
- The cost of living allowance is assumed to qualify as an exempt food component of a LAFHA and is accordingly exempt from FBT (subject to annually indexed limits published by the Australian Taxation Office).

	A$	A$
Calculation of total income		
Base salary (net of hypothetical tax)		50,000
Bonus (current year)		10,000
Cost of living allowance		5,000
Housing (paid by company)	12,000	
Less employee contribution	(7,500)	4,500
Moving expenses		12,000
Relocation allowance		6,000
Total compensation		87,500
Interest (U.S. source)		1,500
Interest (Australian source)		1,000
Total income		90,000

Computation of Australian income tax	A$	A$
Base salary		50,000
Bonus (current year)		10,000
Housing – employee contribution		(7,500)
Relocation allowance		6,000
Taxable compensation		58,500
Interest (Australian source)		1,000
Interest (U.S. source)		0
Total assessable income		59,500
Less allowable deductions		(0)
Taxable income		59,500
Tax on taxable income		11,400
Medicare Levy		892
Net tax		12,292
Less foreign tax offset		0
Income tax payable		12,292

Austria

(Country code 43)

Vienna — **GMT +1**

Ernst & Young
IZD-Tower
Wagramer Strasse 19
1220 Vienna
Austria

Executive contacts

Regina Karner	(1) 21170-1296 Email: regina.karner@at.ey.com
Herwig Debriacher	(1) 21170-1437 Email: herwig.debriacher@at.ey.com
Doris Morawitz	(1) 21170-1151 Email: doris.morawitz@at.ey.com
Nicole Nebel	(1) 21170-1178 Email: nicole.nebel@at.ey.com
Rainer Rainer	(1) 21170-1265 Email: rainer.rainer@at.ey.com
Olivier Roblyek	(1) 21170-1294 Email: olivier.roblyek@at.ey.com
Anna Wieden	(1) 21170-1438 Email: anna.wieden@at.ey.com

Immigration contact

Herwig Debriacher	(1) 21170-1437 Fax: (1) 216-2077 Email: herwig.debriacher@at.ey.com

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.

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
• Investment income
• Rental income
• 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
• 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.

Gains derived by residents from the sale of shares and investment funds that were acquired before 1 January 2011 are subject to withholding tax at a rate of 25%. Special transition treatment applies in 2011 to gains from the sale of bonds, certificates, derivatives and shares in a corporation that represent 1% or more of the issuing company at any time during the five years before the sale.

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.
- 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.

The favorable taxation described above applies only to stock options that were granted on or before 31 March 2009. Stock options granted after that date do not benefit from the favorable taxation.

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).
- 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 before 1 October 2011 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 before the sale and if the period between acquisition and sale is more than one year. Losses may be set off only against gains from the sale of shares.

Gains derived from the sale of shares in a corporation before 1 October 2011 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 derived 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, excluding securities, are not taxable if the assets are held longer than one year. Otherwise, the gains are taxed as ordinary income. If the assets are held less than one year, the difference between the acquisition price 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
- 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 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*.

Rates. For 2011, income tax is calculated in accordance with the rules set forth below.

Income below €11,000 is tax-free for ordinarily resident individuals, while the income of nonresidents is tax-free up to €2,000.

If income exceeds the €11,000 limit, but does not exceed €25,000, the tax on the entire income equals the following:

$$\frac{\text{Amount of income} - €11{,}000 \text{ x } 5{,}110}{€14{,}000}$$

If income exceeds €25,000, but does not exceed €60,000, tax on the entire income equals the following:

$$\frac{\text{Amount of income} - €25{,}000 \text{ x } 15{,}125}{€35{,}000} + €5{,}110$$

If income exceeds €60,000, tax on the entire income equals the following:

$$\text{Amount of income} - €60{,}000 \text{ x } 0.5 + €20{,}235$$

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 €2,100 are tax-free. If payments exceed the €2,100 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 carry forward losses incurred in 1991 and subsequent years for an unlimited time period. The amount of losses that may be set off is generally limited to 75% of the taxable income per year. Excess losses may be carried forward.

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.
- 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 double households, not exceeding €2,200, and meeting the needs of the household (maximum of 55 square meters)
- Extraordinary expenses for children's education, up to €110 per month per child
- Home leave allowances of up to €306 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.

All expenses deducted by the employer with respect to the payroll must be reported in the annual income tax return. If no expenses were deducted by the employer and if an expatriate has additional expenses or extraordinary expenses, he or she may file an income tax return on a voluntary basis.

B. Other taxes

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

Inheritance and gift taxes. The inheritance and gift taxes were eliminated, effective from 1 August 2008.

To prevent double taxation, Austria has entered into inheritance tax treaties with the Czech Republic, France, Hungary, Liechtenstein, the Netherlands, Sweden, Switzerland and the United States. The inheritance tax treaty with Germany has been terminated.

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
- Accident insurance

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

Contributions. Social security payments on wages or salaries must be made by employers and employees at the following rates for 2011.

	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	3.70	7.65
Salary-earners	3.82	3.83	7.65
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	0.55	0.55

The maximum wage base for monthly contributions for each employee is €4,200. In addition, social security is levied on special payments (13th and 14th salaries, or bonus), up to a ceiling of €8,400. The maximum social security contributions for 2011 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	12,717.60
Employee's share*	18.20	17.20	10,617.60
For salary-earners			
Employer's share	21.83	21.33	12,794.04
Employee's share	18.07	17.07	10,541.16

* This amount does not take into consideration the special bad weather contribution for workers in the construction industry and agriculture. Each employer and employee must make such contribution at a rate 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)	Greece	Philippines (b)
Belgium	Hungary	Poland
Bosnia-Herzegovina	Iceland	Portugal
	Ireland	Romania
Bulgaria	Israel	Serbia
Canada (a)	Italy	Slovak Republic
Chile (a)	Latvia	Slovenia
Croatia	Liechtenstein	Spain
Cyprus	Lithuania	Sweden
Czech Republic	Luxembourg	Switzerland
Denmark	Macedonia	Tunisia (c)
Estonia	Malta	Turkey
Finland	Montenegro	United Kingdom
France	Netherlands	United States (a)
Germany	Norway	

(a) This agreement covers pension insurance only.
(b) This agreement covers pension and accident insurance only.
(c) This agreement covers all types of insurance except for unemployment insurance.

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.

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

(a) The treaty with the former Czechoslovakia currently applies.
(b) Austria honors the USSR treaty with respect to Tajikistan and Turkmenistan.
(c) This treaty was terminated, effective from 31 December 2008.

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 work permits to work in Austria. Citizens of certain new EU countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia) do not need a work permit to work in Austria as of 1 May 2011. Nationals of Bulgaria and Romania must obtain a work permit similar to the permit required for nationals of countries outside the EU and EEA. Nationals of Cyprus and Malta do not need work permits to work 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. In addition, further registration is required if the stay exceeds three months.

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 new EU countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, 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. Nationals of Cyprus and Malta do not need work permits to work in Austria.

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.
- 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 2011, limits are 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 2011, the maximum base is €4,200). Consequently, for 2011, the monthly gross salary must be at least €2,520 with additional special payments. As a result, for 2011, annual income must be at least €35,280 (14 times €2,520).

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.
- 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 and is legally residing in Austria.
- The foreign national has completed the last year of his or her compulsory education in Austria, is legally residing in Austria, and at least one of his or her parents 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 been married to an Austrian citizen for the last five years and has a domicile in Austria (if divorced).
- The foreign national was not covered by the Employment of Foreigners Act and is still a legal resident of Austria.
- The foreigner has a spouse or unmarried minor child (including a stepchild or adoptive child) in accordance with the above mentioned requirements and has been legally residing in Austria for 12 months.

A non-EU or non-EEA employee who already has a work or employment permit in another EU 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 EU-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 ranging from approximately €1,000 to €20,000 per worker. In the case of several violations within one organization or recurring violations, fines may be as much as €50,000 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 six 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 1 year (18 months for key persons) and may be renewed for a 2-year period. After five years, the permanent residence permit is granted indefinitely.

Depending on the nationality of the non-EU and non-EEA national, a first-time applicant may apply for residence permits outside Austria at any Austrian embassy or he or she may apply in 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).
- 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	Isle of Man	Monaco
Croatia	Japan	San Marino
Guernsey	Jersey	Switzerland

The following countries have similar requirements for the issuance of B-class licenses.

Australia	Canada	South Africa
Bosnia-Herzegovina	Israel	United States
	Korea (South)*	

* Only for licenses issued as of 1 January 1997.

Appendix 1: Sample tax calculation for 2011

The following is a sample tax calculation for an employed resident individual.

	€
Calculation of taxable income	
Salary	140,000.00
Less:	
Vacation and Christmas bonus	(20,000.00)
Social security on salary	(9,107.28)
General lump-sum deductions	(132.00)
Special expenses lump-sum deduction	(60.00)
Taxable income	110,700.72
Calculation of net income tax	
Tax	45,585.36
Less:	
Wage tax credit	(54.00)
Transportation tax credit	(291.00)
Tax on vacation and Christmas bonus, after deduction of social security and €620, at 6%	1,076.76
Net income tax	46,317.12
Calculation of net salary	
Total salary	140,000.00
Less:	
Social security	(10,541.16)*
Net income tax	(46,317.12)
Net salary	83,141.72

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

	€
Regular salary (€4,200 x 12 x 18.07%)	9,107.28
Vacation and Christmas bonus (€4,200 x 2 x 17.07%)	1,433.88
	10,541.16

Azerbaijan

(Country code 994)

Baku **GMT +4**

Ernst & Young
Hyatt International Centre
Hyatt Tower III, 1st Floor
Izmir 1033
Baku AZ 1065
Azerbaijan

Executive and immigration contact

Arzu Hajiyeva | (12) 490-7020
Fax: (12) 490-7017
Email: arzu.hajiyeva@az.ey.com

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 Central 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. Interest on securities and deposits is exempt from personal income tax until 1 January 2013. Royalties, copyrights and rental income are taxable.

Capital gains. Capital gains derived from the sale of most movable tangible property that is held for business purposes 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
- Expenses paid or reimbursed by the employer for business trips

Personal allowances. Individuals with three or more dependants, including students under the age of 23, may reduce their monthly taxable income by AZN 20.

Business deductions. Deductible business expenses include expenditure for materials, amortization deductions, lease payments, wages, state social security payments, payments for therapeutic nourishment, milk and similar products provided to employees (deductible within the established limits), payments of interest and expenses for repairs to capital production assets.

Rates. The following tax rates apply to an individual's taxable income earned from nonentrepreneurial activities.

Annual taxable income		Tax on lower	Rate on
Exceeding AZN	Not exceeding AZN	amount AZN	excess %
0	24,000	0	14
24,000	—	3,360	30

The taxable income of an individual who conducts entrepreneurial activities without creating a legal entity is subject to tax at a flat rate of 20%.

Relief for losses. Losses may be carried forward for up to five years. No limitations are imposed on the deductible amount of losses that can be claimed for each year.

B. Other taxes

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

The value of gifts and/or material assistance for education and medical treatment up to a limit of AZN 1,000 is exempt from income tax. The value of an inheritance up to a limit of AZN 20,000 is exempt from income tax. Gifts, material assistance and inheritances received from family members are exempt from income tax without limit.

Property tax. Azerbaijan levies an annual property tax at a rate of 0.1% on the appraised value of buildings exceeding AZN 5,000.

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:
- They must 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.
- They must submit an annual tax return no later than 31 March of the year following the reporting year.
- They must 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	Hungary	Qatar
Belarus	Iran	Romania
Belgium	Italy	Russian Federation
Bulgaria	Japan	Switzerland
Canada	Kazakhstan	Tajikistan
China	Korea (South)	Turkey
Czech Republic	Latvia	Ukraine
Estonia	Lithuania	United Arab Emirates
Finland	Luxembourg	United Kingdom
France	Moldova	Uzbekistan
Georgia	Netherlands	
Germany	Norway	
Greece	Poland	

F. Visas

Citizens of countries with which Azerbaijan has a visa regime must have a visa to enter Azerbaijan. In general, the entry visa is granted to foreigners to enter Azerbaijan. The period of validity is from three days to three months for the single entry-exit visa, and from one to two years for the multiple entry-exit visa. The exit visa is issued to foreigners that have official permission to reside in Azerbaijan. The exit visa is issued free of state duty. Applicants must present a letter of invitation, a completed application (available at the consulate), passport-size photographs, a passport and the applicable fee to obtain a visa from the diplomatic representations, embassies and consulates of Azerbaijan abroad, as well as from the Consular Department of the Ministry of Foreign Affairs of Azerbaijan. The following are two exceptions:

- Citizens of certain countries under several international agreements to which Azerbaijan is a party can obtain the visa on arrival at international airports by submitting a set of documents to state officials through the use of an invitation letter approved by the State Migration Service.
- Citizens of countries that have direct airline relations with Azerbaijan but do not have embassies and accredited consulates of Azerbaijan can apply for visas on arrival at international airports by submitting a set of documents to state officials.

In addition, effective from 1 July 2009, permits for staying in Azerbaijan temporarily or permanently are obtained through the so-called “one window” principle, which is designed to ease the application process. Under the “one window” principle, all documents necessary for the registration of expatriates in Azerbaijan or for the obtaining of work permits for them are submitted to one state body (State Migration Service), which, in turn, coordinates the work with other state authorities and issues identification cards and work permits for expatriates.

The “one window” principle is likewise used to register expatriates who have already been granted permits for staying in Azerbaijan temporarily or permanently and to obtain special identifications for them.

Citizens of countries that have a nonvisa regime with Azerbaijan, such as the Russian Federation, do not need a visa to enter Azerbaijan.

G. Work permits

Expatriates must obtain a work permit to work in Azerbaijan. Effective from 1 July 2009, work permits are obtained through the “one window” principle (see Section F).

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.

Bahamas

(Country code 1)

Nassau **GMT -5**

Ernst & Young
Mail address:
P.O. Box N 3231
Nassau
Bahamas

Street address:
One Montague Place
Third Floor
East Bay Street
Nassau
Bahamas

Executive contacts

Hubert A. Chipman	(242) 502-6000 Fax: (242) 502-6090 Email: hubert.chipman@bs.ey.com
Julian Rolle	(242) 502-6000 Fax: (242) 502-6090 Email: julian.rolle@bs.ey.com

Immigration contact

Hubert A. Chipman	(242) 502-6000 Fax: (242) 502-6090 Email: hubert.chipman@bs.ey.com

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 12% of the sale price.

Business license fee. Self-employed persons are subject to an average annual business license fee of up to 1% of revenue. The rate 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 3.9% for the employee and 5.9% for the employer.

D. Tax treaties

The Bahamas has not entered into any double tax treaties. The Bahamas has entered into Tax Information Exchange Agreements with several countries, including, but not limited to, Canada, Germany, the United Kingdom and the United States.

E. Temporary visas

To enter the Bahamas, visitors from countries other than the United States or Canada must hold a passport that is valid for six months beyond the dates of travel and/or a valid Bahamas visa. 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 (including those from Hawaii) entering as bona fide visitors for less than eight months.
- U.S. residents (noncitizens) for visits of up to 30 days.
- Citizens of the following countries who have valid passports for stays up to the stated periods:
  - Eight months: Belgium, Greece, Iceland, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, San Marino, Spain, Switzerland and Turkey.
  - Three months: Austria, Denmark, Finland, France, Germany, Ireland, Israel, Japan, South Africa and Sweden.
  - Fourteen days: Argentina, Bolivia, Brazil, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Uruguay and Venezuela.

Citizens of all other countries require both a valid passport and visa to enter the Bahamas.

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.
- 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 dependants, 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 dependant. 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.

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$500,000 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 dependants 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.

Bahrain

(Country code 973)

Manama	GMT +3

Ernst & Young
Mail address:
P.O. Box 140
Manama
Bahrain

Street address:
14th Floor, The Tower
Bahrain Commercial Complex
Manama
Bahrain

Executive and immigration contacts

Mubeen Khadir	1753-5455 Email: mubeen.khadir@bh.ey.com
Ivan Zoricic	1753-5455 Email: ivan.zoricic@bh.ey.com

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

The following social security contributions are payable on basic salary and recurring constant allowances.

Contribution	Rate (%)
For Bahrainis	
Social insurance contributions (pension fund)	
Employer	9
Employee	6
Insurance against employment injuries; payable by employer	3
Unemployment insurance; payable by employee	1
For expatriates	
Insurance against employment injuries; payable by employer	3
Unemployment insurance; payable by employee	1

The above rates apply up to an income ceiling of BD 4,000 per month. No contributions are payable for income above this ceiling.

C. Visas

All foreign nationals, with the exception of nationals of Gulf Cooperation Council (GCC) countries and nationals of certain other countries (such as Australia, Canada, Germany, France, Italy, Ireland, Japan, Malaysia, the Netherlands, New Zealand, the Russian Federation, Spain, Sweden, Switzerland, Turkey, the

United Kingdom and the United States) must obtain valid entry visas before their arrival in Bahrain.

Under reciprocal arrangements between Bahrain and GCC countries, citizens of these countries can enter Bahrain without a visa. The nationals of other countries mentioned above may enter Bahrain on a visa granted on arrival. Such visas are usually valid for two weeks. However, they can be extended for another two weeks (or longer for certain nationalities) if necessary. The list of countries whose nationals may obtain a visa on arrival is subject to change and is available at www.evisa.gov.bh. Sponsors intending to employ foreign (non-GCC) 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. 72-hour/7-day visas may be obtained on arrival in Bahrain at the international airport by GCC resident aliens. 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 and a residence permit for another GCC country.

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 Labour Market Regulatory Authority (LMRA) or the Ministry of Labour, depending on the type of employee. The work permit together 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.

Employers must pay BD 10 per month to the LMRA with respect to each of their expatriate employees.

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 Bahraini 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.

Algeria	Iceland	Oman
Argentina	Indonesia	Poland
Australia	Ireland	Portugal
Austria	Italy	Qatar
Bahamas	Jamaica	Romania
Belgium	Japan	Russian Federation
Bermuda	Jersey	Saudi Arabia
Brazil	Jordan	Singapore
Brunei Darussalam	Kenya	Slovak Republic
Bulgaria	Korea (South)	South Africa
Canada	Kuwait	Spain
China	Luxembourg	Sweden
Cyprus	Malawi	Switzerland
Czech Republic	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	
	Norway	

The first step for obtaining a driver's license in Bahrain for those individuals who are not from one of the specified countries listed above 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.

Barbados

(Country code 1)

Bridgetown **GMT -4**

Ernst & Young
Mail address:
P.O. Box 261
Bridgetown BB11000
Barbados

Street address:
Worthing
Christ Church BB15008
Barbados

Executive and immigration contacts

Maria Robinson	(246) 430-3878 Fax: (246) 435-2079 Email: maria.robinson@bb.ey.com
Marilyn Husbands	(246) 467-8601 Fax: (246) 435-2079 Email: marilyn.husbands@bb.ey.com
Toni Jackman	(246) 430-3804 Fax: (246) 435-2079 Email: toni.jackman@bb.ey.com

International High Net Worth Group contacts

Gail Ifill	(246) 430-3954 Fax: (246) 435-2079 Email: gail.s.ifill@bb.ey.com

Dominique Pepin	(246) 430-3812 Fax: (246) 435-2079 Email: dominique.pepin@bb.ey.com

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 is included in the employee's taxable income, up to a maximum of BDS$48,000 per year.

Amounts paid as a housing allowance are fully taxable.

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 statements, 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, 50% of royalties received in Barbados is exempt from tax. All other royalties received are aggregated with other income and subject to tax at the rates set forth in *Rates*. Net income from the rental of residential 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 25% withholding tax, which represents a prepayment of tax. However, if a nonresident individual has habitually filed tax returns with respect to rental income in prior years, no tax is required to be withheld. In addition, if the payer is a company operating in the international business and financial services sector, rental income is not subject to withholding tax. Interest earned by nonresidents on debentures, bonds and stock issued by the government of Barbados is exempt from tax.

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 option plans.

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

Deductions

Personal deductions and allowances. For 2011, residents are entitled to the deductions and allowances listed in the following table.

Type	Maximum deductible amount
Basic allowance	BDS$25,000
Basic allowance for pensioners	BDS$40,000
Dependent spouse allowance	BDS$3,000
Dependent allowance	BDS$1,000 (a)
Registered retirement contributions by a self-employed person	Lower of 15% of assessable income and BDS$10,000
Registered retirement savings plan contributions by an employee or self-employed person	Lower of 15% of assessable income and BDS$10,000
Contributions by an individual to a registered retirement plan and to a registered retirement savings plan	Lower of 15% of assessable income and BDS$10,000 for both plans
Registered retirement contributions by employee to an employer plan	Total contributions up to 15% of pensionable income

Type	Maximum deductible amount
Home allowance (inclusive of BDS$2,000 for home energy audits)	Up to BDS$10,000
Purchase or installation of "environmentally preferred products" with respect to residential property	Up to BDS$5,000
Retrofitting of residential property with roof straps and shutters	Up to BDS$2,500
Covenants to incapacitated individuals	5% of assessable income
Amounts of BDS$1 million or less paid to registered or exempt charities	10% of assessable income
Amounts in excess of $1 million paid to registered or exempt charities	50% of assessable income
Purchase of new shares in a public company or investment in a mutual fund	Up to BDS$10,000 (b)
Purchase of shares in a credit union	Up to BDS$10,000 (b)
Investment in a registered venture capital fund or innovation fund	Up to BDS$10,000
Rental allowance	Lower of 20% of rent paid and BDS$3,000

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

(b) A proposal to remove the allowances for an investment in a mutual fund and the purchase of shares in a credit union is pending before the Barbados parliament. The removal of these allowances is expected to be effective from the 2011 income year.

Nonresidents may not claim the above deductions and allowances.

Specially qualified individuals working in the international business and financial services sector may qualify for tax exemptions equal to percentages of their remuneration, including salary, fees or any other emoluments, if they hold a valid work permit for at least three years. The following are the tax exemptions.

Income	Percentage exemption
Income not exceeding BDS$150,000	35%
Income exceeding BDS$150,000 but not exceeding BDS$500,000	50%
Income in excess of BDS$500,000	60%

If a resident but nondomiciled individual earns income from sources outside Barbados and transfers this income to Barbados through the banking system, the individual may claim a foreign currency earnings credit as set out in the following table.

Foreign earnings as a percentage of total earnings	Rebate of income tax (expressed as a percentage of income tax on foreign earnings)
20% and under	35%
Over 20% but under 41%	45%
At least 41% but under 61%	64%
At least 61% but under 81%	79%
81% and over	93%

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 for financial statements' purposes are replaced by capital allowances for tax purposes. Annual allowances from 5% to 33 1/3%, calculated on a straight-line basis, are granted on the original cost of fixed assets. In general, an initial allowance of 20% is granted on the cost of plant and machinery purchased in an income year.

In addition, 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 2011.

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. However, losses incurred from the rental of residential property can be offset only against taxable income derived from the rental of residential property. These losses may also be carried forward nine years.

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 and shares of companies whose assets consist of foreign assets and securities and whose income is derived solely from sources outside Barbados.

The seller pays tax at a rate of 2.5% on amounts in excess of BDS$50,000 received for the sale of shares and on amounts in excess of BDS$150,000 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 lessor pays tax at a rate of 2.5% 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$4,090:
• For employees, 10.1%
• For employers, 11.25%
• For self-employed persons, 16.1%

Totalization agreements. Barbados has entered into social security totalization agreements with Canada, the Caribbean Community and Common Market (CARICOM) 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 the tax payable for the preceding year.

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 the following countries.

Austria	Malta	Seychelles
Botswana	Mauritius	Sweden
Canada	Mexico	Switzerland
CARICOM	Netherlands	United Kingdom
China	Norway	United States
Cuba	Panama	Venezuela
Finland		

Gross income received from a nontreaty country is taxed. However, a credit can be claimed for any foreign tax imposed on the income.

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:

- An application on Immigration "Form B"
- A valid airline ticket back to the country of origin
- A passport
- An application fee of US$50 for each 6-month period
- One passport-size photograph
- Proof of financial support while in Barbados

G. Work permits and self-employment

The International Business Companies Act allows foreign nationals and foreign companies to establish companies in Barbados. Foreign nationals employed by these companies in Barbados must obtain work permits.

Nationals of member countries of CARICOM who are university graduates are not required to have work permits to live and work in Barbados. However, such nationals must obtain a certificate of recognition as a CARICOM Skilled National instead of a work permit. 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, an International Society with Restricted Liability 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 before 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 long-term work permit to cover the processing period of the nonimmigrant visa.

The following documents must be submitted together with the application for a Barbados work permit:

- Application fee of BDS$300 (US$150).
- Medical form completed by a medical practitioner (including x-ray report as well as the actual x-ray if done outside of Barbados).
- Four passport-size photographs.
- Two character references.
- A Police Certificate of Character (PCC) based on a fingerprint check from the applicant's place of residence and from each country in which the applicant has resided since his or her 16th birthday. For U.K. residents, an affidavit may be accepted instead of the PCC but a certificate based on a nationwide search of the country's database is also required.
- Documentary evidence of the applicant's qualifications (for example, university degree).
- A cover letter setting out the nature of the business in which the applicant will be engaged.
- For an applicant hoping to set up a business in Barbados, clear evidence of the amount of his or her investment (for example, bank transfer statements).
- A copy of the certificate of registration or incorporation of the company as well as the company's International Business Companies license, if applicable.

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 duration of the work permit and the nationality of the applicant. The minimum work permit fees are approximately US$55 per month.

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. The process is lengthy and can take more than one year.

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 or 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
• 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	—	—
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 per year.

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 on his salary and benefits.
- 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.
- The expatriate's wife has no income.

	BDS$	BDS$
Calculation of taxable income		
Gross salary	100,000	
Housing benefit	48,000 (a)	
Car benefit	6,000 (b)	
Total income		154,000
Tax exemption:		
BDS$150,000 at 35%	(52,500)	
BDS$4,000 at 50%	(2,000)	
BDS$154,000		
Total tax exemption		(54,500)
Assessable income		99,500
Deductions:		
Basic allowance	(25,000) (c)	
Dependent spouse allowance	(3,000) (d)	
Dependent allowance	(2,000) (e)	
Allowable deduction for payment to a registered charity	(9,950) (f)	
Total deductions		(39,950)
Taxable income		59,550
Calculation of tax		
Tax on BDS$24,200 at 20%		4,840
Tax on BDS$35,350 at 35%		12,372
BDS$59,550		
Tax payable		17,212

(a) The benefit taxable on rent-free accommodation is restricted to a maximum of BDS$48,000 per year, 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$25,000.
(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 amounts under BDS$1 million paid to a registered charity is restricted to 10% of assessable income.

Belarus

(Country code 375)

Please direct all inquiries regarding Belarus to Andrei Chumakov of the Minsk, Belarus office.

Minsk **GMT +2**

Ernst & Young
Ul. Korolya, 51
2nd Floor, Office 30
Minsk 220004
Belarus

Executive and immigration contacts

Andrei Chumakov	(17) 209-4535 Fax: (17) 209-4534 Email: andrei.chumakov@by.ey.com
Jorge Intriago *(resident in Kyiv, Ukraine)*	+380 44 490 3003 Fax: +380 44 490 3030 Email: jorge.intriago@ua.ey.com

Because the legislative system of Belarus 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. Personal income tax

Who is liable. Individuals who are tax residents of Belarus are subject to personal income tax on their worldwide income. Non-residents of Belarus are taxed on their Belarusian-source income.

Belarusian-source income includes, but is not limited to, the following:
- Employment income
- Payments under insurance contracts
- Income derived from copyrights exercised in Belarus
- Income derived from work and services performed in Belarus
- Capital gains derived from disposals of property located in Belarus
- Income derived from disposals of shares or other securities
- Rental income from property located in Belarus
- Dividends derived from legal entities registered with Belarusian authorities
- Pensions or similar payments

Non-Belarusian-source income includes, but is not limited to, the following:
- Employment income
- Payments received from foreign insurance companies under insurance contracts
- Income from copyrights exercised abroad
- Income from disposals of shares or other securities abroad
- Income paid by foreign companies or entrepreneurs for works or services performed abroad
- Capital gains from disposals of property located abroad
- Rental income from property located abroad
- Dividends received from foreign companies

Definition of Belarusian tax resident. For personal income tax purposes, an individual is treated as a tax resident if he or she stays in Belarus for more than 183 days in a calendar year. An individual staying in Belarus for 183 or less days in a calendar year is treated as a nonresident of Belarus for tax purposes. Time spent by an individual abroad because of medical treatment, recreation and business trips is included in this period, while time spent by an individual in Belarus exclusively for the purpose of medical treatment and recreation is not included in this period.

Income subject to tax

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

Employment income. Employment income includes, but is not limited to, salary and compensation, and bonuses received in cash or in kind. For personal income tax purposes, employment income received by an individual from a foreign company or entrepreneur is considered foreign income, regardless of the place where the employment duties were actually performed.

Belarusian tax residents may claim several deductions in determining their taxable income (see *Deductions*).

Investment income. Income is treated as dividend income if originating from stocks or shares. A flat personal income tax rate of 12% applies to Belarusian- and foreign-source dividends.

Dividends received by nonresidents from local sources are subject to 12% personal income tax withheld at source.

Interest income from bank deposits in Belarus is generally not subject to personal income tax.

Self-employment and business income. The income of self-employed individuals is generally subject to personal income tax at a flat rate of 15%. Certain types of income are taxed at a specific flat rate of 9% (see *Rates*). Tax is levied on the individual's annual self-employment income, which consists of gross income, less documented expenses associated with that income.

A self-employed person whose activity is treated as business is required to register as a private entrepreneur with the appropriate registration authority. Private entrepreneurs are generally required to pay personal income tax on their quarterly income.

Specific tax regimes (simplified taxation and single tax) may be used by individual entrepreneurs under certain circumstances.

The single tax is paid with respect to limited activities determined by the tax law. Payers of the single tax include the following:

- Individual entrepreneurs selling services to individuals for their own personal needs or who sell certain types of goods at certain places of sales (for example, small shops).
- Individuals not engaged in entrepreneurial activities that make on-and-off sales of certain types of goods in market places of goods. Such sales may not exceed five days in every calendar month.

The single tax is applied at fixed rates, depending on the type of goods or services sold or provided by the entrepreneur. The basic monthly rates of single tax vary from BYR 20,000 to BYR 1,770,000. The amount of the tax depends on the type of entrepreneurial activity and the location at which this activity is conducted. Increasing coefficients up to five may apply depending on the country of origin of the trading stock and the floor space of the sales location. The tax is payable in advance on a monthly basis. Entrepreneurs engaged in sales to legal entities and other private entrepreneurs do not qualify as payers of single tax.

Individual entrepreneurs (other than those qualifying as single taxpayers) may use the simplified taxation regime rather than the general tax system if the revenue generated by them does not exceed the statutory thresholds.

Newly registered entrepreneurs may use simplified taxation immediately after state registration by applying to the tax authorities. The tax is paid monthly or quarterly at a rate of 8% of the total revenue generated in the reporting period. The rate is reduced to 6% if an entrepreneur applies the simplified taxation regime and also pays value-added tax (VAT). Quarterly or monthly reporting applies, depending on frequency of VAT reporting.

Other income. Any other income that is not listed above is included in regular income and taxed at the general tax rate of 12% or at the specific 9% tax rate.

Capital gains. Capital gains are included in the total income of an individual taxpayer. A tax on capital gains is not paid separately. For additional information, see *Property tax deductions*.

Deductions. Belarusian tax law divides tax deductions into the following four categories:
- Standard tax deductions
- Social tax deductions
- Property tax deductions
- Professional tax deductions

Tax residents may claim all of the above deductions in computing their personal income tax liability. Tax nonresidents may claim property tax deductions for expenses actually incurred with respect to purchases and disposals of property only.

Standard tax deductions. In computing tax, each taxpayer may claim the following standard tax deductions:
- Individual deduction equaling BYR 292,000 per month. This deduction is not available to individuals who earn more than BYR 1,766,000 per month.
- A deduction equaling BYR 81,000 per month per each child under 18 or dependant.
- Compensation-related deduction equaling BYR 410,000 per month. The compensation-related deduction is provided to disabled individuals, war veterans and victims of natural disasters.

To claim the second and third standard deductions listed above, appropriate documents must substantiate the deductions.

Standard deductions are provided for each month of a calendar year at the place of primary employment or by the tax authorities on the basis of the annual tax return (declaration) submitted to the tax authorities.

Social tax deductions. Tax residents of Belarus may claim social tax deductions for the total of the following amounts:
- Actually incurred education expenses for the taxpayer, and his or her close relatives (children, spouse, parents, brothers, sisters,

grandparents and grandchildren). This deduction is allowed if the expenses are incurred by the taxpayer for a first education (higher or specialized secondary education).

- Actually incurred repayments of loans (including interest due on loans) obtained from banks, local companies or entrepreneurs by a taxpayer to pay for education.
- Up to 48 basic rates (currently, BYR 1,680,000) that is actually spent during the year on insurance under voluntary pension, life or medical insurance agreements. Pension or life insurance agreements must be entered into for a period not less than five years.

Any amounts incurred that are claimed as social tax deductions must be supported by relevant documents.

Property tax deductions. Under the Belarusian tax law, individuals may claim the following property tax deductions:

- Deduction of expenses actually incurred by a taxpayer or any of his or her family members to construct or purchase an apartment or a house located in Belarus as well as for expenses incurred on repayments of loans provided by local and foreign companies or entrepreneurs or by Belarusian banks for this purpose. The deduction is provided only to a taxpayer whose living conditions require improvement. This fact must be confirmed by a local authority based on appropriate documents.
- Deduction of expenses actually incurred and documented for purchases and disposals of property. However, income derived by individuals from sales of property, excluding real estate, cars and securities, is exempt from personal income tax in Belarus. Disposals of real estate (one house, apartment, land plot, garage or similar item) owned by a taxpayer for five years or more and cars owned by a taxpayer for more than one year are not taxable.

The first type of property tax deduction mentioned above is provided to an employed taxpayer based on appropriate documents held by his or her employer at his or her primary work place during the current tax year or on the annual tax return (declaration) submitted to the tax authorities.

The second type of property tax deduction mentioned above is provided to the taxpayer based on the annual tax return submitted to the tax authorities.

Income derived from sales of securities is subject to personal income tax in accordance with special rules established by the Belarusian tax law. In particular, the taxable gain on disposals of stocks equals the difference between the sales proceeds and the documented expenses associated with the purchase, possession, and sale of the stocks.

Gains derived from sales of any properties to close relatives are exempt from tax.

Business and professional tax deductions. Individual entrepreneurs and other individuals performing work or services on a contractual basis may deduct associated business expenses in accordance with the Belarusian tax law.

All business-related expenses must be supported by the relevant documents made in the established format. Explicit regulations contain descriptions of deductible and nondeductible expenses. If an individual cannot support business-related expenses with documents, the individual may claim deductible expenses equal to 10% of revenue.

Instead of claiming professional tax deductions based on documented expenses, certain individuals involved in creating intellectual property may claim tax deductions equal to 20%, 30% or 40% (depending on the type of activity) of the income derived.

Entrepreneurs may deduct business expenses in computing the tax for the period in which the expenses are incurred. Professional tax deductions are allowed to taxpayers by the tax authorities when the tax return is submitted at the end of the tax year.

Rates. Individual income derived from sources in Belarus or abroad is generally subject to personal income tax at a flat rate of 12%. In addition, specific tax rates of 9% and 15% apply to certain types of income.

A specific tax rate of 9% applies to employment income received by individuals from residents of the High Technology Park. The business income of an entrepreneur registered with the High Technology Park is also taxed at a rate of 9%.

A specific tax rate of 15% applies to business income earned by individual entrepreneurs under the general tax system (that is, not applying the single tax and simplified taxation).

For a sample personal income tax calculation, see Appendix 2.

Relief for losses. Business losses of a self-employed person incurred during a year cannot be carried forward.

B. Other taxes

Estate and gift taxes. Belarus does not impose estate and gift taxes.

Net worth tax. Belarus does not impose net worth tax.

Immovable property tax and land tax. Immovable property tax and land tax are payable by individuals for houses, apartments, certain other properties (for example, garages) and land plots possessed by them.

The annual immovable property tax rate payable by an individual is 0.1%. The tax is paid annually on the value of the taxable item at the beginning of the relevant year.

The annual land tax is set at a fixed rate per each 10,000 square meters of a land plot, depending on the cadastral value of a land plot and its size and location.

C. Social security

Contributions and coverage. All payments to employees are generally subject to social security contributions at a rate of 34%. These contributions include payments to social security and pension security.

Social security contributions are paid by employers and must be remitted to the Fund of Social Protection of People under the Belarusian Ministry of Labor and Social Protection within a day established for salary payments by the employer. The employers' contribution rates are 28% for pension insurance and 6% for social insurance.

Employees also pay pension insurance contributions at a rate of 1% on their gross compensation. This tax is withheld and paid to the Fund of Social Protection of People directly by the employers together with their own social security contributions.

Both employer and employee contributions are payable on the gross compensation (salary) of employees. However, the monthly tax base for social security charges is limited (capped) to 4 average salaries in Belarus (equivalent to US$2,000). Accordingly, the effective social security contribution rate for employees earning more than four average monthly salaries is actually lower. In addition, the tax law contains a list of payments to employees that are exempt from social security contributions.

Self-employed individuals and private entrepreneurs must make contributions for pension insurance at a rate of 29% and for social insurance at a rate of 6%. These contributions are payable on their computed income on a quarterly basis. In the event of a lack of income in the reported period, social security contributions must be calculated on the minimum monthly salary applicable for the reported quarter.

In addition to social security contributions, employers must make mandatory payments for insurance against accidents at work and professional diseases to the state insurance company "Belgosstrakh." A rate of 0.6% applies to all payments to employees.

In general, mandatory insurance contributions are also payable for resident individuals employed by foreign legal entities registered for tax purposes in Belarus.

Totalization agreements. Belarus has entered into agreements regarding social security contributions with the following countries.

Armenia	Moldova	Turkmenistan
Kazakhstan	Russian Federation	Ukraine
Kyrgyzstan	Tajikistan	Uzbekistan
Lithuania		

Belarus has also signed an agreement regarding social security contributions with Latvia, but this agreement has not yet entered into force.

Broadly, the agreements listed above provide that the obligations of foreign individuals with respect to social security contributions are generally governed by the legislation of the country where they are working on the basis of employment contracts.

D. Personal income tax return filing and payment procedures

The tax year in Belarus is the calendar year.

Employers are required to withhold, calculate, and pay to the state the relevant tax on compensation paid to employees. The tax is transferred to the budget on the date on which the salary is paid.

Any nonemployment income received in a tax year by a tax-resident individual must be declared in the individual's annual tax return.

The annual tax return must be submitted to the tax office by 1 March of the year following the tax year. The taxpayer must pay personal income tax due on income derived in the tax year by 15 May of the year following the tax year.

Self-employed individuals and individual entrepreneurs using the general taxation regime compute tax quarterly on a cumulative basis.

Entrepreneurs, attorneys, and notaries using the general taxation regime file quarterly tax returns by the 20th day of the month following the reporting quarter.

The tax for the reporting quarter must be paid by the 22nd day of the month following the end of the reporting quarter.

Entrepreneurs who use the simplified taxation regime and who pay VAT on a quarterly basis or do not pay VAT must file tax returns quarterly by the 20th day of the month following the end of the reporting quarter. Entrepreneurs who pay VAT on a monthly basis must file tax returns monthly by the 20th day of the month following the reporting month. Tax must be paid by the 22nd day of the month following the end of the reporting month.

Entrepreneurs whose business activities are subject to the single tax must pay the tax in advance and file a tax return on a monthly basis by the 28th day of the month before the month in which the activity is conducted.

E. Double tax relief and tax treaties

Taxes paid abroad on foreign-source income are credited against a taxpayer's tax obligations to the Belarusian government. A foreign tax credit may not exceed the personal income tax payable in Belarus on the same income.

To obtain an exemption, a taxpayer must present a certificate of residency from a country with which Belarus has entered into a double tax treaty and a document that is certified by the tax authorities of the foreign country and proves that the income was received and the prescribed amount of foreign tax was paid.

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

Armenia
Austria
Azerbaijan
Bahrain
Belgium
Bulgaria
China
Croatia
Cyprus
Czech Republic
Egypt
Estonia
Finland
Germany
Hungary
India
Iran
Ireland
Israel
Italy
Kazakhstan
Korea (North)
Korea (South)
Kuwait
Kyrgyzstan
Latvia
Lebanon
Lithuania
Macedonia
Moldova
Mongolia
Netherlands
Oman
Pakistan
Poland
Qatar
Romania
Russian Federation
Saudi Arabia
Serbia
Slovak Republic
South Africa
Sweden
Switzerland
Syria
Tajikistan
Thailand
Turkey
Turkmenistan
Ukraine
United Arab Emirates
Uzbekistan
Venezuela
Vietnam

In addition, Belarus currently applies the double tax treaties entered into by the former USSR with Denmark, France, Japan, Malaysia, Spain, the United Kingdom and the United States.

F. Visas

Visas may be obtained from embassies and consulates abroad. A foreigner traveling by plane may obtain a visa from the Belarus consular division at the Minsk-2 Airport.

Entry into and departure from Belarus is possible on the basis of one of the following types of visas:
- Visa obtained for a business trip (without the right to work by hire) on the basis of an application by a Belarusian legal entity
- Visa obtained for a private trip (without the right to work by hire) on the basis of an invitation of a Belarusian national (individual)
- Visa with the right to work by hire, on the basis of an original application of a Belarusian legal entity and an original or notarized copy of a special permit for foreigners to work by hire in Belarus that is issued by the Department of Internal Affairs of the municipality of Minsk

Visas can be single-, double-, or multiple-entry. They vary in duration.

Ordinary business visas are issued to individuals who are on business trips to Belarus. A business visa limits a foreign citizen to 90 consecutive days per calendar year in Belarus.

Ordinary work visas are issued to individuals who want to work in Belarus. Initially, an ordinary work visa allows a foreigner to stay in Belarus for up to 90 days per calendar year.

Diplomatic consular posts issue visas to foreigners abroad. To apply for a visa, a foreigner must submit to the respective diplomatic office of Belarus several documents, including but not limited to the following:
- Visa application in the established form.
- Passport. In general, the passport should not expire earlier than 90 days after the date of expiration of the visa.
- Photo. The photo must be 35x45 mm., comply with standard requirements for quality that are usually set for a passport photo, and must have been taken not earlier than six months before the application.
- Visa supporting documents confirming the purpose and conditions of the visit (invitation of a Belarusian legal entity or individual and other related documents at the request of authorities).
- Document confirming the guaranteeing of the compensation for state medical organizations of Belarus and the costs of ambulance and emergency medical services under the laws of Belarus provided to the foreign citizen. This document can be an insurance policy valid in Belarus.
- Document confirming the payment of consular duty (€150 [€450 in airport] for business visa and €60 for visa for private trip).

Foreigners from most of the Commonwealth of Independent States (CIS) countries and those permanently resident of Belarus do not need to have entry visas. They must present a passport and/or their permanent residence permit on entry to Belarus.

G. Work permits

In general, foreign citizens who intend to work in Belarus, including self-employed individuals, must obtain a work permit issued by the Ministry of Internal Affairs.

CIS nationals, with the exception of Russian citizens employed by Belarusian legal entities, must also obtain a work permit.

A work permit is not required for the following foreigners who want to work in Belarus:
- Individuals living permanently in Belarus
- Individuals employed by diplomatic missions, consulates, or international organizations
- Journalists from media organizations accredited with the appropriate Belarusian authorities

To obtain a work permit for a foreigner requiring an entry visa for Belarus, the following documents must be presented by the employer of such foreigner to the appropriate department of the Ministry of Internal Affairs:
- Application in the established form
- Copy of the foreigner's passport
- Receipt for registration fee

The procedure for obtaining a work permit takes 15 calendar days.

H. Residence permits

Foreign citizens may stay in Belarus if they have any of the following three statuses:
- Foreigners who are temporarily staying in Belarus
- Temporary residents (individuals who hold temporary residence permits)
- Permanent residents (individuals who hold permanent residence permits)

A foreigner's temporary presence in Belarus must not exceed 90 days per calendar year. Temporary resident status is the most common status for expatriates working in Belarus.

A temporary residence permit is valid for one year.

To obtain a temporary residence permit an applicant must submit the following documents:
- Application
- Passport with translation into Belarusian
- Document confirming the legality of stay in Belarus
- Special permit to work by hire
- Labor agreement (contract)
- Request of Belarusian legal entity to grant the temporary residence permit and entry and exit visa for the foreign employee
- Document to travel abroad
- Insurance
- Document confirming the possibility of staying at the place of temporary residence (usually a long-term lease contract)
- Document confirming payment of state duty

A permanent residence permit is issued to the following foreigners:
- Close relatives of Belarusian citizens permanently residing in Belarus
- Persons who are granted refugee status or asylum in Belarus
- Foreigners who have the right to family reunification
- Foreigners who have lived legally in Belarus for the last seven years or more
- Foreigners who may become citizens of Belarus through the mechanism of registration
- Foreigners who were previously nationals of Belarus
- Workers and professionals needed by an organization of Belarus

- Foreigners who have extraordinary capabilities and talent, have outstanding merits with respect to Belarus or have high achievements in science, technology, culture or sports
- Foreign investors who make investments in an amount not less than €150,000 in investment activities in Belarus
- Ethnic Belarusians or their blood relatives in the direct line of descent, including children, grandchildren and great-grandchildren who were born outside the present-day territory of Belarus

The government of Belarus may provide other grounds for the obtaining of a permanent residence permit.

The issuance of a permanent residence permit is subject to an immigration quota that may be established by the government.

I. Family and personal considerations

Family members. Nonworking family members of expatriates may receive accompanying family member visas, but applications for visas must be filed and presented separately.

If family members plan to work in Belarus, they must also obtain separate work permits in accordance with the established rules.

Drivers' permits. In general, foreign nationals may drive legally in Belarus for three months on the basis of their home-country drivers' licenses or international drivers' licenses, which must be accompanied by a notarized translation. Belarus does not have drivers' license reciprocity with any other country.

To obtain a local 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	—	—	(a)
Cost-of-living allowance	—	X	—
Housing allowance	—	X	(b)
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education allowance	—	X	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowances	X	—	—
Home-leave allowances	X	—	—
Moving expense reimbursement	—	X	(c)
Tax reimbursement (d):			
Current gross-up	X	—	—
One-year rollover	X	—	—
Deferred compensation	X	—	(e)
Value of meals provided	X	—	—
Material benefits	X	—	—

Other items	Taxable*	Not taxable	Comments
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)

* The bracketed amount reduces taxable income.

(a) The concept of retained hypothetical tax does not apply in Belarus.

(b) The allowance is not taxable if it is related to a business trip and documented.

(c) Moving expenses are usually not taxable for Belarusian citizens. No clear guidance exists as to whether moving expenses are taxable for expatriates. However, based on the nondiscrimination clause in the Belarusian tax law, one can take the position that moving expenses are also not taxable for foreign citizens.

(d) Belarusian law provides that the funds of the employer may not be used to pay the personal income tax of employees.

(e) Belarus uses some constructive receipt principles.

(f) Income derived from the sale of real estate property owned by the taxpayer for five years or more or from the sale of a car owned for more than one year is exempt from personal income tax in Belarus. Income derived from disposals of more than one car per year is subject to personal income tax at a flat tax rate of 12%. Gains derived from the sale of property that are not exempt are taxable under a capital gains approach. Gains derived from sales of any properties to close relatives are exempt from tax.

(g) The taxable gain equals the difference between the sales proceeds and the documented expenses associated with the purchase, possession, and sale of the stocks.

Appendix 2: Sample tax calculation

A sample tax calculation for the 2011 tax year is provided below for an individual with monthly income of BYR 2,820,000 (US$910, at the current Belarus national bank exchange rate). The taxpayer has one child. In the personal income tax calculation, the flat 12% tax rate applies.

The following is the sample personal income tax calculation for the 2011 tax year.

Month	Gross income BYR	Deductions* BYR	Income tax BYR	Pension tax BYR	Net income BYR
January	2,820,000	81,000	328,680	28,200	2,463,120
February	2,820,000	81,000	328,680	28,200	2,463,120
March	2,820,000	81,000	328,680	28,200	2,463,120
April	2,820,000	81,000	328,680	28,200	2,463,120
May	2,820,000	81,000	328,680	28,200	2,463,120
June	2,820,000	81,000	328,680	28,200	2,463,120
July	2,820,000	81,000	328,680	28,200	2,463,120
August	2,820,000	81,000	328,680	28,200	2,463,120
September	2,820,000	81,000	328,680	28,200	2,463,120
October	2,820,000	81,000	328,680	28,200	2,463,120
November	2,820,000	81,000	328,680	28,200	2,463,120
December	2,820,000	81,000	328,680	28,200	2,463,120
Total	33,840,000	972,000	3,944,160	338,400	29,557,440

* Because the monthly income exceeds BYR 1,766,000, the taxpayer is entitled only to the monthly standard deduction per child, which equals BYR 81,000.

Belgium

(Country code 32)

Brussels	**GMT +1**

Ernst & Young
De Kleetlaan, 2
B-1831 Diegem
Brussels
Belgium

Executive contacts

Herman Schepers	(2) 774-93-68 Email: herman.schepers@be.ey.com
Jean-Nicolas Lambert	(2) 774-92-64 Email: jean-nicolas.lambert@be.ey.com
Steven Van Laer	(2) 774-93-39 Email: steven.van.laer@be.ey.com
Robin Collard	(2) 774-93-28 Email: robin.collard@be.ey.com
Jan Lambrechts *(resident in Antwerp)*	(3) 270-14-38 Email: jan.lambrechts@be.ey.com

Immigration and international social security contact

Jo Antoons	(2) 774-92-63 Email: jo.antoons@be.ey.com

Performance and reward contact

Mina Goldfays	(2) 774-96-81 Email: mina.goldfays@be.ey.com

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 (or individuals officially engaged in a "cohabitant" scenario), an irrefutable presumption exists that the tax domicile is where the spouse or partner 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 concessions*).

The income of spouses and registered cohabitants is taxed separately, even though they are required to file a joint tax return.

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
- 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, free housing and stock options (see *Taxation of employer-provided stock options*).

Income from employment may be reduced by normal professional expenses, including, among others, the following:

- Percentage of the cost of gasoline for the professional use of a car (percentage depends on carbon-emission value of the car)
- 75% of most other automobile expenses
- Commuting expenses up to €0.15 per kilometer
- 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 choose to claim a standard business expense deduction. The maximum standard deduction is €3,670 for the 2011 income year (2012 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 uncapped or standard deduction of 3%, up to a maximum of €2,200) can also be claimed against the directors' fees. To avoid a tax surcharge (2.25% of the tax for the 2011 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 (2.25% of the tax for the 2011 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, in certain circumstances, 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 interest 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 reported in the annual individual income tax return. Foreign-source dividends and interest payments that have not been subject to Belgian withholding tax must be reported in the individual income tax return of the recipient.

Special expatriate tax concessions. 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
• 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.

Although the concessions are not granted for a fixed time period, maintaining the concessions beyond 10 years is becoming increasingly difficult.

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 offered during the period of 2 November 1998 through 10 November 2002 or offered after 10 November 2002 and accepted within the 60-day period. Options offered on or after 2 November 1998 and before 11 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 11 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 offered during the period of 2 November 1998 through 10 November 2002. If the option is not accepted within the 60-day period, special rules apply (see *Stock options offered on or after 11 November 2002 that are not accepted within the 60-day period*).

The benefit arising from an unquoted stock option offered on or after 2 November 1998 and before 10 November 2002 or offered after 11 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. If the exercise price of the option is lower than the value of the underlying shares at the time of the offer, the forfeitary basis is increased by the difference.

In general, only the grant of an option results in a taxable benefit. If that is the case, 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, the grant tax does not apply in all circumstances. If the grant tax does not apply, taxation would normally be imposed at the time of exercise.

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 11 November 2002 that are not accepted within the 60-day period. Special rules apply to stock options granted on or after 11 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 company not resident in the European Union (EU) or the European Economic Area (EEA) 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
  - 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 2011 income year (2012 tax year), the investment deduction is 5.5%, 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 to qualifying charities.
- Energy-saving investments.
- Service vouchers.
- Security investments to protect private houses from fire and theft.

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 2011 income year (2012 tax year), the standard personal allowance equals €6,430 per person.

The following personal allowances for dependent children may be claimed for the 2011 income year (2012 tax year).

Number of children*	€
1	1,400
2	3,590
3	8,050
4	13,020
Each additional child	4,970

* 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
- Loans 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 2011 income year (2012 tax year).

Taxable income		Rate on
Exceeding	Not exceeding	excess
€	€	%
0	8,070*	25
8,070*	11,480	30
11,480	19,130	40
19,130	35,060	45
35,060	—	50

* This bracket applies to amounts exceeding an individual's tax-free minimum income amount (see *Personal allowances*).

All tax amounts are increased by applicable municipal (commune) taxes, which are imposed at rates of up to 9%. 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 €9,470 for the 2011 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.
- 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).
- Income from author's royalties earned as of 1 January 2008 up to a ceiling of €37,500 (net after standard or itemized deductions) is taxed at a rate of 15%. Effective from 1 January 2009, such income is subject to a specific 15% withholding 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
- If certain conditions are met, distributions made by a Belgian subsidiary to an EU parent company or to a company established in a tax treaty country

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

1.25% to 2.5%, 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 a family-owned business and to the transfer of a family home to a surviving spouse, legal cohabitant or other cohabitant (except in direct line). Readers should 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. However, preferential rates ranging from 3% to 7% apply to gifts of movable property to offspring or ascendants.

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 2011, the employee's social security contributions equal 13.07%. This rate applies to the monthly gross compensation without a ceiling. In most cases, the employer's social security contributions are calculated at a rate of up to 34.77% 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, an employer contribution that is based on the company car's carbon dioxide emission level is required.

Different rates apply to self-employment activities, including activities of directors. For the 2011 income year, social security contributions are levied at a rate of 22% on net income up to €51,059.94 and at a rate of 14.16% on income between €52,378.55 and €77,189.40. Income in excess of €77,189.40 is not subject to social security contributions. The annual maximum contribution for self-employment activities is €15,036.48 (increased by 3% to 5% for administration fees for the social insurance fund).

Mandatory 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 2011 income year, the maximum amount of this contribution is €731.29. 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 883, which entered into force on 1 May 2010 and replaced EU Regulation 1408/71. Regulation 1408/71 continues to apply for a maximum of 10 years to all cross-border situations existing before 1 May 2010 in which Regulation 883 alters the relevant state if the individual does not opt into coverage of the new regulation and if a material change in circumstances does not occur. In all cases, Regulation 1408/71 continues to apply to cross-border moves involving Switzerland or any of the other three European Free Trade Association (EFTA) countries (Iceland, Liechtenstein and Norway). Regulation 883 extends the home-country standard coverage from 12 months to 2 years (in general, it can be further extended to 5 years).

Belgium has also entered into social security totalization agreements with Algeria, Australia, Canada, Chile, Croatia, India, Israel, Japan, Korea (South), Macedonia, Morocco, the Philippines, Quebec, San Marino, Switzerland, Tunisia, Turkey, the United States, Uruguay and Yugoslavia. Belgium has signed new totalization agreements with Argentina and Brazil, which have not yet been ratified. Most of the totalization agreements provide for an exemption up to a maximum of five years. However, the agreement with the United States exempts employees working in Belgium from Belgian social security taxes for a period of 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
Algeria
Argentina
Armenia
Australia
Austria
Azerbaijan
Bangladesh
Belarus
Brazil
Bulgaria
Canada
Chile
China (a)
Congo (Democratic Republic of)
Croatia
Cyprus
Czech Republic
Denmark
Ecuador
Egypt
Estonia
Finland
France
Gabon
Georgia
Germany
Ghana
Greece
Hong Kong
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Ivory Coast
Japan
Kazakhstan
Korea (South)
Kuwait
Latvia
Lithuania
Luxembourg
Malaysia
Malta
Mauritius
Mexico
Mongolia
Morocco
Netherlands
New Zealand
Nigeria
Norway
Pakistan
Philippines
Poland
Portugal
Romania
Russian Federation
San Marino
Senegal
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Thailand
Tunisia
Turkey
Ukraine
USSR (b)
United Arab Emirates
United Kingdom
United States
Uzbekistan
Venezuela
Vietnam
Yugoslavia (c)

(a) The treaty does not apply to Hong Kong.

(b) 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.
(c) Belgium is honoring the Yugoslavia treaty with respect to Bosnia-Herzegovina, Macedonia, Montenegro and Serbia.

Belgium has entered into a tax treaty with Taiwan. This treaty is not considered an international treaty because Belgium has not recognized Taiwan as a foreign state.

Belgium has signed double tax treaties with Bahrain, Macau, Moldova, Oman, Qatar, Rwanda and Seychelles, but these treaties are not yet in force.

F. Short stays in Belgium

Both EEA and non-EEA nationals can visit Belgium for up to 90 days on the basis of their Schengen residence (identity) card or a passport. Whether a visa is required for a non-EEA national 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.

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 at least 31 December 2011, a Belgian work permit and authorization to employ, in principle, continue to be required for Bulgarian and Romanian nationals. An exception applies to employees who are seconded to Belgium within the framework of a service agreement and to self-employed workers. A simplified work permit application procedure is available for Bulgarian and Romanian nationals who perform Belgium jobs that are listed as “bottleneck” jobs.

In principle, non-EEA nationals (excluding Swiss nationals) require a work permit from the first day of their 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 qualifications and his or her function in the Belgian entity. A minimum annual gross salary threshold applies to highly qualified individuals (€36,604 for 2011) and management (€61,071 for 2011).

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.
- “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.

Under the Belgian law, the following individuals, among others, are exempt from the work permit formalities:

- Managers serving Belgian headquarters of multinationals (for an undefined period)
- Foreigners coming to Belgium to attend business meetings not exceeding an annual threshold of 60 working days per calendar year, with a maximum of 20 consecutive days per visit
- Under certain strict conditions, intragroup trainees

Holders of long stay residence status (according to European Directive 2003/109/CE) obtained in an EU member state other than Belgium can also apply for a Belgian B work permit for jobs that are listed as "bottleneck" jobs during the first 12 months of their employment in Belgium (see the last sentence of the first paragraph above regarding the new EU member states). After this 12-month period, these individuals can obtain a Belgian B work permit without any specific conditions.

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 or Embassy in their last country of residence.

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

The Belgian social security authorities must be notified about employees, self-employed persons and trainees temporarily assigned to Belgium or partially working in Belgium before such persons begin their activities in Belgium (this is known as the "LIMOSA notification"). Certain exemptions exist with respect to the duration or the nature of the professional activity (for example, business meetings up to a maximum of 60 working days per calendar year, with a maximum of 20 consecutive days). In the event of noncompliance, heavy penal sanctions apply.

H. Residence visas and permits

Individuals who plan to remain in Belgium beyond the 90-day visiting period must have a Belgian residency permit.

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

Non-EEA nationals. After the non-EEA nationals have obtained a work permit or professional card, they must in principle apply for a Schengen Visa D. The application for the Schengen Visa D must be filed with the Belgian Consulate or Embassy 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 an electronic registered card, which is, in principle, valid for one year (linked to the validity of the work permit or professional card) and is renewable annually.

In certain situations, it is also possible to register with the Belgian town hall without the Schengen Visa D. However, this is not advisable if family members accompany the employee or self-employed person.

EEA nationals. 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. They are not required to apply for the Schengen Visa D.

EEA nationals receive either a paper proof of registration or can apply for an Electronic Card.

I. Family considerations

Spouses and children of non-EEA nationals who hold a work permit or professional card may reside in Belgium 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 (or legally cohabiting with [for work permit only]) an EU national if such persons 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)(c)
Bonus	X	—	(b)
Retained hypothetical tax	(X)	—	(d)
Cost-of-living allowance	X	X	(d)
Housing allowance	X	X	(d)
Employer-provided housing	X	X	(b)(d)(e)
Housing contribution	(X)	(X)	(d)
Education reimbursement	X	X	(f)
Hardship allowance	X	—	(b)
Other allowance	X	—	(b)
Premium allowance	X	—	(b)
Home leave allowance	X	X	(d)
Other compensation income	X	—	(b)
Moving expense reimbursement	—	X	(f)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(g)
Value of meals provided	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	—
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) Employee contributions to insurance arrangements or to pension funds established in the EEA are not taxable.
(d) 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.
(e) 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.
(f) These reimbursements are entirely nontaxable except for relocation lump-sum payments not supported by relevant documents, for kindergarten expenses and for university costs.
(g) 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.
(h) 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.
(i) 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 2011 income year (2012 tax year) is set forth below. In this example, an expatriate, spouse, and two children are sent to Belgium on 1 January 2011 for a temporary assignment expected to last three years.

The following is the annual compensation for the individual for 2011.

	€
Salary	74,400
Bonus (attributable to 2009 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 2011, 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 2011.

	€	€
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%	(10,149.62)	
Subtotal	67,880.38	

		€	€
Less travel exclusion (20% of €67,880.38)		(13,576.08)	
Total taxable income		54,304.30	
Less standard professional expense deduction (maximum deduction is €3,590)			
28.7% of €5,300 =	€1,521.10		
10% of €5,230 =	€523.00		
5% of €7,000 =	€350.00		
3% of €37,774.30 =	€1,103.23		
	€3,497.33		
Allowable deduction		(3,497.33)	
		50,806.97	
Allocation to spouse (30% of maximum of €30,933)		(9,470.00)	9,470.00
Net taxable income		41,336.97	9,470.00

Calculation of tax

Gross federal income tax	16,407.49	2,437.50
Individual tax credit	(1,642.50)	(1,707.50)
Credit for children	(1,002.00)	—
	13,762.99	730.00
Total federal tax (€13,762.99 + €730)	14,492.99	
Commune tax (€14,492.99 at 7%)	1,014.51	
Total income taxes	15,507.50	
Special social security contribution	609.67	
Total Belgian tax liability	16,117.17	

Bermuda

(Country code 1)

Hamilton **GMT -4**

Ernst & Young
Mail address:
P.O. Box HM 463
Hamilton HMBX
Bermuda

Street address:
Reid Hall
3 Reid Street
Hamilton
Bermuda

Executive contact

Bill Bailey
(441) 295-7000
Fax: (441) 295-5193
Email: bill.bailey@bm.ey.com

Immigration contact

Nancy Simpson
(441) 294-5375
Email: nancy.simpson@bm.ey.com

A. Income tax

Bermuda does not tax income or capital gains.

B. Payroll tax

The standard rate of payroll tax payable by employers is 14% of the total value of cash and benefits up to a maximum of BMD 750,000 paid to each employee for services rendered in a tax year. Employers may withhold up to a maximum of 5.25% from employees' remuneration to pay the payroll tax. The payroll tax is imposed on the employer, and the ultimate responsibility for remitting the full 14% tax due is borne by the employer.

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.

For payroll tax compliance purposes, the fiscal year in Bermuda runs from 1 April through 31 March.

C. Estate tax

Estate tax in Bermuda is paid through a stamp duty which is payable based on the affidavit of value filed by the personal representatives of the deceased with the Supreme Court of Bermuda. For such purposes the estate of the deceased person includes the following:

- All real and personal property in Bermuda of the deceased at the time of death, together with any property in which the deceased had an interest ceasing at his death to the extent that a benefit arises for someone else as result of the deceased's death (that is, the value of the remainder interest following the deceased's death if the deceased jointly owned a life interest).
- Money payable to the deceased's estate under any insurance policy. However, for a deceased person who was not domiciled in Bermuda, such money is deemed to form part of the estate only if such money is payable in Bermuda or in Bermuda currency.
- The value of a vessel or aircraft, or any share of a vessel or aircraft, belonging to the deceased if the vessel or aircraft is registered in Bermuda at the time of the deceased's death.

As a result of recent changes to the Stamp Duty Act, if the deceased is a Bermudian, estate tax is not payable on the value of the deceased's primary family homestead at the time of the deceased's death.

The estate tax rates are presented in the following table.

Taxable estate		
Exceeding BMD	Not exceeding BMD	Rate %
0	50,000	0
50,000	150,000	5
150,000	800,000	10
800,000	—	15

D. Social insurance

Contributions for Bermuda social insurance are payable at a flat rate of BMD 60.80 per employee per week. The cost is typically shared equally between the employee and the employer. As a result, BMD 152 is generally deducted from each employee's monthly paycheck in a five-week month and BMD 121.60 is deducted from each employee's monthly paycheck in a four-week month. These amounts are remitted together with the employer's matching amount 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. Proof of a valid passport and return airline ticket must also be submitted with a visitor extension application.

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

F. Work permits

The Ministry of Economy, Trade and Industry 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 Economy, Trade and Industry, setting out its reasons in writing.

Before any non-Bermudian obtains work, he or she must have a valid 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 certified copies of 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 Economy, Trade and Industry, 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 BMD 541, and the fee for a long-term permit is BMD 700 per year, up to four years. The cost of a five-year work permit is BMD 5,000. Other work permit fees may apply depending on the situation. Consequently, inquiries should be directed to the Department of Immigration.

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 three months. If required, this permit can be extended for a further three-month period, up to a maximum of six months, as per the Department of Immigration's rule regarding the maximum time allowed for a visitor to the island. An employer must write to the Department of Immigration justifying the issuance of the temporary work permit (and subsequent extension, if applicable). 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. Unless the work permit holder is otherwise exempt, he or she is limited to a maximum term of six years for his or her work permit. 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.
- The Bermudian employee being trained must sign a statement that he or she is aware of the employer's plans for training and development and is in agreement with the succession plan.
- 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 Economy, Trade and Industry 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 and signed confirmation of their acknowledgment of the training program must be included in the work permit application.
- The validity of the permit is subject to continuing training.
- Updates regarding the training given and the progression of each trainee must be submitted to the Department of Immigration on a periodic basis.
- 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 employer may request that the work permit remain 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. If this occurs, the employer may request that the work permit remain in 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. Before 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 before expiration.

Repatriation. Employers of non-Bermudians can guarantee the cost of repatriation of these employees. This is normally accomplished by the submission of a letter of guarantee by the employer to the Department of Immigration. Alternatively, non-Bermudian employees must have a return ticket valid for their period of employment, and they must present this return ticket every time they land in Bermuda.

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. The employer's guarantee to the Department of Immigration ensures that the government will not have to bear the cost of repatriating a former employee and any dependants. It does not provide that the employee is entitled to have his or her family's repatriation paid for by the employer, unless that entitlement is part of the agreement between employer and employee. The principal objective of the guarantee is to ensure that the cost of repatriating a former work permit holder not fall on the government.

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 Economy, Trade and Industry. 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 dependants other than the spouse, who may apply for and receive a certificate that runs concurrently with his or her spouse's certificate. Other dependants must obtain permission in their own right to enter and reside in Bermuda. Residential Certificate holders may acquire property 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
- 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 satisfy the following conditions:

- He or she must be retired.
- He or she must be over 50 years of age.
- He or she must have no more than two dependent children on arrival in Bermuda to take up residence.
- He or she must have substantial means (determined on a case-by-case basis).
- He or she must have 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 individuals 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 Economy, Trade and Industry 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 Economy, Trade and Industry 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 Economy, Trade and Industry 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 Economy, Trade and Industry. 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 dependant's work permit becomes void immediately. A dependant 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 18 years of age (25 years of age if in college), require permission in their own right to work and reside in Bermuda.

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.

Bolivia

(Country code 591)

La Paz **GMT -4**

Ernst & Young
Avenida 20 de Octubre # 2665
Esquina Campos
Sopocachi
Edificio Torre Azul, Piso 16
La Paz
Bolivia

Executive and immigration contacts

Javier Iriarte	(2) 243-4313 Fax: (2) 214-0937 Email: javier.iriarte@bo.ey.com
Juan Pablo Vargas	(2) 243-4313 Fax: (2) 214-0937 Email: juan.vargas@bo.ey.com

Santa Cruz **GMT -4**

Ernst & Young
Calle René Moreno, No. 17
Edif. Royal Palm, Piso 8
Santa Cruz
Bolivia

Executive and immigration contacts

Javier Iriarte	(3) 337-3031 Fax: (3) 337-3035 Email: javier.iriarte@bo.ey.com
Juan Pablo Vargas	(3) 337-3031 Fax: (3) 337-3035 Email: juan.vargas@bo.ey.com

A. Income tax

Who is liable. All individuals domiciled or resident for tax purposes in Bolivia are subject to personal income tax (Régimen Complementario al Impuesto al Valor Agregado, or RC-IVA) on their worldwide income. Nonresident individuals are taxed on Bolivian-source income only.

A work permit (visa) or similar documentation does not change resident status in Bolivia. A foreigner may obtain this permit if he or she satisfies certain requirements, most importantly, the obtaining of a resident visa.

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 in Bolivia or moving one's family into the country.

Income subject to tax

Employment income. In general, taxable income includes all wages, salaries, premiums, prizes, bonuses, gratuities, compensations and allowances in cash or in kind. It also includes fees for directors and trustees and salaries for owners and partners.

The following items are not included in taxable income:
- Salaries, fees or allowances received by diplomatic personnel, official personnel of diplomatic missions accredited in Bolivia and foreign employees employed by international organizations, foreign governments or foreign international organizations, as a direct reason of his or her position
- Christmas bonus
- Social benefits resulting from indemnities and evictions, in accordance with existing legal rules
- Pre-family, wedding, birth, lactation, family and burial allowances received according to the Social Security Code
- Retirement and pension income, sick allowances, and professional risk allowances
- Life pensions given to persons who were members of the army in any war or life pensions given to members of the army who were injured in peace time
- Per diem and representation payments, evidenced by local or foreign invoices if they are company-related expenses

Investment income. Dividends paid to Bolivian residents are not subject to personal income tax. Residents are taxed on interest and royalties received.

Nonresidents are subject to a 12.5% withholding tax on dividends, interest and royalties.

Self-employment and business income. Self-employed persons are subject to the following taxes:
- Value-added tax at a rate of 13%. This tax is paid on a monthly basis.
- Transactions tax at a rate of 3% on each service rendered. This tax is paid on a monthly basis.
- Corporate income tax at a rate of 25% (tax is calculated according to special rules). Up to 50% of the income tax can be offset by a tax credit equal to 13% of the purchase invoices obtained during the tax year. This tax is paid on an annual basis.

Directors' fees. Directors' fees not supported by a local fiscal invoice are taxed in the same manner as other personal income.

For a table outlining the taxability of income items see Appendix 1.

Taxation of employer-provided stock options. The Bolivian tax law does not specifically address the taxation of employer-provided stock options. Based on the nature of the Bolivian personal income tax, employees are taxed on stock options when the option is paid.

Capital gains and losses. Capital gains derived by individuals are subject to personal income tax. Capital losses can offset capital gains. Gains derived from financial transactions conducted through the Bolivian stock exchange are not taxed.

Deductions and tax credits. For personal income tax on employees, the following tax deductions may be claimed with respect to taxable income.
- Employee contributions to social security institutions.
- The nontaxable minimum amount, which equals two minimum national salaries per month. The current minimum salary is Bs 815 (US$117).

In addition, the following credits may be claimed with respect to the tax on the taxable income of employees:

- 13% of two minimum national salaries
- The value-added tax (VAT) credit remaining after offset against VAT

Rate. The personal income tax rate is 13%, which equals the rate of VAT.

For a sample tax calculation, see Appendix 2.

B. Social security

Contributions. Employers and employees are required to make social security contributions on total monthly remuneration. The following are the contribution rates.

Institution	Employer %	Employee %
Social Security Office (Caja Nacional de Salud, or CNS) (a)	10	—
Housing Fund (Fondo de Vivienda [Provivienda], or FV) (b)(c)	2	—
Pension Fund Administration (Administradoras de Fondos de Pensiones, or AFP) (c)	1.71	12.21
Solidarity Fund (c)		
Fixed contribution	3	0.5
Variable contribution	0	1/5/10 (d)

(a) For contributions to the CNS, employees receive short-term health insurance, which covers medical care related to pregnancy, illnesses and accidents.

(b) As a result of their contributions to the FV, employees receive credits toward the financing, purchasing and construction of public housing.

(c) For contributions to the FV, AFP and Solidarity Fund, the mandatory contribution base equals 60 minimum national salaries, which totals Bs 48,924 (US$7,009). An employee can make a voluntary contribution over this amount. For contributions to the AFP, employees receive coverage for total or partial incapacity, and death. In addition, the AFP provides pensions on the retirement of employees. Contributions of 0.5% of base salary to the AFP (included in the 12.21% contribution mentioned in the table) cover the expenses of the administration of the individual pension accounts of employees and other funds.

(d) Under Law No. 65 of December, 2010, the following are the variable contributions to the Solidarity Fund:
- 10% of the difference between the total salary and Bs 35,000
- 5% of the difference between the total salary and Bs 25,000
- 1% of the difference between the total salary and Bs 13,000

Employers must withhold the employee contributions. They can pay these withholdings until the last working day of the following month.

Contributions of foreigners. Under Law No. 65 of December 2010, Bolivia ratified the Iberoamerican Social Security Treaty. With the signing of independent implementation agreements, the signatories to the treaty apply the general rules of the treaty. As a result, for nationals seconded to the member countries, it is possible to obtain a certificate of coverage to confirm that social security in the home country remains payable. If the certificate is obtained, such nationals are exempt from social security in the host country.

After all of the documentation described above is received, the local AFP determines that the contributions are not required for a foreign employee. The exemption enters into effect beginning in the month in which the certificate of exemption is issued.

C. Tax filing and payment procedures

Tax must be paid monthly when it is paid by a withholding agent and quarterly when it is paid directly by a taxpayer. The tax must be paid at the same time as a filing of the tax return. The tax return must be filed between the 13th and 22nd day of the month following the end of the reporting period. The due date is determined based on the last digit of the Identification Tax Number (Número de Identificación Tributaria, or NIT).

D. Double tax relief and tax treaties

Bolivia has entered into tax treaties with Argentina, France, Germany, Spain, Sweden and the United Kingdom. It has also signed the Andean Pact, which includes a tax treaty with Colombia, Ecuador and Peru.

E. Tourist visas

Most foreign nationals do not need to obtain entry visas before entering Bolivia.

Tourist visas are generally issued on arrival to individuals who intend to visit Bolivia for business, family, health, recreational or sporting activities and who have no intention of immigrating or engaging in remunerated activities. Tourist visas are valid for 90 days and they are renewable for two 90-day periods.

F. Work visas and self-employment

Expatriates who want to engage in remunerated activities in Bolivia must apply for a visa or residence permit that entitles him or her to work. The most common of these documents 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. Individuals may also obtain the documents before their arrival through a Bolivian consulate abroad.

Foreign nationals may establish businesses in Bolivia if they comply with all legal requirements. Companies may be headed by foreign nationals who are resident or domiciled in Bolivia for tax purposes.

The visas mentioned above allow individuals to reside and work in Bolivia.

G. Residence visas

Bolivia issues the following types of residence visas:
- Officials: Members of the consular and diplomatic corps.
- Temporary: Expatriates who want to work or perform other legal remunerated activities in Bolivia. This visa may be granted to individuals who have relatives in Bolivia or who intend to make investments that are considered advantageous for Bolivia.
- 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 Bolivia.

- Permanent residence: An indefinite visa that gives the expatriate the same rights as an ordinary Bolivian national, except for the right 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 evidence the activities that an applicant will perform in Bolivia, 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
- A health certificate

H. Family and personal considerations

Family members. Family members of a working foreigner do not need separate visas to reside in Bolivia, and children of a foreigner do not need student visas to attend schools in Bolivia, but they must 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 in Bolivia.

Drivers' permits. Foreign nationals may not drive legally in Bolivia using their home country drivers' licenses. However, they may legally drive in Bolivia with an international license while the license is in force. Bolivia has driver's license reciprocity with a few countries. To obtain a Bolivian 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	—	—
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	—
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	—

	Taxable	Not taxable	Comments
Capital gains from sale of real estate in the country	—	X	—
Capital gains from sale on the Bolivian Stock Exchange	—	X	—

Appendix 2: Sample tax calculation

The following is a sample of a monthly tax calculation for an individual, who is resident in Bolivia and earns monthly compensation of Bs 100,000.

	Bs (a)
Calculation of taxable income	
Base salary	100,000
Less: social security contribution	(6,218) (b)
Less: Solidarity Fund contribution	(11,120) (b)
Net income	82,662
Deduction:	
Nontaxable minimum amount (two minimum national salaries)	(1,631)
Taxable income	81,031
Calculation of tax	
Income tax (13% of Bs 81,031)	10,534
Credit (c):	
13% of two minimum national salaries	(212)
Tax payable	10,322

(a) The Bolivian legal currency is the boliviano (Bs) and the current exchange rate for the U.S. dollar is US$1 = Bs 6.98.
(b) See Section B.
(c) In addition, the tax credit for invoices of local purchases can be claimed as a credit to offset the personal income tax. After such offset, any remaining amount of tax credit can be offset in the following periods. The amount of the credit is adjusted for the effects of inflation through the use of the Unidad de Fomento a la Vivienda (UFV), which is an index published by the Bolivian Central Bank.

Botswana

(Country code 267)

Gaborone **GMT +2**

Ernst & Young
Mail address:
P.O. Box 41015
Gaborone
Botswana

Street address:*
2nd Floor
Letshego Place
Plot 22
Khama Crescent
Gaborone
Botswana

* No postal deliveries to this address.

Executive and immigration contacts

Bakani Ndwapi
397-4078
Fax: 397-4079
Email: bakani.ndwapi@za.ey.com

Josephine Banda	365-4042 Fax: 397-4079 Email: josephine.banda@za.ey.com
Gladys Makachiwa	365-4041 Fax: 397-4079 Email: gladys.makachiwa@za.ey.com

This chapter mentions several proposals, which would be effective from 1 July 2011. However, at the time of writing, these proposals have not yet been enacted. To determine whether these proposals have been enacted, readers should obtain updated information before engaging in transactions.

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.
- 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 exempt from tax.

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 6,000 of interest received in a tax year by residents from banking institutions or building societies in Botswana is exempt from tax. Under a proposal, the amount of exempt interest will be increased from P 6,000 to P 7,800. 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. Under a proposal, the withholding tax rate on dividends will be reduced from 15% to 7.5%.

Interest paid to residents in excess of P 6,000 is subject to 10% withholding tax, which is a provisional tax. Under a proposal, the exemption threshold for interest subject to residents' withholding tax of 10% will be increased from P 6,000 to P 7,800. A credit is granted for the withholding tax against tax chargeable on assessment.

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.

Gains on the disposal of a Principal Private Residence (PPR) are exempt from tax to the extent that the proceeds are invested in another PPR within 24 months after the date of disposal. Under a proposal, gains on the sale of a principal private residence will be exempt if the individual has held the principal private residence for a period of least five years.

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. Under a proposal, gains on the sale of shares listed on the Botswana Stock Exchange will be exempt from tax if the shares have been held for a period of at least one year.

Net aggregate gains are subject to tax at the following rates for the 2010–11 tax year.

Taxable gain		Tax on lower amount	Rate on excess
Exceeding P	Not exceeding P	P	%
0	15,000	0	0
15,000	60,000	0	5
60,000	90,000	2,250	12.5
90,000	120,000	6,000	18.75
120,000	—	11,625	25

Deductions

Personal deductions and allowances. A single tax-free allowance of P 30,000 is incorporated into the individual tax table applicable to residents. Under a proposal, the tax-free allowance will be increased from P 30,000 to P 36,000. A deduction for approved pension fund contributions is also allowed, limited to 15% of income, excluding investment income.

Tax-free gratuities for noncitizens. One-third of a gratuity paid to a noncitizen employee is exempt from tax if the employee has completed a two-year contract of employment and if the gratuity payment is provided for in the employment contract. For the first contract, the one-third exemption is applied up to a maximum of 25% of an individual's cumulative salary, 27.5% for the second continuous contract and 30% for the third contract and subsequent contracts.

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 2010–11 tax year.

Taxable income Exceeding P	Taxable income Not exceeding P	Tax on lower amount P	Rate on excess %
0	30,000	0	0
30,000	60,000	0	5
60,000	90,000	1,500	12.5
90,000	120,000	5,250	18.75
120,000	—	10,875	25

The following table sets forth the income tax rates for nonresidents for the 2010–11 tax year.

Taxable income Exceeding P	Taxable income Not exceeding P	Tax on lower amount P	Rate on excess %
0	60,000	0	5
60,000	90,000	3,000	12.5
90,000	120,000	6,750	18.75
120,000	—	12,375	25

The following are the proposed tax rates for resident individuals.

Taxable income Exceeding P	Taxable income Not exceeding P	Tax on lower amount P	Rate on excess %
0	36,000	0	0
36,000	72,000	0	5
72,000	108,000	1,800	12.5
108,000	144,000	6,300	18.75
144,000	—	13,050	25

The following are the proposed tax rates for nonresident individuals.

Taxable income Exceeding P	Taxable income Not exceeding P	Tax on lower amount P	Rate on excess %
0	72,000	0	5
72,000	108,000	3,600	12.5
108,000	144,000	8,100	18.75
144,000	—	14,850	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 2010–11 tax year.

Taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
P	P	P	%
0	60,000	0	5
60,000	90,000	3,000	12.5
90,000	120,000	6,750	18.75
120,000	—	12,375	25

The proposed rates for estates are the same as the proposed rates for nonresidents.

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		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
P	P	P	%
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 Barbados, France, India, Mauritius, Namibia, Seychelles, South Africa, Sweden, the United Kingdom and Zimbabwe.

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	Iceland	Norway
Belgium	Ireland	Samoa (Western)

Denmark	Italy	San Marino
Finland	Japan	Sweden
France	Liechtenstein	Switzerland
Germany	Luxembourg	United States
Greece	Netherlands	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. On application, they 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
- Letter of support from the host
- 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. In general, 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 and obtaining a release letter from the preceding 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
- Dependants: varies based on the sponsor’s residential status
- 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 dependants:

- 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
- Qualification certificates and proof of employment

The applications for work and residence permits 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 dependants must obtain separate residence and work permits. The dependants 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.

Brazil

(Country code 55)

Rio de Janeiro **GMT -3**

Ernst & Young
Mail address:
Caixa Postal 4660
20001-970 Rio de Janeiro, RJ
Brazil

Street address:
Praia de Botafogo, 228
13th Floor
22359-900 Rio de Janeiro, RJ
Brazil

Executive contact

Carlos Martins
(21) 3736-9511
Fax: (21) 3736-9501
Email: carlos.martins@br.ey.com

São Paulo **GMT -3**

Ernst & Young
Avenida Presidente Juscelino
Kubitschek, 1830
Torre 1 – 13th Floor
04543-900 São Paulo, SP
Brazil

Executive contacts

Tatiana da Ponte	(11) 2573-3288 Fax: (11) 2375-5284 Email: tatiana.ponte@br.ey.com
Frederico Good God	(11) 2573-3232 Fax: (11) 2375-5284 Email: frederico.h.god@br.ey.com
Alessandra Paraíso	(11) 2573-3449 Fax: (11) 2375-5284 Email: alessandra.p.paraiso@br.ey.com

Immigration contact

Raquel Teixeira	(11) 2573-3504 Fax: (11) 2375-5284 Email: raquel.teixeira@br.ey.com

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.
- 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.

Before 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% 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 40% 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*. Local financial income and gains from fixed or variable interest financial investments are taxed exclusively at source. The rates vary from 15% to 22.5%, depending on the investment term. In general, financial institutions withhold the tax due and the earnings are credited net.

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 of assets located abroad by a resident of less than R$35,000 (approximately US$21,875) 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. 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$20,000 (approximately US$12,500). If the sale price exceeds R$20,000, 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$275,000). In addition, gains derived from sales of residential real properties are 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$157.47 per month for each dependant, with no limitation on the number of dependants
- Brazilian Pension Funds contributions, up to 12% of gross taxable 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$13,916.36 or may deduct the following amounts:
- Brazilian Pension Funds contributions, up to 12% of gross taxable income
- Amounts paid as alimony and pensions in accordance with a court decree
- R$1,889.64 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$2,958.23 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

- Contributions to cultural and audiovisual activities, sports and the Children's Fund, up to 6% of income tax due
- Payments for the social security system on behalf of a maid who works in the taxpayer's house (limited to one employee per taxpayer and to an amount, which is currently R$810.60; this is the 2010 amount; the government has not yet fixed the 2011 amount)

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 Exceeding R$	Monthly taxable income Not exceeding R$	Deductible amount R$	Rate %
0	1,566.61	0	0
1,566.61	2,347.85	117.49	7.5
2,347.85	3,130.51	293.58	15
3,130.51	3,911.63	528.37	22.5
3,911.63	—	723.95	27.5

The following rates apply to annual taxable income.

Annual taxable income Exceeding R$	Annual taxable income Not exceeding R$	Deductible amount R$	Rate %
0	18,799.32	0	0
18,799.32	28,174.20	1,409.88	7.5
28,174.20	37,566.12	3,522.96	15
37,566.12	46,939.56	6,340.44	22.5
46,939.56	—	8,687.40	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 4% generally applies in Rio de Janeiro and 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 8% to 11%, depending on the level of remuneration, with a maximum required monthly contribution of R$405.86 (approximately US$253.66). 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$737.93 (approximately US$461.20).

Totalization agreements. Brazil has entered into social security totalization treaties with Argentina, Cape Verde, Chile, Greece, Italy, Luxembourg, Paraguay, 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 eight monthly installments. The installments are subject to interest based on a monthly rate set by the Central Bank (approximately 1% 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%).

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
• 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 through 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	France	Norway
Austria	Hungary	Peru
Belgium	India	Philippines
Canada	Israel	Portugal
Chile	Italy	Slovak Republic
China	Japan	South Africa
Czech Republic	Korea (South)	Spain
Denmark	Luxembourg	Sweden
Ecuador	Mexico	Ukraine
Finland	Netherlands	

Brazil has also signed treaties to avoid double taxation with the Russian Federation, 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)
- 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
- 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 following:
- The activity of the foreign national
- The type of business that he or she may establish
- 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, both of the following conditions must be satisfied:
- The foreign national must make a minimum investment, which is currently R$150,000 (approximately US$93,167), and register the investment at the Central Bank of Brazil
- 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 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 drive legally in Brazil with their home country drivers' licenses. They can also use an international driver's license, which must be translated by a sworn translator and authorized by the Transport Department. These licenses are usually valid for six months. After this period, a foreign national may acquire a Brazilian driver's license by taking the following steps:

- He or she must complete the required application, which may be purchased in any stationery store, and attach the following items to the application:
  - — Copy of identity card.
  - — Copy of taxpayer number.
  - — Copy of residence supporting document.
  - — Translation of the foreign driver's license.
  - — One photo of the applicant.
- He or she must pay the tax in a state bank.
- He or she must complete an eye examination.

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$20,000 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 2011, 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$750 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 May 2011 compensation:
  — Local employer #1 paid R$3,000.
  — Local employer #2 paid R$7,000.
  — 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	3,000	7,000	8,400
Dependants	(629.88)	(629.88)	0
Social security	(405.86)	(405.86)	0
Taxable income	1,964.26	5,964.26	8,400
Tax liability	29.83	916.22	1,586.05

(a) Brazilian employer #1 computes the expatriate's withholding tax to be R$29.83. 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$916.22.
(c) The expatriate's mandatory monthly PAYE tax on U.S.-source income is computed to be R$1,586.05. This amount must be paid by 30 June 2011. 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.

British Virgin Islands

(Country code 248)

Road Town **GMT -4**

Ernst & Young
Jayla Place
Wickhams Cay I
Road Town, Tortola VG1110
British Virgin Islands

Executive and immigration contacts

Rohan Small *(resident in Grand Cayman, Cayman Islands)*	+1 345 8140 9002 Email: rohan.small@ky.ey.com
Bill Bailey *(resident in Hamilton, Bermuda)*	+1 441 294 5692 Email: bill.bailey@bm.ey.com)
Scott Clout	852-5450 Email: scott.clout@vg.ey.com)

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
- 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$10,000 of earnings is exempt from payroll tax. Persons receiving remuneration from a second employment are not entitled to the exemption of US$10,000 with respect to that remuneration because the exemption is granted only once.

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$10,000 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, which include self-employed persons, payroll tax is imposed at a rate of 10%.

A Class I employer or self-employed person is one who 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.
- The total of its employees and deemed employees does not exceed seven.

Class II employers. For Class II employers, which include self-employed persons, 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 or market value of the property, whichever is higher. The rate of the duty is increased to 12% 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$696.15 or to monthly wages of US$3,016.65. Consequently, the maximum annual contribution is US$1,629.12 for employers and US$1,448.16 for employees.

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 satisfies all of the following requirements:

- Possesses a valid travel document.
- Does not intend to remain permanently in the British Virgin Islands.
- He or she 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. In general, a return ticket is required.

Citizens of the British Commonwealth, except Guyana and Jamaica, 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 British Virgin Islands for an extended time period and if their employers in the islands provide letters to that effect. Persons who are employed in the British Virgin Islands on a temporary or periodic basis must obtain temporary or periodic work permits (as applicable).

Work permits for foreign nationals are issued by the Labour Department for specific positions with specific employers if the positions cannot be filled locally. The permits are usually valid for one-year periods. However, on expiration, they may be submitted for renewal. Temporary work permits are issued to persons to enter and work in the British Virgin Islands for a single period not exceeding three months. Periodic work permits are issued to persons to enter and work in the British Virgin Islands for short periods within a one-year period.

Individuals in the following categories are not required to obtain work permits:

- Expatriate government employees from other territories who possess a letter from the British Virgin Islands' government offering them employment.
- Expatriates married to local men and women for at least three years. However, they must apply to the Ministry of Labour for this exemption.
- Children of expatriates who have completed their primary and secondary education in the British Virgin Islands.
- Individuals entering the British Virgin Islands to provide volunteer services. They are issued an exemption on application to the Ministry of Labour.

In general, an applicant cannot be resident in the British Virgin Islands during the period during which his or her work permit application is being processed. Approval of work permits may be issued within six to eight weeks if all of the appropriate documentation is in order when it is submitted to the Labour 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 Labour Department approving employment in the British Virgin Islands together with all documents stipulated in the letter. 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 before arrival.
- A Police Certificate of Character, issued by the police department in the applicant's country of residence for the six-month period immediately before arrival in the British Virgin Islands.

Applicants wishing to establish businesses in the British Virgin Islands must obtain the following:

- Trade licenses from the Chief Minister's Office
- Work permits from the Labour Department
- Documents required for permanent residence
- Entry permits from the Immigration Department

F. Permanent residence

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
- 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 Department of Motor Vehicles in the British Virgin Islands. To obtain the temporary license, proof of a current valid driver's license from the expatriate's home country must be provided to the Department of Motor Vehicles. 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 and taking a written test.

Brunei Darussalam

(Country code 673)

Bandar Seri Begawan **GMT +8**

Ernst & Young
Mail address:
P.O. Box 2162
Bandar Seri Begawan BS 8674
Brunei Darussalam

Street address:
3rd Floor, Room 309A
Wisma Jaya
Jalan Pemancha
Bandar Seri Begawan BS 8811
Brunei Darussalam

Executive and immigration contact

Lim Teck Guan	(2) 239-139 Fax: (2) 239-142 Email: teck-guan.lim@bn.ey.com

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 located, 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 located in Brunei Darussalam that is owned by persons not domiciled in Brunei Darussalam at the time of death. Double tax relief is granted for estate tax paid overseas on assets that are also subject to estate tax in Brunei Darussalam.

The first B$2 million of the principal value of an estate is exempt from estate tax. The excess is taxed at a rate of 3%.

D. Social security

Brunei Darussalam does not impose social security taxes. However, under the government-run Tabung Amanah Pekerja (TAP) and Supplementary Contributory Pension (SCP) employee trust fund schemes, employees who are Bruneian citizens or permanent residents and their employers are required to contribute to the funds for the benefit of the employees. Under the TAP scheme, employees must contribute at least of 5% of their basic salaries to the fund and employers must make a contribution at a minimum rate of 5% for their employees. Under the SCP scheme, the employees' and employers' contributions are calculated at a rate of 3.5% of basic salaries of the employees. These contributions are each subject to a maximum contribution of B$98 per month per employee. The employers withhold the employees' contributions. These contributions and the employers' contributions are payable monthly by the employers to the funds. These schemes do not apply to foreign nationals who are not permanent residents.

E. Double tax relief and tax treaties

Brunei Darussalam has entered into double tax treaties with Bahrain, China, Hong Kong, Indonesia, Japan, Malaysia, Oman, Pakistan, Singapore, the United Kingdom and Vietnam. In addition, Brunei Darussalam has signed tax treaties with Kuwait, Laos and Tajikistan, but these treaties have not yet been ratified.

F. Visitor visas

In general, visitors must obtain entry visas before their visits to Brunei Darussalam. However, nationals of various countries with which Brunei Darussalam has visa arrangements are exempt from the requirement to obtain visas for visits of up to either 14 or 30 days. Visitors from the United States are exempt from the requirement to obtain visas for visits not exceeding 90 days.

Visitors to Brunei Darussalam may not take up remunerated employment during their stay in the country without the prior approval from the 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 a business or is a professional, has sufficient assets in Brunei Darussalam and has resided or been working in the country for at least 20 years, in which case the application may be considered. A foreign individual married to a Brunei Darussalam national may apply for a permanent residence visa under certain conditions.

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.

Bulgaria

(Country code 359)

Sofia	**GMT +2**

Ernst & Young
Business Park Sofia
Building 10, Floor 2
Mladost 4
1715 Sofia
Bulgaria

Executive, immigration and social security contacts

Trevor Link	(2) 817-7301 Fax: (2) 817-7111 Email: trevor.link@bg.ey.com
Nevena Kovacheva	(2) 817-7146 Fax: (2) 817-7111 Email: nevena.kovacheva@bg.ey.com

A. Income tax

Who is liable.

Territoriality. Individuals who are tax resident in Bulgaria are subject to income tax on their worldwide income. Individuals who are nonresident for tax purposes are subject to income tax on their income earned in Bulgaria.

Definition of tax resident. An individual is considered tax resident for a calendar tax year if he or she satisfies either of the following conditions:

- On any day in that year, he or she has spent more than 183 days in Bulgaria in the previous 12 months.
- His or her center of vital interests is considered to be in Bulgaria.

Days of entry and departure count as days of stay in Bulgaria.

The center of vital interests is considered to be in Bulgaria if the individual's personal and economic interests are tightly connected to Bulgaria based on actual facts and circumstances such as family residence, real estate owned or place of work.

Tax residence status is determined for an entire tax year, which coincides with the calendar year. Part-year tax residence is not possible.

Income subject to tax

Employment income. Employed individuals are subject to income tax on remuneration (money or benefits in kind) paid or provided by or on behalf of an employer. Income derived from employment activities performed in Bulgaria has a Bulgarian source. The following employment income is exempt from tax:

- The amount of per diems related to business trips within Bulgaria and abroad up to double the statutory amounts determined by law
- Travel and accommodation expenses relating to business trips covered by supporting documentation
- Certain social benefits provided by and taxed at the level of the employer

Employer-provided stock options are taxed at exercise as employment income.

Self-employment and business income. Self-employment and business income is income derived from professional services and business activities, such as the following:

- Income from activity as a sole entrepreneur
- Copyright royalties
- Agricultural income
- Forestry income
- Earnings from other self-employment and nonemployment activities

A fixed deduction of 25% or 40% of gross revenue applies depending on the type of activity except that the actual expenses of the business may be deducted with respect to a sole entrepreneur's activities.

Directors' fees. Management income, including directors' fees, paid to residents is taxed as employment income. Any deductions that may be applied to residents may be claimed by nonresidents who are residents of European Union (EU) countries and Norway through the filing of an annual tax return (see Section D).

Other income. A fixed deduction equal to 10% of revenue applies when determining the taxable rental income of residents. Non-residents who are residents of other EU countries and Norway may apply the same deduction through the filing of an annual tax return (see Section D).

Payments for rights, damages and indemnities to residents in low-tax jurisdictions are subject to withholding tax at a rate of 10%.

In principle, interest income is taxable, subject to the following exceptions:
- Bulgarian tax residents deriving interest income from accounts and deposits in commercial banks or branches of foreign banks established in EU/European Economic Area (EEA) countries are not subject to tax.
- Bulgarian tax nonresidents who are residents of EU/EEA countries and derive interest income from accounts and deposits in commercial banks or branches of foreign banks in Bulgaria are not subject to tax. These individuals must provide a tax residence certificate to the payer of the income to avoid taxation.

Dividends and liquidation distributions realized through participations in the profits of Bulgarian entities are considered Bulgarian-source taxable income. Foreign-source dividend income derived by Bulgarian tax residents is also taxable in Bulgaria.

Capital gains

Shares. Income derived from the sale of shares and other financial assets is taxable. Gains on disposals of securities traded through the Bulgarian or an EU/EEA stock exchange are exempt from tax.

The taxable gain is the positive difference between the total amount of profits realized during the year less the total amount of losses during the year, both determined for each transaction.

Real estate. Bulgarian and EU/EEA tax residents are not subject to tax on a gain derived from the disposal of one principal private residence in a year if the residence has been owned for at least three years. Such residents are also exempt from tax on gains derived from up to two other real estate properties if the properties have been owned for at least five years.

A fixed deduction of 10% of the taxable gain (sales price minus purchase price) on the disposal of real estate applies.

Exempt income. Income from scholarships, pensions derived from compulsory social security schemes in Bulgaria and abroad, alimony and certain insurance payments are not taxable.

Deductions

Donations. Gifts and donations to Bulgarian and similar EU/EEA charitable institutions and other welfare institutions are deductible up to 5% of the annual tax base. A deduction of up to 50% applies to gifts and donations to special funds for children's medical treatment and assisted reproduction.

Mortgage interest. Interest paid on the first BGN 100,000 of a mortgage loan is tax deductible for married couples if all of the following conditions are satisfied:

- The taxpayer or his or her spouse is below the age of 35.
- The mortgage loan contract is entered into after the date of the marriage.
- The real estate subject to the mortgage is the only property owned by the family.

Mandatory social security and health insurance contributions. Social security and health insurance contributions made by individuals to mandatory Bulgarian and EU/EEA systems are deductible for tax purposes. Official documentation of the social security institution must be presented as proof for the paid contributions. The deduction can be applied on a monthly or on an annual basis.

Voluntary social security contributions. Deductions equaling up to 10% of the tax base may be claimed for voluntary pension contributions by individuals. In addition, deductions equaling up to 10% of the tax base may be claimed for voluntary health and life insurance contributions made by individuals to Bulgarian or EU/EEA authorized funds.

Tax rates. The rate of income tax is a flat 10%, except for dividend income, which is taxed at a rate of 5%, and the income of sole entrepreneurs, which is taxed at a rate of 15%.

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 that is owned by Bulgarian citizens is also subject to inheritance tax. Spouses, parents and more remote ancestors and direct descendants are not subject to inheritance tax. The following flat rates apply for determining the inheritance tax for other heirs:

- For brothers, sisters and their children, the tax rate ranges from 0.4% to 0.8% (determined by the local Municipal Council of the last permanent residence of the deceased) for an inheritance share over BGN 250,000
- For other heirs subject to inheritance tax, the tax rate ranges from 3.3% to 6.6% (determined by the local Municipal Council of the last permanent residence of the deceased) for an inheritance share over BGN 250,000

Property acquired as a gift is taxable unless the gift is given by a spouse or the gift is made between descendants. The tax base is the value of the property at the moment of transfer determined by the tax authorities or the Municipal Council. The applicable rates vary by location and type of property.

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.

Individuals performing working activities in Bulgaria are subject to Bulgarian mandatory social security contributions unless an exemption is provided. 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 or second category. The following table provides the rates effective from 1 January 2011 for contributions payable by employers and employees with respect to employees in the third labor category (normal work conditions) who were born after 1 January 1960 and work under employment contracts governed by the Labor Code.

	Employer's share (%)	Employee's share (%)	Total (%)
Pension Fund	7.1	5.7	12.8
Illness and Maternity Fund	2.1	1.4	3.5
Accident and Occupational Disease Fund	0.4 to 1.1*	0	0.4 to 1.1
Additional mandatory social insurance for individuals born on or after 1 January 1960	2.8	2.2	5
Unemployment Fund	0.6	0.4	1
Health insurance	4.8	3.2	8

* The percentage depends on the category of basic economic activities into which the company falls.

The monthly social security base is capped at BGN 2,000.

Coverage. Employees working in Bulgaria under an employment contract are covered under all of the social security funds, as well as the Pension Fund.

Sole entrepreneurs and freelancers insure themselves by paying contributions on a level of monthly income selected by them of at least BGN 420. For these individuals, the annual amount of social security and health insurance contributions is recalculated at the end of the year based on actual annual income received, up to a maximum of BGN 24,000. The rate of the contribution is 20.8% or 24.3%, depending on the scope of coverage desired.

Exemption. Exemption from paying social security contributions in Bulgaria may apply under the provisions of the EU Regulation or a bilateral social security agreement. Bulgaria has entered into bilateral social security agreements with the following countries.

Albania	Korea (South)	Russian Federation
Bosnia-Herzegovina	Libya	Serbia
Croatia	Macedonia	Turkey*
Israel	Moldova	Ukraine
	Montenegro	

* This agreement has a limited scope of applicability.

D. Tax filing and payment procedures

Payment of tax

Employment income. An advance tax payment on employment income is due on a monthly basis. The employer withholds advance tax from the salary payment and must remit it to the tax authorities before the 10th of the month following the month of withholding. The tax rate of 10% is applied to the tax base.

Self-employment and business income. Self employed individuals must pay advance tax of 10% by the 15th day of the month following the quarter of the earning of the income.

Advance tax of 15% applies to income derived from activities of sole entrepreneurs under the provisions of the Corporate Tax Act.

Directors' fees. Management income is treated as employment income if derived by residents. If nonresidents derive management income with a Bulgarian source, it is subject to 10% withholding tax on the gross amount.

Rental income. Advance tax of 10% is payable monthly on rental income paid to residents and nonresidents. This tax must be withheld by a tenant that is an enterprise or a freelancer.

Interest income. Interest income is taxable at 10% on an annual basis. Withholding tax at a rate of 10% applies to nonresidents.

Dividend income. A 5% withholding tax applies to income from dividends and liquidation distributions received from resident entities.

Capital gains. A tax rate of 10% applies to capital gains, which are reported in annual tax returns for residents and quarterly tax returns for nonresidents.

Harmonization. Nonresidents who are residents of EU countries or Norway may apply the same deductions applicable for residents and claim the refund of the excess tax withheld or paid in advance through the filing of an annual tax return.

Tax returns

Quarterly tax returns. Nonresidents with certain types of income must file quarterly tax returns.

Annual tax returns. Annual tax returns must be filed and the balance of tax due must be paid by 30 April of the year following the tax year. Extensions are not possible. An individual is not required to file an annual tax return if, during the year, he or she derives employment income only. The tax on such income is withheld and an annual reconciliation is performed by the employer at the end of the year.

Discount. The Bulgarian income tax law provides for a 5% discount on the balance between the total annual tax liability and the advance tax payments made throughout the year if the tax return is filed and if the tax is paid by 10 February of the following year.

Penalties. Late filings and tax payments result in administrative fines and penalties.

E. Double tax treaties

The double tax treaties recently entered into by Bulgaria closely follow the Organization for Economic Cooperation and Development

(OECD) model treaty. Bulgaria has entered into double tax treaties with the following countries.

Albania
Algeria
Armenia
Austria
Azerbaijan
Bahrain
Belarus
Belgium
Canada
China
Croatia
Cyprus
Czech Republic
Denmark
Egypt
Estonia
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
Malta
Moldova
Mongolia
Morocco
Netherlands
Norway
Poland
Portugal
Qatar
Romania
Russian Federation
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sweden
Switzerland
Syria
Thailand
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Vietnam
Yugoslavia*
Zimbabwe

* The treaty applies to Bosnia-Herzegovina, Montenegro and Serbia.

F. Entry and visa requirements

EU nationals, citizens of EEA member states and citizens of Switzerland. EU nationals, citizens of EEA member states and citizens of Switzerland may benefit fully from the right of free movement. They may enter Bulgaria based on a valid identification card or international passport and reside freely in the country. Individuals who intend to spend more than three months in Bulgaria should register with the Bulgarian Immigration Office. A long-term residence certificate is obtained through this registration.

Other nationals enjoying visa-free regime. Nationals of countries under Annex II of Council Regulation 539/2001 are not required to obtain visas. They may stay in Bulgaria for 90 days within each 6-month period, beginning on the date of the first entry into Bulgaria. These individuals are required to possess valid international passports to enter the country. If they intend to work or engage in self-employment activities in Bulgaria, they are subject to the same regime as citizens of nonpreferred countries.

Holders of valid residence cards issued by other EU member states are not subject to visa requirements for Bulgaria.

Citizens of nonpreferred countries. Citizens of nonpreferred countries (countries whose nationals do not enjoy preferential treatment) need a valid international passport and a Bulgarian visa to enter the country. Citizens of some nonpreferred countries may require a Type C visa to travel through the country or an air transit visa to stay in the international transit zone of a Bulgarian airport.

Visas. Visas are issued by the Bulgarian diplomatic and consular offices abroad. The following are the types of visas:

- Type A: air transit visa.
- Type C: short-term visa for a total stay of up to 90 days during a 6-month period beginning from the date of first entry. A Type C visa may be issued for tourist or business purposes. The Type C visa can be a single- or multiple-entry visa.
- Type D: long-term visa for a total stay of up to 180 days. The Type D visa is also a prerequisite for a temporary residence permit. In exceptional cases, a Type D visa may be issued for a period of 360 days, such as for seconded personnel of an employer certified in accordance with the International Investments Act. The Type D visa also allows multiple entries into Bulgaria.

G. Work permits, European Union blue cards and self-employment

EU nationals, citizens of EEA member states and citizens of Switzerland. EU nationals, citizens of EEA member states and citizens of Switzerland enjoy the right of free movement within the EU. They do not need to obtain a work permit or register with the Employment Agency to work or engage in self-employment activities in Bulgaria.

Individuals enjoying preferential treatment. The following individuals do not need a work permit to work in Bulgaria:

- Permanent residence permit holders
- Family members of EU, EEA and Swiss nationals
- Individuals granted asylum or humanitarian status
- Individuals to whom the provisions of an international agreement apply

Other nationals. Individuals not enjoying preferential treatment who intend to work in the country under a local employment contract or under the terms of a secondment must obtain a work permit from the Employment Agency.

Applications for work permits are submitted by the intended employer. Individuals who obtain work permits are authorized to work for only that employer.

Work permits are issued to foreign nationals who possess proper education, special skills or professional experience, suitable to the position they intend to take. In most cases, the Bulgarian employer must perform a labor market test to establish the lack of Bulgarians and individuals enjoying preferential treatment who are suitable for the position. The market test requirement can be avoided under specific circumstances.

The number of non-EU nationals employed by a company may not exceed 10% of the average number of Bulgarian nationals and individuals enjoying preferential treatment that were employed by the company in the preceding year.

The term of validity of a work permit is up to one year. It can normally be extended for two consecutive years, and exceptionally beyond that period. In the case of a secondment, the one-year period can be extended only under extraordinary circumstances.

In general, non-EU nationals may not reside in Bulgaria while their work permit application is being processed.

Highly qualified foreign employees can be granted EU Blue cards subject to prior approval by the Employment Agency. An EU Blue card allows its holder to work and reside in Bulgaria for up to one year. It can be extended without limitation for the period of the employment.

Foreign nationals intending to perform self-employment activities in Bulgaria should apply for a permit before entering the country.

H. Residence certificates and permits

Residence certificates. Residence certificates are issued to EU, EEA and Swiss nationals who intend to reside in Bulgaria for a period exceeding three months. Temporary and permanent residence certificates may be issued.

A temporary residence certificate is issued for a term of up to five years. To obtain a residence certificate, an EU, EEA or Swiss national must present evidence of sufficient funds, accommodation and health insurance. Residence certificates are also granted to such nationals who are employed by a Bulgarian employer or are enrolled in a Bulgarian educational institution. EU, EEA or Swiss nationals who hold a residence certificate may apply for a biometric residence certificate card.

EU, EEA or Swiss nationals may apply for permanent residence certificates if they have resided legally in Bulgaria for longer than five years. The granting of a permanent residence certificate is subject to some additional conditions. The term of a permanent residence certificate is indefinite.

Residence permits. Residence permits may be issued to non-EU nationals who have entered Bulgaria with a Type D visa.

Temporary residence permits are generally issued for a stay of up to one year, on the basis of employment, study, marriage or a management agreement. Depending on the grounds for application, the non-EU national must present a specified set of documents to the Immigration Office.

Non-EU nationals who are holders of valid residence permits for other EU member countries and who are hired by Bulgarian employers or enrolled in Bulgarian educational institutions are subject to preferential treatment. Their temporary residence permits may be issued for a period of up to five years.

Non-EU nationals, who have legally and continuously resided in Bulgaria for the preceding five years, can acquire long-term resident status for five years with a possibility of extension. Holders of long-term resident status enjoy equal treatment with Bulgarians with respect to access to work and self-employed activities and certain other matters.

Permanent residence permits are issued for an indefinite period. Permission for a permanent stay is granted to foreign nationals who have a substantial link to Bulgaria, such as the following:
- They have been married to a Bulgarian national for more than five years.
- They are of Bulgarian origin.
- They have made a large investment in the country.

I. Family and personal considerations

Family members

Family members of EU, EEA or Swiss nationals. Family members of EU, EEA or Swiss nationals who are not themselves citizens of EU member states can benefit from the right of free movement within the EU. They do not need a work permit to begin an employment relationship in Bulgaria. However, they need to register their employment with the Employment Agency. They may enter Bulgaria with an international passport and, if required as a result of their nationality, a visa. They can apply for a temporary residence permit on the grounds of their family relationship with an EU, EEA or Swiss national. The term of validity of a residence permit of a family member depends on the term of residency of the EU, EEA or Swiss national whom the family member is accompanying. However, the term cannot exceed five years.

Family members of non-EU, EEA or Swiss nationals. Family members of non-EU, EEA or Swiss nationals must have separate permits to reside in Bulgaria. They can apply for a residence permit on the grounds of their family relationship with Bulgarian residence permit holders. The term of validity of their residence permits depends on the term of the residence permits granted to the non-EU, EEA or Swiss nationals whom they are accompanying.

They should apply independently for their own work permits if they wish to take up employment in Bulgaria.

Family members of an EU Blue card holder can acquire a derivative residence permit for the period of validity of the EU Blue card. Family members of a foreigner with long-term resident status can acquire a Bulgarian residence permit for up to one year with an option for an extension.

Marital property regime. Married couples whose marital relationships are governed by Bulgarian law may choose between a community property regime or separation of assets regime. They may also choose to govern their relationship through a written marriage agreement.

The default regime is community property, under which all property acquired during marriage, except by gift or inheritance, is community property. However, on termination of the marriage each spouse is solely entitled to the property he or she brought to the marriage.

Under the separation of assets regime all property acquired during marriage belongs to the acquirer. On termination of the marriage, one spouse can claim part of the property that the other spouse acquired with his or her assistance.

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 a will. The rules apply to the estate of a Bulgarian citizen or to property located in Bulgaria.

Drivers' permits. Foreign nationals, who reside in Bulgaria and have a valid driver's license issued by EU or EEA member states or Switzerland, may drive legally in Bulgaria. Holders of licenses issued by other states that signed the Vienna Convention for Traffic Rules may drive legally in Bulgaria for up to one year.

Cambodia

(Country code 855)

Phnom Penh **GMT +7**

Ernst & Young
SSN Center No. 66
3rd Floor, Room No. 03-04
Pheah Norodom Blvd (41)
Sangkat Chey Chumneas, Khan Daun Penh
Phnom Penh
Cambodia

Executive and immigration contact

Christopher Butler +84 8 3824 5252
(resident in Ho Chi Minh, Vietnam) Fax: +84 8 3824 5250
Email: christopher.butler@vn.ey.com

A. Income tax

Who is liable. Cambodian resident and nonresident individuals are subject to Tax on Salary (ToS). Resident persons are subject to tax on their worldwide income, while nonresident individuals are subject to tax on their Cambodian-source income only.

Resident and nonresident individuals are subject to the Tax on Profit on their self-employment income, dividends, interest, royalties and capital gains.

For tax purposes, an individual is considered to be a resident if he or she has his or her residence or his or her principal place of abode in Cambodia or if he or she is present in Cambodia for more than 182 days in any period of 12 months ending in the current tax year.

Income subject to tax

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

ToS applies to employment income, which includes salary, remuneration, wages, bonus, overtime, compensation, and fringe benefits. Salary from employment activities, advances and loans are assessable, except as provided below. However, fringe benefits are subject to a separate tax regime called the Tax on Fringe Benefits (see *Tax on Fringe Benefits*). Monthly taxable salary consists of assessable income less deductible expenses and allowances.

Salary received in foreign currency is converted to Cambodian riel in calculating taxable income.

The following categories of employment income are exempt from tax:
- Reimbursement of employment-related expenses
- Indemnity for a layoff within the limit provided in the Labor Law
- Additional remuneration with social characteristics as indicated in the Labor Law
- Flat allowance for mission and travel expenses (per diem for field work done by employees)

- Allowances for special uniforms or professional equipment
- Salaries of members of the National Assembly and Senate, and employees of approved diplomatic and international aid organizations

Self-employment and investment income. Self-employment income, dividends, interest and royalties are subject to the Tax on Profit at the following progressive rates.

Annual taxable profit Exceeding KHR	Not exceeding KHR	Rate (%)
0	6,000,000	0
6,000,000	15,000,000	5
15,000,000	102,000,000	10
102,000,000	150,000,000	15
150,000,000	—	20

Capital gains. Capital gains on immovable, financial or investment property are subject to the Tax on Profit at the progressive rates listed in *Self-employment and investment income*.

Deductions

Deductible expenses. Repayments made by employees of advances or loans are deductible from assessable income.

Allowances. An allowance for a spouse and minor dependent children in the amount of KHR 75,000 per person per month is deductible from assessable income.

Rates. The employer must withhold ToS from Cambodian residents at progressive rates of 5% to 20%. A flat rate of 20% applies to nonresidents. The following table presents the ToS rates imposed on the monthly taxable salary of residents.

Monthly taxable salary Exceeding KHR	Not exceeding KHR	Rate (%)
0	500,000	0
500,000	1,250,000	5
1,250,000	8,500,000	10
8,500,000	12,500,000	15
12,500,000	—	20

For a sample tax calculation, see Appendix 2.

Tax on Fringe Benefits. The Tax on Fringe Benefits is imposed on taxable fringe benefits provided by an employer, including the providing of, among other items, private use of vehicles, accommodation, food, utilities, household personnel, low-interest loans, discounted sales, educational assistance (except for employment-related training), insurance premiums and pension contributions in excess of the levels provided by the Labor Law.

The Tax on Fringe Benefits is borne by the beneficiary. Fringe benefits are taxable at a rate of 20% of the total value of the benefit provided. For purposes of the tax, the value of the fringe benefit is the fair market value inclusive of all taxes.

B. Other taxes

Net worth, gift, inheritance and estate taxes are not imposed in Cambodia.

C. Social security

The two types of social security schemes in Cambodia are pension and occupational risks. The occupational risks scheme is currently being applied. However, the pension scheme has not yet been implemented.

The occupational risks scheme covers work-related accidents, accidents commuting between home and the workplace and other occupational diseases. Employers who have eight or more employees must register with the National Social Security Fund and make an occupational risks contribution of 0.8% of the monthly average wages of the employees. The monthly average wage per employee is capped at KHR 1 million per month. As a result, the maximum occupational risks contribution per employee is approximately KHR 8,000 (0.8% x KHR 1 million).

The occupational risks contributions are not refundable.

D. Tax filing and payment procedures

Employers must withhold ToS from their employees' salaries and file monthly ToS returns on behalf of their employees. If the employer resides outside Cambodia, a representative must withhold the ToS before making salary payments to employees.

The ToS return must be filed with and the amount of tax must be paid to the tax authorities by the 15th day of the following month.

Cambodia does not require the filing of an annual ToS return.

E. Double tax relief and tax treaties

Relief for foreign taxes. A resident person who receives foreign-source salary and who pays taxes according to the foreign tax law receives a tax credit against the ToS if supporting documents are available.

Tax treaties. Cambodia has not entered into any double tax treaties with other countries.

F. Entry visas

Foreign nationals of most countries must obtain valid entry visas to enter Cambodia. However, this requirement does not apply to nationals of the member countries of the Association of Southeast Asian Nations (ASEAN) such as Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

Cambodia has several types of entry visas, including business (Category E), tourism (Category T) and diplomatic missions (Category A). The duration of a single-entry business visa depends on the nationality of the employee.

Nationals of ASEAN countries may obtain an immigration stamp on arrival. This immigration stamp is valid for 14, 21 or 30 days, depending on the nationality of the employee.

To work in Cambodia, foreign nationals must obtain a business-entry visa. Depending on an employee's nationality, visas may be obtained from any Cambodian Embassy in the home country or on arrival in Cambodia.

The following documents are required to be submitted to obtain a visa:

- A copy of the application form
- Original passport with a validity of at least six months
- A copy of the employment contract or offer letter
- One photograph (4 x 6 cm)

After receiving a single-entry business visa to Cambodia, a multiple-entry business visa with a validity of 1, 6 or 12 months can be obtained from the Immigration Department of the Ministry of Interior. The following documents are required:
- Original passport with a validity of at least six months
- One photograph (4 x 6 cm)

G. Work permits

All foreign nationals who wish to work in Cambodia must obtain work permits from the Cambodian Ministry of Labor. To be eligible for a work permit, a foreigner must have a business visa.

An employer who has established an office and registered with the Ministry of Labor in Cambodia is responsible for processing an application for the employee's work permit. Work permits normally have an initial duration of one year.

The following documents and information must be submitted to the Ministry of Labor to obtain a work permit:
- Letter requesting the issuance of a work permit for the employee
- Original passport
- Business visa that is valid for 6 or 12 months
- Six photographs (4 x 6 cm)
- Ten photographs (3 x 4 cm)
- A copy of the relevant qualification or specialization certificate
- A copy of the written labor contract
- Recent medical certificate of the employee obtained from the Cambodian Medical Department

It takes one to three months to obtain an approval for a work permit.

A work permit must be renewed every 12 months before its expiration. An application to renew the work permit must be submitted to the Ministry of Labor together with the following documents:
- Letter requesting the renewal of a work permit for the employee
- An original passport with a business visa that is valid for 6 or 12 months
- Six photographs (4 x 6 cm)
- Ten photographs (3 x 4 cm)
- New employment contract, if any

H. Residence permits

Any person who does not have Cambodian nationality is considered to be alien. Aliens may obtain resident cards from the Ministry of Interior. The two types of resident cards for aliens are temporary and permanent.

Temporary resident cards. Temporary resident cards are valid for a period of two years and can be extended every two years. Temporary resident cards are issued for employees performing managerial, technical or specialized services.

The following documents must be submitted to obtain temporary resident cards:

- An application form for a temporary resident card
- Three copies of information slip form
- A copy of passport or any other equivalent document with proper visa
- Three photographs (4 x 6 cm)
- A copy of medical certificate from a doctor from the home country
- A copy of a written labor contract
- A copy of social security insurance
- A copy of the receipt of payment of temporary resident card tax

Permanent resident cards. Permanent resident cards are issued to foreign investors and their household members who have authorization to invest in Cambodia from the Council for the Development of Cambodia and to other individuals who are recognized by the Ministry of Interior.

The following documents must be submitted to obtain a permanent resident card:

- An application form for a permanent resident card
- A copy of the Proclamation recognizing the alien as an immigrant alien who is a private investor
- A copy of passport or any other equivalent document with proper visa
- Three photographs (4 x 6 cm)
- A certificate from a Cambodian bank that evidences the deposit of a bond required by the Anukret (subdecree)
- A copy of the receipt of payment of permanent resident card tax

I. Family and personal considerations

Family members. The spouse and dependants of a work permit holder must apply for a single-entry business visa and then multiple-entry business visas, which would enable them to live in Cambodia.

Forced heirship. No forced heirship rules apply in Cambodia.

Drivers' licenses. Foreign nationals can use their home country drivers' licenses to drive in Cambodia.

Appendix 1: Taxability of income items

	Taxable	Not taxable	Comments
Base salary	X	—	—
Bonus	X	—	—
Fringe benefits	X	—	(a)
Remunerations	X	—	—
Layoff indemnity	—	X	—
Reimbursement of expenses	—	X	(b)
Travel allowance	—	X	(c)
Premium allowance	X	—	—
Other compensation income	X	—	—

(a) See Section A.
(b) Reimbursement of business-related expenses is exempt.
(c) This allowance may not overlap with the real expense refund. A real expense refund refers to expenses that satisfy the following conditions:
- They are spent for the direct and exclusive interest of the company.
- They are not exaggerated.
- They are supported by detailed invoices that have already been paid and that are in the name of the recipient of the real expense refund.

Appendix 2: Sample tax calculation

A sample ToS calculation is provided below for an expatriate who is a resident and is married with two dependent children. The children attend school in Cambodia.

The expatriate earns a basic monthly salary of US$4,500. The company pays a bonus of US$2,250. The employer provides a housing allowance of US$600 per month and pays school fees of US$800 per month for the children. It is assumed that the exchange rate is KHR 4,000 = US$1. The following is the tax calculation.

		KHR	KHR
Calculation of taxable salary (a)			
Basic salary		18,000,000	
Bonus		9,000,000	
Total income			27,000,000
Deduction of allowances:			
Spouse allowance		(75,000)	
Children allowance		(150,000)	(225,000)
Total taxable income			26,775,000
Calculation of tax (gross-up method) (b)			
Tax on KHR 500,000	at 0%	0	
Tax on KHR 750,000	at 5%	37,500	
Tax on KHR 7,250,000	at 10%	725,000	
Tax on KHR 4,000,000	at 15%	600,000	
Tax on KHR 14,275,000	at 20%	2,855,000	
KHR 26,275,000			
Total tax payable			4,217,500

(a) The house allowance and school fees are subject to the Tax on Fringe Benefits at a rate of 20%. This tax is borne by the beneficiary.
(b) The calculation assumes that the amount of income is gross of taxes.

Cameroon

Please direct all inquiries regarding Cameroon to Joseph Pagop Noupoué (telephone: +33 1 55 61 18 36; fax: +33 1 58 47 64 31; email: joseph.pagop.noupoue@ey-avocats.com) of the Paris office.

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.

- 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.
- 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 XAF 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 XAF 15 million to XAF 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 XAF 50 million, but not exceeding XAF 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 XAF 100 million are subject to the actual earnings tax system, and their tax is calculated in the same manner as company tax.

Under the 2009 Finance Act, self-employed intermediaries and agents are subject to the tax applicable to the categories of commercial activities or handicrafts to which their activities relate. The tax is withheld at source by the payers of the commissions.

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 XAF 10 million
- Interest on savings accounts for housing purposes
- Interest on home loan accounts
- Interest on cash notes

Income derived from the rental of real property is subject to a 10% 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 16.5%. 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 10%, 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 XAF 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
- 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
- Provisions for losses and expenses

Rates. The following are the personal income tax rates.

Taxable income		
Exceeding XAF	**Not exceeding XAF**	**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 payable on employment income at a rate of 1% for employees and 1.5% for the employers.

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 XAF 3,600,000 a year	7.0
Retirement pension on salary up to XAF 3,600,000 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, France and Tunisia. 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.
- 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, 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 XAF 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 the same 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
- 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.

Canada

(Country code 1)

Toronto, Ontario GMT -5

Ernst & Young
Ernst & Young Tower
Toronto-Dominion Centre
222 Bay Street
P.O. Box 251
Toronto, Ontario M5K 1J7
Canada

Address for immigration contacts:
Egan LLP
Ernst & Young Tower
Toronto-Dominion Centre
222 Bay Street
P.O. Box 197
Toronto, Ontario M5K 1H6
Canada

Executive contacts

Kerry Gray	(416) 943-3146 Fax: (416) 943-2201 Email: kerry.gray@ca.ey.com
Dina Papadopoulos	(416) 943-3314 Fax: (416) 943-3778 Email: dina.papadopoulos@ca.ey.com
Jo-Anne VanStrien	(416) 943-3192 Fax: (416) 943-2201 Email: jo-anne.vanstrien@ca.ey.com

Immigration contacts

James P. Egan	(416) 943-2533 Fax: (416) 943-2735 Email: james.p.egan@ca.ey.com
George Reis	(416) 943-2535 Fax: (416) 943-2735 Email: george.reis@ca.ey.com
Batia Stein	(416) 943-3593 Fax: (416) 943-2735 Email: batia.j.stein@ca.ey.com

International High Net Worth contacts

Kerry Gray	(416) 943-3146 Fax: (416) 943-2201 Email: kerry.gray@ca.ey.com
Teresa Gombita	(416) 943-3272 Fax: (416) 943-2262 Email: teresa.gombita@ca.ey.com

Montreal, Quebec GMT -5

Ernst & Young
800 René-Lévesque Blvd. West
Suite 1900
Montreal, Quebec H3B 1X9
Canada

Executive contacts

Danielle Laramee	(514) 874-4360 Fax: (514) 871-2600 Email: danielle.laramee@ca.ey.com

Josee Bennett	(514) 879-2627 Fax: (514) 871-2600 Email: josee.bennett@ca.ey.com

International High Net Worth contact

Catherine Collard	(514) 874-4373 Fax: (514) 871-8713 Email: catherine.j.collard@ca.ey.com

Calgary, Alberta — GMT -7

Ernst & Young
Ernst & Young Tower
1000, 440 2nd Avenue S.W.
Calgary, Alberta T2P 5E9
Canada

Executive contact

Mary-Lynn Desmeules	(403) 206-5379 Fax: (403) 290-4265 Email: mary-lynn.desmeules@ca.ey.com

Immigration contact

Roxanne Israel	(403) 206-5086 Fax: (403) 206-5363 Email: roxanne.n.israel@ca.ey.com

Ottawa, Ontario — GMT -5

Ernst & Young
100 Queen Street
Suite 1600
Ottawa, Ontario K1P 1K1
Canada

Executive contact

Mike Murphy	(613) 598-4310 Fax: (613) 232-5324 Email: mike.p.murphy@ca.ey.com

Kitchener, Ontario — GMT -5

Ernst & Young
515 Riverbend Drive
Kitchener, Ontario N2K 3S3
Canada

Executive contacts

Kathryn Bruce	(519) 571-3347 Fax: (519) 744-9604 Email: kathryn.a.bruce@ca.ey.com
Leah Shinh	(519) 571-3325 Fax: (519) 744-9604 Email: leah.shinh@ca.ey.com

London, Ontario — GMT -5

Ernst & Young
One London Place
255 Queens Avenue
Suite 1800
P.O. Box 5332
London, Ontario N6A 5S7
Canada

International High Net Worth contact

Garth Howes	(519) 646-5504 Fax: (519) 438-5785 Email: garth.g.howes@ca.ey.com

Vancouver, British Columbia **GMT -8**

Ernst & Young
Pacific Centre
700 West Georgia Street
P.O. Box 10101
Vancouver, British Columbia V7Y 1C7
Canada

Executive contact

John Lauder	(604) 643-5413 Fax: (604) 643-5422 Email: john.lauder@ca.ey.com

International High Net Worth contacts

Elise Rees	(604) 643-5420 Fax: (604) 643-5422 Email: elise.rees@ca.ey.com
Irene Jacob	(604) 891-8258 Fax: (604) 891-3330 Email: irene.m.jacob@ca.ey.com

The tax rates and other information for 2011 provided in this chapter are based on known and proposed rates as of 31 March 2011.

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, 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, unless he or she is determined to have nonresident status under a tax treaty. 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 on a full-time basis are not taxable for income and social security tax purposes if a school suitable for the child, offering instruction primarily in the official language of Canada that is primarily used by the employee, is not 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 that satisfies both of the following conditions:
- It has suitable boarding facilities.
- The language primarily used for instruction is an official language of Canada, and is the official language of Canada 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.
- One of the principal purposes of the arrangement is to postpone the payment of Canadian tax.

Consequently, 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 with respect to services rendered in a country other than Canada. 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 be exempt from tax on directors' fees received from a foreign (nonresident) company or to otherwise receive favorable tax treatment.

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) on investments if the investment is held for less than 12 months. Whichever method is selected, it must be applied to an investment consistently. However, for most investments held for a period of more than 12 months, accrued interest must be included in income annually. The bonus or premium paid on the maturity of certain investments, such as treasury bills, strip bonds or other discounted obligations, must be reported as interest income.

Dividends received by individuals resident in Canada 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. These dividends are classified as "eligible dividends" or "ineligible dividends."

An "eligible dividend" is a taxable dividend paid to a person resident in Canada by a corporation resident in Canada and designated by the corporation at the time of payment to be an "eligible dividend."

For eligible dividends, 141% of the actual amount received is included in income, and a credit against federal tax is allowed in an amount approximately equal to 23.17% of the cash amount of the dividend. For other taxable dividends from Canadian corporations, 125% of the actual amount received is included in income, and a credit against federal tax is allowed in an amount approximately equal to 16.67% 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.

Beginning in 2009, all residents of Canada, age 18 or older, may contribute up to C$5,000 to a tax-free savings account (TFSA). No tax deduction is allowed for the contributions, but the investment earnings are not subject to tax.

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, 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. However, nonresidents receiving real estate rentals or timber royalties may choose to file a tax return and be taxed in Canada on the net rental or timber royalty income at the same tax rates that apply to Canadian residents (that is, at marginal rates on net income rather than at withholding tax rates on gross income). Nonresidents receiving certain pension and benefit income may elect to be taxed on such income at the same incremental tax rates as Canadian residents, rather than at the withholding tax rate.

Most arm's length interest payments to nonresidents are exempt from Canadian 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. Eligible pension income can be split between spouses for tax reporting purposes. Under this measure, if spouses have taxable income in different income tax brackets, overall tax may be reduced by moving income from the higher-rate taxpayer to the lower-rate taxpayer.

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 (d)

(a) 100% of the benefit is taxable in Canada in the year of exercise. A portion of the benefit may be considered foreign-source if the employee had foreign workdays between grant and vest or exercise and consequently may be eligible for a foreign tax credit.
(b) The Canadian-source portion of the benefit is taxable in Canada in the year of exercise but may be exempt from Canadian tax under a tax treaty. Stock options are not subject to the deemed disposition rule if an individual ceases to be a Canadian resident.
(c) 100% of the benefit is taxable in Canada in the year of exercise. A portion of the benefit may generally be considered foreign-source if the employee had foreign workdays between grant and vest or exercise and consequently may be eligible for a foreign tax credit.
(d) The Canadian-source portion of the benefit is taxable in Canada in the year of exercise. A portion of the benefit may be considered to be Canadian-source if the employee had Canadian workdays between grant and vest or exercise. However, the Canadian-source portion of the benefit may be exempt from Canadian tax under a tax treaty.

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 fifth protocol to the Canada-United States income tax treaty introduced a sourcing method for options based on where days are worked in the period between grant and exercise. This change is effective for stock options exercised on or after 1 January 2009.

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 exercise price paid. 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 Quebec tax) 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.

The Canadian stock option rules apply to both shares and to units of mutual fund trusts.

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*).

An automatic deferral of tax is provided with respect to the option benefit for shares of Canadian-controlled private companies acquired through stock options.

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.

The specific identification method is used to calculate the adjusted cost basis of shares that are acquired through the exercise of a stock option and that are disposed of within 30 days after the acquisition of the shares.

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. In general, capital losses from personal-use assets are not allowed.

Gains derived from the sale of qualifying farm property, qualifying fishing property or shares of small business corporations (see below) qualify for a lifetime C$750,000 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$750,000 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.

Qualifying fishing property. Fishers are eligible for a lifetime C$750,000 exemption on the sale of qualified fishing property, which includes real or immovable property or a fishing vessel used in a fishing business in Canada, shares of a family fishing corporation or an interest in a family fishing 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. The exemption is effective for dispositions of qualified fishing property after 2 May 2006.

Shares of a small business corporation. Capital gains realized on the disposition of shares of a small business corporation qualify for a lifetime C$750,000 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 be subject to minimum tax.

For capital gains realized on the disposition of an eligible small business investment, individuals are permitted a tax-free rollover if the proceeds of the disposition are used to make other eligible small business investments. The amount of gain deferred is proportional to the amount reinvested.

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 10 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 is generally deemed to have disposed of all assets, including taxable Canadian property, and excluding real property located in Canada, capital property or inventory used in carrying on a business in Canada, certain pension rights and unexercised employee stock options, at fair market value on the date that residency is terminated. The deemed disposition rule is commonly referred to as "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 of the assets that are still held regardless of how long they were nonresidents.
- Emigrating taxpayers who are subject to the deemed disposition rules may post security for the departure tax instead of paying such tax by the balance-due date for the year of departure. An

individual is not required to provide security for an amount of departure tax that is equal to or less than the taxes payable on the first C$100,000 of 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$1,579 for 2011, a spousal credit subject to thresholds for spousal income, an employment credit, 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/the Quebec parental insurance plan 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 federal 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$2,052 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$300 on the first C$2,000 of qualifying pension income.

Various other credits are available, including credits determined with reference to employment income, public transit costs, adoption expenses and child fitness expenses.

The federal credit amounts mentioned above are based on known and proposed amounts as of 31 March 2011. The credit amounts are indexed annually for inflation, which in the past several years has ranged from 2% to 3%.

A taxable universal child-care benefit is available for all Canadian residents with children under age 6. The benefit is C$100 per month per child. Parents can also claim a child tax credit of C$320 for each child under age 18.

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 2011 shown below are based on known and proposed amounts as of 31 March 2011.

Taxable income Exceeding C$	Not exceeding C$	Tax on lower amount C$	Rate on excess %
0	41,544	0	15
41,544	83,088	6,232	22
83,088	128,800	15,372	26
128,800	—	27,257	29

Top marginal combined rates. The following table summarizes the top marginal combined federal and provincial/territorial tax rates in 2011 for an individual residing in various provinces and territories.

	Top marginal combined rate (a)			
	Ordinary income %	Eligible dividends %	Non-eligible dividends (b) %	Capital gains (c) %
Alberta	39.00	17.72	27.71	19.50
British Columbia	43.70	23.91	33.71	21.85
Manitoba	46.40	26.74	39.15	23.20
New Brunswick	43.30	20.96	30.83	21.65
Newfoundland and Labrador	42.30	20.96	29.96	21.15
Northwest Territories	43.05	22.33	29.65	21.53
Nova Scotia	50.00	35.64	36.21	25.00
Nunavut	40.50	25.72	28.96	20.25
Ontario	46.41	28.19	32.57	23.20
Prince Edward Island	47.37	27.33	41.17	23.69
Quebec	48.22	31.85	36.35	24.11
Saskatchewan	44.00	23.36	32.08	22.00
Yukon	42.40	17.72	30.40	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 March 2011 (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 2011 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
Manitoba	17.40
New Brunswick	14.30
Newfoundland and Labrador	13.30
Northwest Territories	14.05
Nova Scotia	21.00
Nunavut	11.50
Ontario	17.41 (c)
Prince Edward Island	18.37 (c)
Quebec	24.00 (d)
Saskatchewan	15.00
Yukon	13.40 (c)
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 March 2011.

(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) These jurisdictions levy an additional surtax on high-income earners, ranging from 5% to 36% of provincial/territorial taxes payable in excess of certain threshold amounts.
(d) Residents of Quebec receive a federal tax abatement of 16.5% of basic federal tax.
(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 3 years preceding the year of loss or in the 20 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.

For 2011, an employee's required employment insurance premiums are calculated at a rate of 1.78% on the maximum annual amount of insurable earnings of C$44,200. This results in a maximum annual premium of C$786.76. Employers must make contributions equal to 1.4 times the amount of the employee's premiums, up to a maximum of C$1,101.46. The federal employment insurance premiums for Quebec residents are lower. The premium rates are 1.41% for employees and 1.974% for employers. Quebec has lower rates because Quebec residents also participate in the Quebec parental insurance plan. For 2011, an employee's required premiums under the Quebec plan are calculated at a rate of 0.537% on the maximum annual amount of insurable earnings of C$64,000. This results in a maximum annual premium of C$343.68 for the Quebec parental insurance plan. Employers must make contributions equal to 1.4 times the amount of the employee's premiums, up to a maximum of C$481.28.

For 2011, the maximum amount of earnings subject to pension plan contributions is C$48,300, with a basic exemption of C$3,500. This results in a maximum annual contribution for employers and employees of C$2,217.60 each. Self-employed individuals must pay both portions for a maximum annual contribution of C$4,435.20.

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 2011 (the Quebec pension plan provides similar benefits).

Benefit	Amount (C$)
Retirement	960.00
Disability	1,153.37
Survivor with disability	1,153.37

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 September 2011). The agreements usually apply for a maximum of two to five years.

Antigua and Barbuda
Australia
Austria
Barbados
Belgium
Chile
Croatia
Cyprus
Czech Republic
Denmark
Dominica
Estonia
Finland
France (b)
Germany
Greece
Grenada
Guernsey
Hungary
Iceland
Ireland
Israel
Italy
Jamaica
Japan
Jersey
Korea (South)
Latvia
Lithuania
Luxembourg
Macedonia (a)
Malta
Mexico
Morocco
Netherlands
New Zealand
Norway
Philippines
Poland
Portugal
Romania (a)
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Trinidad and Tobago
Turkey
United Kingdom
United States
Uruguay

(a) An agreement has been signed, but it is not yet in force.
(b) An existing agreement between Canada and France is in force. However, a revised agreement between the countries is not yet in force.

The province of Quebec has separate totalization agreements. As a result, it does not follow the agreements listed above.

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 for 2011:

- Real estate in Canada
- Property used in carrying on a business in Canada
- Shares of a Canadian resident or nonresident corporation not listed on a designated stock exchange, capital interests in trusts, income interests in nonresident trusts (other than units of mutual fund trusts) or interests in partnerships, if at any time during the 60-month period before the disposition, more than 50% of the fair market value of these shares or interests was derived directly or indirectly from real or immovable property located in Canada, Canadian resource property, timber resource property or options on or interests in any of these properties (or from any combination of these properties)
- Shares of a Canadian resident or nonresident corporation listed on a designated stock exchange, shares of mutual fund trust corporations or units of mutual fund trusts, if at any time during the 60-month period before the disposition, 25% or more of the issued shares of the corporation or units of the mutual fund trust was owned by nonresident and related parties and more than 50% of the fair market value of the shares or units of the mutual fund trust was derived directly or indirectly from real or immovable property located in Canada, Canadian resource property, timber resource property or options on or interests in any of these properties (or from any combination of these properties)
- Income interests in trusts resident in Canada

Canada's double tax treaties may modify or exempt nonresidents from the above tax provisions. However, in general, a personal income tax return is still required to be filed.

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 year following the tax 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$3,000 (for Quebec residents, C$1,800 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 3 years and forward 10 years. Unused foreign nonbusiness tax credits are not eligible for carryover.

Provincial foreign tax credit relief for nonbusiness foreign income taxes 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 May 2011.

Algeria
Argentina
Armenia
Australia
Austria
Azerbaijan
Bangladesh
Barbados (c)
Belgium
Bolivia (c)
Brazil
Bulgaria
Cameroon
Chile
China (b)(c)
Colombia (a)
Costa Rica (c)
Côte d'Ivoire
Croatia
Cuba (c)
Cyprus
Czech Republic
Denmark
Dominican Republic
Ecuador
Egypt
Estonia
Finland
France (a)
Gabon
Germany
Greece
Guyana
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy (a)
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Korea (South)
Kuwait
Kyrgyzstan
Latvia
Lebanon (a)
Lithuania
Luxembourg
Madagascar (c)
Malaysia (c)
Malta
Mexico
Moldova
Mongolia
Morocco
Namibia (a)
Netherlands (c)
New Zealand (c)
Nigeria
Norway
Oman
Pakistan
Papua New Guinea
Peru
Philippines
Poland (c)
Portugal
Romania
Russian Federation
Senegal
Serbia and Montenegro (c)
Singapore (c)
Slovak Republic
Slovenia
South Africa
Spain (c)
Sri Lanka
Sweden
Switzerland
Tanzania
Thailand
Trinidad and Tobago
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
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. Canada is negotiating a tax treaty with 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 many 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. An individual from such a designated country 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. 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 receiving 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
- 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

With a few exceptions, a foreign national who is providing services to a Canadian entity is considered to be entering the Canadian labor market and requires a work permit. The federal government, through Service Canada, is responsible for ensuring that the Canadian labor market benefits from the use of foreign nationals in place of Canadian citizens or permanent residents. A foreign worker may apply to Citizenship and Immigration Canada (CIC) for a work permit only after Service Canada has provided a Labor Market Opinion (see *Labor Market Opinion*) to the employer that a job may be offered to a foreign worker. However, 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 for a work permit.

Labor 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 impact 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. In addition, Service Canada now assesses the genuineness of a job offer, its consistency with the terms of applicable federal-provincial/territorial agreements and an employer's past history of compliance with the items stated in previous job offers to foreign nationals. After Service Canada is satisfied that the above criteria are met, it issues a Labor 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. As a general guideline, temporary foreign workers working under an LMO may work in Canada for up to five years. However, recently passed legislation has reduced this period to four years in some limited circumstances, and a foreign worker affected by this limit is not eligible for further extensions on his or her work permit for four years thereafter. If a foreign worker is contemplating a longer stay, he or she should consider obtaining permanent resident status.

Exempt categories. Canadian immigration policies with respect to work permits, which are administered jointly by Service Canada, CIC, and Canada Border Services Agency (CBSA), recognize that in certain specific situations, it is in Canada's best interest to waive the requirement to obtain an 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.

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 three years by a Canadian employer in an area directly related to his or her field of education.
- 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.

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 usually valid for a period concurrent with the foreign national spouse's status in Canada or the period of validity of the spouse's passport, whichever is shorter.

Entrepreneurs/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. From time to time, for limited durations, CIC implements pilot projects exempting foreign nationals working in certain occupations from the requirement of an LMO.

H. Permanent residence status

Skilled Worker Class. 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 based on several 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.

To be eligible to apply for permanent residence under the Skilled Worker Class, the applicant must demonstrate proficiency in English or French by submitting the results of a third-party language proficiency assessment, and satisfy either of the following conditions:

- He or she has an offer of arranged employment in Canada.
- He or she is a skilled worker with at least 1 year of experience in the last 10 years in one or more listed occupations.

Canadian Experience Class. The Canadian Experience Class (CEC) recognizes that certain individuals have the qualities to make a successful transition from temporary to permanent residence and can contribute to the Canadian economy. It is a simplified program that allows temporary foreign workers and international students to remain permanently in Canada and apply for permanent residence from within Canada. To be eligible under the CEC, the applicant must be proficient in English or French and must satisfy either of the following conditions:

- He or she is a temporary foreign worker with at least two years of full-time (or equivalent) skilled work experience in Canada in the three years before the application is made.
- He or she is a foreign graduate from a Canadian post-secondary institution with at least a two-year post-secondary credential (or equivalent) and at least one year of full-time (or equivalent) skilled work experience in Canada in the two years before the application is made.

Applicants must apply under the CEC while working in Canada or within one year after leaving their job in Canada. CEC applicants must also submit the results of a third-party English or French language proficiency assessment to meet language proficiency requirements.

Business Class Immigration Program. Canada has an immigration program designed to attract experienced business people 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$1,600,000 acquired through the foreign nationals' own endeavors. A minimum investment of C$800,000 is locked into government-sponsored investment funds for five years. The principal 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.

Qualification. Business immigrants must also meet the "points grid," (see *Skilled Worker Class*) but they need to receive only 35 out of the possible 100 points. They must also submit the results of a third-party English or French language proficiency assessment to be eligible for language proficiency points.

Provincial nominee programs. Increasingly, provinces in Canada have created their own programs to select new immigrants who intend to settle and establish themselves in the particular province. The requirements for each province differ, but the overriding principle is that applicants have skills or resources in demand in the particular province, that they have a job offer from an employer in the province, and that the applicants intend to reside permanently in such province.

I. Family and personal considerations

Family members. The spouse and any dependent children of a holder of a Canadian work permit in a high-skilled occupation may enter and reside in Canada for a term concurrent with the principal holder's work permit. These family members are usually issued Visitor Records, 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. 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	—	(b)(c)
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	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(c)
Value of meals provided	X	—	(b)
Other items received while a tax resident of Canada			
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 Canadian courts have held that employee 401(k) plan contributions are not deductible in determining taxable income for Canadian income tax purposes. Under the fifth protocol to the income tax treaty between Canada and the United States, a deduction for 401(k) contributions is allowed in certain circumstances. This change took effect on 1 January 2009.

(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.
- The period during which the individual is required to be at the special worksite is at least 36 hours.

(c) Except as noted in footnote (b) above, cost-of-living, housing and tax reimbursements are generally considered to be taxable.

(d) Payments or reimbursements of reasonable 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 property has been their principal residence and if the taxpayers have been Canadian residents 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 2011 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 17 (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.
- 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

	C$	C$
Deduction from total income:		
Registered retirement savings plan (RRSP)		(5,750)
Taxable income		144,250

Calculation of tax

Total federal tax		31,738
Less: personal tax credits		(4,408)*
Basic federal tax		27,330
Provincial tax – Ontario	13,032	
Less: personal tax credits	(1,002)*	
Basic Ontario tax	12,030	
Ontario surtax	4,042	
Total Ontario tax		16,072
Total Canadian income tax		43,402
Ontario health premium		750
CPP contributions		2,218
EI contributions		787
Total Canadian income, social security and EI taxes		47,157

* The following are calculations of basic nonrefundable tax credits for federal and provincial tax purposes.

	Federal C$	Provincial C$
Basic	1,579	460
Spousal	1,579	390
CPP	333	112
EI	118	40
Employment	160	—
Child	639	—
	4,408	1,002

Cayman Islands

(Country code 1)

Grand Cayman **GMT -5**

Ernst & Young
Mail address:
P.O. Box 510
Grand Cayman KY1-1106
Cayman Islands

Street address:
62 Forum Lane
Camana Bay
Grand Cayman
Cayman Islands

Executive contact

Christopher J. Larkin
(345) 814-8919
Fax: (345) 949-8529
Email: chris.larkin@ky.ey.com

Immigration contact

Janet Mackey
(345) 814-8985
Fax: (345) 815-8985
Email: janet.mackey@ky.ey.com

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.

Companies carrying on a trade or business in the Cayman Islands that are not 60% owned and controlled by Caymanians also need a license under the Local Companies (Control) Law. This license normally has a 12-year term.

D. Double tax treaties

The Cayman Islands have not entered into any double tax treaties.

E. Entry into the Cayman Islands

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 permission 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 other than the following countries.

Andorra
Antigua and Barbuda
Argentina
Australia
Austria
Bahamas
Bahrain
Barbados
Belgium
Belize
Botswana
Brazil
Brunei Darussalam
Bulgaria
Canada
Chile
Cyprus
Czech Republic
Hungary
Iceland
Ireland
Israel
Italy
Japan
Kenya
Kiribati
Kuwait
Latvia
Lesotho
Liechtenstein
Lithuania
Luxembourg
Malawi
Malaysia
Maldives
Malta
Mauritius
Peru
Poland
Portugal
Romania
Saint Christopher and Nevis
Saint Lucia
Saint Vincent and the Grenadines
Samoa
San Marino
Seychelles
Singapore
Slovak Republic
Slovenia
Solomon Islands
South Africa
Spain
Swaziland

Denmark (including associated territories)	Mexico	Sweden
Dominica	Monaco	Switzerland
Ecuador	Mozambique	Tanzania
Estonia	Namibia	Tonga
Fiji	Nauru	Trinidad and Tobago
Finland	Netherlands (including associated territories)	Tuvalu
France (including overseas *collectivités* and communities)	New Zealand (including associated states and overseas territories)	United Kingdom (including Crown Dependencies and British overseas territories) (b)
Germany	Norway (including associated territories)	United States (including associated territories)
Greece	Oman	Vanuatu
Grenada	Panama	Venezuela
Guyana	Papua New Guinea	Zambia
Hong Kong (Special Administrative Region of the People's Republic of China) (a)		

(a) The individual must hold a Hong Kong (Special Administrative Region of China) passport.
(b) The visa exemption does not apply to nationals of the following British Commonwealth countries.

Bangladesh	India	Sierra Leone
Cameroon	Jamaica	Sri Lanka
Gambia	Nigeria	Uganda
Ghana	Pakistan	

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. However, holding such a passport may avoid delay on entry. 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 Cayman 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 Cayman Islands for up to 30 days. This concession enables some individuals who otherwise would need to obtain Cayman Islands visas before 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 G).

F. Work permits and self-employment

General. The Cayman 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 Cayman Islands must have job offers from local employers who must apply for work permits.

The applications are handled by the Chief Immigration Officer, the Work Permit Board, which is appointed by the government to control the entry, residence and employment of non-Caymanians (the Chief Immigration Officer is a nonvoting member of the Work Permit Board), or the Business Staffing Plan Board (see below). Work permits are normally issued for a specific occupation with a specific employer. The relevant board may set conditions or limitations on granting a permit.

Before an application is made to the relevant board, the vacant position must be advertised every six months 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 one full-faced and one profile passport-size photograph.
- Obtain a police clearance certificate from the applicant's home district or last place of residence, issued within six months before the date of application. For applicants from the United Kingdom and other countries where the police do not readily 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 dependants 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 licensed to carry on business in the Cayman Islands 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 Business Staffing Plan Board and if accepted, often obviate the requirement of advertisement before 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 Cayman Islands
- Consular officers and staff

- Accredited representatives or agents of a government of a British Commonwealth country
- Members of the British armed forces
- Members of crews of visiting vessels and aircraft
- Other persons declared to be exempt under the provisions of the Immigration Law

Anyone seeking self-employment in the Cayman Islands in a particular profession or business must 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
- 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 related to the 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 on its expiration.

Temporary work permits allow foreign nationals to enter the Cayman 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 usually not renewable. Applications for temporary or short-term permits are made to the Chief Immigration Officer.

Fees. Employers must pay an annual fee for a work permit for each non-Caymanian person working in the Cayman Islands. The fees vary from US$183 for domestic, manual and unskilled workers to US$29,268.29 for partners, managing directors and chief executive officers of organizations. Spouses of persons with Caymanian status must apply for residency with employment rights before they are allowed to work in the Cayman Islands (see Section G). An annual supplemental fee also applies for each dependant who requests to reside in the Cayman Islands as part of the employee's application. The fee is US$305 for domestic, manual and unskilled workers and US$610 per dependant for all other workers.

On the initial grant of a work permit, 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.

Term limits. The initial term for a work permit may be up to three years, or up to five years with respect to permits for domestic helpers, doctors, teachers, nurses, ministers of religion or workers filling positions authorized by the employer's business staffing plan. The maximum total time for which an annual work permit may be granted and renewed for an individual is seven years, unless the employee is designated as a key employee (see below). On expiration of the seven-year term, the person is required to leave the Cayman Islands for a minimum period of one year. After the end of this one-year period, the employer may apply for another annual work permit for the individual and the term-limit period begins again.

Employers may apply to have a person designated a key employee. Persons approved as key employees are granted an additional two years to their work permit. After the end of the additional period, the person may apply for residency with a right to work as detailed in Section G. The employer must demonstrate that the person has specific skills or experience that is vital to the employer's business and is not available within the Cayman Islands.

G. Residence permits

Residence permits with a right to work. An individual designated as a key employee who has resided in the Cayman Islands on a work permit for a continuous period of eight years may apply for the right to reside and work permanently in the Cayman Islands. The permit is known as a Residency with Employment Rights Certificate. Spouses of persons possessing Caymanian status are also required to hold a Residency with Employment Rights Certificate to work in the Cayman Islands.

Applicants, other than spouses of Caymanians, are considered on a points system that takes into consideration, among other factors, the following:
- The applicant's income
- The applicant's investment in property in the Cayman Islands
- The applicant's educational background and number of years of experience in his or her profession

The applicant is required to pass a written examination on the history and culture of the Cayman Islands. A nonrefundable application fee of US$610 (US$305 for spouses of Caymanians) is payable. On approval, the applicant is required to pay a fee. The minimum amount of this fee is US$488 for spouses of Caymanians, domestic, unskilled and manual workers, and the maximum amount of the fee is US$7,317 for partners, managing directors and chief executive officers. In addition, employers of individuals holding Residency with Employment Rights Certificates must pay the equivalent of the individuals' annual work permit fees each year.

Permission to engage in gainful occupation is normally restricted to a specified occupation, but not to a specified employer.

Residence permits for persons of independent means. Government policy encourages people of good reputation and financial standing who make substantial investment in the Cayman Islands to become permanent residents of independent means. Anyone wishing to reside in the Cayman 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 with a continuous source of annual income in the amount of at least US$183,000, without having to engage in any form of employment in the Cayman Islands. In addition, they must be able to make an investment in a home or a local enterprise of at least US$915,000, of which at least US$305,000 must be developed residential real estate.

To apply for an initial residence permit, an applicant must submit the following:

- Application form completed in full, together with a cover letter and an application fee of US$625. A separate application is not required for accompanying dependants.
- 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 dependant older than 18 years of age.
- A medical certificate of health for each family member and evidence of health insurance.
- Three written references from persons, not related to the applicant, who have known the applicant for several years.
- Full-faced and profile passport-size photographs for the applicant and each dependant.
- Evidence of financial status and local investment. 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 Cayman Islands is required. These statements must 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 must 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 reviewed by the Chief Immigration Officer, who may refuse, defer or grant the application either unconditionally or subject to conditions or restrictions. At this stage, the Chief Immigration Officer takes into account whether the applicant has made an investment and is living in the Cayman Islands. Evidence of home ownership is helpful.

If the application is successful and if the fee of US$25,000 is paid, the person is granted a Residency Certificate for Persons of Independent Means. The certificate, which is valid for 25 years and is renewable thereafter at the discretion of the Chief Immigration Officer, entitles the person to reside in the Cayman Islands without the right to work.

H. 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 Cayman Islands. Unskilled workers are rarely permitted to have any dependants accompany or join them in the Cayman 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 the examination requirements.

Chile

(Country code 56)

Santiago	**GMT -4**

Ernst & Young
Presidente Riesco
Las Condes
Santiago
Chile

Executive and immigration contacts

Mauricio Peñaloza	(2) 676-1290 Fax: (2) 676-1034 Email: mauricio.penaloza@cl.ey.com
Eduardo Concha	(2) 676-1474 Fax: (2) 676-1034 Email: eduardo.concha@cl.ey.com
Juan Andres Perry	(2) 676-1427 Fax: (2) 676-1034 Email: juan.andres.perry@cl.ey.com
Barbara Veloso	(2) 676-1466 Fax: (2) 676-1034 Email: barbara.veloso@cl.ey.com

A. Income tax

Who is liable. All individuals domiciled or resident in Chile are subject to personal income tax on their worldwide income. However, during their first three years of residence, foreign nationals are subject to tax on Chilean-source income only. Nonresidents are taxed on Chilean-source income only.

Income earned for services rendered in Chile or for activities performed in the country is considered to be Chilean-source income, regardless of where it is paid.

A person present in Chile for longer than six months in one calendar year or for longer than a total of six months within two consecutive assessment years is considered a resident of Chile.

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 or their employees' children are not taxable.

Self-employment income. Personal income tax, which is imposed at progressive rates ranging from 0% to 40%, must be paid on income withdrawn from business enterprises. The business enterprises are subject to the First Category Tax. The rates of this tax are 20% for 2011, 18.5% for 2012 and 17% for 2013 and future years. However, individuals who are subject to personal income tax at progressive rates ranging from 0% to 40% receive a credit equal to the amount of the First Category Tax paid on the income by the enterprise.

Income earned by professionals and independent workers, minus deductions for actual or deemed expenses, is also subject to personal income tax, which is imposed annually at progressive rates ranging from 0% to 40%.

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 equal to the First Category Tax paid by the corporation. The dividends are then aggregated with other noncompensation income and taxed as personal income, along with interest derived from the following sources:
• Demand deposits or time deposits in cash
• 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 may be subject to the First Category Tax as a final tax. However, if the transaction occurs one year or less after the acquisition date of the shares, the sale may be nontaxable.

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 the First Category Tax as a final 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 certain financial instruments may be partially credited against the final tax. Subject to certain limitations, amounts invested in pension or insurance funds may be fully deductible from taxable income. Mortgage interest paid may be deducted from the tax base, 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 the consumer price index variation expressed through a unit called a Monthly Taxable Unit (MTU). An MTU is equivalent to approximately US$70.

The following table presents the personal income tax brackets and corresponding tax rates.

Taxable income		
Exceeding MTU	**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 for the month of December or approximately US$830.

For 2011, sole proprietors are subject to the First Category Tax at a rate of 20% on accrued income in the same manner as corporations or partnerships. This 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 at a rate of 10% of gross fees or receipts. In certain cases, the provisional tax is withheld by the payer and credited against the final tax. 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. However, a person may be treated as a resident from the first day of his or her stay in Chile if evidence of an intention to establish a domicile in Chile exists.

Nonresidents are subject to "additional tax" on their Chilean-source income, which is income earned for services rendered in Chile or activities performed in the country, at flat rates of 15%, 20% or 35%.

The rate is generally 15% for remuneration paid for technical or engineering work or for professional or technical services rendered under certain conditions in Chile or abroad. However, the 15% rate is increased to 20% if the payments are made to a related entity or to a resident in a country listed as a tax haven.

The rate is 20% for fees or salaries for scientific, cultural or sports activities. The tax rate for other types of services is 35%.

Additional tax may also be imposed on nonresidents receiving payment of remuneration from Chile for services rendered abroad. The general tax rate is 35%, with special rates of 15% or 20% imposed under the conditions described above.

Dividend income of nonresidents generally is subject to tax at a rate of 35%, with a credit for corporate tax paid. 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 U.F. 66 for 2011 (for details regarding the U.F., see below). This amount is adjusted on a yearly basis.

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 U.F. 66 for 2011. However, under a recent modification of the law, approximately 1.42% of this contribution, corresponding to disability and survival insurance, is borne by the employer instead of the employee. For companies with over 100 employees, this change took effect on 1 July 2009. For other companies, it will be effective from 1 July 2011. A recent modification to the law established an annual adjustment mechanism for the applicable wage ceiling. For 2011, the wage ceiling is fixed at U.F. 66 (approximately US$2,560). The U.F. is an inflation-indexed unit expressed in Chilean pesos that varies according to the consumer price index.

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 pension 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. For employees hired indefinitely, the contribution rates are 2.4% for employers and 0.6% for employees, with a salary ceiling of U.F. 99 for 2011 (approximately US$3,840) per month. This amount is also adjusted on an annual basis. For fixed-term employees, the contribution is 3%, which is borne entirely by the employer.

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 technical or professional employees covered under a similar social security system in their home country. However, this exemption does not apply to unemployment insurance and accident insurance.

Recently passed legislation introduced an obligation to make social security contributions for independent workers. However, this measure is not yet in effect. Under prior law, social security contributions had been mandatory for dependent employees only.

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, must pay provisional monthly tax at a rate of 10% of gross monthly fees or receipts. The provisional tax is credited against final tax. 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	Korea (South)	Poland
Canada	Malaysia	Portugal
Colombia	Mexico	Spain
Croatia	New Zealand	Sweden
Denmark	Norway	Switzerland
Ecuador	Paraguay	Thailand
France	Peru	United Kingdom
Ireland		

Chile has also signed double tax treaties with Australia, the Russian Federation and the United States. Tax treaty negotiations with South Africa have been concluded.

F. Tourist visas

Most foreign nationals from countries with which Chile has consular relations do not need to obtain entry visas before entering Chile.

Tourist permits 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 permits 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-employment-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-employment-contract visas are valid for up to two years and are renewable indefinitely for additional two-year periods. After two years in Chile under this visa, the employee may apply for a permanent residence status. 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 or leave the country.

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-employment-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
- A health certificate

However, the appropriate authorities have the discretion to request different or additional documents if these are deemed necessary for the approval of the visa.

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. However, 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)

	Taxable	Not taxable	Comments
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 the seller is a Chilean national or a foreign national with more than three years of residence in the country and if 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 = CL$532. 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 (the table for May 2011 is used).

Monthly salary Exceeding CL$	Monthly salary Not exceeding CL$	Rate %	Tax reduction CL$
0	515,335.50	0	0
515,335.50	1,145,190	5	25,766.78
1,145,190	1,908,650	10	83,026.28
1,908,650	2,672,110	15	178,458.78
2,672,110	3,435,570	25	445,669.78
3,435,570	4,580,760	32	686,159.68
4,580,760	5,725,950	37	915,197.68
5,725,950	—	40	1,086,976.18

1. Monthly salary of CL$580,000

	CL$
CL$580,000 at 5%	29,000.00
Tax reduction	(25,766.78)
Tax	3,233.22

2. Monthly salary of CL$1,500,000

	CL$
CL$1,500,000 at 10%	150,000.00
Tax reduction	(83,026.28)
Tax	66,973.72

3. Monthly salary of CL$2,300,000

	CL$
CL$2,300,000 at 15%	345,000.00
Tax reduction	(178,458.78)
Tax	166,541.22

4. Monthly salary of CL$3,000,000

	CL$
CL$3,000,000 at 25%	750,000.00
Tax reduction	(445,669.78)
Tax	304,330.22

5. Monthly salary of CL$4,000,000

	CL$
CL$4,000,000 at 32%	1,280,000.00
Tax reduction	(686,159.32)
Tax	593,840.68

China, People's Republic of

(Country code 86)

Beijing GMT +8

Ernst & Young
Level 16, Ernst & Young Tower
Tower E3, Oriental Plaza
1 East Chang An Avenue
Dong Cheng District
Beijing
People's Republic of China 100738

Executive and immigration contacts

Jason Mi	(10) 5815-3990 Fax: (10) 5811-4041 Email: jason.mi@cn.ey.com
William Cheung	(10) 5815-3301 Fax: (10) 5811-4301 Email: william.cheung@cn.ey.com

Guangzhou GMT +8

Ernst & Young
18th Floor
Ernst & Young Tower
No. 13 Zhujiang East Road
Tianhe District
Guangzhou
People's Republic of China 510623

Executive and immigration contact

Sam Pang *(resident in Shenzhen)*	(755) 2502-8160 Fax: (755) 2502-6160 Email: sam.pang@cn.ey.com

Hangzhou GMT +8

Ernst & Young
Unit 306
3/F Jiahua International Business Centre
15 Hangda Lu
Xihu District
Hangzhou
People's Republic of China 310007

Executive and immigration contact

Amy Wang	(571) 8736-5166 Fax: (571) 8717-5332 Email: amy.wang@cn.ey.com

Hong Kong GMT +8

Ernst & Young
Two International Finance Centre
18/F
8 Finance Street
Central
Hong Kong

Executive contacts

Paul Wen	+852 2629 3876 Fax: +852 2118 4025 Email: paul.wen@hk.ey.com
Christina Li	+852 2629 3664 Fax: +852 2118 4032 Email: christina.li@hk.ey.com

Immigration contact

Winnie Walker	+852 2629 3693 Fax: +852 2118 4035 Email: winnie.walker@hk.ey.com

Macau GMT +8

Ernst & Young
Avenida de Almeida Ribeiro
No. 37-61
21/F, Central Plaza
Macau

Executive and immigration contact

Colla Chow	+853 8506 1826 Fax: +853 2878 7768 Email: colla.chow@hk.ey.com

Shanghai GMT +8

Ernst & Young
47th Floor, Shanghai World Financial Center
100 Century Avenue
Pudong New Area
Shanghai
People's Republic of China 200120

Executive and immigration contacts

Norman Yu	(21) 2228-2287 Fax: (21) 2228-0287 Email: norman.yu@cn.ey.com
Freeman Bu	(21) 2228-3880 Fax: (21) 2228-0003 Email: freeman.bu@cn.ey.com

Shenzhen GMT +8

Ernst & Young
21/F, China Resources Building
No. 5001 Shennan Dong Road
Shenzhen
People's Republic of China 518001

Executive and immigration contact

Sam Pang	(755) 2502-8160 Fax: (755) 2502-6160 Email: sam.pang@cn.ey.com

Tianjin **GMT +8**

Ernst & Young
Unit 2501, 25/F
The Exchange Tower 2
No. 189 Nanjing Road
Heping District
Tianjin
People's Republic of China 300051

Executive and immigration contact

April Liao	(22) 5819-4700 Fax: (22) 5819-5128 Email: april.liao@cn.ey.com

For information on the tax and immigration rules for Hong Kong and Macau, see those jurisdictions' chapters on page 493 and page 740, respectively.

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 have their domicile in the PRC
- Individuals who do not have their domicile in the PRC, but reside in the PRC for one full year

Individuals are considered to have resided in the PRC for one full 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 are not 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.

For employment income, non-PRC-domiciled individuals who have resided in China for one full year but less than five years are subject to PRC individual income tax (IIT) on income earned from services rendered in the PRC and on income earned from services rendered outside the PRC but paid or borne by the individual's PRC employer.

PRC-domiciled individuals are subject to PRC IIT on their worldwide income. Non-PRC-domiciled individuals who have resided in the PRC for more than five consecutive full years are subject to PRC IIT on their worldwide income for every full year of residence, beginning with the sixth year, regardless of the mode of payment and place of payment of the income.

Income subject to tax. The taxation of various types of income which are common to foreign expatriates is described below. For a table outlining the taxability of income items, see Appendix 1.

Employment income. The types of taxable compensation under the PRC IIT law include, but are not limited to, wages and salaries, foreign service or hardship allowances, cost of living and automobile allowances, tax reimbursements, bonuses and equity compensation. The form of the individual income may be cash, physical objects, securities and economic interests in any other form.

Nontaxable compensation for expatriate employees includes housing rental, home leave (limited to twice a year for employee only), relocation or moving, meals and laundry, language training and children's education in the PRC, provided such items are paid directly or reimbursed by the employer on the presentation of official tax invoices.

The annual bonus is treated as a separate one-month salary for tax purposes. The applicable marginal tax rate 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.

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 on the approval of the local tax authorities in charge.

Dividends paid by foreign-investment enterprises to the nonresident foreign nationals in the PRC are exempt from tax.

Directors' fees. Directors' fees are considered income from independent personal services and are taxed as income derived from labor services. However, directors' fees paid to a company director are taxed as "wages and salaries" if he or she is an employee of that company or a related company. If the director is not also an employee of the company, his or her directors' fees may be taxed under the "labor service" category.

If directors' fees are taxed under the "labor service" category, they are taxable as a lump sum, with the tax liability computed by applying the rules outlined for income from independent personal services. If a directors' fees are taxed as "wages and salaries," they must be included in the salary for the month of receipt of the fees and are subject to the progressive tax rates ranging from 5% to 45%.

Temporary relief. Under a temporary measure, for dividends and bonuses derived by individuals from domestic listed companies, only 50% of the income is chargeable to IIT. Also, interest income derived by individuals from domestic banking institutions on deposits is temporarily exempt from IIT.

Exempt income. The following types of income are exempt from tax:

- Monetary awards granted by provincial People's Governments, State Council ministries and commissions, units of the People's

Liberation Army at army level or above, or by foreign or international organizations for achievement in fields, such as science, education, technology, culture, public health, sport and environmental protection
- Interest on state treasury bonds and state-issued financial bonds and national debt obligations
- Subsidies and allowances paid in accordance with the centralized State Council
- Welfare benefits, disability pensions and relief payments
- Insurance indemnities
- Military severance pay and demobilization pay
- Resettlement allowances, severance pay, retirement pay, retirement pensions and cost-of-living subsidies of personnel who have left their jobs on a permanent basis to rest and recuperate, and subsidies distributed to cadres and workers, in accordance with centralized state regulations
- Income of diplomatic representatives, consulate officials and other personnel of foreign embassies and consulates in China who enjoy tax exemptions in accordance with the relevant Chinese laws
- Tax-exempt income stipulated in international conventions
- Tax-exempt income approved by the finance department of the State Council

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.

Capital gains derived from transfers of shares listed on China stock exchanges are exempt from PRC IIT.

Foreign individuals are subject to a 20% 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. 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.

The amount of taxable income is the difference between the fair market value of the stock on the exercise date 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, for stock options of publicly listed companies, the employer may divide the total stock option benefits into the number of months that the employee has worked in the PRC (capped at 12) for the purpose of determining the applicable individual income tax rates (this treatment is referred to below as the "favorable tax treatment"). Also, all exercises of stock options in the same calendar year must be aggregated for the calculation of PRC IIT.

However, the favorable tax treatment applies only to employees of publicly listed companies (including branches) and their subsidiaries that are at least 30% owned by the listed companies. For companies indirectly held by listed companies, the ownership percentage is determined by multiplying the respective shareholder percentage at each level of ownership.

In addition, the favorable tax treatment does not apply under the following circumstances:

- Stock incentive income is received by employees of unlisted companies and companies other than those qualifying based on the ownership rule above.
- Stock incentive income is derived from schemes set up before the listing of the company.
- A listed company does not complete tax registration with the in-charge local tax authority.

Deductions

Deductible expenses. A Chinese individual is allowed a flat RMB 2,000 deduction each month in computing his or her net taxable income. Effective from 1 March 2008, expatriate employees are allowed an additional deduction of RMB 2,800 per month. Approved charitable donations are also deductible.

For foreign expatriates, overseas social security contributions made by individuals 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 normally allowed as a deduction in computing the employee's net taxable income. However, if the PRC tax liability calculated by the non-gross up method without deducting the hypothetical tax is higher than the tax liability calculated by the gross-up method after deducting the hypothetical tax, the higher tax amount must be paid to the tax bureau.

Personal deductions and allowances. On the approval of the local tax bureau, employees who do not have their domicile in the PRC and who have job responsibilities both within and outside the PRC may be allowed to report tax on a time-apportionment basis. However, the total compensation (both PRC income and non-PRC income) must be reported in the PRC for tax purposes, and the tax can be prorated based on the number of days the employee stays in the PRC. To qualify, 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.

A taxpayer may claim a deduction for reasonable repair fees from rental income, limited to RMB 800 per month, on the presentation of official invoices and the approval of the local tax authorities in charge.

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 Exceeding RMB	Monthly income Not exceeding RMB	Tax on lower amount RMB	Rate on 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 independent 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 for employment income, see Appendix 2.

Relief for losses. Except for individual proprietorship enterprises and individual equity partnership enterprises, no measures exist for the carryover of losses.

Nonresidents. Individuals who do not have their domicile in the PRC and who stay in the PRC for less than one full year 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, 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 of a country that has entered into a double tax treaty with the PRC (a tax treaty expatriate).

Residents for more than 90 days but less than one full year. 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 and borne by an employer outside the PRC with respect 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 during a calendar year (or for tax treaty expatriates, not more than 183 days during a calendar year or any 12-month period, depending on the relevant tax treaty terms).
- The income is subject to individual income tax if the period of residency in the PRC extends more than 90 days during a calendar year (or for tax treaty expatriates, more than 183 days during a calendar year or any 12-month period, depending on the terms of the relevant tax treaty), to the extent that the income is attributable to services performed in the PRC.

Registration requirement. To claim the treaty entitlement provided under relevant tax treaties for dependent service income (normally refers to employment service income), non-tax residents must register with the in-charge tax authorities after they have resided in China for more than 90 days but less than 183 days (or 6 months) during one calendar year (or any 12-month period depending on the relevant treaty) (that is, before the tax liability arises) or when they file tax returns after having stayed in China for more than 183 days (or 6 months).

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

Chinese nationals employed by PRC entities are eligible for the social security system in mainland China. Under the new PRC Social Security Law that will take effect on 1 July 2011, foreign nationals working in mainland China must also participate in the PRC social security system. However, at the time of writing, no implementation rule has been announced and public opinions continue to be sought regarding the draft measures.

Special rules apply to foreigners from certain countries or territories. Under the totalization agreements with Germany and Korea (South), if German and Korean employees do not contribute to their home country's pension and unemployment insurance during their employment in China, they should 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 should contribute into the PRC social security system.

Social security tax rates vary among different cities. Employers and employees are subject to social security taxes at an average rate of 30% and 11% of gross income, respectively. 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 may need to 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.

A withholding agent must 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 annual reconciliation tax returns and pay tax due within 30 days after the end of the calendar year. If the foreign tax year is different from the China tax year and if it is difficult to file income tax returns within 30 days after the end of the calendar year, it is possible to file the reconciliation returns within 30 days after the foreign taxes have been paid. 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, but he or she has no withholding agent.
- Other circumstances specified by the State Council exist.

PRC resident individuals earning more than RMB 120,000 a year must undertake the annual filing within three months after the end of the tax year.

Foreigners departing from the PRC must pay all taxes before departure and may need to 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	Qatar
Algeria	Israel	Romania
Armenia	Italy	Russian Federation
Australia	Jamaica	Saudi Arabia
Austria	Japan	Seychelles
Azerbaijan	Kazakhstan	Singapore
Bahrain	Korea (South)	Slovenia
Bangladesh	Kuwait	South Africa
Barbados	Kyrgyzstan	Spain
Belarus	Laos	Sri Lanka
Belgium	Latvia	Sudan
Brazil	Lithuania	Sweden
Brunei Darussalam	Luxembourg	Switzerland
Bulgaria	Macedonia	Syria
Canada	Malaysia	Tajikistan
Croatia	Malta	Thailand
Cuba	Mauritius	Trinidad and Tobago
Cyprus	Mexico	Tunisia
Czechoslovakia*	Moldova	Turkey
Denmark	Mongolia	Ukraine
Egypt	Morocco	
Estonia	Netherlands	

Finland	New Zealand	United Arab Emirates
France	Nigeria	United Kingdom
Georgia	Norway	United States
Germany	Oman	Uzbekistan
Greece	Pakistan	Venezuela
Hungary	Papua New Guinea	Vietnam
Iceland	Philippines	Yugoslavia
India	Poland	Zambia
Indonesia	Portugal	
Iran		

* The PRC honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics until new treaties are in force.

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.
- 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.
- The recipient is present in the PRC for a period or periods not exceeding 183 days in the relevant calendar year.

F. Types of visas

All foreign nationals entering, leaving, passing through or residing in China must obtain the relevant visas 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 will take up a post or employment in China 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.
  - — 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. The passport must have a period of validity of at least six months before expiration and at least one blank page left in it.
- 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 permanent residence confirmation form, which is applied for by the applicant or an entrusted relative in China from the entry-and-exit department of the public security bureau in the city or county where the applicant intends to reside.
  - — Z: An Employment License, which can be obtained by the employer in China from the provincial or municipal labor authorities and a Single-Entry Z Visa Notification Letter (issued by an authorized organization).
  - — X: JW201 form or JW202 form (Application Form for Overseas Students to China) issued by the receiving unit or the relevant department in charge, Admission Notice and medical report for foreigners.
  - — F: An invitation letter from the inviting unit or visa notification letter from an authorized unit.
  - — G: A valid visa for the country (region) to which the applicant intends to travel next and an onward ticket.
  - — 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 medical report 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 medical report 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 landing visa application may be accepted by Beijing, Dalian, Fuzhou, Guangzhou (BaiYun airport), Guilin, Haikou, Hangzhou, Kunming, Qingdao, Sanya, Shanghai, Shenzhen (Luohu and Shekou airport), Tianjin, Weihai, Xiamen, Xi'an, Yantai, Yingkou and Zhuhai (Gongbei).

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 if their stay in China is less than 15 days beginning from the date of entry.

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 apply for their resident permit with the local Public Security Bureau within 30 days after their entry.

Foreign nationals holding entry visas other than D, Z or X are required to register with the local police and obtain a temporary resident certificate within 24 hours after their arrival.

No separate resident permit has 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 dependent Z visa and must apply for it independently. These applications are completed after the expatriate has obtained a work permit.

Subject to the decision of the local government and schools, 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 drivers' licenses for Chinese licenses.

Appendix 1: Taxability of income items for foreign expatriate employees

	Taxable*	Not taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	—	X	(a)(b)
Employer-provided housing	—	X	(a)(b)
Housing contribution	(X)	—	(b)
Education reimbursement	—	X	(a)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
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 income (interest, dividends)	—	X	(c)
Capital gain from sale of personal residence in home country	—	X	(c)
Capital gain from the sale of stock in home country	—	X	(c)

* Bracketed amounts reduce taxable income.

(a) Allowances, such as housing rental, children's education in China, employee's home leave, moving costs and meals and laundry, paid to a foreign expatriate in the form of cash, without reference to any specific official invoices, are considered taxable compensation received and subject to PRC individual income tax. Under the current practice rule, the payment is not taxable if the amount is paid directly by employers or as a reimbursement of expenses incurred, if it is supported by appropriate wording in the employment contract/assignment letter and official tax invoices and if it is claimed through expense reports. The nontaxable home-leave allowance is available only twice a year for an employee.

(b) If foreign housing rental 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.

(c) Foreign expatriates who have not resided in China for five consecutive full years are not subject to PRC individual income tax on foreign-source investment income.

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 the entire year.
- 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.
- The individual is entitled to a standard deduction of RMB 2,000, plus an additional foreign expatriate deduction of RMB 2,800.

	Annual package RMB	Monthly amount RMB
Calculation of taxable income		
Base salary	1,080,000	90,000
Housing allowance*	432,000	36,000
Per diem allowance	156,000	13,000
Hardship premium	120,000	10,000
Total taxable income	1,788,000	149,000
Calculation of monthly tax		
Total monthly taxable income		149,000
Less: Standard deduction and foreign expatriate deduction		(4,800)
Net monthly taxable income		144,200
Tax on RMB 100,000		29,625
Tax on RMB 44,200 at 45%		19,890
RMB 144,200		
Monthly tax payable		49,515

* Because the housing allowance is provided to the employee as a cash allowance, it is taxable in this example. If rent for housing is paid directly by the employer, they are not treated as taxable income.

Colombia

(Country code 57)

Bogotá **GMT -5**

Ernst & Young
Calle 113 No. 7-80
3rd Floor
Bogotá
Colombia

Executive and immigration contacts

Luz Maria Jaramillo	(1) 484-7230 Fax: (1) 484-7474 Email: luz.jaramillo@co.ey.com
Gustavo Pardo	(1) 484-7130 Fax: (1) 484-7474 Email: gustavo.pardo@co.ey.com

Carlos Mario Sandoval	(1) 484-7397 Fax: (1) 484-7474 Email: carlos.sandoval@co.ey.com
Ángela González	(1) 484-7169 Fax: (1) 484-7474 Email: angela.gonzalez@co.ey.com

For information purposes, the following exchange rate is used in this chapter: US$1 = approximately Col$1,800. A revaluation process has taken place in Colombia and the exchange rate is US$1 = Col$1,780.16 as of June 2011.

A. Income tax

Who is liable. Colombian residents are subject to tax on their worldwide income. Nonresidents are subject to Colombian tax on their Colombian-source income only. Foreign residents are subject to tax on their Colombian-source income during the first four years or tax periods of continuous or discontinuous residence in Colombia. However, they are subject to tax on their worldwide income as of the beginning of their fifth year of residence in Colombia.

Individuals are considered resident for tax purposes in Colombia if they reside in Colombia for more than six consecutive or nonconsecutive months in the tax year or if they complete a consecutive six-month period during a tax year.

Colombian source income includes employment income attributable to services provided in Colombia, regardless of where the payments are made to the employee.

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 any other income derived from a labor relationship. However, 25% of employment income is exempt from tax, limited to a monthly amount (see *Exempt income*) which is increased 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 are subject to income tax. Interest received is also taxed together with any other income received by the individual at the rates described in *Rates*, but relief is available for inflation with respect to interest received from financial entities. Royalties and rental income are also considered taxable income and are taxed at the regular rates.

Directors' fees. Directors' fees are considered taxable income and are subject to an 11% withholding tax (if the individual must file an income tax return; otherwise, a rate of 10% applies). The withholding tax is credited against the final tax liability if the individual must file a tax return.

Exempt income. Twenty-five percent of employment income is exempt from income tax, limited to a maximum monthly amount of Col$6,032,000 (approximately US$3,613) for the 2011 tax year.

Capital gains. Capital gains are taxed at the ordinary income tax rates. These rates are applied separately from the ordinary income. Because the tax rates are progressive, this separate calculation results in a reduction of the global effective tax rate. In determining the amount of capital gains, the acquisition costs of shares and real estate are calculated in Colombian pesos and adjusted for inflation, regardless of whether the asset is used in a trade or business.

Capital losses may offset only capital gains. Real estate losses are not allowed.

Deductions

Deductible expenses. Employees who are required to file tax returns and individuals who are not required to file tax returns, but would like to reduce the impact of withholding taxes, may deduct specified expenses, which are those indicated in *Personal deductions and allowances*. These expenses reduce the withholding tax base.

In addition, mandatory contributions to the pension system, voluntary contributions deposited by the employee in a Colombian pension fund and deposits in AFC Accounts (for housing construction promotion) opened in local commercial banks and housing leasing payments are subtracted from employment income. However, the maximum total deduction for such payments is 30% of employment income.

Personal deductions and allowances. Interest and payments 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, his or her spouse and up to two children can be treated as a deduction for income tax and withholding purposes, if such payments do not exceed 15% of the taxpayer's taxable employment income and if the taxpayer's income in the preceding year did not exceed Col$109,310,000 (for the 2011 tax year; approximately US$60,728).

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. The taxpayers must keep supporting documents (for example, invoices and agreements) for all expenses, but they are not required to maintain accounting books.

Rates. Law No. 1111 of 27 December 2006 created the Tax Unit Value (Unidad de Valor Tributario, or UVT) as a value measurement to adjust the amounts of taxes and other obligations contained in the laws administered by the Colombian tax authority (Dirección de Impuestos y Aduanas Nacionales, or DIAN). The UVT is adjusted annually. Under Resolution No. 12066 of November 2010, the value of the UVT is Col$25,132 (US$14) for 2011.

The Colombian peso (Col$) amounts in the tables below correspond to the amount of the UVT for 2011.

The following table sets forth the marginal withholding tax rates applicable to monthly employment income derived by residents for the 2011 tax year.

Employment income		
Exceeding Col$	**Not exceeding Col$**	**Rate %**
0	2,387,540	0
2,387,540	3,769,800	19
3,769,800	9,047,520	28
9,047,520	—	33

The base for applying withholding tax on employment income is 75% of such income after the subtraction of the mandatory and voluntary contributions to pension funds and the deposits in AFC Accounts. However, this 25% exemption is limited to a monthly amount of 240 UVT, which equals Col$6,032,000 (US$3,351).

The following are the progressive income tax rates applicable to the annual income of employees and self-employed individuals.

Income		
Exceeding Col$	**Not exceeding Col$**	**Rate %**
0	27,393,880	0
27,393,880	42,724,400	19
42,724,400	103,041,200	28
103,041,200	—	33

In general, foreign nonresidents are subject to tax on all Colombian-source income at a marginal flat rate of 33% for the 2011 tax year. However, if a foreigner is from a country that ratified the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, he or she is treated as a national for tax purposes and the marginal tax rate might be lower.

Dividends distributed to residents who are required to file an income tax return are subject to withholding tax at a rate of 20%. This withholding tax is treated as a prepayment in the corresponding income tax return. Dividends are generally taxed at a rate of 33% if the recipient is not required to file an income tax return. However, if the amount paid is lower than 1,400 UVT (approximately US$19,547 for the 2011 tax year), the rate is 20%.

Dividends are taxed only if the profits distributed were not taxed at the corporate level in Colombia. In this case, the withholding tax rate is 33%. Withholding taxes for nonresidents are final taxes.

Law 1111, 2007 eliminated the 7% withholding tax on dividends and remittances. This tax now applies only if dividends were accrued in prior years, but payment of the dividends was deferred.

For a sample tax calculation, see Appendix 2.

Relief for losses. Under Colombian tax law, employment income may not be reduced by any losses, regardless of the source.

B. Other taxes

Estate and gift tax. For the 2011 tax year, the first 1,200 UVT (Col$30,158,400) 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 the capital gain is 20% of the value received, up to Col$30,158,400 (for the 2011 tax year). A "capital gain" is unexpected income or profit from an extraordinary event, such as an extraordinary sale or winning a lottery or a raffle. In this case, an inheritance or legacy is deemed to be a capital gain if it is received by persons other than the legal inheritors.

Equity tax. Law 1430, 2010 introduced a new equity tax for the 2011 tax year for individuals. The following are principal aspects of the tax:

- It is an equity-based tax, which is paid by income taxpayers owning net equity of at least Col$1 billion (approximately US$560,981), as of 1 January 2011.
- For equity tax purposes, the value of shares owned in local companies can reduce the tax base, as well as the first Col $319,215,000 (approximately US$179,073) of the value of the individual's house or apartment.
- If the tax base is equal to or higher than Col$1 billion (US$556,000), but not exceeding Col$2 billion (approximately US$1,111,000), the equity tax rate is 1%. If the tax base is more than Col$2 billion but not exceeding Col$3 billion (approximately US$1,666,000), the tax rate is 1.4%. If the tax base is more than Col$3 billion but not exceeding Col$5 billion (approximately US$2,777,000), the tax rate is 2.4%. If the tax base is more than Col$5 billion the tax rate is 4.8%. Both the 2.4% rate and the 4.8% rate have a surtax of 25%.
- The equity tax is payable during four years on dates established by the government in two installments per year. For 2011, the payments are due in May and September.

C. Social security

Employees may choose between a private social system and 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)	8.5	4.0
Pensions (b)	12.0	4.0
Additional contribution (c)	—	1 to 2 (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 (Col$2,142,400 or approximately US$1,190) per month.
(d) Contributions to the Solidarity Pension Fund are at a rate of 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 monthly minimum legal salaries). One minimum monthly legal salary equals Col$535,600 (approximately US$298).
(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$13,390,000 [approximately US$7,439] per month).

In addition to the above, employers must make an additional 9% contribution to the Family Compensation Fund, Colombian Family Welfare Institute (ICBF) and the National Apprentice Service (SENA), on the salaries paid and the mandatory days of rest provided to its employees. These contributions are known as payroll taxes. Payroll taxes do not have a ceiling. Nonsalary clauses are acceptable (nonsalary clauses represent agreements between employers and employees that certain benefits are not considered salary).

For social security purposes, nonsalary payments are excluded from social security contributions up to 40% of the employee's total remuneration. This 40% limit does not apply for payroll taxes.

If the employee earns an integral salary (package salary), social security contributions and payroll taxes are calculated on 70% of such salary, because the remaining 30% is deemed a social-benefit factor included in this type of salary and accordingly is not included in the base for the above-mentioned payments.

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 the 2010 tax year, the tax filing dates for individuals are between 9 August 2011 and 6 September 2011. For individuals residing outside Colombia, the 2010 Colombian income tax return can be filed with the Colombian consulate abroad between 8 September 2011 and 21 September 2011. In such case, the tax due must be paid in Colombian currency at an authorized Colombian commercial bank or in the place of the individual's residence at a financial entity linked to Colombian banks that are authorized to collect Colombian taxes.

Income tax liability on employment income is generally satisfied by employers' withholding of tax based on gross salary. Employees are not required to file tax returns if at least 80% of their gross income consists of employment income. However, income tax returns for 2011 must be filed by employees or self-employed professionals if their gross assets exceed 4,500 UVT (Col$113,094,000) or if their annual gross income exceeds 4,073 UVT (Col$102,363,000). Nonresidents do not need to file tax returns if tax is withheld from all income received during the year at nonresident tax rates. If nonresidents receive income from which tax is not withheld, they must file tax returns and meet the filing deadlines.

Individuals who are required to file tax returns must calculate and pay advance tax for the following tax year in accordance with the applicable rules.

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 may apply a tax credit for the foreign tax paid to the Colombian income tax, up to the amount of Colombian tax payable on the same income.

Foreigners may not claim the credit, unless they have five or more years of tax residence in Colombia.

Colombia has entered into double tax treaties with Chile, Spain and the Andean Community member countries (Bolivia, Ecuador and Peru). It is expected that double tax treaties with Canada and Switzerland will be in effect at the end of 2011.

F. Entry visas

Decree 4000 of 30 November 2004 provides immigration policies in Colombia. Decree 4000 was modified by Decree 2622 of 13 July 2009. 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. In general, an individual requesting a temporary visa for the first time must apply at a Colombian consulate abroad. However, if he or she has a business visa, he or she may request the temporary working visa in Colombia. Other visas, such as for pensioners, beneficiaries, business, and medical treatments, may be requested in Colombia directly.

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 carries 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 in the country for a term of up to one year. A business visa does not entitle the holder to work or receive any type of payment in Colombia for activities developed in the country. Holders of a business visa may not be domiciled in Colombia and may not receive salaries or fees in Colombia (except for business visas granted under an economic cooperation agreement). However, they may request a temporary work visa if they are in Colombia for business purposes and if the type of activity changes while they are in Colombia.

Temporary working visa. A temporary working visa may be granted to the following individuals, among others:
- 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
- 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 working visa has a maximum term of two years and allows multiple entries. It is no longer valid if the permit holder leaves the country for more than 180 consecutive days.

Foreigners who want to practice their profession in Colombia must present the respective diploma granted by the issuing university to obtain the temporary permit if the profession is regulated in Colombia (not all professions are officially regulated in Colombia). The diploma must be dully *apostilled* (legalized) by the corresponding authority in the country where the university is located.

Reporting requirements. All employers must advise the Departmento Administrativo de Seguridad (DAS) in writing within 15 calendar 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
- 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. Visas for family members authorize the holders to carry out home and study activities only.

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. However, Colombia recognizes international drivers' licenses.

To obtain a Colombian driver's license, an expatriate must mail a letter of request to the License Division of the Transit Secretary, 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. However, a medical exam is required to verify if the person is fit and capable to drive in the desired category.

The following documents must be attached to the request:

- One photograph
- A deposit slip or the equivalent of approximately US$58
- 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)
- A blood type test

Appendix 1: Taxability of income items for expatriate personnel in Colombia for less than five years

	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)	—	(c)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(d)
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	(e)
Tax reimbursement			
Current gross up	X	—	—
One-year rollover	X	—	—
Deferred compensation	X	—	(f)
Value of meals provided	X	—	(g)
Food allowance (up to two monthly minimum legal salaries)	—	X	(h)
Other items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(i)
Capital gain from the sale of personal residence in home country	—	X	(i)
Capital gain from sale of stock in home country	—	X	(i)

* Bracketed amounts reduce taxable income.
(a) 25% of this item is exempt from tax, up to a monthly amount of 240 UVT (Col$6,032,000).
(b) Employee contributions are not deductible from compensation. Benefit plan payments made in Colombia are taxable, regardless of the employee's nationality.
(c) Gross income before deductions of hypothetical taxes should be taken into account to determine the income tax liability.
(d) Housing allowances paid by the employer and housing paid for by the employer are considered 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).

(e) Actual moving expenses, whether reimbursed to an employee or paid directly by the employer to a third party, are not treated as taxable compensation if the move is necessary for the employee to carry out his or her duties and if the expenses are supported.

(f) 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.

(g) All indirect payments made by employers to their employees are taxable.

(h) This exemption applies only to employees who earn less than 15 times the minimum monthly legal wages. For 2011, this amount is Col$8,034,000 (approximately US$4,463).

(i) These items are taxable if the income received is considered Colombian-source income. If the income is considered foreign-source income, it is taxable if the individual is a resident national or if the individual is a foreigner who has resided in Colombia for five or more consecutive or nonconsecutive 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 2011. The expatriate's income and expenses, and the amount of taxes withheld during 2011 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)	(30,158,000)	(30,758,000)
Withholdings		
Salary and bonus	13,000,000	
On rentals (3.5% rate)	840,000	13,840,000

The following is the tax calculation.

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	(600,000)	
Deductible interest on home loan	(30,158,000)	(30,758,000)
Taxable income		73,242,000

	Col$	Col$
Calculation of tax payable		
Total tax		11,460,240
Tax withholding		(13,840,000)
Tax refund (c)		(2,379,760)

(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 less than five 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.

Congo, Democratic Republic of

(Country code 243)

Kinshasa **GMT +1**

Ernst & Young RDC sprl
Avenue du Port n°9
Immeuble Les Palmiers
3rd Floor
Kinshasa – Gombe
Democratic Republic of Congo

Executive and immigration contacts

Crespin Simedo		Mobile: 997-004-50-07, +242 05 512 3434
	Paris	Fax: +33 1 58 47 20 98
		Email: crespin.simedo@cg.ey.com
Joseph Pagop Noupoue		+33 1 55 61 18 36
(resident in Paris)		Fax: +33 1 58 47 64 31
		Email: joseph.pagop.noupoue@ey-avocats.com

A. Income tax

Who is liable. Individual income tax (*impôt sur les bénéfices et profits*, or IBP) is imposed on any remuneration paid to an individual by a third party if such individual is not engaged under a service agreement with the third party. IBP is imposed on Democratic Republic of Congo (DRC)-source income only.

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

Employment income. Individuals are subject to IBP at progressive rates on employment income, including payments to administrators and managers. The tax base for IBP includes the following:
• Salary and wages.
• Allowances that do not correspond to the reimbursement of professional expenses.
• Bonuses and other indemnities.
• Payments made by the employer in the case of breach of contract (notice allowance), excluding damages.
• Benefits in kind at their real value, except for the following:
— Legal family allowances (only extra-legal amount is taxable).

— Housing, provided the amount of the housing allowance is limited to 30% of gross salary.
— Transport, provided that the amount of the transport allowance does not exceed the limit imposed per day.
— Medical care, provided that the amount of medical care is not overstated.

Reimbursements of professional expenses (for example, entertainment allowance or assignment allowance) are exempt from IBP if all of the following conditions are satisfied:
• They are used in accordance with their nature. The tax administration may require evidence of such use.
• They are not overstated in terms of the employee concerned.
• They relate to the activity of the company.

Investment income. Investment income consists of dividends and other income derived from shares, stock options, debentures or bonds issued by companies resident in the DRC. Investment income is subject to the tax on movable assets at a rate of 20%.

Business and self-employment income. Under Article 27 4° of the DRC Tax Code, business and self-employment income is subject to IBP at the progressive rates.

Directors' fees. Under Article 14.2 of the DRC Tax Code, directors' fees paid by public limited liability companies registered in the DRC are subject to a flat tax at a rate of 40%.

Taxation of employer-provided stock options. The DRC tax law does not contain any specific measures relating to the taxation of the allocation of stock options to employees. Such operation may generate taxation if the related cost is borne by the local entity.

Capital gains and losses. Under the DRC tax law, only capital gains and losses realized by persons subject to corporate tax are taxable or deductible. However, the tax administration has taken the position that capital gains derived from the sale of some assets by individuals are subject to the 20% tax on movable assets.

Exempt income. The following types of income are not taxable to individuals in the DRC:
• Pension contributions by law
• Hypothetical tax withholdings
• Host housing, for a value not exceeding 30% of the taxable salary
• Housing setup
• Home housing charges
• Telephone allowance
• Home leave for assignee and family
• Host utilities
• Business and mentor trips
• Automobile allowance, up to US$600 per month or host automobile costs
• Language and cultural training for assignee and family
• Insurance premiums
• Tax compliance and administration
• Healthcare

Deductions. Expenses incurred by an individual for medical care for the individual and his or her family are deductible.

Individuals may deduct the following contributions effectively paid to pension funds:
- Contributions by the taxpayer under a pension scheme that are mandatory as a result of an engagement of the employer or a requirement in the work agreement
- Direct contributions to obtain a pension or insurance

Individuals may not claim any other deductions.

Rates. IBP is imposed at progressive tax rates ranging from 3% to 50%. However, the amount of the IBP cannot be higher than 30% of taxable revenue. The following are the IBP rates for annual income.

Annual taxable income		
Exceeding CDF	Not exceeding CDF	Tax rate %
0	72,000	3
72,000	126,000	5
126,000	208,000	10
208,000	330,000	15
330,000	498,000	20
498,000	788,400	25
788,400	1,200,000	30
1,200,000	1,686,000	35
1,686,000	2,091,600	40
2,091,600	2,331,600	45
2,331,600	—	50

Under Article 89 of the Tax Code, the amount of IBP is reduced by an amount of 2% per dependant (limited to 9 dependants), with a maximum reduction of CDF 30,618.

Relief for losses. Individual taxpayers may not claim relief from losses.

Nonresidents. A special tax on expatriates (Impôt exceptionnel sur le revenue des expatriés, or IERE) is imposed at a rate of 25% on the gross income of expatriates. This tax is payable by employers of expatriates. Under Article 260 of the Mining Code, the IERE rate is 10% for expatriates employed by mining companies.

Only income paid to expatriates who are subject to tax in the DRC are subject to IERE. Nonresident individuals whose income is not taxable in the DRC because they are in the DRC under a technical services agreement are not subject to IERE.

B. Other taxes

Property tax. Property tax is imposed on real property such as buildings and grounds. The owner of the property is liable for the tax.

The property tax rate varies depending on the nature of the item and the rank of the locality. The owner must sign an annual declaration, which must state all taxable items, to the tax authorities.

Inheritance, estate and gift taxes. The DRC does not impose inheritance, estate or gift taxes.

Tax on vehicles. The tax on vehicles is imposed on all types of vehicles used in the DRC. Owners of vehicles are liable for the tax.

The rate of the tax on vehicles varies depending on the nature of vehicle and the province. The owners of the vehicles must buy road tax discs (annual license tags) when the tax authorities sell them.

C. Social security

Contributions. Employers and employees must make monthly contributions to the Social Security National Institute (Institut national de sécurité social, or INSS). The following are the rates of the contributions, which are applied to employee wages:
- Employers in Katanga area: 9%
- Other employers: 5%
- Employees: 3.5%

Companies are required to register all employees with the INSS and remit both employer and employee contributions.

Employers are also subject to monthly contributions to the National Institute for Professional Preparation (Institut national de préparation professionnelle, or INPP). The following are the contribution rates:
- Private companies with 1 to 50 employees: 3%
- Private companies with 51 to 300 employees: 2%
- Private companies with more than 300 employees: 1%

Totalization agreements. The DRC has not entered into any totalization agreements.

D. Tax filing and payment procedures

IBP and INPP must be remitted within the first 10 days of the month following the month of the payment of salaries.

INSS social contributions must be remitted before the end of the month following the month of the payment of salaries.

IERE must be paid within the first 10 days of the month following the month of the payment of salaries.

E. Double tax relief and tax treaties

None of the tax treaties signed by the DRC are yet in force.

F. Temporary visas

The General Direction of Migration issues the temporary visa of work. To obtain this visa, the following documentation must be submitted:
- The work contract of the expatriate
- Proof of identity of the expatriate
- Identification picture
- Completed form provided by the Direction together with the contract between the DRC company and the foreign company

G. Work visas and permits

To obtain a work permit, authorization for obtaining a work card must be obtained from the Minister of Work. In addition, a visa of establishment and a multiple-entry visa must be obtained from the General Direction of Migration.

H. Residence visas and permits

The General Direction of Migration issues residence visas (residents' cards) to expatriates working for DRC companies. These visas have a validity of two years.

I. Family and personal considerations

Work visas for family members. If an expatriate complies with the requirements for a residence visa, his or her family members receive residence visas automatically. However, if someone in the family wants to work in the DRC, he or he or she must comply with the requirements set forth in Section G.

Marital property regime. The community property regime applies to the property of spouses.

The community property regime applies only to property acquired during the marriage. Property acquired before the marriage is considered the separate property of the respective spouses. Each spouse remains the owner of such separate property.

Drivers' permits. In practice, foreign drivers' licenses may be used in the DRC.

Appendix 1: Taxability of income items

	Taxable	Not taxable	Comments
General			
Self-employed income/ personal services income allowance	X	—	—
Gross base salary	X	—	—
Equity income	X	—	—
Bonus	X	—	—
Pension contributions			
Employer	—	X	—
Employee	—	X	—
Hypothetical tax withholdings	—	X	—
Personal income	X	—	—
Home-country allowances (part of compensation)	X	—	—
Relocation costs			
Pre-move trip	—	X	—
Transfer airfare(s) to host country – assignee	—	X	—
Transfer airfare(s) to host country – family	—	X	—
Transfer airfare(s) from host country – assignee	—	X	—
Transfer airfare(s) from host country – family	—	X	—
Other relocation costs	—	X	—
Transport of goods to host country	—	X	—
Transport of goods from host country	—	X	—
Temporary living in host country	—	X	—
Temporary living in home country	X	—	—
Loss on sale of automobile in home country	—	X	—
Loss on sale of automobile in host country	—	X	—
Mobility allowance	X	—	—

	Taxable	Not taxable	Comments
Furnishings allowance	—	X	—
Resettlement allowance	X	—	—
Closing costs	—	X	—
Destination services	—	X	—
Settling-in assistance (reimbursement)	X	—	—
Start-up allowance	X	—	—
Annual costs			
Home/host country tax reimbursements	X	—	—
Cost-of-living allowance	X	—	—
Salary supplemental	X	—	—
Supplemental international allowance	X	—	—
Per diems – assignee	X	—	—
Per diems – family	X	—	—
Location premium per diem	X	—	—
Food and essentials allowance	X	—	—
Spousal support	X	—	—
Host country housing	—	X	—
Housing setup	—	X	—
Home housing charge	X	—	—
Home housing reimbursement	X	—	—
Home retention allowance	—	X	—
Telephone allowance (for professional use)	—	X	—
Home leave (flybacks) – assignee	—	X	—
Home leave (flybacks) – family	—	X	—
Business/mentor trips	—	X	—
Student travel	X	—	—
School tuition	X	—	—
Club membership	X	—	—
Automobile allowance	—	X	—
Host automobile costs	—	X	—
Automobile rental	—	X	—
Language/cultural training – assignee	X	—	—
Language/cultural training – family	X	—	—
Storage/insurance premiums	X	—	—
Tax compliance and administration	—	X	—
Healthcare	—	X	—

Appendix 2: Sample tax calculations

Sample tax calculations are provided below for an expatriate employee and a local employee. The taxable amount for the expatriate is CDF 150,000, and the taxable amount for the local employee is CDF 100,000.

	CDF
Expatriate employee	
INSS (employer part) at 5%	7,500.00
INSS (employee part) at 3.5%	5,250.00
INPP at 3%	4,342.50

	CDF
IERE at 25%	36,187.50
IBP at 30%	43,425.00
Total tax and contribution for employee (CDF 5,250 + CDF 43,425)	48,675.00
Total tax and contributions for employer (CDF 7,500 + CDF 4,342.50 + CDF 36,187.50)	48,030.00
Total cost to employer (CDF 150,000 + CDF 48,030)	198,030.00
Local employee	
INSS (employer part) at 5%	5,000.00
INSS (employee part) at 3.5%	3,500.00
INPP at 3%	2,895.00
IBP at 30%	28,950.00
Total tax and contribution for employee (CDF 3,500 + CDF 28,950)	32,450.00
Total tax and contributions for employer (CDF 5,000 + CDF 2,895)	7,895.00
Total cost to employer (CDF 100,000 + CDF 7,895.00)	107,895.00

Congo, Republic of

(Country code 242)

Brazzaville **GMT +1**

FFA Juridique & Fiscal
Boulevard Denis Sassou Nguesso
Immeuble CFAO, 2nd Floor
P.O. Box 84
Brazzaville
Republic of Congo

Executive and immigration contact

Crespin Simedo
81-17-60, 06-679-8959, 05-547-9999
Fax: 81-17-58
Paris Fax: +33 1 58 47 46 04
Email: crespin.simedo@cg.ey.com

Pointe-Noire **GMT +1**

FFA Juridique & Fiscal
Immeuble CNSS, 4th Floor
Avenue Charles de Gaulle
P.O. Box 643
Pointe-Noire
Republic of Congo

Executive and immigration contact

Crespin Simedo
94-58-39, 06-665-5858, 05-530-1623
Fax: 94-18-22
Paris Fax: +33 1 58 47 46 04
Email: crespin.simedo@cg.ey.com

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

If the actual value of the benefit in kind is higher than the value calculated at the above rates, the actual value of the benefit in kind is taxed.

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 XAF 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 XAF 200,000. Prosthesis and pharmaceutical expenses are excluded.

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
- Certain taxes, including business tax, license fees and tax on wages

Rates. Tax is levied at progressive rates, up to a maximum rate of 45%. 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

Type of allowance	Number of allowances
Widowed or married 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 Exceeding XAF	Not exceeding XAF	Tax on lower amount XAF	Rate on excess %
0	200,000	0	1
200,000	800,000	2,000	10
800,000	2,500,000	62,000	25
2,500,000	8,000,000	487,000	40
8,000,000	—	2,687,000	45

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 XAF 40 million. 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 XAF 600,000	
Family allowances	10.035
Accidents and illnesses due to professional activity	2.25
National Housing Fund	1
Onemo contribution, on gross monthly salary	0.5
Pension contributions on monthly salary up to XAF 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 entered into a totalization agreement with France. Under this agreement, French employees are exempt from social security taxes for one year.

Congo has signed a social security treaty with other member countries of the Common African and Mauritian Organization (Organisation Commune Africaine et Mauricienne, or OCAM), which are Benin, Burkina Faso, Central African Republic, Côte d'Ivoire, Gabon, Mauritius, Niger, Rwanda, Senegal and Togo. Congo continues to apply this treaty.

D. Tax filing and payment procedures

The tax year is the calendar year. Under the law, 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 Monetary Community (Communaute Economique et Monetaire d'Afrique Centrale, or CEMAC), 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 CEMAC 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.
- 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 want to 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. During this 15-day period, the foreigner can apply for a three-months visa (a temporary permit). This visa may be obtained from the General Director of Immigration in Brazzaville or from the department 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 within 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
- 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 XAF 5,000
- A valid passport or substitute document, with a visa if the foreigner is a national of a country that has not 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 the CEMAC countries nor of the Democratic Republic of the Congo)
- 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
- 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.

Costa Rica

(Country code 506)

San José **GMT -6**

Ernst & Young
Mail address:
P.O. Box 48 – 6155
Escazu, San José
Costa Rica

Street address:
Meridiano Building
2nd Floor
Bulevar Multiplaza
Escazu, San José
Costa Rica

Executive and immigration contacts

Lisa María Gattulli
2208-9861
Fax: 2208-9999
Email: lisa.gattulli@cr.ey.com

Rafael Sayagués
2208-9880
Fax: 2208-9999
Email: rafael.sayagues@cr.ey.com

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 ¢651,000 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 Banco Central de Costa Rica (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 ¢14,760 for each dependent child and ¢21,840 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 2010 to 30 September 2011.

Annual taxable income		Tax on lower	Rate on
Exceeding ¢	Not exceeding ¢	amount ¢	excess %
0	7,812,000	0	0
7,812,000	11,724,000	0	10
11,724,000	—	391,200	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 2010 to 30 September 2011.

Annual taxable income Exceeding ¢	Not exceeding ¢	Tax on lower amount ¢	Rate on excess %
0	2,890,000	0	0
2,890,000	4,316,000	0	10
4,316,000	7,199,000	142,600	15
7,199,000	14,427,000	432,450	20
14,427,000	—	1,445,600	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 26.17% for the employer and 9.17% 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 entered into an income tax treaty with Spain (Law Number 8888), which took effect on 1 January 2010. Costa Rica has entered into a tax information exchange agreement with the United States. It has also entered into a tax information exchange agreement with Argentina, which took effect on 12 February 2010 (Executive Decree Number 35706-RE). In addition, Costa Rica is negotiating information agreements with Australia, Canada, Denmark, Faroe Islands, Finland, Greenland, Iceland, India, Indonesia, Italy, Japan, Korea (South), Norway, South Africa and Sweden.

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. Residence permits

A new Immigration and Foreign Affairs Law is effective from 1 March 2010 in Costa Rica. Significant changes introduced by the new law include, among others, the following:

- A requirement that foreigners be insured with the Costa Rican Social Security Administration to obtain or renew temporary or permanent residence
- A US$100 fine for foreigners who remain in the country illegally for each month they overstay
- Flexibility in the residence application procedure
- Sanctions for working without the respective permit and for companies hiring foreigners without a work permit

The regulations to the new law have not yet been issued.

G. Family and personal considerations

Family members. Spouses of foreigners who are granted temporary residence in Costa Rica do not automatically receive the same treatment as the original residence holders and must apply for independent residency.

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 driver's 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	—	(a)
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Employer-provided housing	X	—	(b)
Education allowance	X	—	(b)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(b)
Moving expense reimbursement	—	X	—
Tax reimbursement	X	—	—
Value of meals provided	X	—	(c)

	Taxable*	Not taxable	Comments
Value of lodging provided	X	—	(d)
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) The authorities have not published a listing of taxable compensation items for the purpose of determining whether bonuses should be considered salary that is subject to social security contributions. However, existing jurisprudence has established a list of conditions under which a bonus may be considered taxable compensation for social security purposes (for example, periodicity and a contractual agreement).

(b) This benefit is taxable for income tax purposes but may be exempt from social security taxes if the benefit corresponds to a temporary assignment of a foreigner employee and if a private ruling is requested.

(c) Meals received by an 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).

(d) 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 9.17%		1,834,000
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		218,800
Gross withholding taxes		1,718,800
Tax credits:		
1 spouse	(21,840)	
2 children (2 x ¢14,760)	(29,520)	
Total tax credits		(51,360)
Net withholding tax		1,667,440
Net pay (¢20,000,000 – ¢1,834,000 – ¢1,718,800)		16,447,200

Côte d'Ivoire

(Country code 225)

Abidjan **GMT**

FFA Ernst & Young
5, Avenue Marchand
B.P. 1222
Abidjan 01
Côte d'Ivoire

Executive and immigration contact

Eric N'Guessan	20-21-11-15 Fax: 20-21-12-59 Email: eric.nguessan@ci.ey.com

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, 6.75% 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 1% to 50%. 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. If a tax treaty apples, the rate is 10%. 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.

Capital gains. One-third of the gain in excess of XOF 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, descendants 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. 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.
- Qualifying gifts and liberalities granted with respect to health education or the infrastructure in the besieged zones until 31 December 2010.
- 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
- 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 and *contribution nationale*, as indicated below.

	Rate (%)
Tax on salaries and wages	1.2
Contribution nationale	0 to 10

Proportional tax is levied at a rate of 20% on income derived from commercial, professional and agricultural activities. Taxpayers may opt to apply proportional tax at a rate of 20%, 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 XOF	Not exceeding XOF	XOF	%
300,000	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 XOF 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 XOF 19,767,780; paid by	
Employer	4.8
Employee	3.2

Nonprofessional 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 and Monetary Union (Union Economique et Monétaire Ouest Africaine, or UEMOA) tax treaty together with Benin, Burkina Faso, Guinea-Bissau, Mali, Niger, Senegal and Togo. With respect to these countries, this tax treaty envisages the abrogation of the following tax treaties:

- The Economic Community of West African States (Communauté Economique des États de l'Afrique de l'Ouest, or CEAO) tax treaty (together with Benin, Burkina Faso, Mali, Mauritania, Senegal and Togo).
- The Common African and Mauritian Organization (Organisation Commune Africaine et Mauricienne, or OCAM). The OCAM organization has been dissolved. However, Côte d'Ivoire's tax administration has continued to honor the provisions of the

tax treaty, which was signed by Benin, Burkina Faso, Central African Republic, Congo (Republic of), Côte d'Ivoire, Gabon, Mauritius, Niger, 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 and UEMOA treaties, 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 CEAO, OCAM and UEMOA 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

Nationals of foreign countries must obtain visas to enter Côte d'Ivoire, except for nationals of CEAO countries and countries that have signed an agreement with Côte d'Ivoire. Nationals of the following countries, among others, must obtain a visa to enter Côte d'Ivoire:
- France
- Germany
- Norway
- South Africa
- United Kingdom
- 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
- Travel ticket

Short-stay visas (visas on arrival), which are 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. To apply for a short-stay visa, the following items must be submitted:
- A copy of the applicant's passport
- Administrative fees of XOF 100,000

- A typed application addressed to the Director of the National Police
- An identification sheet completed 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 that allow them to work in Côte d'Ivoire.

Under a decree issued by the President of Côte d'Ivoire in early 2008, nationals from the 15 member countries of the Economic Community of West African States (ECOWAS) are no longer required to obtain residence permits. Nevertheless, they remain subject to the procedures regarding employment in Côte d'Ivoire (see below).

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
- A duty stamp in the amount of XOF 5,000

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.

Applicants for AGEPE approval are subject to variable fees. These fees depend on the applicant's home country, the position to which he or she is appointed and the type of employment contract.

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
- A duty stamp in the amount of XOF 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 equal parts 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
• A duty stamp of XOF 500
• Administration fees of XOF 85,000
• A certification of the authenticity of the driver's license, which is provided by the home-country consulate

Croatia

(Country code 385)

Zagreb **GMT +1**

Ernst & Young
Milana Sachsa 1
10000 Zagreb
Croatia

Executive and immigration contacts

Denes Szabo	(1) 248-0540 Fax: (1) 248-0556 Email: denes.szabo@hr.ey.com
Katarina Dijan	(1) 248-0583 Fax: (1) 248-0556 Email: katarina.dijan@hr.ey.com

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. 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
• 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. Employment income includes receipts in cash or in kind provided by employers under current, past and future employment relationships. Employers may make certain types of payments that are free of tax to employees. These include voluntary pension insurance premiums, reimbursements of business trip expenses, daily allowances, Christmas bonuses, severance payments and similar payments, all up to certain prescribed amounts. Employment income is subject to tax at the rates set forth in *Rates*.

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*.

Under certain conditions, self-employment and business income can be taxed under the rules applicable for corporate taxation (at the corporate tax rate of 20%).

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.

Capital income. Interest income received from lending activities is taxable at a prepayment (withholding) rate of 40%. 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 prepayment rate of 12%.

Income from property and property rights. Income from leasing of immovable and movable property is taxed at a prepayment rate of 12%, after a deduction of 30%, representing notional expenses.

Income from property rights is taxed at a prepayment rate of 25%. The actual expenses incurred are deductible for tax purposes. They are recognized based on the documentation supporting the expense and may be claimed in the annual tax return only (not at the prepayment stage). In general, income from the disposal of property and property rights is taxed at a prepayment rate of 25%. However, capital gains derived from the sale of real estate are not taxable if the real estate meets either of the following conditions:
- It was held more than three years.
- It was used by the owner or dependent family members for lodging.

If a person sells more than three real estate or property rights in a five-year period, such person is required to register the business and is taxed in accordance with the rules described in *Self-employment and business income*.

Income from insurance. Income from insurance is generally not taxable. However, if life insurance premiums are considered tax-deductible expenses in the determination of taxable income, the insurance income equal to the amount of such premiums is taxed at a prepayment rate of 12%. In addition, payments made out of voluntary pension insurance schemes, which are based on tax-free premiums made by employers on behalf of employees, are also taxed as insurance income at the prepayment rate of 12%.

Other income. Other income includes all types of income that cannot be included in one of the above categories, such as directors' fees. Other income is taxed at a prepayment rate of 25%, without the right to deduct personal allowances.

Capital gains and losses. Capital gains derived from the sale of financial property are not subject to income tax.

Deductions

Deductible expenses. Compulsory social contributions payable on a specified type of income are deductible in determining taxable income. 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 1,800 per month. Retired persons may claim a personal allowance of HRK 3,200 per month. Resident taxpayers may also increase personal allowances by the following:

- 50% of the basic personal allowance for a dependent spouse and ascendants
- 50% of the basic personal allowance for the first dependent child, 70% for the second, 100% for the third, 140% for the fourth and increasing percentages for each additional child
- 30% of the basic personal allowance for a dependent invalid child or other family member or for an invalid taxpayer

To be considered a dependent family member, the individual's annual earnings may not exceed HRK 10,800. A dependent family member is not required to live in the same household as the taxpayer.

Resident taxpayers may also claim deductions for donations up to the amount of 2% of income earned in the preceding year.

Business deductions. All business-related expenses are deductible from gross income for taxpayers who keep 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	Not exceeding HRK	Tax rate %
0	43,200	12
43,200	129,600	25
129,600	—	40

The above rates apply also to any type of income (regardless of the tax prepayment rate) that is declared in the annual tax return. An annual tax return can be filed voluntarily to claim certain tax deductions. In certain circumstances, the filing of an annual tax return is required by law, such as for taxpayers receiving employment income simultaneously from two employers.

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

Employment income is subject to health and social security contributions at the rates of 17.2% for employers and 20% for employees.

Other income is subject to health and social security contributions at the rates of 15% for payers and 20% for recipients.

Capital income, income from insurance and income from property and property rights are generally not subject to health and social security contributions.

D. Tax filing and payment procedures

Croatian residents and nonresidents receiving certain types of income (such as income from self-employment or employment income simultaneously from two employers), 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. In certain specified cases, resident employers must also prepare year-end tax reconciliations.

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	Hungary	Poland
Armenia	Iran	Romania
Austria	Ireland	Russian Federation
Belarus	Israel	San Marino
Belgium	Italy	Serbia and Montenegro
Bosnia-Herzegovina	Jordan	Slovak Republic
Bulgaria	Korea (South)	Slovenia
Canada	Kuwait	South Africa
Chile	Latvia	Spain
China	Lithuania	Switzerland
Czech Republic	Macedonia	Syria
Denmark	Malaysia	Turkey
Estonia	Malta	Ukraine
France	Mauritius	Yugoslavia
Germany	Moldova	
Greece	Morocco	
	Netherlands	

Croatia has adopted double tax treaties entered into by the former Yugoslavia with the following countries.

Denmark	Italy	Sweden
Finland	Norway	United Kingdom

F. Travel visas

Whether a foreign national must have a travel visa to enter Croatia depends on the individual'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 varies according to the type of visa.

G. Work and business permits

Work permits. Under the Act on Foreign Nationals, a foreign national must obtain a work permit if he or she enters into an employment relationship with a Croatian employer or if he or she is assigned to a Croatian company that is related to the individual's foreign employer.

Work permits for employment with Croatian employers are subject to annual quotas. Quotas are determined by the Croatian government on the basis of the opinion of the Croatian Institute of Employment. Work permits for intercompany transfers are not subject to quotas. The Ministry of Internal Affairs issues work permits, which are usually granted for a one-year period. 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 registers his or her own business entity.
- The foreign national provides services on behalf of his or her foreign employer for a Croatian company.

The Ministry of Internal Affairs issues business permits. A business permit is issued for a one-year period. After expiration of the one-year period, if the reasons for a foreign national's stay in Croatia are unchanged, the business permit can be extended at the request of the foreign national.

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 a travel visa, or without one if not required) must register at the local police station within 18 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 law. It must be obtained if the foreign national intends to stay in Croatia for a period longer than 90 days or for the purposes mentioned above. Temporary residence permits for purposes of work are issued on the basis of work permits.

Temporary residence is limited to stays of up to one year 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 both a residency permit and a work permit (if they intend to work in Croatia). A temporary residence permit for the purpose of joining the family is approved for a foreign national who is a close family member with respect to the following individuals:

- A Croatian national
- A foreign national who has been granted permanent residency
- A foreign national who has a temporary residence permit

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	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 they are made to Croatian compulsory state funds or if they are made to a compulsory state system of the country with which Croatia has entered into a totalization agreement.

(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 profits from 2005 or subsequent years. Savings bank interest is not taxable. Interest on loans made by individuals is taxable.

Appendix 2: Sample tax calculation

A sample tax calculation for 2011 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	(21,600)	
Increased personal allowance (dependent wife and two children)	(36,720)	
Total personal allowances		(58,320)
Taxable income		301,680
Calculation of tax		
Personal income tax:		
Tax on HRK 43,200 at 12%	5,184	
Tax on HRK 86,400 at 25%	21,600	
Tax on HRK 172,080 at 40%	68,832	
HRK 301,680		
Total personal income tax		95,616
Zagreb city tax (18% of personal income tax)		17,210.88
Total of personal income tax and city tax		112,826.88
Annual net salary (HRK 360,000 – HRK 112,826.88)		247,173.12

Curaçao

(Country code 5999)

Willemstad **GMT -4**

Ernst & Young
Mail address:
P.O. Box 3626
Willemstad, Curaçao

Street address:
Kaya W.F.G. (Jombi) Mensing 16
Zeelandia Office Park
Willemstad, Curaçao

Executive and immigration contacts

Bryan D. Irausquin	430-5075 Mobile: 527-7007 Email: bryan.irausquin@an.ey.com
Zahayra S.E. de Lain	430-5080 Mobile: 510-0892 Email: zahayra.de-lain@an.ey.com
Cristina L. de Freitas Brás	430-5070 Mobile: 525-6630 Email: cristina.de.freitas@an.ey.com

On 10 October 2010, the country Netherlands Antilles, which consisted of five island territories in the Caribbean Sea (Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten), was dissolved. On the dissolution of the Netherlands Antilles, Bonaire, Saba and Sint Eustatius (the BES Islands), became part of the Netherlands as extraordinary overseas municipalities. Curaçao and Sint Maarten have both become autonomous countries within the Kingdom of the Netherlands. The former Netherlands Antilles tax law remains applicable in Curaçao, with "Netherlands Antilles" being read as "Curaçao" in the law. The following chapter provides information on taxation in Curaçao only. A chapter on Sint Maarten appears on page 1069.

A. Income tax

Who is liable. Residents are taxable on their worldwide income. Nonresidents are taxable only on income derived from certain Curaçao sources. A resident individual who receives income, wherever earned, from former or current employment is subject to income tax in Curaçao.

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. The following types of income are taxed in Curaçao:
- Employment income
- Self-employment and business income
- Income from immovable property (rental income)
- Income from movable assets (dividend and interest income)
- Income from periodical allowances

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.

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*. Directors' fees paid by Curaçao companies are subject to withholding for wage tax and for social security insurance contributions.

A nonresident individual receiving income from current or former employment carried on in Curaçao is subject to income tax and social security contributions in Curaçao. Wage tax 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 a Curaçao public entity is subject to tax on income, even if the employment is carried on outside Curaçao.

A nonresident individual receiving income as a managing or supervisory director of a company established in Curaçao is subject to income tax and, in principle, social security contributions in Curaçao.

Self-employment and business income. Residents are subject to tax on their 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 Curaçao. However, if the profession practiced in Curaçao does not exceed three months, full or partial exemption from income tax may be requested.

Annual profits derived from a business must be calculated in accordance with sound business practices that are applied consistently. Taxable income is determined by subtracting the deductions and personal allowances specified in *Deductions* from annual profits.

A nonresident individual earning income from activities carried on in Curaçao through a permanent establishment or a permanent representative is subject to income tax in Curaçao. Profits of a permanent establishment are calculated in the same manner as profits of resident taxpayers.

Income from periodic allowances. Resident individuals are subject to tax on their worldwide periodic allowances, including old-age pensions (not related to previous employment), alimony payments and disability allowances. In general, periodic allowances are taxable if the allowances exceed their purchase price and if the purchase price has not (nor could have) been deducted from Curaçao income or was considered to be a component of Curaçao income.

Income from immovable property. Sixty-five percent of the income from real estate (rental income), grounds, mines and waters is taxed at the income tax rates set forth in *Rates*. Income derived from a person's residence is not taxed as income from immovable property. Interest paid on mortgage loans for the acquisition or the restoration of immovable property can be deducted from taxable income.

Nonresident individuals are taxed on rental income derived from real estate located in Curaçao or from the rights to such property.

Income from movable assets (dividend and interest income). Dividend and interest income derived from domestic and foreign sources, less deductions, are generally subject to income tax at the rates set forth in *Rates*. For investments in foreign portfolio investment companies and investments in Curaçao exempt 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 Curaçao.

No withholding taxes are levied on dividends, interest and royalties earned by nonresidents. In general, a withholding tax applies to interest payments made by paying agents established in Curaçao to individuals resident in one of the member states of the European Union (EU). This withholding tax applies for the duration of a transitional period. The withholding tax rate was 15% for the first three years beginning in 2005, and will be increased ultimately to a rate of 35%. Effective from 1 July 2011, the withholding tax rate is 35%. However, the recipient may request exchange of information instead of the withholding on interest payments.

Income from substantial business interests. On request, resident individuals are taxed on dividend income and capital gains derived from substantial business interests at a fixed rate of 19.5% (including surtaxes). Otherwise, such income is subject to the progressive income tax rates (see *Rates*).

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.

In principle, nonresident individuals are taxed on dividend income and capital gains derived from substantial business interests in companies that are resident in Curaçao. In the event of emigration to Curaçao, a "step-up" facility is available to determine the cost of a substantial business interest. In the event of emigration from Curaçao, the tax authorities may issue an income tax assessment on the difference between the fair market value of the shares on emigration and the fair market value on establishing residency. However, this tax need not be paid if certain conditions are met. If the taxpayer emigrates within eight years after establishing residency, this income tax on emigration may not be imposed.

Capital gains. Capital gains are generally exempt from tax. However, in the following circumstances, residents may be subject to income tax on capital gains 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

Nonresidents may be subject to income tax on capital gains derived from the disposal of business assets or of shares in a Curaçao resident corporation if the shares constitute a substantial interest and if certain other conditions exist.

Deductions

Deductible expenses. A resident taxpayer is entitled to more deductible items than a nonresident taxpayer. A fixed deduction of ANG 500 may be deducted from employment income. Alternatively, actual employment-related expenses incurred may be fully deducted to the extent that the expenses exceed ANG 1,000 annually.

Residents may claim the following personal deductions:
- Mortgage interest paid that is related to the taxpayer's dwelling (limited to ANG 27,500 annually)
- Maintenance expenses related to the taxpayer's dwelling (limited to ANG 3,000 annually)
- Premiums paid for fire and natural disaster insurance related to the taxpayer's dwelling
- 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 5% of the income or ANG 1,000, annually)
- Pension premiums paid by an employee
- Social security premiums paid by an employee
- Qualifying donations in excess of certain threshold amounts

Residents may deduct the following extraordinary expenses (thresholds applicable):
- Alimony payments
- Medical expenses, educational expenses and support for up to second-degree relatives, if they meet certain threshold amounts

Deductions that may be claimed by nonresidents include the following:
- Employment expenses
- Qualifying donations in excess of certain threshold amounts

Business deductions. In general, business expenses are fully deductible. However, the deduction of certain expenses is limited. The following deductions are available for self-employed persons:
- Accelerated depreciation of fixed assets at a maximum rate of 33⅓%.
- An investment allowance of 8% for acquisitions of or improvements to fixed assets in the year of investment and in the immediately following year. The investment allowance is increased to 12% for acquisitions of new buildings or improvements to existing buildings. This allowance applies only if the investment amounts to more than ANG 5,000 in the year of investment.

Personal tax credits. The following personal tax credits may be subtracted by a resident taxpayer from actual income tax due for the 2011 fiscal year:
- Standard tax credit: ANG 1,852.50 (surtaxes included)
- Sole earner tax credit: ANG 1,237.60 (surtaxes included)
- Senior tax credit: ANG 933.40 (surtaxes included)
- Child tax credit per child: varies between ANG 66.30 and ANG 659.10 (surtaxes included), depending on the children's age, residence and education

Only the standard tax credit is available for nonresidents under certain conditions.

Pensioners and retirees. Pensioners who request and obtain the *penshonado* status can opt to be taxed at an income tax rate of 10% (including surtaxes) on all foreign-source income or they can declare a fixed income of ANG 500,000 per year as foreign income. This fixed income is taxed at the progressive income tax rates (see *Rates*). The *penshonado* status can be obtained if certain conditions are met, including the following:

- The applicant must not have been a resident of Curaçao for the past 5 years.
- The applicant must at least be 50 years of age.
- The applicant must apply for the *penshonado* status within 2 months of his or her registration in Curaçao.
- The applicant must acquire a house for personal use with a value of at least ANG 450,000.

Expatriate facility. Individuals that meet certain criteria can request the application of the expatriate facility. To acquire the expatriate status, an individual must meet the following conditions:

- The applicant must not have been a resident of Curaçao for the past five years.
- The applicant must have special skills at the college or university level and at least five years of relevant working experience at the required level.
- The applicant must receive remuneration from his or her employer of at least ANG 150,000.
- The applicant must possess skills that are scarce in Curaçao.

The employer must file the application. In principle, the expatriate status applies with retroactive effect to the beginning of the employment if the application is filed within three months after the beginning of the employment.

An employee with the expatriate status can receive limited amounts of fringe benefits tax-free, such as wages in kind, travel expenses, hotel expenses and expenses with respect to means of transportation and relocation. The remainder of the compensation paid to the expatriate by the employer is taxed at the progressive income tax rates (see *Rates*). In addition, a net employment contract can be entered into with the expatriate, and the wage tax should then not be grossed up as an additional benefit received from employment.

Rates

Residents and nonresidents. Resident and nonresident individuals are subject to income tax at the same progressive rates. The following are the individual income tax rates and tax brackets for the 2011 fiscal year.

Taxable amount Exceeding ANG	Taxable amount Not exceeding ANG	Tax on lower amount ANG	Rate on excess %
0	27,374	0	13
27,374	41,062	3,558.67	20.8
41,062	57,030	6,405.58	27.3
57,030	85,544	10,764.85	35.1
85,544	120,902	20,773.19	41.6
120,902	—	35,482.10	49.4

The rates mentioned above include a 30% surtax.

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 Curaçao 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 Curaçao 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

Notwithstanding the above, the tax rate is 25% for a donation from a resident to a private foundation.

C. Social security contributions

All resident individuals must pay social security contributions. The contributions provide benefits under the General Old Age Pension Ordinance (AOV), the General Widows and Orphans Ordinance (AWW) and the General Insurance Extraordinary Sickness Ordinance (AVBZ). Contributions to the health insurance (ZV) is also due on salaries up to a certain threshold (ANG 4,873.70 per month for 2011). In addition, employers must pay a severance contribution (Cessantia) fee of ANG 40 (2011) per employee per year.

The total AOV/AWW contributions due on an annual basis are 14% of earnings (maximum of ANG 83,228 for 2011). Premiums are paid partly by the employer if an individual is employed. For AOV and AWW in 2011, employers contribute 7.5% of salary, up to a certain maximum amount of contributions per year (ANG 6,242.10), and employees contribute 6.5%, up to a certain maximum amount of contributions per year (ANG 5,409.82). For AOV and AWW, self-employed persons also pay a total of 14% up to a certain maximum amount of contributions per year but a sliding scale is applicable.

For AVBZ, the following are the contributions:
- Employers: 0.5% of salary
- Employees: 1.5% of salary
- Self-employed persons: 2% of earnings
- Pensioners: 1.5% of pension income
- Individuals with annual taxable income of less than ANG 27,374 and 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 2011, ANG 428,626). At the time of writing, the maximum amount for 2011 had not yet been announced officially.

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%). The rate of required disability insurance (OV) 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. OV contributions are due on salaries up to a certain threshold (ANG 4,873.70 per month for 2011).

In general, nonresidents earning income from employment in Curaçao are subject to social insurance contributions.

D. Tax filing and payment procedures

Filing and payment. Employers must file wage withholding tax returns on a monthly basis. The wage tax return must be filed before the 16th day of the month following the month in which the salaries are paid to employees. For most employees, wage withholding tax is the final tax. The personal 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.

Filing income tax return together with spouse. If both spouses earn income, married persons are taxed separately on the following types of income:

- Employment income
- Self-employment and business income
- 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 must 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 payments. Social security contributions are withheld by the employer and are declared in the wage tax returns. Individuals receiving other types of income must pay social security contributions within two months after the date of the assessment.

Filing inheritance tax returns. An inheritance tax return must be filed within six months after the date of death. A gift tax return must be filed within three months after the gift is made. Both inheritance and gift tax must be paid within two months after the date of assessment.

E. Double tax relief and tax treaties

Curaçao has a double tax treaty with Norway. It also has the Tax Regulation for the Kingdom of the Netherlands, which provides for double tax relief within the Kingdom of the Netherlands (Aruba, BES Islands, Curaçao, Netherlands and Sint Maarten). 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.

A double tax treaty with Venezuela is in the final stage of conclusion and negotiations for double tax treaties are ongoing with Jamaica, Suriname and the United Arab Emirates.

Curaçao entered into bilateral agreements with the EU member states with respect to the application of the EU Council Directive on the taxation of savings income. The Curaçao law to implement the directive took effect in July 2006.

Curaçao has entered into tax information exchange agreements with the following jurisdictions.

Antigua and Barbuda	Cayman Islands	Iceland
Australia	Denmark	Mexico
Bermuda	Faroe Islands	New Zealand
British Virgin Islands	Finland	St. Lucia
Canada	France	Spain
	Germany	Sweden
	Greenland	United States

Negotiations for tax information exchange agreements with Italy and the United Kingdom are ongoing.

The Organization for Economic Cooperation and Development (OECD) had white-listed the former Netherlands Antilles. Consequently, Curaçao should also be white-listed.

F. Residency and working permits

In general, foreign individuals who wish to reside and work in Curaçao need residency and working permits. The conditions for obtaining such permits depend on the nationality of the individual. Special provisions apply to individuals holding a Dutch passport.

Wealthy individuals (Investors) who meet certain conditions are granted through a simplified procedure a residency permit known as an Investors Permit. The permit allows an Investor a legal stay in Curaçao of, in principle, up to 120 days a year. A stay of the Investor exceeding 120 days a year is not prohibited, but may result in the Investor being considered a resident taxpayer in Curaçao.

Cyprus

(Country code 357)

Limassol **GMT +2**

Ernst & Young
Mail address:
P.O. Box 123
Limassol 3601
Cyprus

Street address:
Ernst & Young House
27 Spyrou Kyprianou
Limassol 4003
Cyprus

Executive and immigration contact

Neophytos Neophytou
(25) 209-999
Fax: (25) 209-998
Email: neophytos.neophytou@cy.ey.com

A. Income tax

Who is liable. Residents are taxed on their worldwide profits or other benefits from a business, profits or other benefits from an office or employment, dividends, interest or discounts, pensions and any rental income arising from immovable property. Nonresidents are taxed only on their Cyprus-source income from employment exercised in Cyprus, 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 an aggregate of 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. This is known as the "90-day rule."

Taxable income from employment includes the estimated value of any accommodation and other allowances from employment, whether paid in cash or in kind (for example, the private use of a saloon car [a sedan]).

Nonresidents who become residents of Cyprus and take up employment there may deduct the lower of 20% of their salary or €8,550 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 €3,420.

Withholding tax is not imposed on dividends and interest paid to nonresidents. Royalties and premiums 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.

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, unless the shares are listed on a recognized stock exchange. 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	17,086
Agricultural land	25,629
Private residence	85,430

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 taxable 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		Tax on lower amount	Rate on excess
Exceeding €	Not exceeding €	€	%
0	19,500	0	0
19,500	28,000	0	20
28,000	36,300	1,700	25
36,300	—	3,775	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 6.8% of monthly compensation up to a maximum monthly amount, which is currently €4,342. Self-employed persons must contribute to the social security scheme at a rate of 12.6% 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).
- They are European Union (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, the Netherlands, 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 5.5% a year.

Resident and nonresident individuals whose gross income does not exceed €19,500 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	India	San Marino
Belarus	Ireland	Seychelles
Belgium	Italy	Singapore
Bulgaria	Kuwait	Slovak Republic
Canada	Lebanon	South Africa

China	Malta	Sweden
Czech Republic	Mauritius	Syria
Denmark	Moldova	Thailand
Egypt	Norway	USSR (a)
France	Poland	United Kingdom
Germany	Qatar	United States
Greece	Romania	Yugoslavia (b)
Hungary	Russian Federation	

(a) Cyprus honors the USSR treaty with respect to the republics of the Commonwealth of Independent States (CIS).
(b) Cyprus generally honors the treaty with the former Yugoslavia.

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 (EU), 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 exchange their driver's license for 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	—	—
Payment for termination of employment contract	—	X	(a)
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	—
Housing contribution	(X)	—	—
Education reimbursement	X	—	(b)
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	—	(c)
Value of lodging 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) Compensation for the termination of an employment contract is not considered to be an emolument and, accordingly, is not taxable.
(b) 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.
(c) 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.
(d) Lodging during a business trip is exempt from tax if the employer pays the cost. It is deductible if the employee pays the cost.
(e) Capital gains are subject to capital gains tax at the rate of 20%. Capital gains up to €85,430 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.
(f) Capital gains from the sale of securities are exempt from income tax and are not subject to capital gains tax.

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	50,000
Tax on €36,300	3,775
Tax on €13,700 at 30%	4,110
€50,000	
Total tax	7,885

Czech Republic

(Country code 420)

Prague **GMT +1**

Ernst & Young
Karlovo namesti 10
120 00 Prague 2
Czech Republic

Executive and immigration contacts

Martina Kneiflova	225-335-295 Email: martina.kneiflova@cz.ey.com
Michaela Felcmanova	225-335-949 Email: michaela.felcmanova@cz.ey.com
Tomas Pevny	225-335-636 Email: tomas.pevny@cz.ey.com
Daniel Krempa	225-335-106 Email: daniel.krempa@cz.ey.com

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. In addition, they may have different 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 residence (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 exempt from tax in the Czech Republic if it is paid by a foreign entity without a permanent establishment in the Czech Republic and if no economic employment exists (see next paragraph).

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.

The tax base for employment income equals the sum of the gross income of the employee and the employer's portion of mandatory Czech social security and health insurance contributions. For employees who are not subject to the Czech social security and/or health insurance system, the tax base for employment income equals the sum of gross income of the employee and the employer's portion of deemed mandatory Czech social security and/or health insurance contributions.

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. Czech-source 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, the interest income is taxed in the individual's tax return. 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 derived by residents from foreign sources are taxed in the individuals' tax return.

Royalties and fees for professional services, such as directors' fees and payments under management or consultancy agreements, derived by nonresidents are subject to a 15% withholding tax. Nonresidents' rental income is subject to a 5% final withholding tax on lease-purchase contracts and to a 15% 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 12 months for automobiles, 2 years for a primary residence and 5 years for other immovable property. Other holding periods apply to other types of personal property.

The sale of securities is exempt from tax if the securities have been held for a period of more than 6 months and if the individual had less than a direct share of 5% in the company in the 24-month period preceding the sale. The sale of other securities is generally exempt if the holding period exceeds five years.

In general, capital losses derived from the sale of securities cannot be carried forward and they can be offset only against gains derived from the sale of other securities during 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.
- 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 generally taxed as employment income at the exercise date, at the same tax rate applicable to other employment income. Capital gains derived from the sale of shares by an individual are taxed as described in *Capital gains and losses*. If the capital gains are not exempt from income tax, the excess of the sale proceeds over the exercise price is taxable, at the rate set forth in *Rates*, in the year of disposal.

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 as lump-sum costs. The percentage of lump-sum costs varies depending on the individual's business activity, as indicated in the following table.

Activity	Deductible rate (%)
Agriculture, forestry, fishing, fish farming and craft	80
Trade license income	60
Licensing intellectual property rights (inventions and copyrights), sole proprietorships and other business income	40
Rental	30

Rates. Taxable income of residents and nonresidents, other than income subject to withholding tax, is taxed at a flat rate of 15%.

Tax reliefs. Czech tax residents may subtract tax reliefs from their annual tax liability. The amounts of these reliefs for 2011 are described below.

The annual personal tax relief is CZK 23,640. In addition, tax relief of CZK 24,840 is granted for a spouse living in the same household with the taxpayer, unless the spouse's annual income exceeds CZK 68,000.

Additional personal tax relief of CZK 2,520 is granted for partially disabled persons and of CZK 5,040 for totally disabled persons.

Tax relief of CZK 11,604 is granted for each dependent child.

The tax reliefs, except for the personal tax relief, are available to nonresidents only if their Czech-source income accounts for at least 90% of his or her total annual income.

For a sample tax calculation, see Appendix 2.

Relief for losses. Losses incurred in self-employment or rental activities may be carried forward for five years.

B. Inheritance and gift taxes

If a deceased person was a citizen of the Czech Republic and had his or her permanent home in the Czech Republic, inheritance tax is imposed on his or her entire movable property, regardless of whether the property is located in the Czech Republic or abroad, and on his or her immovable property located in the Czech Republic. If the deceased person was a Czech citizen who did not have a permanent home in the Czech Republic or was not a citizen of the Czech Republic, inheritance tax is imposed on his or her movable and immovable property located in the Czech Republic. No inheritance tax is imposed on immovable property located abroad.

In general, Czech nationals and foreigners with permanent residence in the Czech Republic are subject to gift tax on all movable and immovable property, apartments, commercial premises, securities, domestic currency, foreign currency and other property acquired by gift in the Czech Republic or abroad, except for real estate located abroad.

Donors are subject to 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 household
- 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 and Group II recipients are exempt from inheritance and gift taxes.

C. Social security

Contributions. Social security and health insurance contributions are paid by both the employer and the employee on employment income at the following rates.

	Employer %	Employee %	Total %
Social security			
Old-age pension	21.5	6.5	28.0
Sickness	2.3	—	2.3
Unemployment	1.2	—	1.2
Health insurance	9.0	4.5	13.5
Total contributions	34.0	11.0	45.0

A maximum assessment base for employers and employees applies. It equals 72 times the monthly average salary. For 2011, the maximum annual assessment base is CZK 1,781,280. Income above this limit is not subject to social security and health insurance contributions, with certain exceptions for situations in which the individual has multiple employers during the year. In such circumstances, the maximum assessment base applies to each employer separately. However, the employee remains subject to one maximum assessment base.

EU social security legislation and totalization agreements. As a member state of the European Union (EU), the Czech Republic is bound by the EU Social Security Regulations (applicable to all member states of the European Economic Area [EEA] and Switzerland) 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 several non-EU jurisdictions, including Bosnia-Herzegovina, Canada, Chile, Croatia, Israel, Japan, Korea (South), Macedonia, Quebec, Serbia and Montenegro, Turkey, Ukraine and the United States.

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 1 April of the following year. Extensions may be granted until 1 July. By additional application, the deadline may be extended to 1 November for individuals who must include foreign-source income in their Czech tax return.

Effective from 1 January 2008, the joint taxation of married couples is no longer allowed in the Czech Republic.

E. Double tax relief and tax treaties

The Czech Republic has entered into double tax treaties with the following countries.

Albania	Indonesia	Portugal
Armenia	Ireland	Romania
Australia	Israel	Russian Federation
Austria	Jordan	Serbia and Montenegro
Azerbaijan	Kazakhstan	Singapore
Belarus	Korea (North)	Slovak Republic
Belgium	Korea (South)	Slovenia
Bosnia-Herzegovina	Kuwait	South Africa
Bulgaria	Latvia	Switzerland
Canada	Lebanon	Syria
Croatia	Lithuania	Tajikistan
Cyprus	Macedonia	Thailand
Egypt	Malaysia	Turkey
Estonia	Malta	Ukraine
Ethiopia	Mexico	United Arab Emirates
Finland	Moldova	United States
France	Mongolia	Uzbekistan
Georgia	Morocco	Venezuela
Hungary	New Zealand	Vietnam
Iceland	Norway	
India	Philippines	
	Poland	

The Czech Republic also honors the double tax treaties of Czechoslovakia with the following countries.

Brazil	Japan	Sri Lanka
China	Luxembourg	Sweden
Denmark	Netherlands	Tunisia
Germany	Nigeria	United Kingdom
Greece	Spain	Yugoslavia*
Italy		

* The Czech Republic honors this treaty with respect to Bosnia-Herzegovina.

F. Temporary permits

In general, some immigration obligations must be satisfied for foreigners coming from EU and non-EU countries. However, the immigration obligations of EU nationals are less time-consuming.

Non-EU nationals. Foreign nationals traveling to the Czech Republic from countries requiring entry visas must have visas to enter the country. After the integration of the Czech Republic to the Schengen area on 21 December 2007, non-EU nationals entering the Czech Republic without a visa can only stay in the Czech Republic for up to 90 days during a 180-day period. This period is counted from the first day of the entry into the Schengen area. Non-EU nationals may have only two 90-day stays within a year. If non-EU nationals want to stay in the Czech Republic for a longer time, they must obtain a long-term visa. However, if they intend to work, they must have both a work permit and a visa.

Foreigners from non-EU countries must obtain a work permit and visa before beginning their work. The issuance of a work permit takes one to two months from the date of application, depending on the type of work permit (for a local employment contract or assignment). After the work permit is issued, a foreigner may apply for a visa. The issuance of the visa takes up to four months from the date of application. As a result, the total process takes about six months.

For short-term stays (up to 90 days), foreigners must arrange travel health insurance to cover medical costs (injury and sudden illness, including repatriation of a patient or a departed), up to a minimal amount of €30,000 (not taking into account the share borne by the insured person). The health insurance policy may be obtained only from an insurance company authorized to carry out health insurance business in a country that issued a travel document to the foreigner, in a country in which the foreigner obtained a residency permit or in the Czech Republic. Foreigners must also present a document proving the payment of the health insurance contributions.

For stays longer than 90 days, foreigners must prove that they have travel health insurance covering treatment with respect to an accident or sudden illness in the Czech Republic (for example, hospital room, doctor's fees, medication, ambulance, medical evacuation and accidental death) including the cost of transfer of a diseased person or the remains of the deceased to his or her home country. The insurance policy must not exclude coverage for injuries and damage caused by the applicant´s intentional acts, injuries and damage caused by fault or contributory fault on the part of the applicant, and injuries and damage caused by the consumption of alcohol, narcotic and psychotropic substances by the applicant. The minimum coverage is €60,000 per one insured event without any coinsurance or copayment (not taking into account the share borne by the insured person).

A visa is issued for a single purpose, such as for business, studying or employment. A foreign national working in the Czech Republic without a visa may be subject to deportation.

EU nationals. EU nationals must be registered at the Labour Office on their first working day at the latest. They must also be registered at the Foreigners' Police within one month after their arrival. Alternatively, they can apply for a residency permit, which can serve as a substitute for registration. The permit must be obtained within one month after arrival. The obtaining of a residency permit is not required, but it eases the life of the EU national in the Czech Republic. The entire procedure is relatively straightforward, but it can be time-consuming.

EU nationals must be covered with health insurance during their stay in the Czech Republic. An EU Health Insurance Card satisfies this requirement.

Business visitors. In general, a non-EU national who is in the Czech Republic on a business trip is not required to have a work permit or visa if his or her stay does not exceed 7 consecutive calendar days or a total of 30 days per year. This rule does not apply if the non-EU national is assigned to the Czech Republic to perform work.

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 do not need work permits if they study at a Czech high school, university or artist school.

Trainees. Non-EU national trainees working in the Czech Republic for any type of company (for example, Czech legal entities or Czech branch offices of foreign companies) must have both a visa and a work permit. EU nationals must be registered at the Labour Office.

Termination of the stay. The termination of work in the Czech Republic for both EU nationals and non-EU nationals must be reported to the Labour Office and to the Foreigners' Police within 10 days after the termination of work.

G. Work permits, green cards, blue cards and self-employment

To work legally in the Czech Republic, non-EU nationals must obtain a work permit from the Labour Office, which can be valid for a maximum of two years and is renewable.

If a foreigner wishes to change his or her employer, or the Czech legal entity for which his or her work is performed, 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 entered into an employment contract with a Czech legal entity or have been assigned by their foreign employer to a branch office or a Czech legal entity. The following individuals are exempt from the work permit requirement (however, they must still apply for a visa):

- A holder of a Czech permanent residency permit.
- A foreigner who attends a high school or university in the Czech Republic.
- 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.
- A foreigner seconded to provide services in the Czech Republic on behalf of his or her employer with a seat in an EU country. However, registration at the Labour Office is required.

Czech employers must report a vacancy at the Labour Office in the Czech Republic for a one-month period. This report must specify particular positions. If the position is not occupied by a Czech person or an EU national, a non-EU national must request a final authorization at the Labour Office. Subsequently, the foreign national may apply for a work permit. The work permit may have a duration of two years but may be extended on application if proof of need is established.

The process takes approximately six to eight weeks after all the required documents are submitted to the authorities.

After a work permit is issued, the non-EU national may apply for a visa. A work permit is valid only in conjunction with a visa.

A green card is a permit for long-term residence for employment purposes in the Czech Republic. The green card allows the recipient to reside in the Czech Republic and work in a job for which the green card was issued. The green card combines the residence permit and the work permit in one document.

The following types of green cards may be issued:
- Type A: for qualified workers with university education and key personnel
- Type B: for workers in jobs with a minimum education requirement
- Type C: for other workers

The green card is valid for two years. It is possible to extend the validity of Type A and Type B green cards under certain circumstances for up to three years.

The green card may be issued to non-EU nationals of the following countries.

Australia	Japan	New Zealand
Bosnia-Herzegovina	Korea (South)	Serbia
Canada	Macedonia	Ukraine
Croatia	Montenegro	United States

The green card is issued for a specific job in the Czech Republic. Jobs available for green cards are primarily those which have not been successfully occupied by workers from the Czech Republic or the EU.

The application for a green card must be submitted at the relevant embassy of the Czech Republic.

A blue card is a combination of a work permit and a visa in one document. The blue card allows the recipient to reside in the Czech Republic and work in a job for which the blue card was issued. The blue card may be issued to non-EU nationals of a country that has a high qualification.

The blue card is issued for a specific job in the Czech Republic. The application for a blue card must be submitted to the relevant embassy of the Czech Republic and is usually issued within two months.

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 begin his or her activities in the Czech Republic after both a trade license and a visa are issued. The process takes approximately five months after all the required documents are submitted.

H. Visas for a stay exceeding 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 up to four months.

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 (particularly 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 dependants 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. They are required to present super-legalized or *apostilled* personal documents, such as a marriage certificate (spouse), or birth certificate (child).

Marital property regime. The Czech marital property regime applies to couples who solemnize their marriages in the Czech Republic if one or both of the spouses are Czech citizens, and to couples who solemnize their marriages abroad if both spouses are Czech citizens.

Under Czech law, common property includes all types of property acquired by either spouse during the marriage, with the following exceptions:
- Property acquired by inheritance or gift
- Property acquired by one of the spouses for property belonging solely to such spouse
- Property that, by its nature, serves the personal needs of one of the spouses
- 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 generally considered common property (statutory exceptions apply). Spouses may agree by notarial deed to extend or restrict the scope of their legally defined common property. This applies to existing and future property and liabilities. In addition, spouses may agree by notarial deed to postpone the creation of common property until the marriage ends. The spouses can also agree on the above before their marriage is solemnized.

The settlement of the division of common 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 his or her own property and must reimburse for expenditures on his or her own property from joint property. Other factors, such as the minors' needs and the care of the family are taken into account in the settlements.

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 limited statutory 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 his or her 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. A 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 a residency permit based on the long-term 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	—	—
Employer and employee contributions to mandatory system of social security and health insurance	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	—	—
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowances	X	—	—
Home-leave allowances	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(b)
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)

	Taxable*	Not taxable	Comments
Capital gain from sale of stock in home country	X	—	(f)

* The bracketed amount reduces taxable income.

(a) Benefits of up to CZK 3,500 per month derived from temporary accommodation provided by an employer to an employee are exempt from tax 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.
- The temporary accommodation is away from the employee's place of residence.

(b) Moving expense reimbursements are generally not taxable if paid directly to the provider or reimbursed based on actual expenses.

(c) Deferred compensation is generally not taxable until it is paid. However, vesting prior to payment, could result in taxation at the time of vesting.

(d) This item is not taxable if the employer organizes the meals and if other conditions are met.

(e) 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 before the sale.

(f) The gain is not taxable if the conditions for exemption of income from the sale of shares are met.

Appendix 2: Sample income tax calculation

A sample income tax calculation is provided below for an expatriate employee who is a Czech nonresident for tax purposes. The calculation is based on the following assumptions:
- The individual is single with no children.
- The individual's income from Czech sources exceeds 90% of the individual's worldwide income.

	CZK
Gross income	1,725,000
Social security and health insurance paid by employer	586,500
Taxable income	2,311,500
Income tax at 15%	346,725
Personal tax relief	(23,640)
Tax liability	323,085
Social security and health insurance paid by employee	189,750
Net income (CZK 1,725,000 – CZK 323,085 – CZK 189,750)	1,212,165

Denmark

(Country code 45)

Copenhagen **GMT +1**

Ernst & Young
Gyngemose Parkvej 50
DK-2860 Søborg
Denmark

Executive contacts
Tina Frydensberg 5158-2818
Fax: 3587-2206
Email: tina.frydensberg@dk.ey.com

Sanne Højris	5158-2973 Fax: 3587-2206 Email: sanne.hoejris@dk.ey.com
Karin Müller	5158-2779 Fax: 3587-2206 Email: karin.muller@dk.ey.com

Immigration and assignment service contact

Karin Lykke	5158-2949 Fax: 3587-2206 Email: karin.lykke@dk.ey.com

A. Income tax

Who is liable. Persons resident in Denmark are taxed on their 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 more 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 32%, including 8% social security tax, for five years, instead of at the ordinary rates of 39% to 56%. Two alternatives exist for individuals to qualify for the special expatriate tax regime. Under the first alternative, if the individuals are acknowledged as scientists by the Danish Research Council, no requirements for a minimum salary income apply. Under the second alternative, individuals must reside in Denmark and their cash salary must be at least DKK 69,300 per month in 2011 after deducting the social security tax. In addition, the individuals must not have been fully tax liable to Denmark within the last 10 years. Expatriates may participate in the regime for 1 or more periods totaling no more than 60 months during a 10-year period. After the 60 months, the expatriate is taxed according to ordinary income tax rules.

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 expenses), 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 2011 exceeds DKK 48,300 (DKK 96,600 for married couples), residents are subject to a supplementary 14% tax on the excess amount when they file their returns. Nonresidents are not subject to the 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 51.5%. The gains are subject to social security tax at a rate of 8% in 2011.

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.
- 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 51.5%.

Gains derived from the disposal of bonds are generally taxable, and losses are deductible.

Gains derived from the disposal of shares are taxable as dividend income at a maximum rate of 42%. 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 46,000, at a rate of approximately 37%.

Contributions up to a maximum of DKK 100,000 to schemes with current payouts are deductible if a return is not scheduled to occur until contributions have been paid for at least 10 years. Unlimited contributions to certain employee-administered life annuity schemes are deductible.

Interest paid on all types of debt is fully deductible from capital income. If this results in a negative amount, approximately 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)
• Fees paid to trade unions and unemployment insurance
• Other employee expenses to the extent they exceed DKK 5,500

Personal deductions and allowances. Each taxpayer is permitted a personal allowance deduction of DKK 42,900. 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 expenses are 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 51.5%.

Rates. For 2011, 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	42,900	0
42,900	389,900	36
389,900	—	51.5

In addition to the above, a mandatory 8% social security tax is imposed.

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 expenses 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 allowed. Losses from certain types of passive partnership interests, such as 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 Danish tax. 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 tax rate 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 264,100. No additional tax is levied if the beneficiaries are closely related to the deceased (for example, descendants, stepchildren and their descendants, 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 descendants, stepchildren and their descendants, 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 58,700 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 20,500 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. Effective from 1 January 2011, employees must make monthly contributions of DKK 90 to the Danish Supplementary Pension Scheme.

Danish employers pay DKK 180 monthly to the Danish Supplementary Pension Scheme. In addition, they must pay small amounts for compulsory work-related insurances and certain other items. The total cost for a clerk per year is DKK 5,000.

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 the tax. Social security tax is fully deductible for income tax purposes.

Effective from the 2011 income year, the 8% social security contribution is considered to be an income tax (social security tax).

Consequently, for inbound scenarios, exemption from the tax is not possible even if the person is covered by foreign social security. Accordingly, the social security tax is no longer "protected" under totalization agreements. Instead it is "protected" according to tax treaty provisions for outbound scenarios from Denmark.

Totalization agreements. To provide relief from paying double social security contributions and to assure benefit coverage, Denmark has entered into totalization agreements, which usually apply for a period of 12 to 36 months, with the following countries.

EU member states	Israel	Serbia and Montenegro
Australia	Liechtenstein	Slovenia
Canada (Quebec)	Macedonia	Switzerland
Chile	Morocco	Turkey
Croatia	New Zealand	United States
Iceland	Norway	
India	Pakistan	

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 2011, Denmark had entered into double tax treaties with the following countries.

Argentina	Iceland	Portugal
Aruba (d)	India	Romania
Australia	Indonesia	Russian Federation
Austria	Iran	San Marino (d)
Bangladesh	Ireland	

Belgium
Bermuda (d)
Brazil
British Virgin Islands (d)
Bulgaria
Canada
Cayman Islands (d)
Chile
China (b)
Croatia
Cyprus
Czech Republic
Egypt
Estonia
Faroe Islands
Finland
Georgia
Germany
Gibraltar
Greece
Greenland
Guernsey (d)
Hong Kong (shipping)
Hungary
Isle of Man (d)
Israel (c)
Italy
Jamaica
Japan
Jersey (d)
Jordan
Kenya
Korea (South)
Kuwait
Latvia
Lebanon
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mexico
Montenegro
Morocco
Netherlands
New Zealand
Norway
Pakistan
Philippines
Poland
Serbia
Singapore
Slovak Republic
Slovenia
South Africa
Sri Lanka
Sweden
Switzerland
Taiwan
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, 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.
(d) These treaties primarily concern exchange of information.

The treaties with France and Spain were terminated, effective from 1 January 2009.

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.

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 EU-residence certificates within three months after their arrival in Denmark. Applications are filed in person at the Regional State Administration of the county where the EU national resides. EU-residence certificates are readily granted to persons showing proof of employment (as an employee or self-employed person) and personal identification. Each member of an applicant's family must apply separately for an EU-residence certificate. The authorities process the application within four to six weeks, and the applicant is normally not prevented from working during that time.

EU-residence certificates 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 time period 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, foreign nationals who are 18 years or older and have held a temporary residence permit in Denmark for at least the past four years may obtain a permanent residence permit if the individuals meet certain requirements. To qualify for a permanent residence permit, the individuals must obtain 100 points by meeting a series of requirements which are divided into the following three categories:
• Fundamental requirements (70 points)
• Active citizenship (15 points)
• Supplementary requirements (15 points)

In addition, work permits may be obtained in Denmark 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 based on 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.

In addition, if the individuals are self-employed, a printed version of the application form can be obtained from the Danish diplomatic mission in the respective countries, the Service Centre of the Immigration Service in Denmark or the local police in Denmark.

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	—
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).

	DKK
Calculation under ordinary tax rules	
Cash salary (personal income) after deduction of social security taxes	900,000
Net capital income	50,000
Net allowances	(10,000)
Occupational allowance	(13,600)
Taxable income	926,400
8% social security tax	(78,260)
Government, local and county tax at 32.9% (average rate) of taxable income (DKK 926,400)	304,786
Bottom tax bracket 3.64% of DKK 950,000	34,580
Additional 15% government tax on the sum of personal income, and contribution to a capital pension (DKK 900,000) on amount exceeding DKK 389,900	76,515
Additional 15% government tax for capital income above DKK 40,000	1,500
Reduction for tax above 51.5% (personal income)	(204)
Reduction for tax above 47.5% (capital income)	(404)
Total	416,773
Personal relief (DKK 42,900 x 36.54%)	(15,676)
Tax payable	401,097
Net income (DKK 900,000 – DKK 401,097)	498,903

Calculation under special expatriate tax regime	**DKK**
Cash salary (personal income) after deduction of social security taxes	900,000*
8% social security tax	(78,260)
Tax at 26% on salary	234,000
Capital income	50,000
Taxable income under ordinary rules	50,000
Tax at 36.54%	18,270
Personal relief (DKK 42,900 x 36.54%)	(15,676)
Tax payable on capital income	2,594
Net income (DKK 900,000 – DKK 234,000 – DKK 2,594)	663,406

* The cash salary must be a minimum of DKK 69,300 per month before calculating social security tax.

Dominican Republic

(Country code 1)

Santo Domingo **GMT -4**

Ernst & Young
Ave. Pedro H. Ureña No. 138
Torre Reyna II, 9th Floor
Sector La Esperilla
Santo Domingo
Dominican Republic

Executive and immigration contacts

Lisa María Gattulli *(resident in San José, Costa Rica)*	+506 2208 9861 Fax: +506 2208 9999 Email: lisa.gattulli@cr.ey.com
Rafael Sayagués *(resident in San José, Costa Rica)*	+506 2208 9880 Fax: +506 2208 9999 Email: rafael.sayagues@cr.ey.com

A. Income tax

Who is liable. Individuals who are residents are subject to tax on their Dominican Republic-source income as well as on their foreign-source income from investments and financial gains. Income tax paid abroad with respect to foreign-source income may be credited against the Dominican Republic tax liability. However, such credit is restricted to the portion of Dominican Republic tax allocated to the foreign-source income that is taxed abroad.

Nonresident individuals are subject to tax on their Dominican Republic-source income and on income derived from technical assistance provided to residents in the Dominican Republic, regardless of the location where the technical assistance is provided.

Individuals who become residents of the Dominican Republic are subject to tax on foreign-source income after the third year of residency. In addition, individuals who become residents may qualify for a special retirement regime if certain conditions are met. This regime may exempt foreign-source income from income tax and provide other tax benefits.

Individuals who spend more than 182 continuous or noncontinuous days in a fiscal year in the Dominican Republic are considered residents of the Dominican Republic 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. Annual employment income exceeding RD$371,124 (approximately US$9,766) is taxable. Employment income includes salary, bonuses, premiums, commissions and allowances (for example, housing and education allowances). Allowances are considered taxable compensation only if they are paid in cash to the employee. Benefits in kind are subject to fringe benefits tax, which is payable by the employer.

Self-employment and business income. Income derived from self-employment or from a trade or business is subject to tax.

Investment income. Dividends paid in cash or credited by local companies to resident and nonresident persons are subject to a 29% withholding tax.

Interest paid to foreign financial institutions 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 made or credited by local companies to nonresidents are subject to a 29% withholding tax.

Directors' fees. Dominican-source director's fees paid or credited to an individual who is a nonresident or nondomiciliary of the Dominican Republic are subject to a 29% income withholding tax.

Capital gains. Under Dominican Republic law, capital gains are taxed in accordance with the rules discussed below.

Individuals are taxed at the individual income tax rate of 25%. Entities and corporations are taxed at the ordinary corporate income tax rate of 29%. The tax base for capital gains' purposes is the difference between the transaction value (sale price) and the asset's historical cost adjusted by local inflationary rules.

Deductions

Personal deductions and allowances. Employee contributions to social security may be deducted for income tax purposes. Individuals may deduct education expenses for themselves and their dependants up to a maximum of 10% of the individual's taxable income. This does not apply to self-employed individuals.

Business deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. For 2011, ordinary income derived by resident individuals is taxable at the following rates.

Annual taxable income Exceeding RD$	Not exceeding RD$	Tax on lower amount RD$	Rate on excess %
0	371,124	0	0
371,124	556,685	0	15
556,685	773,173	27,834	20
773,173.01	—	71,132	25

For a sample tax calculation, see Appendix 2.

B. Other taxes

Individuals who own real estate with a value exceeding RD$5 million (approximately US$131,579) are subject to a 1% tax on the excess value.

Legal entities or sole proprietors are subject to an asset tax of 1% on the book value of assets. The asset tax may be credited against income tax for the same tax year.

Gifts are subject to donation tax at a rate of 25%, which is payable by the recipient.

C. Social security

Retirement contribution. A social security retirement contribution is payable on salaries at a rate of 7.1% for employers and 2.87% for employees, with a ceiling of 20 legal wages per month. The monthly legal wage is RD$6,481 (approximately US$171).

Health contribution. A health contribution is payable on salaries at a rate of 7.09% for employers and 3.04% for employees, with a ceiling of 10 legal wages per month.

Labor risk contribution. Employers must pay a labor risk security contribution at an average rate of 1.2%, depending on the classification of the activity of the employee. This contribution consists of a fixed 1% tax and a variable tax at a rate of up to 0.6%. The social security law provides a ceiling of 10 legal wages for this contribution, but, in practice, a ceiling of 6 legal wages is applied.

Contribution to the Institute for the Development of Technical Professionals. A contribution of 1% of payroll is payable by employers to the Institute for the Development of Technical Professionals (Instituto de Formación Técnico Profesional, or INFOTEP). Employees contribute an additional 0.5% on allowances and profits granted.

Totalization agreement. The Dominican Republic and Spain have entered into a totalization agreement regarding social security contributions.

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 unless they are deducting education expenses. In the event of excess withholding, the employer applies the overpayment to future withholding tax obligations.

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 Dominican Center for Exportation and Importation (*Centro de Exportación e Importación de la República Dominicana*, or CEI-RD) may apply for an investment visa, which may be issued within a 45-day period.

Foreign investors and retirees qualifying for special incentives under Law 171-07 may apply for the Residence Permit Program for Investments in Dominican Republic. The benefits extend to the spouse and children under 18, with some exceptions.

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)

	Taxable*	Not taxable	Comments
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	—	(b)
Other items			
Foreign-source personal ordinary income (interest and dividends only)	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, it is subject to fringe benefits tax at a rate of 29%. Reimbursed expenses for purposes of carrying out the trade or business of the employer are not considered taxable for purposes of the fringe benefits tax. If the employer pays in cash an allowance directly to the employee, the allowance is considered to be part of the regular salary and, consequently, the company must withhold the corresponding income tax and social contributions.

(b) Monthly payments derived from pension retirement plans are subject to tax if they exceed five minimum salaries (a minimum salary is approximately US$180).

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 salary in kind		0 (a)
Taxable income for the employee		5,200,000
Calculation of tax		
Social security retirement contribution (monthly ceiling of RD$129,620 at 2.87%)		44,641 (b)
Health contribution (monthly ceiling of RD$64,810 at 3.04%)		23,643 (b)

	RD$	RD$
Withholding tax on cash salary (assessed on RD$5,131,716)		1,160,767.60
Net cash payment (RD$5,200,000 – RD$1,229,051.60)		3,970,948.40

(a) Salary paid in kind is not subject to income tax. Instead, it is subject to fringe benefits tax, which is payable by the employer at a rate of 25%. If an employee is reimbursed in cash for expenses incurred and if he or she is required to provide documentation in support of the expenses (for example, receipts or expense reports), the benefit is considered a fringe benefit and subject to fringe benefits tax. If the employee is not required to provide documentation in support of the expenses, such cash benefits are considered part of the salary of the employee and, consequently, are subject to the ordinary income tax rates applicable to resident individuals.
(b) The contribution is calculated on the maximum amount of salary subject to the contribution. Social security contributions must be excluded from the taxable income of the employees.

Ecuador

(Country code 593)

Quito **GMT -5**

Addvalue Asesores Cía. Ltda.
Andalucía y Cordero (esquina)
Edificio Cyede, 3rd Floor
P.O. Box 17-17-835
Quito
Ecuador

Executive and immigration contacts

Iván García	(2) 255-5553 Fax: (2) 255-4044 Email: ivan.garcia@ec.ey.com
Carlos Cazar *(resident in Guayaquil)*	(4) 269-3100 Fax: (4) 269-3651 Email: carlos.cazar@ec.ey.com

A. Income tax

Who is liable. Ecuadorians and foreign nationals resident in Ecuador are subject to tax on their worldwide income. Nonresidents are subject to tax on Ecuadorian-source income only, regardless of where it is paid. Both Ecuadorians and foreign residents who receive income for business activities or professional, commercial or other services performed in Ecuador are subject to income tax.

Individuals are considered resident for tax purposes if their stay in Ecuador exceeds 183 days, consecutive or nonconsecutive, within a 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. Taxable income includes income from services rendered under a verbal or written contract of employment, regardless of whether the income is received in cash, in services or in kind.

In general, all employees receive the following annual bonuses, which are exempt from income tax:
- Christmas bonus, known as the thirteenth salary, which equals approximately one-twelfth of their annual compensation
- Education bonus, known as the fourteenth salary, which equals one Unified Basic Remuneration (US$264 for 2011)

Compensation for industrial accidents and death, payments for out-timed dismissal (dismissal without legal notice or legal cause), severance payments and amounts received from pension and retirement funds are also exempt from tax.

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. In general, dividends are exempt from tax if they are distributed after corporate income tax. However, dividends paid to Ecuadorian or foreign nationals resident in Ecuador are subject to additional income tax withholding. The progressive rates of this tax are set forth in the following table provided by the Internal Revenue Service (IRS).

Annual amount of dividends received		Tax on lower amount	Rate on excess
Exceeding US$	Not exceeding US$	US$	%
0	100,000	0	1
100,000	200,000	1,000	5
200,000	—	6,000	10

In general, dividends remitted abroad to Ecuadorian and foreign individuals and companies are not subject to income tax withholding. However, dividends remitted to companies located in tax havens are subject to an additional withholding tax, equal to the maximum income tax rate applicable to individuals (35%) less the current corporate income tax rate (24% for 2011), which results in an additional withholding of 11% for 2011.

The above rules also apply to trust funds.

Royalties received from investments in Ecuador are treated as ordinary income. Royalties received from abroad are exempt from tax if they were subject to tax in the source country.

Interest paid to residents is added to the taxpayer's taxable income and taxed at the rates set forth in *Rates*. Interest paid to residents is subject to withholding tax at a rate of 2%, which is credited against the taxpayer's annual tax due.

Taxation of employer-provided stock options. In general, benefits derived from stock options are taxed as other income (income that is different from salary or professional wages). Each case must be analyzed separately.

Capital gains. Capital gains derived from the occasional sales of shares are exempt from tax.

Deductions

Deductible expenses. Social security contributions paid by employees are deductible for income tax purposes.

Personal deductions and allowances. For 2011, individuals can deduct personal, spouses' and dependants' expenses up to 50% of total annual income, subject to a maximum deduction of US$11,973. Deductible expenses include housing, education fees, medical expenses, food costs and clothing. The maximum deductible amount for each of these expenses is US$2,993.25, except for medical expenses which may be up to US$11,973.

Business deductions. The following business expenses are deductible for income tax purposes:

- Costs and expenses directly incurred in the generation of taxable income.
- Interest paid on business debts. The interest rate may not exceed the rate fixed by the Central Bank of Ecuador.
- 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 as a result of *force majeure* or criminal acts.
- Necessary travel expenses and lodging.
- Depreciation and amortization.
- Amortization of losses (for individuals who have accounting books).
- Wages, salaries and compensation in general, fringe benefits, 15% profit-sharing, severance indemnities and other expenses under the Labor Law.
- Provisions for uncollectible receivables.
- Income tax and social security for employees if assumed by the employer.
- Provisions for retirement pension funds for employees with at least a 10-year relationship with the employer.
- Expenses that are payable at the completion of an activity, that are exclusively identified with the normal course of business and that are properly endorsed in contracts or invoices or other obligatory legal instruments.

Rates. For the 2011 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	9,210	0	0
9,210	11,730	0	5
11,730	14,670	126	10
14,670	17,610	420	12
17,610	35,210	773	15
35,210	52,810	3,413	20
52,810	70,420	6,933	25
70,420	93,890	11,335	30
93,890	—	18,376	35

Nonresidents staying in Ecuador for not more than six months in a fiscal year and who receive Ecuadorian-source income are subject to a 24% withholding tax which is a final tax. This tax also applies to dividends distributed before corporate income tax.

For a sample tax calculation, see Appendix 2.

Relief for losses. Losses may be carried forward to offset profits in the following five tax years. Losses may only offset the business income of individuals who maintain accounting books. The amount offset cannot exceed more than 25% of the taxable income in the current fiscal year.

B. Inheritance and gift taxes

Income derived from inheritance and gifts are taxed at the following progressive rates for 2011.

Total inheritances and gifts received			
Exceeding US$	Not exceeding US$	Tax on lower amount US$	Rate on excess %
0	58,680	0	0
58,680	117,380	0	5
117,380	234,750	2,935	10
234,750	352,130	14,672	15
352,130	469,500	32,279	20
469,500	586,880	55,753	25
586,880	704,250	85,098	30
704,250	—	120,309	35

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 and self-employed professionals are covered by social security legislation.

Expatriates engaged in a labor relationship must make social security contributions. They must ask their Ecuadorian employer to register them with the social security system beginning with their first day of work. Foreign residents who contribute to the system may not continue to receive coverage from their home countries.

Totalization agreements. Ecuador has entered into totalization agreements with Chile and Spain.

D. Tax filing and payment procedures

Tax on income from wages is withheld at source by employers. Taxpayers might not be 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 10 March and 28 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.

The fiscal year runs from 1 January to 31 December.

Late filers must pay a monthly penalty equal to 3% of the tax due, up to 100% of the tax due, plus monthly interest at a low rate.

E. Double tax relief and tax treaties

Effective from 2008, foreign income received by Ecuadorian tax residents is exempt from income tax in Ecuador if such income has been subject to tax in the source country, unless the Ecuador Internal Revenue Service has determined that the source country is a tax haven.

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

Argentina*	Chile	Mexico
Belgium	France	Romania
Brazil	Germany	Spain
Canada	Italy	Switzerland

* This a double tax treaty on activities with respect to air traffic.

Ecuador has also entered into a double tax treaty with Bolivia, Colombia, and Peru (Andean Community countries), through Decision 578 of the Andean Community, but this particular agreement has 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

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 one or two years and are renewable an indefinite number of times for one or two years each time, at the discretion of the Foreign Affairs Ministry.

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 can be issued to foreign nationals after they have a legal empowerment document in force in Ecuador. A legal empowerment document is a document that grants a legal facility to work in Ecuador, such as an assignment letter, contract or document granting legal representation functions (for example, power of attorney). 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. However, after a foreign national obtains a valid visa, he or she must obtain a corresponding Ecuadorian driver's license.

Appendix 1: Taxability of income items

	Taxable*	Not taxable	Comments
Compensation			
Base salary	X	—	—
Bonus	X	—	—
13th and 14th salaries	—	X	—
Retirement fund	—	X	(a)
Employee contributions to home country benefit plan	—	X	—
Profit sharing	X	—	—
Retained hypothetical tax	—	X	—
Cost-of-living allowance	X	—	(b)
Housing cost allowance	X	—	(c)
Education allowance	X	—	(d)
Hardship allowance	X	—	—
Foreign-service premium	X	—	—
Automobile or use of automobile (personal)	X	—	—
Home-leave allowance	X	—	—
Storage cost	—	X	(e)
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	Taxable*	Not taxable	Comments
Foreign-source personal ordinary income (interest and dividends)	—	X	(h)
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) This equals one-twelfth of the year's remuneration (8.33% of monthly salary). It is payable from the second year of employment for the same employer and must be deposited with the Social Security Entity or the employee's personal account, at the option of the employee. This benefit is exempt from income tax and is not subject to social security contributions.

(b) See Section A.

(c) The law allows individuals that receive income from a labor relationship to deduct expenses for rent and mortgage interest if these amounts are not covered by the employer.

(d) The law allows individuals to deduct expenses for the education of their children. Reimbursements for education that is necessary for the employee to perform his or her work are tax-free.

(e) Storage costs and moving expenses are not taxable to the employee if the employer pays these amounts directly to providers.

(f) Only the interest on tax reimbursements made by the IRS is taxable.

(g) The value of meals provided is normally considered taxable income. However, if the employer provides meals during business meetings and similar events, the value of the meals is tax-free.

(h) Dividends and interest received are not taxed if they have been subject to tax in the source country, unless the IRS considers the source country to be a tax haven.

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.

Calculation of taxable income	US$
Annual income	50,000
Less 9.35% contribution to social security	(4,675)
Less personal expenses	(11,973)*
Taxable income	33,352

Calculation of tax		
Tax on US$17,610		773.00
Tax on US$15,742 at 15%		2,361.30
US$33,352		3,134.30

* Deductible expenses must be supported by valid sale and purchase receipts. Also, see Section A.

Egypt

(Country code 20)

Cairo	GMT +2

Ernst & Young
Mail address:
P.O. Box 20
Kattameya, Cairo
Egypt

Street address:
Rama Tower
Ring Road, Zone #10A
Kattameya, Cairo
Egypt

Executive and immigration contact

Ahmed El Sayed
(2) 2726-0260
Fax: (2) 2726-0100
Email: ahmed.el-sayed@eg.ey.com

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
- 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
- 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 tax 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.

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 EGP 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
- 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 EGP 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
- The deductions described in the first paragraph of this section

Rates. The following progressive tax rates apply to employment income.

Taxable income Exceeding EGP	Taxable income Not exceeding EGP	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 EGP 850, and 11% on monthly amounts exceeding this amount or on other payments, including overtime or representation allowances, up to EGP 900.

To provide relief from double social security taxes and to assure benefit coverage, Egypt has concluded totalization agreements with Cyprus, Greece, the Netherlands 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	Indonesia	Russian Federation
Algeria	Iraq	Serbia
Austria	Italy	Singapore
Bahrain	Japan	South Africa
Belarus	Jordan	Spain
Belgium	Korea (South)	Sudan
Bulgaria	Kuwait	Sweden
Canada	Lebanon	Switzerland
China	Libya	Syria
Cyprus	Malaysia	Tunisia
Czech Republic	Malta	Turkey
Denmark	Morocco	Ukraine
Finland	Netherlands	United Arab Emirates
France	Norway	
Germany	Pakistan	United Kingdom
Greece	Palestine	United States
Hungary	Poland	Yemen
India	Romania	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, Mongolia, Oman, Seychelles, Sri Lanka, Thailand, Uganda and Vietnam. Treaties have been negotiated but not yet ratified with Congo, Korea (North) and Macedonia.

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.

The following documents are required when applying for temporary visas:

- Passport or equivalent travel document
- An application form
- 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, for up to five years.

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.

Certain foreigners (managing directors and foreign investors) may receive temporary visas for a five-year period.

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

(Country code 503)

Please direct all inquiries regarding El Salvador 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.

San Salvador **GMT -6**

Ernst & Young
Torre Futura
World Trade Center 11-05
San Salvador
El Salvador

Executive and immigration contacts

Lisa María Gattulli *(resident in San José, Costa Rica)*	+506 2208 9861 Fax: +506 2208 9999 Email: lisa.gattulli@cr.ey.com
Rafael Sayagués *(resident in San José, Costa Rica)*	+506 2208 9880 Fax: +506 2208 9999 Email: rafael.sayagues@cr.ey.com
Héctor Mancía	2248-7000 Email: hector.mancia@cr.ey.com

A. Income tax

Who is liable. Resident individuals are subject to tax on El Salvador-source income as well as foreign-source investment income (interest from cash deposits in financial institutions abroad, and gains on the sale of foreign securities, financial instruments and derivative contracts). Income tax paid abroad with respect to foreign-source income may be credited against the Salvadorian tax liability for such income according to specific rules.

Nonresident individuals, regardless of their nationality, are taxed only on their El Salvador-source income, which includes income derived from the following:
- Assets located in El Salvador
- Activities carried out or capital invested in El Salvador
- Services rendered or used in El Salvador, even if received or paid for outside El Salvador

Individuals are considered tax resident if they stay in El Salvador for more than 200 consecutive days during a tax year. An individual staying 200 consecutive 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 subject to tax on interest income, premiums and other yields, derived from savings and time deposits with banks and financial institutions domiciled in El Salvador. Tax is imposed at a flat rate of 10% if the monthly average deposits equal or exceed US$25,000.

Income derived from deposits in financial institutions abroad that is earned by individuals domiciled in El Salvador is subject to a flat tax rate of 10% if the income was not subject to tax in the country of origin. If the tax rate or the tax paid in the country of origin is less than the Salvadorian tax rate, the taxpayer is required to pay the difference between the tax rate or tax paid abroad and the Salvadorian tax rate or tax due.

Resident and nonresident individuals are not subject to tax on dividends received if the company distributing the dividends has already paid the corresponding income tax at the corporate level.

Dividends, interest, capital gains or any other benefits derived from investments in or sales of shares (or any other securities, financial instruments and derivative contracts) derived by Salvadorian individuals domiciled in El Salvador are subject to tax at a flat rate of 10% if any of the following conditions are met:
- The issuing entity is a national entity or it is domiciled in El Salvador.
- The capital is invested or employed in El Salvador.
- The risk of the underlying asset is placed or located in El Salvador.

The above conditions are deemed to have been met if the taxpayer is domiciled in El Salvador or is a domiciled establishment or branch for Salvadorian tax purposes.

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. This tax is a final tax for nonresident individuals.

Special rules for payments to tax-haven jurisdictions. A 25% final withholding tax is imposed on amounts paid to or through nondomiciled individuals or legal entities resident or domiciled in tax-haven jurisdictions if the payment has a tax effect in El Salvador (for example, it is regarded as a deductible expense for the payer). Exemptions apply in the following circumstances:

- The payments are made for the acquisition or transfer of tangible assets.
- The tax-haven jurisdiction is a Central American country that has entered into a cooperation agreement with the Salvadorian tax and customs authorities.
- The tax-haven jurisdiction has entered into an information exchange agreement or double tax treaty with El Salvador.
- Reduced withholding tax rates apply in El Salvador to the payment (that is, for payments for international transportation services, insurance and similar services, interest from loans and specific intangible assets and rights).

Also, see *Rates*.

Capital gains. In general, capital gains are subject to a tax at a flat rate of 10%. However, if the gain is derived in the course of the taxpayer's ordinary trade or business or if the gain is derived within 12 months after the date of acquisition of the relevant asset, the gain is considered ordinary income that is subject to income tax at a 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$800 for medical expenses and up to US$800 for education expenses.

Business deductions. All costs and expenses that are necessary to generate taxable income or maintain its source are deductible if the following conditions are satisfied:

- They are not excessive or unreasonable.
- They pertain to the same fiscal year as the taxable income.
- They are supported by the required corresponding documentation.
- Applicable withholding taxes, if any, have been imposed.

Expenses related to the acquisition of movable goods and the rendering of services in an amount equal to or exceeding US$5,605.25 are deductible for income tax purposes only if the payment is made by check, bank wire transfer, credit or debit card or if the transfer or the service is documented by a written contract or other documents regulated by civil or commercial law.

Payments for services rendered by nonresident individuals to resident individuals and domiciled entities are subject to withholding taxes that are imposed in the month of payment or in the month in which the payment is credited. If by 31 December, the payment for services rendered or used in El Salvador 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.

Annual taxable income		Tax on lower	Rate on
Exceeding US$	Not exceeding US$	amount US$	excess %
0.00	2,514.30	0.00	0
2,514.30	9,142.86	57.14	10
9,142.86	22,857.15	720.00	20
22,857.15	—	3,462.86	30*

* The effective tax rate may not exceed 25% of taxable income.

Withholding tax is imposed on nonresidents at a rate of 20% on salaries, other remuneration, pensions, commissions, directors' fees and other similar items of compensation that are classified as El Salvador-source income.

If an individual receiving a payment is resident or domiciled in a tax-haven jurisdiction or if a payment is paid or credited through individuals or legal entities resident, domiciled or incorporated in tax-haven jurisdictions, a 25% withholding tax applies, subject to certain exemptions (see *Payments to tax-haven jurisdictions*).

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, provided such losses have been reported to the tax authorities. Capital losses derived from the sale of securities or financial instruments issued abroad may be offset against future capital gains from the same assets 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 8.5% for employers and 3% for resident and nonresident 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. The Pension Fund Administration considers any compensation for services provided in El Salvador under an existing employment relationship to be taxable, regardless of the migratory status of the individual. For foreign individuals, the Pension Fund Administration has established a refund mechanism for such contributions, and a refund may be requested after the foreign individual leaves El Salvador. In principle, salary-in-kind is not subject to Pension

Fund contributions because the Pension Fund Law states that only compensation received in cash by the employee for ordinary services rendered to the employer is subject to Pension Fund contributions.

D. Tax filing and payment procedures

The normal tax year is the calendar year. Returns must be filed and any tax liabilities due must be paid within the first four months 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. However, if all El Salvador-source income was subject to withholding at source, the withholding tax is considered a final tax and the filing of a tax return is not required.

Under recent amendments to the Tax Code, individuals who are taxpayers in El Salvador are required to file a Personal Real Estate Statement, which is filed together with the annual income tax return. Taxpayers who satisfy any of the following conditions are exempt from the filing of a Personal Real Estate Statement:

- They have annual income equal to or less than 362 minimum monthly salaries (US$81,164.02) in a tax year.
- They own real estate in El Salvador with a fair market value equal to or less than 1,446 minimum monthly salaries (US$324,207.66).
- They do not own real estate in El Salvador.

E. Foreign tax relief and double tax treaties

In general, Salvadorian law does not provide relief for foreign taxes paid. El Salvador has entered into a tax treaty with Spain to avoid double taxation and prevent evasion of income tax and net worth tax, which took effect on 1 January 2010 in El Salvador.

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 (Dirección 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 no more than 90 days. After the 90 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)
Capital gain from sale of first personal residence in home country	—	X	(f)
Capital gain from sale of stock in home country or abroad	X	—	(g)

* 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, excess amounts can be considered taxable by tax authorities.

(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 unless the monthly average deposit is US$25,000 or more.
(f) This item is not taxable unless the transaction value exceeds US$162,103.83.
(g) For details, see *Investment income* in Section A.

Appendix 2: Sample tax calculation

The following is a sample 2011 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	(800)	
Education of children	(800)	
Charitable contributions to entities previously qualified by the tax authorities	(3,428)	
Total personal deductions		(5,028)
Social security and pension contributions:		
Illness, accident, occupational disease and disability (US$685.71 x 12 x 3%)	(246) (a)	
Old age and retirement benefits (US$5,274.52 x 12 x 6.25%)	(3,956) (b)	
Total employee contributions		(4,202)
Taxable income		105,055
Calculation of tax		
US$105,055 at 25%		26,263

(a) For the purposes of calculating this contribution, monthly salary is limited to US$685.71.
(b) For the purposes of calculating this contribution, monthly salary is limited to US$5,274.52.

Equatorial Guinea

(Country code 240)

Malabo **GMT +1**

FFA Ernst & Young
Avenida de la Independencia
– Inmueble Corniche
Apdo (P.O. Box) 752
Malabo
Equatorial Guinea

Executive and immigration contacts

Alexis Moutome	222-21-57-18, 222-25-00-50 Fax: 333-09-46-59 Email: alexis.moutome@gq.ey.com
Nicolas Chevrinais *(resident in Libreville, Gabon)*	+241 74 21 68 Fax: +241 72 64 94 Email: nicolas.chevrinais@ga.ey.com

A. Income tax

Who is liable

Territoriality. Individuals are subject to income tax based on residence. Taxpayers are categorized as residents or nonresidents.

In principle, residents are subject to general income tax on worldwide income. However, recent tax audits have shown that the government auditors tax only income derived from Equatorial Guinean sources.

Nonresidents are taxed on income derived from Equatorial Guinea.

Definition of resident. A person may be considered resident in Equatorial Guinea for tax purposes under a facts and circumstances test or under an arbitrary test, which is based on the number of days of presence in Equatorial Guinea.

Under the fact and circumstances test, an individual is considered to be a tax resident of Equatorial Guinea if he or she satisfies either of the following conditions:
- He or she has a dwelling in Equatorial Guinea in the capacity of owner, equitable owner or tenant, regardless of whether he or she is part of a family unit.
- He or she has his or her principal residence in Equatorial Guinea.

Under the arbitrary test, an individual is considered to be a tax resident of Equatorial Guinea, if he or she satisfies both of the following conditions:
- He or she stays in Equatorial Guinea for more than three months in a calendar year or for more than six months within two consecutive calendar years.
- He or she carries on operations or provides remunerated services in Equatorial Guinea.

For individuals in the hydrocarbon sector, an individual needs to stay in Equatorial Guinea for more than three months in a calendar year to meet the arbitrary test mentioned above.

Individuals who are not considered to be tax residents under the facts and circumstances or arbitrary tests are classified as tax nonresidents.

Income subject to tax

Employment income. Taxable income includes all remuneration, fringe benefits, allowances, overtime and bonuses.

The amount of income arising from fringe benefits equals specified percentages of gross wages, as shown in the following table.

Type of fringe benefit	Percentage of gross wages
Accommodation	15%
Domestic services	5%
Water and electricity	5%
Service or office vehicle	5%
Food	20% of the gross wages, up to a maximum amount of XAF 150,000 per month

Allowances covering professional expenses (limited to 20% of the total remuneration with a cap of XAF 1 million per year) are exempt from tax.

Investment income. Dividends received by resident individuals are included in taxable income and subject to income tax at the progressive tax rates.

A final withholding tax at a rate of 25% is imposed on dividends paid to nonresidents.

Self-employment income. Individuals are subject to income tax on their self-employment income from real estate assets, as well as from commercial, noncommercial, agricultural and professional activities.

The taxable income or profit from self-employment activities equals the difference between the total income derived from and the total expenses incurred in such activities.

Capital gains. Capital gains derived from the sale of real estate assets are subject to income tax.

Exempt income. The following types of income are exempt from tax:
- Special payments intended to cover expenses inherent to the nature of the employment, such as travel allowances, to the extent that the allowance corresponds to the length of the travel and does not exceed the additional expense borne by the employee
- Family allowances
- Student scholarships
- Temporary payments to victims of accidents at work
- Damages paid under a judicial order to an individual who has suffered permanent damage

Deductions. In addition to the deductions claimed with respect to various categories of income, individuals may deduct certain items, including the following:
- Interest on loans and debt that are incurred for the construction, purchase or major repairs of real estate located in Equatorial Guinea that the individual maintains as his or her principal residence
- Alimony and child support paid in compliance with a judicial ruling
- Payments made for the purpose of setting up retirement funds in accordance with the rules of the Ministry of Labor
- Payments made to the Institute of Social Security on behalf of domestic employees
- Payments of allowances or pensions that are delayed

If a loss is recorded in an income category, such loss may be carried forward to offset income in the following three years. However, losses arising from recreational real estate or real estate that is used for summer holidays may not be used in such a manner.

Rates

Residents. Residents are subject to individual income tax at the following progressive rates.

Taxable income		
Exceeding XAF	**Not exceeding XAF**	**Rate %**
0	1,000,000	0
1,000,000	3,000,000	10
3,000,000	5,000,000	15
5,000,000	10,000,000	20

Taxable income Exceeding XAF	Taxable income Not exceeding XAF	Rate %
10,000,000	15,000,000	25
15,000,000	20,000,000	30
20,000,000	—	35

Nonresidents. Nonresidents are subject to tax at a rate of 10% of the gross salary earned in Equatorial Guinea.

B. Other taxes

Inheritance and gift taxes. Inheritance and gift taxes are imposed on acquisitions by individuals of the following:
- Goods located in Equatorial Guinea.
- Rights, shares and obligations that have arisen, can be exercised or fulfilled in Equatorial Guinea.
- Goods and chattels located outside of Equatorial Guinea if the decedent or successor, or the donor or beneficiary, are citizens of Equatorial Guinea. This category includes benefits from life insurance contracts.

The following items are included in the tax base for inheritance and gift tax purposes:
- Acquisitions as a result of death (*mortis causa*): the actual value of the goods and rights acquired by each successor reduced by the burdens and debts that may be deductible
- Donations and other *inter vivos* acquisitions as gifts: the value of the goods and rights acquired, reduced by the burdens or debts that are deductible
- Life insurance: the amounts received by the beneficiary

The following are the inheritance and gift tax rates:
- All hereditary successions over XAF 100,000: 10%
- Donations: 5%
- Life insurance: 10%

Tax on Individuals. The Tax on Individuals is imposed annually on all individuals residing or domiciled in Equatorial Guinea that are 18 years or older. The tax is imposed regardless of the individual's nationality or origin.

The Tax on Individuals amounts to XAF 5,000 and must be paid within the first quarter of each fiscal year. In practice, this tax is paid by employers on behalf of their employees.

Property tax. All owners of and certain other individuals holding rights in urban real estate are subject to urban property tax. The tax base equals 40% of the sum of the value of the land and buildings. The tax rate is 1%. If the tax base for properties held by a taxpayer totals less than XAF 1 million, the taxpayer is exempt from tax. In addition, certain properties are not subject to the tax.

C. Social contributions

Social security. Employees subject to individual income tax are also subject to social security contributions.

The social security contributions are based on gross salary including, but not limited to, base salary and other fixed and periodic income derived in Equatorial Guinea.

The rate of the employer contribution is 21.5%, while the rate of the employee contribution is 4.5%.

Social security covers pension, death, temporary incapacity, maternity and medical assistance.

Worker Protection Fund. Employers and employees must make contributions to the Worker Protection Fund (WPF). The employer contribution is based on gross salary, while the employee contribution is based on net salary. Gross salary includes base salary, fringe benefits, allowances, overtime pay and bonuses. To calculate net salary, social security payments made to local social security systems for the employee and professional expenses are subtracted from gross salary.

The contribution rates for the WPF are 1% for employers and 0.5% for employees.

For expatriates working in the oil and gas sector, only employers make contributions to the WPF. The rate is 0.15% of gross salary.

Professional training contribution. The professional training contribution applies only to the employees in the hydrocarbon sector. The rates of the contribution are applied to gross salary. The rates are 0.15% for employers and 0.1% for employees.

D. Tax filing and payment procedures

The tax year in Equatorial Guinea for purposes of general income tax is the calendar year.

Employers must withhold individual income tax on behalf of their employees and remit such tax to the tax administration by the 15th day of the following month.

Penalties for late payments of individual income tax are imposed at a rate of 25% of the tax owed. Interest is payable on arrears at a rate of 10% per month.

E. Double tax relief and tax treaties

Equatorial Guinea has entered into the Economic and Monetary Community of Central Africa (*Communauté Économique et Monétaire de l'Afrique Centrale*, or CEMAC) tax treaty.

F. Temporary visas

A person who wants to enter Equatorial Guinea must apply for a temporary visa. This visa can be obtained by contacting an Equatorial Guinea Embassy in Belgium, Cameroon, China, Ethiopia, France, Gabon, Morocco, Nigeria, the Russian Federation, Spain or the United States. Foreigners who do not have an Equatorial Guinea Embassy in their countries may obtain a temporary visa in any country where an Equatorial Guinea Embassy is located.

G. Work permits and self-employment

The labor ministry issues the following five types of work permits:

- Permit A (PA) is granted to an employee who will work in a single work location for less than six months. It is not renewable.
- Initial Permit B (IPB) is granted to an individual who will engage in an established profession, working place or activity. It is valid for one year.

- Permit B Renewed (PBR) is granted to individuals holding IPB at the end of the validity period for IPB. It is valid for two years.
- Permit C (PC) is granted to individuals holding PBR at the end of the validity period for PBR. It is valid for three years.
- Permanent Permit (PP) is granted to individuals holding PC at the end of the validity period for PC.

A company must apply for a work permit before the foreign employee begins work in Equatorial Guinea. An application must be filed with the employment office of the city where the employer resides or where the employment contract will be carried out.

H. Residence permits

In addition to work permits, foreign workers must obtain residence permits to work in Equatorial Guinea.

The requirement to hold a residence permit depends on the duration of the stay in Equatorial Guinea. For further information, please contact the police department in Malabo.

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 Equatorial Guinea.

Marital property regime. Couples who are married in Equatorial Guinea may elect the 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.

Drivers' permits. Foreign workers may not drive legally in Equatorial Guinea with their home country driver's license or their international driver's license. Equatorial Guinea does not have driver's license reciprocity with other countries.

To obtain a driver's license in Equatorial Guinea, a foreign citizen already possessing a driver's license from his or her home country may apply for an Equatorial Guinea driver's license, which requires the temporary surrender of the home country driver's license.

Estonia

(Country code 372)

Tallinn **GMT +2**

Ernst & Young Baltic AS
Rävala pst 4
10143 Tallinn
Estonia

Executive and immigration contacts

Ranno Tingas	611-4578 Email: ranno.tingas@ee.ey.com
Hedi Wahtramäe	611-4570 Email: hedi.wahtramae@ee.ey.com

A. Income tax

Who is liable. Residents of Estonia are subject to tax on their worldwide income. Nonresidents may not claim the deductions and allowances available to residents, unless they are residents of European Economic Area (EEA) member states and they derive at least 75% of their taxable income from Estonia and submit an income tax return in Estonia.

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 at least 183 days during a period of 12 consecutive calendar months. Effective from 1 January 2011, natural persons must inform the tax authorities about the establishment or change of their Estonian residency by submitting a special tax form.

Income subject to tax. Income for tax purposes is income derived from all sources, including salaries, wages, pensions, scholarships, grants, lottery prizes, directors' fees, insurance indemnities, payments from a pension fund (supplementary or 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 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 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 of 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.

Various items are excluded from the taxable income of residents including, but not limited to, the following:
- Inheritances received (accepted succession)
- Gifts received from other individuals, state or local government authorities, resident legal persons or nonresidents through or on account of their permanent establishment registered in Estonia
- Insurance proceeds received under insurance contracts
- 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 in the EEA

- Interest received from credit institutions resident in the EEA and branches of nonresident credit institutions located in the EEA
- Income from transfers of movable property used for personal purposes
- Gains derived from transfers of real estate, structures or apartments treated as movables 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 derived from transfers of summer cottages or garden houses owned by residents for more than two years if the size of the land related to the cottage or house does not exceed 0.25 hectares
- 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 (€1,728 in 2011) granted to a resident individual during a tax year (see Section D)
- 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 at prescribed rates 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 Foreign Service Act
- Benefits paid to victims of crime under the law
- Lottery winnings received from a lottery organized on the basis of an operating permit and gambling winnings received from a person holding an activity license for the organization of gambling
- State pensions and scholarships and other scholarships
- Property returned as restitution in the course of ownership reform

In addition, compensation for certified expenses incurred for the benefit of another person and compensation for direct proprietary damage that is not paid with respect to entrepreneurial activities are not deemed to be taxable income of a resident, except for compensation that is paid subject to separate terms, conditions and limits, such as compensation for the business use of a private car.

Self-employment income. All income attributable to self-employment or entrepreneurship is subject to income tax and social 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.

Dividends paid to nonresident shareholders are not subject to withholding tax.

Dividends and profit distributions paid by resident companies are subject to corporate income tax at a rate of 21/79 of the net amount at the level of the distributing companies. This tax is not a withholding tax and is paid by the company in addition to the amount of dividends distributed.

Interest received with respect to deposits and bank accounts by resident individuals from resident credit institutions, credit institutions resident in the EEA and branches of nonresident credit institutions located in the EEA is exempt from tax.

Rental payments and royalties paid to resident individuals are subject to withholding tax at a rate of 21%.

Nonresidents. Nonresident individuals are taxed on the following types of income derived from Estonian sources:
• Income from the alienation or lease of assets registered in Estonia
• Interest received from the Republic of 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 a similar debt obligation under the market conditions
• Royalties and income from sales or licenses of patents, copyrights, trademarks, software, know-how and other information received from Estonian persons
• 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, except for the portion of the amount received that has been taxed at the level of the company making the payments
• Salary, wages and other employment income for work performed in Estonia if more than 183 days are spent in Estonia or if the payments are made by a resident or a nonresident registered 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
• Expropriation payments and compensation paid on expropriation
• 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 in or acquisition of a holding in a company through a nonmonetary contribution
• Income from the exchange of units of an investment fund in the EEA
• Interest received by nonresident individuals from resident credit institutions or branches of nonresident credit institutions entered in the Estonian commercial register
• 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. Under new rules, effective from 2011, grants of stock options are not considered taxable. However, the income received from the transfer of employer-provided stock options or from the exercise of stock options, is considered a fringe benefit that is taxable to the Estonian employer for purposes of income tax and social tax. Effective from 2011, fringe benefits include benefits that are provided by other group entities to the Estonian employee. The taxable value of a fringe benefit is the difference between the fair market value of the securities and the purchase price paid by the employee.

No tax obligations are imposed on employees with respect to the receipt of nonmonetary benefits from Estonian or foreign employers. Employees must report income and pay income tax when a gain is derived from the sale of the shares. A capital gain equals the sales price reduced by the acquisition price and by the taxable value for income tax purposes of the fringe benefit paid by the employer.

Capital gains. Capital gains derived by resident individuals with respect to the following sources are not subject to income tax:
- Transfer of movable property in personal use
- Transfer of land and assets returned in the course of ownership reform
- Transfer of a dwelling house or an apartment, if it has been used as a permanent home until transfer (applicable to one transfer of residence during a two-year period), received as restitution or acquired as a result of privatization with the right of preemption and if the size of the related land does not exceed two hectares
- Transfer of a summer cottage or garden house if it has been owned for more than two years and if the size of the related land does not exceed 0.25 hectares

Capital gains derived from the sale of business property or securities are taxable at a rate of 21%.

Effective from 2011, natural persons can register their bank accounts as investment accounts and defer the taxation of financial income until it is withdrawn from the accounts; that is, it is possible to invest the income gained from some common financial investments without being liable to annual taxation on such income.

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 transferred holding is a holding in a company, contractual investment fund or other pool of assets and if both of the following circumstances exist:
- At the time of the transfer or during the two-year period before the transfer, more than 50% of the property of the company, fund or pool of assets was directly or indirectly made up of immovables or structures as movables located in Estonia.
- At the time of transfer, the nonresident had a holding of at least 10% in the company, fund or pool of assets.

Deductions

Deductible expenses and exemptions. Estonian residents, as well as residents of other EU member states who derive at least 75%

of their taxable income from Estonia and file an income tax return in Estonia, may claim deductions for the following items:

- Gifts to nonprofit organizations registered as tax favored in the EEA. The deduction of such admission and membership fees and gifts is limited to 5% of taxable income for the tax year of the payments.
- Unemployment insurance premiums, acquisitions of pension fund units and contributions to mandatory funded pensions. These deductions are limited to 15% of income for the tax year, after subtracting the deductions from business income.
- Training expenses, which include costs of educating individuals and their dependants who are under 26 years old and permanent residents of Estonia who are under 26 years old and in certified educational institutions.
- Interest paid to EEA credit institutions on housing loans for the purpose of acquiring an apartment or dwelling house.

The total amount of deductible gifts, housing loan interest and training expenses for a tax year is limited to €3,196 or 50% of an individual's income after business deductions.

In addition to the above deductions, the following tax exemptions apply for each tax year under the same circumstances:

- Basic tax exemption of €1,728
- Additional tax exemption of €1,728 for each child beginning with the second child
- Additional tax exemption of €2,304 for retirement allowances if a person receives a state pension, a mandatory funded pension or a pension arising from a social security agreement
- Additional tax exemption of €768 for work accident or occupational disease compensation

Effective from 1 January 2011, the deductions and exemptions for a resident natural person are restricted if the income earned abroad is not taxed in Estonia (for example, the exemption method applies) and if the individual derives at least 75% of his or her taxable income abroad during the tax period. In this case, an Estonian resident can claim deductions only from the income taxable in Estonia pro rata based on the percentage of Estonian income in the total taxable income (worldwide income).

Also, effective from 1 January 2011, other EEA residents with at least 75% Estonian income may claim the deductions described above from income taxable in Estonia pro rata based on the percentage of Estonian income in the total taxable income. As a result, if the income derived in Estonia is 75% of the global income of the nonresident, the individual is entitled to 75% of the applicable tax deductions. In addition, EEA residents with less than 75% Estonian income may be entitled to claim the Estonian tax deductions listed above if the person proves that he or she is not entitled to the tax deductions abroad.

Business deductions. Registered individual entrepreneurs may deduct 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). If certain expenses are only partly related to the entrepreneurial or self-employment activities, only the part directly related to those activities is deductible.

Documented expenses for entertainment, recreation, reception (catering, transport or cultural expenses incurred to serve clients or business partners) and other expenses incurred for clients or business partners with respect to 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 a flat rate of 21%. The basic annual exemption for resident individuals is €1,728 (see *Deductible expenses and exemptions*).

Withholding tax rates are presented in the following table.

Type of payment	Rate (%)
Dividends	0
Interest	
Paid on deposits and bank accounts by EEA resident credit institutions and branches of nonresident credit institutions located in the EEA	0
Other	21
Wages, salaries and alimony	21
Payments for services rendered in Estonia	
By nonresidents from a low tax rate territory	21
By other nonresidents	10
Royalties	
Paid to residents	21
Paid to nonresidents	10
Rent	21
Payments made to nonresident athletes and artists	10
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.

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 of entrepreneurship. 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 not levied in Estonia. However, gifts received from nonresident entities are taxed at a rate of 21%.

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. The unemployment insurance rates are 1.4% for employers and 2.8% for employees. The unemployment insurance charge is withheld by employers.

Self-employed persons must pay social tax at a rate of 33% on their net business income, subject to a maximum amount of annual income equal to 15 times the sum of the minimum monthly wages for the tax year (€50,042.82 for 2011). Self-employed persons must make quarterly advance payments of social tax to the Tax and Customs Board by the 15th day of the 3rd month of the second, third and fourth quarter. Each payment must be at least €275.27 (€1,101.33 for the calendar year).

Totalization agreements. Estonian social security legislation follows the rules provided in European Council Regulation No. 883/2004. Estonia has also entered into totalization agreements on social security with Canada and 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 €1,728 (for 2011) and if he or she would be required to pay additional income tax based on the income tax return. Individual income tax returns must be filed by 31 March of the year following the tax year. Individuals must pay income tax due by 1 July of the year following the tax year. Resident individuals who declare business income or gains from the transfer of property are required to pay any additional amount of tax by 1 October of the year following the tax year. Spouses may file a joint income tax return. If they do so, 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.

Albania	Greece	Norway
Armenia	Hungary	Poland
Austria	Iceland	Portugal
Azerbaijan	Ireland	Romania
Belarus	Isle of Man	Serbia
Belgium	Israel	Singapore
Bulgaria	Italy	Slovak Republic
Canada	Kazakhstan	Slovenia
China	Korea (South)	Spain
Croatia	Latvia	Sweden
Czech Republic	Lithuania	Switzerland
Denmark	Luxembourg	Turkey
Finland	Macedonia	Ukraine
France	Malta	United Kingdom
Georgia	Moldova	United States
Germany	Netherlands	

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 individuals described below.

A citizen of the European Union (EU) or EEA and any third-country national who is a holder of a residence permit of a Schengen state or Switzerland may stay in Estonia on the basis of a valid travel document or identity document and must register his or her abode within three months after his or her date of entry in Estonia. If a citizen of the EU, EEA or Switzerland registers his or her abode, he or she acquires a temporary right of residence in Estonia for five years. At the end of the five years, the term of temporary right of residence is extended for another five years if the residence of the citizen of the EU continues to be registered in Estonia and if the right of residence of the citizen of the EU has not been extinguished or terminated. The EU and EEA member states are Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.

Citizens of Albania (biometric passport holders; these are holders of combined paper and electronic passports that contain biometric information [for example, fingerprint recognition] that can be used to authenticate the identity of travelers), Andorra, Antigua and Barbuda, Argentina, Australia, Bahamas, Barbados, Bosnia and Herzegovina (biometric passport holders), Brazil, Brunei Darussalam, Canada, Chile, Costa Rica, Croatia, El Salvador, Guatemala, Honduras, the Hong Kong Special Administrative Region, Israel, Japan, Korea (South), the Macau Special Administrative Region, Macedonia (biometric passport holders), Malaysia, Mauritius, Mexico, Monaco, Montenegro (biometric passport holders), New Zealand, Nicaragua, Panama, Paraguay, San Marino, Serbia (biometric passport holders), St. Kitts and Nevis, Seychelles, Singapore, Taiwan (the passport issued by Taiwan must contain the number of the identification card), the United States, Uruguay, Vatican City and Venezuela may stay in Estonia without a visa for up to 90 days during a 6-month period. In addition, holders of a South African passport can enter Estonia if they hold a visa for Latvia or Lithuania.

Citizens of Albania, Armenia, Azerbaijan, Bosnia-Herzegovina, Georgia, Kazakhstan, Montenegro, the Russian Federation and Serbia with diplomatic, service or special passports may stay in Estonia without a visa for up to 90 days during a 6-month period. Citizens of Turkey with diplomatic passports may stay in Estonia without a visa for up to 90 days during a 6-month period. Holders of diplomatic and service passports from Bolivia, Brazil, Macedonia, Moldova, Morocco, Peru, Philippines and Ukraine may stay in Estonia without a visa for up to 90 days during a 6-month period. Holders of the United Nations travel permit (*laissez-passer*) may stay in Estonia without a visa for up to 90 days at a time.

Types of visas. Foreign nationals may enter Estonia with the following types of visas:
- Airport transit (Type A)
- Short-term (Type C)
- 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 short-term visa is issued for transit through or an intended stay in the territory of EU member states for a duration of no more than three months in any six-month period from the date of first entry in the territory of the member states. If visiting only Estonia, the Schengen visa must be applied for at the Estonian representation or at the representation of the member state representing Estonia in issuing Schengen visas.

If the travel destination includes more than one Schengen member state, the application must be filed at the representation of the main destination. The main destination is the destination where the individual intends to spend the longest time or the destination where the individual intends to carry out the main purpose of the intended journey.

Long-term visas are issued for single or multiple entries into 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]). The duration of a long-term visa may not exceed six months.

A foreign national 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 citizen of the EU has the right to stay in Estonia on the basis of a valid travel document or identity document and is required to register his or her residence within three months after the date of entry into Estonia (see Section F).

A private entrepreneur must apply for a residence permit for business. For details, see Section H.

An employer may apply for the registration for short-term employment in Estonia for aliens who arrive or stay in Estonia either on the basis of a visa or on a visa-free basis (unless an international agreement stipulates otherwise). Short-term employment cannot exceed a period of six months in a year.

For purposes of short-term employment, foreign nationals who need an entry visa to enter Estonia must apply for a long-term visa (type D). Before applying for a visa the short-term employment must be registered at the Police and Border Guard Board (PBGB).

The following documents must be submitted when applying for registration of short-term employment in Estonia:
- A standard application form
- Copy of the identity document of the applicant
- Color photograph sized 40 x 50 mm
- Copy of the personal data page of the identity document of the person who submits the application, unless the application is submitted personally by an employer who is a natural person or by a signatory for an employer who is a legal person
- A document evidencing the payment of a fee

The PBGB registers an applicant for short-term employment or refuses to do so within 10 working days after the date of receiving the relevant application.

H. Residence permits

Citizens of the EU, EEA or Switzerland have the right to stay in Estonia on the basis of a valid travel document or identity document (see Section F). As a result, these individuals are not subject to the rules regarding resident permits discussed below.

Temporary residence permit for employment. 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)
- Applicant's written explanation as to why he or she wants to work in Estonia
- Standard CV
- Identity document of the applicant
- Color photograph sized 40 x 50 mm
- 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.

Residence permit based on legal income. 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.
- He or she is 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 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 of 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 or 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
- 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
- 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 the foreign national has invested €63,900 or more in an Estonian company controlled by him or her or the foreign national has invested €15,950 or more in a sole proprietorship.

The number of aliens immigrating to Estonia is limited. The annual immigration may not exceed 0.1% of the permanent population of Estonia. The immigration quota does not apply to a person who is a citizen of the EU, Iceland, Japan, Norway, Switzerland or the United States.

The fields and, if necessary, the location for the activities are stated in the residence permit for business.

The residence permit for business may be granted 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.

Residence permit for employment. A residence permit for employment grants an alien the right to stay in Estonia for the purpose of employment according to the conditions set forth in the residence permit. The number of aliens who can settle in Estonia is limited. The annual immigration quota may not exceed 0.1% of the permanent population of Estonia.

The immigration quota does not apply to the following:
- Aliens who are ethnic Estonians
- Citizens of the EU, Iceland, Japan, Norway, Switzerland and the United States
- Aliens who apply for a residence permit for employment as a scientist

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 PBGB 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.

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.

A family member of a citizen of an EU or EEA member state or Switzerland may stay in Estonia together with such citizen on the basis of a valid travel document for a period of up to three months after the date of entry in Estonia. Within three months after the date of entry in Estonia, a family member staying in Estonia on the basis of a valid travel document must apply for a temporary right of residence. Otherwise, he or she must leave Estonia before the end of the three-month period.

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.

Ethiopia

(Country code 251)

Addis Ababa	**GMT +3**

Ernst & Young
Mail address:
P.O. Box 24875
Code 1000
Addis Ababa
Ethiopia

Street address:
Bole Road
MEGA Building – 11th Floor
Addis Ababa
Ethiopia

Executive and immigration contacts

Zemedeneh Negatu	(11) 550-4933 Fax: (11) 550-4932 Email: zemedeneh.negatu@et.ey.com
Yared Berhane	(11) 550-4933 Fax: (11) 550-4932 Email: yared.berhane@et.ey.com

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.
- 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 derived by individuals 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. Interest paid on foreign loans is subject to a final withholding tax at a rate of 10%.

Directors' fees. Directors' fees are considered employment income. Fees for board members of public enterprises are not taxed.

Other income. A 15% final tax is imposed on annual gross income from games of chance and from the casual rental of property not related to a business activity that is taxable under the tax law.

All payments made for technical services (expert advice or technological services) rendered to resident persons outside of Ethiopia are subject to a 10% 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 currently Ethiopia does not have companies whose shares are publicly traded on a stock market. However, the income tax law states that income earned in any form by employees in cash or in kind is taxable unless it is explicitly exempted from tax by the law. Based on this measure, a stock option is taxed as an employee benefit.

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. However, losses are not recognized on transfers to associates (related persons).

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
- Donations or gifts (however, donations to registered charities, public schools and health institutions are tax deductible to the extent that they do not exceed 10% of taxable income)

Depreciation of business assets calculated at rates specified by the tax authorities can be claimed as a deduction. If a revaluation of business assets takes place, no depreciation is allowed for the amount of the revaluation.

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
150	650	10
650	1,400	15
1,400	2,350	20
2,350	3,550	25
3,550	5,000	30
5,000	—	35

For "bodies," the business income tax rate is 30%. For other taxpayers, 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

Annual business income		
Exceeding Birr	**Not exceeding Birr**	**Rate %**
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 E.

Relief for losses. Individuals may carry forward net operating losses from businesses for three years. However, if a business incurs losses 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 of 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, is 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. To encourage domestic saving and investment, the Ethiopian government is planning to introduce a private sector social security scheme.

D. Tax filing and payment procedures

The tax year is the Ethiopian budgetary year, which runs from 8 July to 7 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 to 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: companies incorporated under the laws of Ethiopia or in a foreign country or individuals whose annual turnover is above Birr 500,000. They must file tax returns and pay tax within four months after 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 after the end of the tax year.
- Category C: individuals whose annual business turnover is below Birr 100,000. They must file tax returns and pay tax within one month after the end of the tax year.

E. Double tax relief and tax treaties

Ethiopia has entered into double tax treaties with various countries, including Algeria, the Czech Republic, France, Israel, Italy, Kuwait, Romania, the Russian Federation, South Africa, Tunisia, Turkey and Yemen.

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. Types of visas

Ethiopia requires that visitors entering the country have an entry visa. The following are the types of visas that Ethiopia issues to foreigners:
- Diplomatic visa
- Special visas
- Business visa
- Immigrant visa
- Tourist visa
- Transit visa
- Student visa
- Exit visa
- Reentry visa

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

A work permit is a document issued to an expatriate to work in Ethiopia for a certain time period as requested by the employer and permitted by the Ministry of Labor and Social Affairs.

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

A residence permit is a document issued to a foreigner who is allowed to reside in Ethiopia by the Security Immigration and Refugees Affairs Authority.

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 employees, 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 members 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' licenses. 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.

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.

Fiji

(Country code 679)

Suva **GMT +12**

Ernst & Young
Mail address:
G.P.O. Box 1359
Suva
Fiji

Street address:
Pacific House
Level 7
1 Butt Street
Suva
Fiji

Executive and immigration contact

Steven Pickering
330-8241
Fax: 330-0612
Email: steve.pickering@fj.ey.com

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:
- His or her domicile is located in Fiji.
- He or she is present in Fiji continuously or intermittently during more than one-half of the income year. However, this does not apply if 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 the children of their local and expatriate employees are taxable to the employees 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 (South)	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

Capital gains. A 10% capital gains tax is effective from 1 May 2011. The tax is imposed on all capital gains on the sale of capital assets, except for exempt capital gains. The following gains are the only gains that are exempt:
- Gains less than FJD 20,000 made by a resident individual or Fiji citizen
- Gains derived from the sale of the principal place of residence of a resident individual or Fiji citizen, if the residence has been the individual's principal place of residence wholly or principally over the period during which the residence has been owned by the individual
- Gains derived from the sale of shares listed on the South Pacific Stock Exchange
- Gains derived from the sale of capital assets used solely to earn exempt income.

The capital gain is computed by deducting the cost of the capital asset at the time of disposal from the consideration received.

Before the introduction of the capital gains tax, the only tax imposed on capital gains was land sales tax, which was imposed at a maximum rate of 30%, on the sale of certain undeveloped land. Land sales tax is repealed, effective from 1 May 2011.

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	FJD 1,200
Children (up to five)	FJD 500 each for the first two, FJD 300 each for the next three
Superannuation contributions	FJD 1,500 for each spouse
Pensions received from approved superannuation funds	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		Tax on lower amount	Rate on excess
Exceeding FJD	Not exceeding FJD	FJD	%
0	15,000	0	0
15,000	15,600	0	25
15,600	22,000	150	31
22,000	—	2,134	31

The first FJD 15,000 of a redundancy payment is tax-exempt; amounts in excess of FJD 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 amount	Rate on excess
Exceeding FJD	Not exceeding FJD	FJD	%
0	9,000	0	20
9,000	10,000	1,800	25
10,000	20,000	2,050	30
20,000	—	5,050	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 that it is not fully offset, a loss may be carried forward for the next eight years unless the business that gave rise to the loss is discontinued, sold or changed substantially in nature. 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 Fiji 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 May are normally 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, but the minimum level of investment for most types of business is FJD 250,000. 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
• 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. Fiji also permits dual citizenships.

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

(Country code 358)

Helsinki	GMT +2

Ernst & Young
Elielinaukio 5 B
00100 Helsinki
Finland

Executive and immigration contacts

Seija Karttunen	(20) 728-0190 Fax: (20) 728-0197 Email: seija.karttunen@fi.ey.com
Mikko Nikunen	(20) 728-0190 Fax: (20) 728-0197 Email: mikko.nikunen@fi.ey.com

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. Nonresident 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 he or she stays in Finland a continuous period of more than six months. The stay in Finland may be regarded as continuous even in the event of a temporary absence (up to two months) from the country.

In the case of emigration, foreign citizens become nonresidents for Finnish tax purposes at the time they leave the country and surrender their permanent home in Finland. With respect to a Finnish citizen, 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 approximately €18,800 (2011 tax year).

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 48 months, instead of at the normal progressive income tax rates.

Self-employment and business income. Self-employment income of residents is considered to be 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. For Finnish individuals, the taxation of dividend income depends on several factors. If the distributing company is a listed company that is resident in a country with which Finland has entered into a tax treaty, 70% of the dividend is taxable capital income. The remaining 30% 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 and the country of residence.

For residents, interest income on bank deposits and bonds is subject to a 28% final withholding tax in 2011. 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 paid from Finland 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 underlying 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 1.19% (plus a surcharge of 0.17%). Stock options are not subject to employer's social security contributions. The base for the employee contribution is generally the taxable amount.

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 five 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 2011:
- Travel expenses that exceed €600 incurred between home and office, up to a maximum of €7,000
- 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
- Employee contributions for health insurance per diem, unemployment insurance and pension

Contributions paid by individuals to voluntary pension insurance are generally deductible for tax purposes 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 2011, 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	15,600	0	0
15,600	23,200	8	6.5

Taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
€	€	€	%
23,200	37,800	502	17.5
37,800	68,200	3,057	21.5
68,200	—	9,593	30

For a sample tax calculation, see Appendix 2.

Municipal tax. For 2011, municipal tax is levied at a flat rate that ranges from 16.25% to 21.5% of taxable income, depending on the municipality.

Church tax. For 2011, church tax is payable by members of certain churches at rates ranging from 1% to 2%.

Nonresidents. 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 may be claimed 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

Wealth tax. Finland does not impose wealth tax.

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. If both the owner and recipient are nonresidents, the tax applies only to real property located in Finland and to shares in a corporate body in which more than 50% of the assets consists of Finnish real property. 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 two categories:

- Spouses, children, spouses' children, grandchildren, parents and grandparents (first category)
- Other related and unrelated individuals (second category)

Inheritance tax is imposed in the first category at the following rates for 2011.

Taxable amount Exceeding €	Not exceeding €	Tax on lower amount €	Rate on excess %
0	20,000	0	0
20,000	40,000	100	7
40,000	60,000	1,500	10
60,000	—	3,500	13

The following are inheritance tax rates for the second category.

Taxable income Exceeding €	Not exceeding €	Tax on lower amount €	Rate on excess %
0	20,000	0	0
20,000	40,000	100	20
40,000	60,000	4,100	26
60,000	—	9,300	32

For 2011, the following deductions may be applied against the taxable share for inheritance taxation:

- Widow/widower deduction of €60,000
- Minority deduction of €40,000

For 2011, gift tax is imposed in the first category above at the following rates.

Taxable amount Exceeding €	Not exceeding €	Tax on lower amount €	Rate on excess %
0	4,000	0	0
4,000	17,000	100	7
17,000	50,000	1,010	10
50,000	—	4,310	13

The following are the gift tax rates for the second category.

Taxable amount Exceeding €	Not exceeding €	Tax on lower amount €	Rate on excess %
0	4,000	0	0
4,000	17,000	100	20
17,000	50,000	2,700	26
50,000	—	11,280	32

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 and Norway, and inheritance tax treaties with France, the Netherlands, Switzerland and the United States.

C. Social security

The social security tax is imposed on employers, employees and self-employed individuals. For employees and self-employed individuals in 2011, the social security contributions consist of a

Medicare contribution and a per diem contribution. The per diem contribution is 0.82% of salary income (excluding certain items, such as employee stock options), and the Medicare contribution is 1.19% of municipal taxable income. Pensioners pay an increased Medicare contribution at a rate of 1.36%. In addition, for employees, a 4.7% compulsory pension insurance premium and a 0.46% unemployment insurance premium apply to earned income subject to withholding tax. The compulsory pension insurance premium is 6% 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 is approximately 22.61%, which consists of 2.12% for sickness premiums (employer's social security premium), 0.071% for group life insurance premiums, pension premiums that average 17.7%, 1% for average accident insurance premiums and 0.80% for unemployment insurance premiums (3.2% for salaries exceeding €1,879,500). To provide relief from double social security taxes and to assure benefit coverage, Finland has entered into totalization agreements with EEA countries, European Union (EU) countries, Australia, Canada, Chile, Israel, Quebec and the United States.

For assignments to Finland beginning after 1 January 2009 from a country other than an EU/EEA country, Switzerland or a totalization agreement country, employees working in Finland for foreign employers are exempt from the pension insurance contributions for the initial two years of an assignment.

D. Tax filing and payment procedures

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 as residual tax with a small amount of interest at the end of October following the tax year. To reduce the amount of the residual tax and interest, a supplementary advance tax payment can be made during the first nine months of the year following the tax year. The interest can be fully avoided by making a sufficient advance payment by the end of January. If no action is taken, residual tax 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). Nonresidents must always declare all of their immovable property located in Finland.

E. Double tax relief and 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	India	Poland
Armenia	Indonesia	Portugal
Australia	Ireland	Romania
Austria	Isle of Man (a)	Russian Federation
Azerbaijan	Israel	Singapore
Barbados	Italy	Slovak Republic
Belarus	Japan	Slovenia
Belgium	Jersey (a)	South Africa
Bermuda (a)	Kazakhstan	Spain
Brazil	Korea (South)	Sri Lanka
Bulgaria	Kyrgyzstan	Sweden
Canada	Latvia	Switzerland
Cayman Islands (a)	Lithuania	Tanzania
China	Luxembourg	Thailand
Czech Republic	Macedonia	Turkey
Denmark	Malaysia	Ukraine
Egypt	Malta	United Arab Emirates
Estonia	Mexico	United Kingdom
France	Moldova	United States
Georgia	Morocco	Uzbekistan
Germany	Netherlands	Vietnam
Greece	New Zealand	Yugoslavia (b)
Guernsey	Norway	Zambia
Hungary	Pakistan	
Iceland	Philippines	

(a) This is a convention on exchanging information and a concise tax treaty.
(b) Finland applies the Yugoslavia treaty with respect to Bosnia-Herzegovina, Croatia, Montenegro and Serbia.

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	Hungary	Norway
Belgium	Iceland	Poland
Czech Republic	Italy	Portugal
Denmark	Latvia	Slovak Republic
Estonia	Lithuania	Slovenia
Finland	Luxembourg	Spain
France	Malta	Sweden
Germany	Netherlands	Switzerland
Greece		

G. Employees' residence permits and self-employment

Employees' 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 employees' residence permits.

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 Finnish Immigration Service'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 25 hours per week on average) without employees' 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 a renewal may be obtained at the local police station. After a person has stayed in Finland for at least 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 the spouse and children, who are dependants or who are under 18 years of age, may apply for residence permits as family members of the primary applicant.

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. They may also obtain a Finnish driver's license after residing in the country for six months without any tests if the home country license is still valid.

Finland has driver's license reciprocity with certain countries. Nationals of these countries may use their home country drivers' licenses in Finland for the first 12 months of their residence. They 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 issued without a test. If these foreign nationals do not apply within the first 18 months of their stay, the Finnish driver's license is not issued 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	—	—

	Taxable	Not taxable	Comments
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	—	(b)
Capital gain from sale of personal residence in home country	—	X	(c)
Capital gain from sale of stock in home country	X	—	(b)(d)

(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) This item is taxable, unless a tax treaty provides otherwise.
(c) A 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 by the individual.
(d) Capital gains are taxed at a rate of 28%.

Appendix 2: Sample tax calculation for 2011

A sample tax calculation for 2011 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 18.5%.
- The individual has notified the tax authorities that he does not belong to a Finnish church.
- 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		(720)
Pension insurance premium		(5,640)
Per diem premium		(984)
Taxable income		112,036
Calculation of tax		
National tax:		
Tax on €68,200	9,593	
Tax on €43,836 at 30%	13,150.80	22,743.80
€112,036		
Municipal tax at 18.5%		20,726.66
Sickness insurance premium at 1.19%		1,333.23
Per diem premium at 0.82%		984
Total tax		45,787.69

France

(Country code 33)

Paris	GMT +1

Ernst & Young
Tour Ernst & Young
11, Allée de l'Arche
92037 Paris-La Défense Cedex
France

Executive contacts

Laurence Avram-Diday	(1) 55-61-18-96 Fax: (1) 58-47-70-01 Email: laurence.avram-diday@ey-avocats.com
Emmanuel Morisson-Couderc	(1) 55-61-13-69 Fax: (1) 58-47-70-37 Email: emmanuel.morisson-couderc@ey-avocats.com
Bernard Oury	(1) 55-61-17-44 Fax: (1) 58-47-70-38 Email: bernard.oury@ey-avocats.com
Charles Andre	(1) 55-61-17-72 Fax: (1) 58-47-71-07 Email: charles.andre@ey-avocats.com
Colin Bernier	(1) 55-61-12-41 Fax: (1) 58-47-21-61 Email: colin.bernier@ey-avocats.com

Immigration contact

Emmanuel Morisson-Couderc	(1) 55-61-13-69 Fax: (1) 58-47-70-37 Email: emmanuel.morisson-couderc@ey-avocats.com

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.

Expatriate tax law. A favorable expatriate tax law applies to employees seconded to France after 1 January 2004. This favorable tax regime (Article 81 B of the French tax code) 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. The main condition is that the taxpayer must not have been considered a tax resident of France in any of the five tax years preceding his or her year of arrival in France. In addition, up to 20% of the remaining taxable compensation can potentially be excluded if the expatriate performs services outside of France during his or her assignment (non-French workdays). The exemptions are available until 31 December of the fifth year following the year of transfer to France. Administrative regulations on the law, which were released in 2005, provide that the exemptions in the law may not be combined with the benefits under the French headquarters rules (see *Expatriate French headquarters and distribution center employees*).

Effective from 1 January 2008, the favorable tax regime described above (now Article 155 B) has been extended to local hires (including French nationals) who relocate to France and meet the above residency criteria. Taxpayers who satisfy the Article 155 B conditions benefit from a 50% tax exemption with respect to their foreign-source dividends, interest, royalties and capital gains (resulting from sale of securities) for a period of five years (subject to certain conditions concerning the source of such income). Social surtaxes of 12.3% remain payable on the full income.

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 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 expatriate tax law and the HQ rules.

Taxable income. Taxable income consists of annual disposable income from all sources. Income is identified based on its nature, and then allowances, deductions and treaty provisions are applied in calculating net taxable income subject to progressive tax rates.

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 element of a company car, 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 *CSG/CRDS and 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 measure, which provides for gains to be taxed at a rate of 16%, with an additional 12.3% (8.7% for *contribution sociale généralisée* [CSG]/*contribution reimboursement de la dette sociale* [CRDS] and 3.6% additional social tax) charged on passive income and capital gains (see *Rates*).

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%, with an additional 12.3% for CSG/CRDS and additional social tax charged on passive income and capital gains.

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%, with additional social taxes of 12.3%. However, specific rules apply in certain cases.

Directors' fees. Under French internal law, directors' fees are treated as dividend income. Similarly, because directors' fees are not considered salary, the 10% standard deduction does not apply.

Directors' fees paid to nonresidents 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. Qualifying dividends can benefit from the "*demi-base régime*" (that is, a 40% deduction for 2010; however, see *Exempt income*). For a married couple, the first €3,050 of total taxable dividend income is exempt. The exempt amount is €1,525 for single individuals. See *Expatriate tax law* for information regarding taxpayers qualifying under Article 155B.

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 12.3% CSG/CRDS and social tax for a total of 28.3%.

Exempt income. Exempt income includes the following:
- Certain profits from the sale of securities.
- Family allowances and health care reimbursements.
- Interest from qualified savings accounts and interest and dividends on which an optional tax has been paid, usually at a rate

of 19%, 35% or 45%, depending on the type of interest or dividend. Dividends on which a taxpayer has elected to pay a flat rate optional tax are not eligible for the "adjustable taxable base regime" ("*demi-base régime*") nor the annual exemption referred to above.
- Payments received pursuant to life insurance contracts (under certain conditions).

Employment income earned by a tax resident of France with respect to employment duties performed outside France for an employer established in France, a European Union (EU) member state or a member state of the European Economic Area (EEA) that has concluded with France a tax treaty containing an administrative cooperation clause is exempt if one of the following conditions is satisfied:
- For more than 120 days during a 12-month period, the employee is engaged outside France in prospecting for new clients for his or her employer.
- 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.
- For more than 183 days in a 12-month period, the employee performs employment duties overseas in connection with construction, engineering, or exploration or extraction of a natural resource.

Supplemental amounts, contractual bonuses or per diems 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 a maximum of 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. Exercise gains realized on stock options from nonqualified plans or on sales that occur outside the required holding period for qualified plans are subject to full ordinary income 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.

For options granted on or after 16 October 2007 under a French qualified plan, a new employer contribution is due on grant. This contribution equals 14% (rate applicable for options granted on or after 1 January 2011) of the fair market value (FMV) of the option as determined for accounting purposes (International Financial Reporting Standard [IFRS] 2) or 14% of 25% of the value of the shares underlying the options. Employees are also subject to an additional contribution at the date of sale of the shares acquired through the exercise of an option. This contribution applies to options granted on or after 16 October 2007 and equals 2.5% or 8% of the exercise gain (difference between the

FMV of the shares on exercise and the amount paid to exercise the options). The 2.5% rate applies if the value of the exercise gain realized by the beneficiary during the tax year does not exceed €17,676 (amount for 2011).

When stock acquired under a qualified plan is sold, the gains benefit from favorable tax treatment if all of the following requirements are met:
- The shares are kept in nominative form.
- The employee observes a holding period of at least five years running from the date of grant to the date of sale of the shares acquired through the exercise of the option (four years for options granted on or after 27 April 2000).
- The employer and the employee satisfy specific reporting requirements at the time of exercise of the option and the sale of the underlying stock.

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 31.3%, including the flat social tax (see *CSG/CRDS and social tax*). 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 42.1% (including CSG/CRDS and 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 sales 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 31.3% (including CSG/CRDS and social tax).

Gains derived from the sale of stock acquired under options granted 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 42.3% flat rate (including CSG/CRDS and social tax) on the amount of the spread up to €152,500, and at a 52.3% flat rate (including CSG/CRDS and social tax) on the excess.
- 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 option and date of sale of the stock acquired through the exercise of the option, including a stock holding period of at least two years), the spread is subject to tax at a 31.3% flat rate (including CSG/CRDS and social tax) on the amount of the spread up to €152,500, and at a 42.3% flat rate (including CSG/CRDS and social tax) on the excess.

Alternatively, the employee may elect to have the exercise gain taxed at the regular progressive tax rates and a 12.3% rate (including CSG/CRDS and social tax), if this is more advantageous.

As discussed above, for options granted on or after 16 October 2007, an additional employee social contribution of 2.5% or 8% must be paid.

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 option price is taxable as regular employment income at progressive rates. In addition, employer and employee social security contributions are due with respect to the exercise gain (except in certain very specific 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, the income tax charge is deferred until the date of the sale of the shares and no social security tax is due with respect to the value of the stock award.

For awards made on or after 16 October 2007 under a French qualified plan, an employer contribution is due at the date of the award. This contribution equals 14% (rate applicable to options granted on or after 1 January 2011) of the FMV of the shares awarded as determined for accounting purposes (IFRS 2) or 14% of the value of the shares on the date of the award. However, if the annual FMV of the shares awarded as determined for accounting purposes (IFRS 2) or the annual value of the shares on the date of the award (determined per each beneficiary) does not exceed 50% of the annual social security ceiling (€17,676 for 2011 income; that is, 50% of €35,352), the employer contribution is levied at a rate of 10%.

Employees are subject to an additional contribution of 8% of the FMV of the shares on the date of delivery. However, if the annual acquisition gain realized in connection with French qualified restricted stock awards does not exceed 50% of the annual social security ceiling (€17,676 for 2011 income), the employee contribution is levied at a reduced 2.5% rate.

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 42.3% (which includes income tax at a rate of 30% and CSG/CRDS and social tax at a combined rate of 12.3%). Alternatively, if more favorable, the taxpayer can elect to have the stock award taxed at the regular progressive rates, plus the CSG/CRDS and social tax. 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 31.3%, in the same manner as stock options.

New withholding obligation on French-source portion of French qualified gains realized by nonresident taxpayers. Under new Article 182 A of the French Tax Code implemented by the 2010 French Amended Finance Act, the French income tax due on the French-source portion of qualified stock options or qualified RSU gains realized by individuals who are not tax residents in France at the time of the taxable event (that is, the sale of the underlying shares) must be withheld by the entity that pays the cash proceeds from the sale of the shares. The income tax must be withheld at the flat rate applicable to the qualified stock options or qualified RSU gains (18%, 30% or 40% for gains realized in 2011), or at the specific progressive withholding tax rates applicable to compensation income, if the beneficiary has elected to have the gain taxed at the progressive rates of income tax. This new obligation applies to gains realized on the sale of the underlying shares, effective from 1 April 2011.

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 19%, and are subject to CSG/CRDS and social tax at a combined rate of 12.3%, resulting in a combined total tax rate of 31.3%.

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 19%, and are subject to CSG/CRDS and social tax, resulting in a combined total tax rate of 31.3%. See *Expatriate tax law* for information regarding taxpayers qualifying under Article 155B.

Real property and shares in real estate companies. Gains derived from the sale of real property are taxable at a rate of 19%, and are subject to CSG/CRDS and social tax, resulting in a combined total tax rate of 31.3%. Gains are reduced by 10% for each year that the property is held, effective from the 5th year of ownership (this means that no chargeable gain arises with respect to property owned for 15 years or more). The purchase price is increased to take into account purchase expenses and capital improvements.

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 such income, and credits may also be available. The following deductions and credits are specifically allowed:

- Taxpayers may either deduct 10% of net taxable employment income limited to €14,157 (2010 ceiling), as an allowance for unreimbursed business expenses, without providing proof of expenditure, or they may elect to deduct actual expenses and provide a detailed listing.
- 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 a maximum of €7,500 (2010).
- A credit is available for qualifying child care expenses (outside the home) equal to 50% of the amount paid, limited to €2,300 per child under the age of seven.
- Tax credits are granted, within certain limits, for charitable donations to recognized charitable institutions.
- School credits are available in the amount of €61 for a child in a college, €153 for a child in a *lycée* and €183 for a child in higher education.
- Amounts paid for alimony and child support (limited for children over 18 years of age) and for limited dependent parent support are deductible.

- A tax credit is available for investments in the motion picture and fishing industries and for certain other investments.
- A tax credit is granted for mortgage interest paid on or after 6 May 2007 for the acquisition of a French principal residence. The tax credit is limited to interest paid during the first five years (40% of interest paid in the first year, 20% for the subsequent four years). Interest taken into account is capped at €7,500 per year for a couple (€3,750 for single taxpayers). This tax credit is no longer available for homes purchased on or after 1 January 2011.

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)
- 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 41% for the 2010 tax year (these are the most recent rates available). Family coefficient rules are used to combine the progressive tax rate with the taxpaying capacity of the household. France has a regime of joint taxation for married couples and individuals who have contracted a civil union (Pacte Civil de Solidarité, or PACs). Income tax is assessed on the combined income of the members of the household including dependants. No option to file separately is available.

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 2010 tax year, the tax savings may not exceed €2,336 for each additional half allowance claimed.

The progressive tax rates take into account the family coefficient.

The table below reflects the 2010 income tax brackets and rates for individuals.

The following are the 2010 income tax rates.

Annual taxable income Exceeding €	Not exceeding €	Tax rate %
0	5,963	0
5,963	11,896	5.5
11,896	26,420	14
26,420	70,830	30
70,830	—	41

For a sample 2010 tax calculation, see Appendix 2.

CSG/CRDS and social tax. CSG/CRDS applies to all resident taxpayers. It is charged at a rate of 8% on 97% of gross salary, including benefits in kind and bonuses, passive income and capital gains. CSG/CRDS on passive income and capital gains is increased by a social tax surcharge, resulting in a total rate of 12.3%. The tax administration characterizes CSG/CRDS as an income tax for domestic purposes. However, for social security bilateral agreements and EU social security regulation purposes, it is characterized as a social security charge. Consequently CSG/CRDS is not payable on employment income for expatriates covered under a social security certificate of continued coverage. This exemption for compensation income does not apply to taxable passive income, including taxable capital gains.

CSG is charged at a rate of 7.5%, of which 5.1% is deductible for French income tax purposes.

Nonresidents. Nonresidents are subject to a withholding tax on French-source remuneration, after the deduction of statutory employee social security contributions and the 10% standard deduction.

Withholding rates applicable to net French-source compensation received by nonresidents in 2011 are set forth in the following table.

Annual taxable income Exceeding €	Not exceeding €	Withholding rate %
0	14,245*	0
14,245	41,327*	12
41,327	—	20

* Tax brackets are prorated according to the time actually worked in France.

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 an annual nonresident income tax return and is subject to the regular progressive tax rates. The 20% withholding then constitutes a tax credit against the tax liability. Any 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 their 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 the taxpayer's income tax liability is calculated based 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 tax household
- 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 six years. However, this principle is subject to limitations. Certain losses may be offset only against income from the same category of income. 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 €1,300,000. For individuals with a total net wealth exceeding the threshold of €1,300,000, the rates for 2011 are set forth in the following table.

Taxable wealth Exceeding €	Not exceeding €	Rate %
0	800,000	0
800,000	1,310,000	0.55
1,310,000	2,570,000	0.75
2,570,000	4,040,000	1.00
4,040,000	7,710,000	1.30
7,710,000	16,790,000	1.65
16,790,000	—	1.80

Effective from 2012, only two tax rates will apply. A rate of 0.25% will apply to the entire net wealth of persons with a net wealth between €1,300,000 and €3 million and a 0.50% rate will apply to the entire net wealth of persons with a net wealth exceeding €3 million. The wealth tax rates of 0.25% or 0.50% will apply to the first euro.

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.

The Loi de modernisation de l'économie (law of 4 August 2008) introduced a new exemption for individuals who move their residence to France and who have not been French tax residents during the preceding five years. These individuals benefit from a wealth tax exemption on their foreign assets for five years.

The regime that limited the maximum taxes payable by an individual to 50% of their income was abolished in mid-2011. However, individuals can benefit from this mechanism for the last time in 2012 with respect to their 2010 income.

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.

Surviving partners (spouses or partners in a Civil Union [Pacte Civil de Solidarité, or PACS]) are exempt from inheritance tax. The allowance for parents and children is €159,325. The excess is taxed at rates ranging from 5% to 40%. The marginal tax rate is increased to 45%, effective from 31 July 2011. Surviving brothers and sisters may be exempt from inheritance tax if specific conditions are met. In the absence of these conditions, they may each claim a personal allowance of €15,932 and are taxed at a rate of 35% on inheritances of up to €24,430 and at a rate of 45% on the excess. Other close relatives are taxed at a rate of 55% on the excess over €1,594, and other persons at a rate of 60% on the excess over €1,594. The gift tax rates are generally the same as those for inheritance tax. However, surviving partners (spouses or partners in PACS) benefit from a personal allowance of €80,724 instead of an exemption. The excess is taxed at rates ranging from 5% to 40%. The marginal tax rate is increased to 45%, effective from 31 July 2011. The 50% or 30% tax reduction regarding gifts is abolished, effective from 31 July 2011.

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 (exception: full exemption for surviving partners).
- The transfer of companies by death or gift. The transfer is partially exempt from inheritance and gift tax if specific conditions are met (in particular, commitment of the heirs or the donees to retain the shares of the company). A tax reduction of 50% continues to apply in the case of a gift.

To provide relief from double inheritance taxes, France has entered into estate tax treaties with the following countries.

Algeria
Austria
Bahrain
Belgium
Benin
Burkina Faso
Cameroon
Central African Republic
Congo
Côte d'Ivoire
Finland
Gabon
Germany
Guinea
Italy
Kuwait
Lebanon
Mali
Mauritania
Mayotte
Monaco
Morocco
New Caledonia
Niger
Oman
Qatar
St. Pierre and Miquelon
Saudi Arabia
Senegal
Spain
Sweden
Switzerland
Togo
Tunisia
United Arab Emirates
United Kingdom
United States

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 2010 is approximately 15% to 23% (depending on retirement fund contributions and level of remuneration) of gross salary for employees, and 35% to 46% for employers.

Some of the contributions are levied on wages, up to ceilings of €35,352, €141,408 or €282,816 per year (2011 amounts). However, the sickness contribution (employee's share, 0.75%; employer's share, 12.8%), the basic state pension contribution (employee's share, 0.1%; employer's share, 1.6%), 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 (basic state pension and complementary pension cover)
- Family allowance (exempt from income tax)
- Full professional accident coverage
- 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. A French citizen or resident on foreign assignment outside France 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. The EU social security regulation can usually provide for periods of continued coverage under a home country social security regime for up to five years (with the mutual agreement of the competent authorities of both member states). Agreements with other countries apply for one to five years and periods of continued coverage may be extended with the mutual agreement of both competent authorities.

Algeria	Iceland	Philippines
Andorra	India	Poland
Austria	Ireland	Portugal
Belgium	Isle of Man	Quebec
Benin	Israel	Romania
Bosnia-Herzegovina	Italy	St. Pierre and Miquelon
	Japan	
Cameroon	Jersey	San Marino
Canada	Korea (South)	Senegal
Cape Verde	Liechtenstein	Serbia

Chile	Luxembourg	Slovak Republic
Congo	Madagascar	Spain
Cote d'Ivoire	Mali	Sweden
Czech Republic	Mauritania	Switzerland
Denmark	Monaco	Togo
Finland	Montenegro	Tunisia
French Polynesia	Morocco	Turkey
Gabon	Netherlands	United Kingdom
Germany	New Caledonia	United States
Greece	Niger	Yugoslavia*
Guernsey	Norway	

* The treaty with the former Yugoslavia applies to Croatia, Macedonia and Slovenia.

Negotiations for a treaty with Australia are being completed, and negotiations for a treaty with China are in progress.

D. Tax filing and payment procedures

Filing. French residents are required to file general income tax returns (Form 2042), in general, by the end of May following the end of the relevant tax year (tax year is the calendar 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. The actual filing deadline for a particular tax year is determined by the tax administration and is reflected on the tax return forms issued to taxpayers. 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. French income tax for resident taxpayers is paid one year in arrears (for income earned in year N, income tax is paid in year N+1) 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 the income. Income tax is generally paid in three installments with two installment payments equal to one-third of the previous year's tax liability payable on 15 February N+1 and 15 May N+1 and a balancing payment generally payable by 15 September N+1 following receipt of the income tax assessment for year N. 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 June and 15 July, depending on the individual's country of residence.

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 12%

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 20% rate must be included on a nonresident return. Few deductions are allowed in calculating a nonresident's taxable income. The tax liability with respect to the taxable income declared on the tax 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. Double taxation is generally eliminated by a tax credit (for employment income, the credit is generally equal to the French income tax on such income) or by exemption with progression (income is exempt from French income tax but is taken into consideration in determining the effective rate of tax applied to the taxpayer's other French taxable income).

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

Albania	Iceland	Philippines
Algeria	India	Poland
Argentina	Indonesia	Portugal
Armenia	Iran	Qatar
Australia	Ireland	Quebec
Austria	Israel	Romania
Azerbaijan	Italy	Russian Federation
Bahrain	Jamaica	St. Martin
Bangladesh	Japan	St. Pierre and Miquelon
Belgium	Jordan	Saudi Arabia
Benin	Kazakhstan	Senegal
Bolivia	Kenya	Singapore
Botswana	Korea (South)	Slovak Republic
Brazil	Kuwait	Slovenia
Bulgaria	Latvia	South Africa
Burkina Faso	Lebanon	Spain
Cameroon	Libya	Sri Lanka
Canada	Lithuania	Sweden
Central African Republic	Luxembourg	Switzerland
Chile	Macedonia	Syria
China	Madagascar	Thailand
Congo	Malawi	Togo
Côte d'Ivoire	Malaysia	Trinidad and Tobago
Croatia	Mali	Tunisia
Cyprus	Malta	Turkey
Czech Republic	Mauritania	Ukraine
Denmark	Mauritius	USSR (a)
Ecuador	Mayotte	United Arab Emirates
Egypt	Mexico	United Kingdom
Estonia	Monaco	
Ethiopia	Mongolia	
Finland	Morocco	
	Namibia	

French Polynesia	Netherlands	United States
Gabon	New Caledonia	Uzbekistan
Georgia	New Zealand	Venezuela
Germany	Niger	Vietnam
Ghana	Nigeria	Yugoslavia (b)
Greece	Norway	Zambia
Guinea	Oman	Zimbabwe
Hungary	Pakistan	

(a) France has agreed with Georgia and Turkmenistan to apply the France-USSR treaty. France applies the France-USSR treaty to Belarus, Kyrgyzstan, Moldova and Tajikistan.
(b) France is honoring the France-Yugoslavia treaty with respect to Bosnia-Herzegovina, Montenegro and Serbia.

F. Work permits

EU nationals. Nationals of the EU, EEA and Switzerland are not required to hold work or residence permits. However, if needed for personal or professional reasons, a residence permit is issued on written request to the relevant police authorities within three months after entering the country.

During a transition period, nationals of Bulgaria and Romania (who joined the EU in 2007) must hold a work permit (if under a French employment contract) and a residence permit.

Temporary status. EU nationals working in France while remaining on the payroll of the company in their home country have temporary *détaché* status. The employee may enter France without a visa by showing a valid passport or national identity card. The home company must complete a preprinted prior registration form (in French), which outlines the nature, place, duration and terms and conditions of the assignment. This document must be sent to the local Labour Inspection Officer in France before the arrival of the assignee.

Long-term status. EU nationals who are hired by a French company on long-term expatriate status do not need a visa to enter France. However, the French employer is required to issue a statement of hiring (*declaration d'engagement*) to the authorities.

For both temporary and long-term status, on arrival in France, the employee must be in possession of a valid social security certificate of continued coverage or must otherwise be affiliated with the French statutory social security regime.

Non-EU nationals. Non-EU nationals sent to France on an intercompany transfer by a company located outside of France may be granted work authorization for a period of three years if they meet the following conditions:
- Their length of service with the foreign employer is at least three months.
- They earn a minimum gross monthly salary of approximately €2,000. However, the salary must be commensurate with the position held and French salary scales.

Individuals meeting the above conditions may have either *détaché* or *salarié permanent* status.

The temporary residence permit issued to these individuals is marked "*salarié en mission*" and is valid for three years. However, the authorities can review the situation of the assignee according to the length of the assignment. The permit is renewable for a total period of six years.

Détaché status. *Détaché* status is available to individuals assigned to France for a limited time period by their non-French employer to perform an activity under its reporting line, such as providing technical assistance or performing reporting functions. They must remain on the payroll of their non-French employer.

The home company must complete a preprinted prior registration form (in French), which outlines the nature, place, duration and terms and conditions of the assignment. This document must be sent to the local Labour Inspection Officer in France before the arrival of the assignee.

Foreign nationals who do not meet the conditions of an intercompany transfer receive a temporary work permit (*autorisation provisoire de travail*), which is valid for 12 months and is renewable until the end of the assignment.

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.

A work authorization is also required for short assignments (less than 90 days). Business trips cannot be used as an interim arrangement to have an employee work in France before the work authorization is approved by the French labor authorities.

Salarié permanent status. *Salarié permanent* status is available to individuals hired by French companies, who possess specialized knowledge that justifies the hiring of a non-EU national for the position. These individuals must be shown on the payroll of the French company and receive a French salary with French pay slips. They are subject to French labor law.

Managerial or top-level executives with a monthly gross salary of €5,000 or more (commensurate with the position held and French salary scales) are considered *cadres de haut niveau*.

Compétences et talents status. *Compétences et talents* status is available for non-EU nationals who are likely to make a significant and lasting contribution to the economic development of France and his or her own country.

Applications outlining their project must be submitted to the French consulate if the individual lives abroad or to the local *préfecture* if the applicant lives in France. The "*compétences et talents*" card is valid for three years.

Other matters. With respect to *salarié permanent* status, foreign nationals who do not meet the conditions of an intercompany transfer must have a gross monthly salary in excess of €4,300, or a salary commensurate with the position held and French salary scales, particularly for jobs in "shortage" sectors.

The temporary residence permit issued to these individuals is marked "*salarié*" or "*travailleur temporaire.*" It is valid for the duration of the assignment (for *détaché* status) or 12 months (for *salarié permanent* status). It is renewable.

All work permit and visa applications must be applied for before the arrival of the assignee in France. After the application is approved, the assignee must apply for a visa from the French consulate nearest his or her place of residence abroad. For all assignments over three months, on arrival in France, the assignee undergoes a medical examination and applies for a 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 approximately one month for senior executives transferring within international companies.

Long-stay visas. Effective from 1 June 2009, long-stay visas (duration of greater than three months) equivalent to a residence permit (*visa long séjour – valant titre de séjour*) are issued to the following categories of persons:
• Spouses of French nationals
• Visitors
• Students
• Employees (with a work contract having a duration of 12 or more months)
• Temporary workers (assignments more than 3 months but less than 12 months)

Long-stay visas entitle the holders to reside in France for up to 12 months during the validity of their visa, without the need to apply for a separate residence permit.

The above measures do not apply to assignees on an intracompany transfer (*salarié en mission*). The long-stay visa issued to this category of employee remains valid for three months and a separate residence permit must be applied for within two months after arrival in France.

At the time of the visa application, the applicant's passport must have a validity of more than 6 months beyond the length of the visa requested (for example, with respect to a 12-month assignment, the passport must be valid for at least 18 months).

The applicant is issued an attestation OFII (Office français de l'immigration et de l'intégration; the English translation is Immigration Office) endorsed by the French consulate issuing the long-stay visa.

The applicant must undergo a compulsory medical examination on arrival in France. Following such examination, an official sticker is affixed to the applicant's passport showing the applicant's personal address in France.

If the purpose of stay in France is extended, an application for the renewal of the residence permit must be made with the local police authorities (*préfecture*).

Top managers of companies. Foreign nationals who want to be appointed chief-executive officers or general managers of French companies or engage in a commercial activity must apply for a Trader (Commerçant) visa from the French consulate in their country of residence before arrival in France.

Individuals who wish to reside in France must complete formalities to obtain a Trader residence permit, which allows them to be registered on the Companies and Businesses Registry.

The following categories of individuals are not required to obtain a Trader residence permit:
• Holders of a resident card (valid for 10 years)
• Nationals of the EU, EEA or Switzerland

G. Permanent residence permits

After five consecutive years of residence in France and payment of French income tax, 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 relevant 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.

H. Family and personal considerations

Family members. Non-EU national spouses who accompany EU nationals to France may obtain a residence permit with the endorsement "EU National or Family Member" (*carte de séjour "Ressortissant UE Membre de famille"*) if the EU national lives and works in France. They are granted the same right to work as their spouses.

Non-EU national spouses who accompany non-EU nationals to France obtain a residence permit.

Non-EU dependent children under the age of 18 who accompany non-EU nationals to France obtain a Circulation Document (Document de circulation pour etranger mineur).

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.

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	Kansas	Pennsylvania
Colorado	Kentucky	South Carolina
Delaware	Michigan	Texas
Florida	New Hampshire	Virginia
Illinois	Ohio	

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.

Holders of valid drivers' licenses from EU member states are not required to exchange them for French licenses. However, licenses from certain EU member states need to be renewed regularly.

Appendix 1: Taxability of income items

	General rules Taxable		Favorable expatriate tax regime (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	—
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

	General rules Taxable		Favorable expatriate tax regime (h) Taxable		HQ rules (h) Taxable	
	Yes*	No	Yes*	No	Yes*	No
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)
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

	General rules Taxable		Favorable expatriate tax regime (h) Taxable		HQ rules (h) Taxable	
	Yes*	No	Yes*	No	Yes*	No
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 on the cadastral value used for dwelling tax or on a fixed monthly value per room per month. 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 favorable expatriate tax law, for expatriates seconded to France on or after 1 January 2004 or employees hired directly abroad by French employers on or after 1 January 2008, the amounts related to the assignment or employment in France 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 law may not be combined with the benefits under the rules applicable to expatriates of a HQ. However, the new expatriate tax law can be elected to apply and is generally more favorable than the HQ rules. For details regarding the new expatriate tax law and the rules applicable to expatriates of a HQ, see Section A.

Appendix 2: Sample 2010 income tax calculation

The following is a sample tax calculation for a local employee living in France during 2010, 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)
Taxable income	86,400
Income tax	10,115*

* 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.
- The flat social tax must be added.

In this example, the effective income tax rate is 8.5%.

Gabon

(Country code 241)

Libreville	GMT +1

Ernst & Young
Immeuble BDM
Boulevard du Bord de Mer
B.P. 1013
Libreville
Gabon

Executive contacts

Erik Watremez	76-20-67 Fax: 72-64-94 Email: erik.watremez@ga.ey.com
Nicolas Chevrinais	74-21-68 Fax: 72-64-94 Email: nicolas.chevrinais@ga.ey.com

Immigration contact

Fatima-Kassory Bangoura Camara	74-21-68 Fax: 72-64-94 Email: fatima-kassory.bangoura@ga.ey.com

A. Income tax

Who is liable

Territoriality. Subject to double tax treaties entered into by Gabon with foreign countries, residents are subject to general income tax on worldwide income. Nonresidents are taxed on income derived from Gabon only.

Definition of resident. The Gabon Tax Code provides that an individual is deemed to be resident in Gabon if he or she stays at least six months in Gabon or if he or she maintains his or her main residence in Gabon.

An individual is deemed to have his or her main residence in Gabon if he or she satisfies either of the following conditions:
- He or she has a home available to him or her as an owner, usufructuary or lessee.
- He or she has his or her center of economic or vital interests or his or her habitual abode in the country.

Income subject to tax

Employment income. Taxable income includes all remuneration or compensation paid for services provided, including but not limited to, base salary, overtime, fringe benefits, allowances, and benefits in kind. Under the Gabon Tax Code, a deemed value for benefits in kind is included in the tax base. The deemed value equals a percentage of gross salary.

Individuals may claim a deduction for professional expenses equal to 20% of gross salary after deduction of social contributions, subject to a cap of XAF 10 million per year.

Self-employment and business income. Self-employment income is divided into the following categories:
• Commercial (including trades)
• Professional
• Agricultural

The net income from each of the above categories is combined, and the total is subject to the progressive rates set forth in *Rates*. A 10% withholding tax is imposed on remuneration paid to foreigners for activities performed or services rendered in Gabon.

Self-employed individuals engaged in commercial activities calculate taxable income in the same manner as companies. Taxable income equals the difference between income received, including capital gains, and expenses paid during the calendar year. The accrual method of accounting is used.

At the option of the individual, instead of calculating taxable income from commercial activities as described above, such income may be subject to simplified taxation if the gross turnover ranges from XAF 20 million to XAF 80 million. Individuals performing certain activities and having an annual gross turnover under XAF 20 million are exempt from personal income tax and must pay a fixed tax amount determined according to their activity.

Investment income. Dividends, interest and directors' fees are subject to the tax on movable capital (IRCM). The IRCM on such income is generally withheld at a rate of 20% if the income benefits an individual or 15% if the income benefits a resident or nonresident corporate body. The IRCM is a final tax.

A 10% withholding tax is imposed on royalties paid to nonresidents.

Capital gains. Gains derived from the sale of real property held by individuals are not taxable, unless they are included in income from commercial, professional or agricultural activities.

Gains on the transfer of shares held by individuals are taxed at a rate of 20%. This tax is a final tax.

Capital gains on business assets are generally included in taxable income. Under certain specified conditions, capital gains on business assets may be exempt from tax if reinvested in the business.

Deductions

Deductible expenses. The following items are deductible:
• Voluntary pension fund premiums not exceeding 10% of taxable income before deduction of deductible charges

- Interest on loans and debts contracted by taxpayers for the construction and acquisition of, or for major repairs to, buildings located in Gabon and used by taxpayers as their principal place of residence, up to a maximum amount of XAF 6 million
- Life insurance premiums not exceeding 5% of taxable income before deduction of deductible charges
- Alimonies paid under a court order
- Social security contributions paid for domestic servants

Personal allowances. The family coefficient system is used to reduce the general income tax calculated for families (see *Rates*).

Business deductions. For individuals engaged in commercial, professional or agricultural activities, the following expenses are deductible under specific conditions:
- General expenses incurred for business purposes, mandatory and nonmandatory social contributions up to certain limits, certain taxes, insurance premiums, gifts and subsidies, rental expenses and financial charges

Rates. Income tax is levied at progressive rates, up to a maximum of 35%.

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. The following allowances are available.

Family status	Number of allowances
Single, divorced or widowed individuals with no children	1
Married individuals with no children, and single or divorced individuals with one child	2
Married individuals with one child, and single or divorced individuals with two children	2.5
Married individuals with two children, and single or divorced individuals with three children	3
Married individuals with three children, and single or divorced individuals with four children	3.5
Each additional child (up to six children)	0.5

The following table provides the general income tax rates for taxpayers with one allowance.

Annual taxable income per allowance		
Exceeding XAF	Not exceeding XAF	Rate %
0	1,500,000	0
1,500,000	1,920,000	5
1,920,000	2,700,000	10
2,700,000	3,600,000	15

Annual taxable income per allowance Exceeding XAF	Not exceeding XAF	Rate %
3,600,000	5,160,000	20
5,160,000	7,500,000	25
7,500,001	11,000,000	30
11,000,000	—	35

In addition to income tax, a supplementary tax at a rate of 5% is levied on net employment income (after deduction of social charges and pension plan contributions). The portion of monthly income under XAF 100,000 is exempt. The family coefficient system does not apply to this tax. Employers withhold the supplementary tax.

Progressive income tax and supplementary tax are levied on monthly income using a prorated tax schedule. These are the final taxes for individuals who have no other income subject to income tax.

Taxable income realized from the various self-employment categories is aggregated, and the total is subject to the progressive tax rates applicable to employment income.

The minimum tax payable by taxpayers engaged in commercial, professional and agricultural activities equals 1% of annual taxable turnover or XAF 500,000, whichever is greater.

Relief for losses. In general, losses from one category may be offset against profits in other categories. However, losses from commercial, professional or agricultural activities may not offset income in other categories. Such losses may be carried forward for three years to offset income from the same category.

B. Inheritance and gift taxes

Inheritances and gifts are taxable if the transferred goods are located in Gabon. Inheritance and gift tax rates range from 0% to 35%, depending on the net value of the property and the relationship between the beneficiary and the donor or deceased.

C. Social security

Social security contributions are computed on monthly gross remuneration paid, including fringe benefits and bonuses, up to XAF 1,500,000.

The rate of the employee contribution is 2.5%. This contribution, which is withheld by the employer, is for the pension allowances.

The total social security contribution for employers is 20.1%. The following table shows the components of such rate.

Benefits	Rate (%)
Family allowances	8
Industrial accident insurance contributions	3
Pension allowances	5
Distribution of medicine by hospital	2
Hospital expenses and miscellaneous	1.5
Fund for health evacuation	0.6

D. Tax filing and payment procedures

Employees are required to file an income tax return by 1 March of the year following the tax year. Employers must withhold tax from employees' salaries monthly.

Self-employed individuals are required to file the following tax returns:

- A return setting forth the net income of the category of income (commercial, professional or agricultural activity) must be filed by 30 April of the year following the tax year.
- Another return for the determination of net income subject to general income tax must also be filed by 30 April of the year following the tax year.

Self-employed individuals must pay general income tax in two installments. Prepayments are due on 28 February and 30 April of the tax year. Each payment must equal one-fourth of the general income tax paid for the preceding year. The balance is payable on receipt of the tax assessment.

Individuals required to pay a fixed tax amount must make the tax payment and filing by 28 February of the tax year.

E. Double tax relief and tax treaties

Gabon has entered into double tax treaties with Belgium, Canada and France. In addition, Gabon is a member state of the Central African Customs and Economic Union (Communauté Economique et Monétaire en Afrique Centrale, or CEMAC). CEMAC is an organization of states of Central Africa (Cameroon, the Central African Republic, Chad, Congo [Republic of], Equatorial Guinea and Gabon) established to promote economic integration among countries that share a common currency, the CFA franc BEAC. Gabon is also a former member of the Common African and Mauritian Organization (Organisation Commune Africaine et Mauricienne, or OCAM). The OCAM no longer exists. However, Gabon and other former member states (Congo [Republic of], Ivory Coast and Senegal) still apply the provisions of the OCAM tax treaty.

The CEMAC and OCAM treaties provide the following reliefs:

- 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.
- Dividends are taxable in the country where the beneficiary is resident.
- Under the OCAM treaty, interest is taxable in the country of residence of the beneficiary, but the country of source may apply a withholding tax if such a tax is contained in its domestic law. Royalties are taxable in the country of residence of the beneficiary.

In the absence of tax treaty relief, foreign taxes paid are deductible as expenses by individuals taxable on worldwide income.

F. Temporary visas

A visa is required for entry into Gabon.

The Gabonese authorities issue two types of visas, which vary according to the duration of the permissible stay in Gabon. The following are the types of visas:
• Tourist visa (*visa touriste*)
• Business visa (*visa d'affaires*)

Tourist visa. A tourist visa is granted to nonprofessional visitors. It has a duration of one month. This initial period can be extended to a maximum of three months.

Business visa. A business visa is granted to foreign workers or businesspersons coming into Gabon for a period that does not exceed three months. They are exempt from the entry authorization requirement. However, they must state in writing their qualifications and describe the contacts they will meet during their stay in Gabon.

G. Work permits

Individuals who will stay in Gabon for a period longer than three months for the performance of a remunerated activity must take the following actions:
• They must apply to the Ministry of Labor for an employment authorization and a foreign worker card.
• They must apply and submit appropriate documentation to the Ministry of Immigration for an entry authorization.
• They must apply to the immigration authorities for a residency card and an exit visa if applicable.

H. Residency cards

Residency cards are issued by the immigration authorities. They are required for all foreign nationals over the age of 16 who are staying longer than 3 months in Gabon.

I. Family and personal considerations

Family members. If the head of a family is allowed to enter Gabon, the family members accompanying this individual are admitted at the same time. However, to enter Gabon, all of the family members must present passports and documentation proving their civil status.

Drivers' permits. Foreign nationals may drive legally in Gabon using their home country drivers' licenses for a period of three months if they have a receipt for the payment for the registration of their license with the Ministry of Transport in Gabon.

Gabon has driver's license reciprocity with France and states affiliated with the International Treaty of Geneva (international driver's license). To obtain a Gabonese driver's license, a French or international driver's license must be registered with the Ministry of Transport in Gabon.

Georgia

(Country code 995)

Tbilisi	**GMT +4**

Ernst & Young
Kote Abkhazi str., 44
Tbilisi 0105
Georgia

Executive and immigration contacts

Zurab Nikvashvili	(32) 439-375, Ext. 2104 Fax: (32) 439-376 Email: zurab.nikvashvili@ge.ey.com
Gocha Kvirikashvili	(32) 439-375 Fax: (32) 439-376 Email: gocha.kvirikashvili@ge.ey.com

A. Income tax

Who is liable. Resident individuals and nonresident individuals are subject to income tax on income received from Georgian sources.

For tax purposes, individuals are considered resident if they actually are located on the territory of Georgia for 183 or more cumulative days in any continuous 12-month period ending in the current tax year (that is, the calendar year) or if they are in Georgian state service abroad during the tax year. For purposes of the above residency test, the days considered are the days on which the individual is actually located on the territory of Georgia, as well as the days spent by the individual outside the territory of Georgia for medical treatment, vacation, business trip or study purposes. The status of resident or nonresident is determined for each tax year. Days that were taken into account in determining the residency of an individual in the preceding tax year are not taken into account in determining residency in the current tax year.

In addition, high net-worth individuals may elect to be considered Georgian residents for tax purposes and taxed accordingly even if under the above general rule on residency, they are not deemed to be Georgian residents. For this purpose, high net-worth individuals are individuals who hold property with the value in excess of GEL 3 million or whose annual income for each of the preceding three years exceeded GEL 200,000.

The Ministers of Finance and Justice of Georgia set the rules and conditions for granting the status of Georgian resident to high net-worth individuals. Under these rules, an individual qualifying as a high net-worth individual in Georgia may become a Georgian resident if he or she holds a local personal identification card or residence permit and/or proves the receipt of annual Georgian-source income of GEL 25,000 or more. If these conditions are satisfied, the Ministry of Finance of Georgia grants Georgian residency to such individual for a tax year based on the submitted application.

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 types of compensation or benefits, whether received in cash or in any other form, subject to certain exceptions.

Self-employment and business income. Tax is levied on an individual entrepreneur's annual income, which consists of gross income less expenses (except for nondeductible or partially nondeductible expenses) incurred in earning the income.

Directors' fees. Directors' fees are included in taxable income.

Investment income. A 5% withholding tax is imposed on dividends paid by Georgian enterprises to individuals. Dividends received by resident individuals that were taxed at source are not included in the gross income of such individuals and are not subject to further taxation.

The following dividends are taxed at source and are included in the gross income of recipients:

- Dividends received from International Financial Companies (financial institutions established outside the Free Industrial Zone and granted such status)
- Dividends received from International Companies (Free Industrial Zone companies granted such status for the purpose of tax benefits)
- Dividends on free-floating securities (securities listed on a stock exchange with free float rate in excess of 25% as of 31 December of the preceding or current tax year, according to the information provided by the issuer of these securities to the stock exchange)

The dividend withholding tax rate will be reduced to 3%, effective from 1 January 2013, and will be eliminated, effective from 1 January 2014.

A 5% withholding tax is imposed on interest payments made by Georgian residents and permanent establishments (PEs) of nonresidents if the source of interest income is in Georgia. Interest received by individuals that was taxed at source is not included in gross income and is not subject to further taxation.

The following interest is not taxed at source and is not further included in the gross income of the recipient:

- Interest received from financial institutions licensed according to the Georgian legislation
- Interest received from International Companies
- Interest on free-floating securities or on debt securities issued by Georgian enterprises and listed on a recognized foreign stock exchange

Interest withholding tax will be eliminated, effective from 1 January 2014.

Other income. Inheritances and gifts received are generally included in taxable income. However, certain exceptions apply (see *Exempt income*).

Nonresidents' income. Georgian source income of a nonresident that is not related to a PE of the nonresident in Georgia is subject to tax at the source of payment. Income derived by nonresidents from international telecommunication and international shipping services is taxed at a 10% rate. A 4% rate applies to the income received from the oil and gas operations of nonresident subcontractors under the Law of Georgia on Oil and Gas. Other payments to nonresidents deemed to represent income received from a Georgian source are taxed at source at a rate of 15%.

Exempt income. Income derived by individuals that is exempt from income tax includes the following:

- Income derived by nonresidents from employment with diplomatic or equalized organizations located in Georgia
- Grants, state pensions, state compensation, state scholarships, cumulative and repayable pensions from private pension schemes up to the amount of the contributions made and other specific government payments
- Alimony
- Capital gains derived from the sale of vehicles that were held for more than six months
- Capital gains derived from the sale of apartments or houses together with the attached land plot that were held for more than two years
- Capital gains derived from the sale of assets (other than vehicles and apartments or houses) that were held for more than two years and that were not used for economic activities
- Capital gains derived from the receipt of real estate in exchange for a partner's share that was held for more than two years
- Property received by a I or II level legatee gratuitously or by inheritance
- Property received by a III and IV level legatee, up to GEL 150,000, gratuitously or by inheritance
- Property with the value of up to GEL 1,000 received gratuitously during a tax year, other than property received from an employer
- Amounts paid to a donor for food required for the restoration of blood
- Until 1 January 2014, income received by individuals from the initial supply of agricultural products before their reproduction (change of code) and salary payments received from these individuals by their employees if such income does not exceed GEL 200,000 during a calendar year
- Gains derived from the sale of securities issued by International Financial Companies
- Gains derived from the sale of free-floating securities
- Georgian-source income of a nonresident received from insurance, reinsurance and finance lease services not related to his or her PE in Georgia
- Interest income and gains derived from the sale of bonds issued by the government of Georgia or the National Bank of Georgia (NBG)
- Income of resident individuals received from foreign sources
- Lottery winnings up to GEL 1,000
- Income received by a nonresident individual from a nonresident employer for employment executed in Georgia for up to 30 calendar days in a tax year paid, if such salary expenses are not attributable to the PE of a nonresident in Georgia, regardless of whether the payment is made by the PE
- Income received from the transfer of property by a partnership to its members if, at the moment of the transfer, the members of the partnership consist only of individuals, the members have not changed since the establishment of the partnership, and the partnership is not a value-added tax (VAT) payer

Taxation of employer-provided stock options. Employer-provided stock options are a taxable benefit.

Capital gains and losses. Capital gains are subject to regular income tax when they are realized. Unrealized capital gains are not subject to tax.

Individual entrepreneurs may offset their capital losses against proceeds received from the sale of property. If the loss cannot be offset in the year of the loss, it may be carried forward to offset proceeds from sales of property in the following 5 or 10 years (see *Relief for losses*).

Individuals who are not entrepreneurs may offset losses from the sale of assets against gains from the sale of the same type of assets. However, if a loss cannot be offset in the year in which it is incurred, the loss may not be carried forward.

Deductions

Personal deductions and allowances. The Tax Code of Georgia (TCG) does not allow any deductions from gross salary.

Business deductions. Taxpayers may deduct all documented expenses contributing to the generation of taxable income (for example, expenditure for materials, depreciation deductions, lease payments, wages and interest payments), except for expenses of a capital nature and expenses that are nondeductible or partially nondeductible.

A taxpayer may deduct the gain derived from the gratuitous supply of goods and services from his or her gross income, subject to the restrictions imposed by the TCG in the reporting year in which such goods or services are used in an economic activity.

Nondeductible expenses include the following:
- Expenses that are not related to economic activities, except for contributions to charity funds. However, such contributions are deductible only up to 10% of taxable income before deduction of charitable expenses.
- Entertainment expenses, unless a taxpayer is engaged in entertainment business and the expenses have been incurred in the framework of such activity.
- Expenses incurred for personal consumption and costs related to the winnings received from lotteries, casinos (gambling houses), games of chance or other winning games.
- Expenses related to generation of income that is exempt from income tax.
- Penalties and fines paid or payable to the Georgian state budget.
- Income tax, except for income tax paid by an individual with respect to receiving a benefit (with the exception of a benefit received from employment and economic activities).
- Interest expenses above the established limit of 24% per year.
- Representative expenses in excess of 1% of gross income earned during the tax year.
- Expenses incurred on goods and services purchased from an individual with the status of micro business (see Section E).
- Bad receivables may be deducted only if the respective income was previously included in gross income and if such receivables have been written off in the accounting books. Certain conditions provided by the TCG must be met for the receivable to be considered a bad receivable.
- Capital repair expenses for fixed assets in excess of 5% of the balance of the corresponding group of fixed assets at the end of the preceding tax year. These expenses are added to the group and deducted through depreciation. However, such expenses are immediately expensed if a person applies the full depreciation method (see below).

- Insurance premiums paid by insured parties under pension insurance agreements.

Expenditures on tangible assets are deducted in the form of group depreciation charges through the application of the diminishing-balance method. The following are the rates for the depreciation groups.

Group	Rate (%)
I	20
II	20
III	8
IV	5
V	15

Depreciation may not be claimed for land, works of art, museum items, historical objects (except for buildings), fixed assets with a value under GEL 1,000 and biological assets (animals and plants). Fixed assets with a value below GEL 1,000 can be fully deducted from gross income in the year in which their exploitation begins. Expenditure on biological assets may be deducted in the year when it was incurred. Taxpayers may claim accelerated depreciation norms with respect to the II and III groups. However, such accelerated depreciation may not be more than double the amount of the rates mentioned above. In addition, repair expenses on rented fixed assets (if they do not reduce the rental fee) result in the creation of a separate group of assets that is depreciated at the rate set for Group V. On the expiration or termination of the rent agreement, the remaining balance value of the group may not be deducted from gross income and the value of the group is set to zero.

Alternatively, the cost of fixed assets purchased or produced (except for nonamortized fixed assets or assets supplied under a finance lease) can be depreciated at a rate of 100% in the year in which the exploitation of such assets begins. A taxpayer selecting the full depreciation method may not change it for five years.

Each fixed asset supplied under a finance lease creates a separate group and is depreciated according to the special rules provided by the Minister of Finance of Georgia.

Expenditures on intangible assets are deducted in proportion to the useful life of the assets. If it is impossible to determine the useful life of an intangible asset, a 15% rate applies. In addition, expenditure on intangible assets with a value below GEL 1,000 can be fully deducted from the gross income in the year in which the respective expenditure is incurred.

Rates. The personal income tax rate is 20%. The tax rate will be reduced to 18%, effective from 1 January 2013 and to 15%, effective from 1 January 2014.

For a sample tax calculation, see Appendix 2.

Credits. Because the income of resident individuals received from foreign sources is exempt from personal income tax, no foreign tax credits are allowed.

Relief for losses. Individual entrepreneurs may carry forward operating losses for up to five years to offset future operating profits. The offsetting of loss carryforwards against the salary income of individual entrepreneurs is not allowed.

Losses may be carried forward for up to 10 years. However, the statute of limitations is 11 years for a 10-year carry forward period, and 6 years for a 5-year carry forward period. A 10-year carry forward period may be changed to a 5-year carry forward period if the losses carried forward are used up. No loss carrybacks are allowed.

B. Other taxes

Inheritance and gift taxes. Georgia does not impose gift taxes. As mentioned in Section A, inheritances and gifts are subject to general income taxation.

Wealth tax. Georgia does not impose wealth tax or net worth tax.

Property tax. For individuals, the following items are subject to property tax:
- Owned immovable property (buildings or parts of buildings)
- Unfinished construction
- Yachts, planes and helicopters registered in Georgia
- Property received from nonresidents under finance leases

In addition, for individuals carrying out economic activities, the following items are taxable:
- Fixed assets (except for biological assets and property received from residents under finance leases)
- Unassembled equipment
- Intangible assets
- Property granted to other parties under finance leases

Property located in the Free Industrial Zone is exempt from tax.

The property tax rates for taxable property, 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	100,000	0.05 to 0.2
100,000	—	0.8 to 1

Property tax is a local tax. The local government for the location of the property fixes the rate within the above ranges.

The property tax rates for agricultural land vary according to the administrative unit and the land quality. The annual base tax rate per 1 hectare varies from GEL 1.5 to GEL 100. The local government fixes the rate for land at up to 150% of the above annual base tax rate.

The base tax rate for nonagricultural land is GEL 0.24 per square meter. The local government adjusts the rate by a territorial coefficient of up to 1.5.

C. Social insurance tax

Contributions. Georgia does not impose social insurance tax.

Totalization agreements. Georgia is not a party to any international agreement 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, foreign representative offices and individual entrepreneurs, except for Free Industrial Zone companies with respect to salary payments to their resident employees) must withhold personal income tax from the salaries paid to resident and nonresident employees in Georgia.

A nonresident person making salary payments that are not attributable to its PE in Georgia is exempt from the obligation to withhold tax at the source of payment. In this case, the employee may calculate the tax liability, file a tax return and pay tax.

Tax agents who withhold personal income tax at source file monthly tax returns by the 15th day of the month following the reporting month. In addition, a tax agent must file an annual form containing information about the income recipients, income paid and taxes withheld within 30 calendar days following the tax year.

Resident individuals and nonresident individuals who derive income that was not taxed at the source of payment in Georgia must file personal income tax returns before 1 April of the year following the tax year.

Individual entrepreneurs engaged in economic activities in Georgia must make current tax payments during the tax year. Each current tax payment equals 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. A balancing payment must be made before 1 April of the year following the tax year. Individuals who did not derive income during the preceding tax year are not required to make current tax payments.

If an individual has made current tax payments (or has no obligation to make current tax payments) due for the tax year, the submission date can be extended for up to a further three months by notifying the Georgian Tax Authorities (GTA) before the filing deadline. Personal income tax returns can be amended within the statute of limitation (6 or 11 years).

Individual entrepreneurs must file a final tax return within 30 days following the cessation of their economic activities in Georgia. In the following periods, they are not required to file a tax return until the resumption of economic activity.

E. Special tax regimes

Individuals may obtain the special status of micro business and individual entrepreneurs may obtain the status of small business. On obtaining these statuses, individuals become eligible for certain simplified accounting rules and tax exemptions. The GTA grants the statuses to individuals.

Micro business. The status of micro business can be granted to individuals who satisfy the following conditions:
- They conduct economic activities independently without hiring employees.

- They receive annual gross income up to GEL 30,000.
- They maintain an inventory balance up to GEL 45,000.

The government determines the prohibited activities for individuals with the status of micro business, as well as the types of income that are not taxed under the special tax regime and that are not included in the calculation of the above gross income threshold.

Individuals with the status of micro business are exempt from personal income tax. However, they must maintain all primary tax documentation. In addition, such individuals must file a tax return annually except for individuals operating in a Special Trade Zone.

The status of micro business is cancelled for the current tax year if any of the above requirements for micro business are violated or if an individual with the status of micro business applies to the GTA for cancellation of the status or obtains the status of small business. Within 30 days from cancellation of the status, the income of an individual accrued from the moment of cancellation of the status is taxed according to the rules for small business if such status is obtained or is taxed according to the standard personal income tax rules.

Small business. The status of small business can be granted to individual entrepreneurs who satisfy the following conditions:

- They receive annual gross income from economic activities up to GEL 100,000.
- They maintain an inventory balance up to GEL 150,000.
- They are not registered VAT payers.

The government determines prohibited activities for individuals with the status of small business, as well as the types of income that is taxed under the regime and that are not included in the calculation of the above gross income threshold.

Individuals with the status of small business are liable for personal income tax at a rate of 5% of total gross income. The tax rate is reduced to 3% if such individuals have documentary proof of expenses (other than salary expenses) related to the receipt of gross income that total 60% of gross income or if they conduct activities only in a Special Trade Zone.

Individuals with the status of small business must maintain records of expenses in the form of a special register as specified by the Minister of Finance of Georgia. They must also maintain all primary tax documentation. Losses generated by individuals with the status of small business cannot be carried forward.

Individuals with the status of small business, other than those operating in a Special Trade Zone, must file a tax return annually.

Individuals with the status of small business must make current tax payments by the 15th day of the month following each calendar quarter. They are not required to withhold taxes on salary payments in an amount not exceeding 25% of their gross income and on compensation payments for services received.

The status of small business is cancelled for the current tax year if any of the above requirements for small business are violated or if an individual with the status of small business applies to the GTA for cancellation of the status.

On cancellation of the status of small business, individual entrepreneurs may record the balance of inventory up to GEL 30,000 on a special document by applying market prices. This document may be used as a documentary proof of expenditure on inventory. In the latter case, it must include the value of the balance of inventory in their gross income. Individual entrepreneurs may credit the VAT on the balance of inventory if they register for VAT and have the document that must accompany the VAT credit.

On the cancellation of the status of small business, individual entrepreneurs must file a personal income tax return and pay tax accrued up to that moment within 30 calendar days from the cancellation of the status.

F. Double tax relief and tax treaties

Georgia has entered into tax treaties with the following countries.

Armenia	France	Malta
Austria	Germany	Netherlands
Azerbaijan	Greece	Poland
Belgium	Iran	Romania
Bulgaria	Ireland	Singapore
China	Italy	Turkey
Czech Republic	Kazakhstan	Turkmenistan
Denmark	Latvia	Ukraine
Estonia	Lithuania	United Kingdom
Finland	Luxembourg	Uzbekistan

Georgia considers none of the tax treaties of the former USSR to be in force. Georgia has signed and ratified tax treaties with Egypt, Israel, Kuwait, Spain and Switzerland, but these treaties have not yet entered into force.

Tax treaties have been initialed with Bahrain, Cyprus, India, Qatar, the Slovak Republic, Slovenia and the United Arab Emirates.

Tax treaty negotiations are underway with Argentina, Belarus, Belize, Brazil, Hungary, Jordan, Korea (South), Liechtenstein, Marshall Islands, Norway, Panama, Portugal, Seychelles and Sweden.

Most of Georgia's tax treaties exempt individuals from tax 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.
- The cost of the income is not borne by a PE of the employer in Georgia.

Tax benefits granted by the tax treaties can be claimed in accordance with the rules established by the Minister of Finance of Georgia.

G. Visas

The legal basis for a foreign citizen's stay in Georgia is a visa, residence permit (permanent or temporary) or refugee status. Citizens of the following countries are not required to have a visa to enter Georgia and stay in the country for up to 360 days.

Andorra
Antigua and Barbuda
Argentina
Australia
Bahamas
Bahrain
Barbados
Belize
Botswana
Brazil
Brunei Darussalam
Canada
Chile
Commonwealth of Independent States countries (except for the Russian Federation and Turkmenistan)
Costa Rica
Croatia
European Union member states
Iceland
Israel
Japan
Korea (South)
Kuwait
Liechtenstein
Malaysia
Mauritania
Mexico
Monaco
New Zealand
Norway
Oman
Panama
Qatar
St. Kitts and Nevis
San Marino
Saudi Arabia
Seychelles
Singapore
South Africa
Switzerland
Thailand
Trinidad and Tobago
United Arab Emirates
United States
Uruguay
Vatican City

Georgian visas may be issued for single, double or multiple entries.

Georgian visas are issued at the Georgian diplomatic representations and consular offices abroad. Under certain circumstances provided by Georgian law, an authorized body under the Ministry of Internal Affairs may give permission to a foreigner to enter Georgia without any travel documents and stay in Georgia for a three-month period. The Public Law Entity—Civil Registry Agency under the Ministry of Justice of Georgia may issue personal or tourist visas to foreigners who have entered Georgia legally.

H. Work permits

Work permits are not required for foreign nationals employed in Georgia.

I. Residence permits

The Public Law Legal Entity—Civil Registry Agency under the Ministry of Justice of Georgia issues residence permits.

The consideration of the application for the issuance or extension of a residence permit may not exceed 30 days from the date of submission of all necessary documents to the above agency. After considering the application, the agency must inform the foreigner about the results of such consideration.

Temporary residence permits are issued for a duration of up to six years to foreign individuals if they intend to stay in Georgia and if they meet one of the following conditions:
- They are employed in Georgia in compliance with the requirements of the Georgian laws, or are self-employed in Georgia.
- They arrived in Georgia for medical treatment or for educational purposes.
- They are invited as highly-qualified specialists or art workers by a government agency or their invitation is linked to state interests.
- They are guardians or curators of citizens of Georgia.
- They are under guardianship or curatorship of citizens of Georgia.

- They are spouses, parents, children, foster parents, foster children, sisters, brothers, grandfathers or grandmothers of citizens of Georgia or foreigners holding residence permits in Georgia.

Permanent residence permits may be issued to the following individuals:
- A foreigner who has lived in Georgia legally within the last six years. This period does not include a period of stay in Georgia for medical treatment or educational purposes and a period of employment at diplomatic missions and representations of equal status.
- A spouse, parent, child, foster parent, foster child, sister, brother, grandfather or grandmother of a citizen of Georgia.
- A highly qualified scientific expert or technician, sportsman or art worker, whose arrival in Georgia is consistent with the interests of Georgia.

To obtain a residence permit in Georgia, a foreigner or his or her authorized representative must file an application with the Public Law Legal Entity—Civil Registry Agency. A foreigner who is outside Georgia may file an application through a Georgian diplomatic representation or consular office. Submission of an application is not required for an individual if the database of the agency contains the information provided in the application. However, this rule does not apply to submission of an application to a Georgian diplomatic representation or consular office abroad.

A foreigner who obtains a residence permit through a Georgian diplomatic representative in his or her country must register with the Public Law Legal Entity—Civil Registry Agency according to his or her place of residency within one month after entering Georgia. A foreigner who obtains a residence permit through this agency in Georgia must register at the agency within one month after obtaining the permit.

J. 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. This translation needs to be notarized in Georgia.

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	—	—
Employer-provided housing	X	—	(b)
Housing contribution	X	—	(b)
Education reimbursement	X	—	(c)
Use of employer's automobile	X	—	(d)

	Taxable	Not taxable	Comments
Receipt of low-interest or interest-free loans	X	—	(e)
Payment of a debt or obligation by employer on behalf of employee	X	—	(f)
Insurance premiums	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving (relocation) expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	—	X	(b)
Reimbursement of per diems	—	X	(g)
Reimbursement of representation expenses	—	X	—
Other items			
Foreign-source personal ordinary income (dividends and interest)	—	X	(h)
Capital gain from sale of personal residence in home country	—	X	(h)
Capital gain from sale of shares in home country	—	X	(h)

(a) This concept does not exist in Georgia.
(b) Reimbursements of housing (hotel) expenses incurred on business trips are not taxable if they are within the norms specified by the Ministry of Finance of Georgia. The norms vary according to the country. Otherwise, housing is taxable.
(c) Reimbursements of expenses incurred for the education of an employee are not taxable if they are directly related to business needs as opposed to personal needs. All other educational reimbursements are taxable.
(d) The receipt of an automobile for private use is taxable at a rate of 0.1% of the book value of the automobile at the beginning of the tax year for each day the automobile is at the disposal of the employee for private use.
(e) A low-interest rate is a rate below 20%. The amount taxable is the difference between interest payable at a rate of 20% and interest payable at the low rate.
(f) The amount taxable is the amount of the debt or obligation.
(g) Reimbursements of per diems (daily allowances) during a business trip within the norms specified by the Ministry of Finance of Georgia are not taxable. The amount of the daily allowance varies according to the country and the duration of the business trip.
(h) Income of resident individuals received from foreign sources is exempt from personal income tax.

Appendix 2: Sample tax calculation

A sample tax calculation for 2011 is provided below for an expatriate who is a resident of Georgia for 2011 and is married with two dependent children under 18 years old. During 2011, the expatriate received gross salary of GEL 120,000. GEL 100,000 of this amount was paid for the expatriate's employment in Georgia, while the balance of GEL 20,000 was paid for his employment in his home country. The expatriate's employer also provided a living accommodation for the whole year, which was rented at an annual cost of GEL 10,000. The employer 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
Salary	100,000 (a)
Benefits:	
Living accommodation	10,000 (b)
Education reimbursement	5,000
Income taxable at 20% rate	115,000 (c)(d)
Tax payable at 20% rate	23,000

(a) A GEL 20,000 portion of the expatriate's salary income is foreign-source income because it is not related to his employment in Georgia. Consequently, it is exempt from tax in Georgia.
(b) The receipt of a living accommodation for private use is considered salary income. It is taxed at a rate of 20% of the annual rental expenses of the employer with respect to this living accommodation (prorated for shorter periods).
(c) Marital status and dependants are not taken into account in the calculation of taxable income.
(d) Income of resident individuals received from foreign sources is exempt from personal income tax. Consequently, the dividends and interest received from foreign sources are exempt from tax.

Germany

(Country code 49)

Munich **GMT +1**

Ernst & Young
Arnulfstrasse 126
80636 Munich
Germany

Executive contacts

Ulrike Hasbargen *(resident in Munich)*	(89) 14331-17324 Fax: (89) 14331-13680 Email: ulrike.hasbargen@de.ey.com
Lee B. Serota, *U.S. Tax Desk* *(resident in Frankfurt/Eschborn)*	(6196) 996-26450 Fax: (6196) 996-550 Email: lee.b.serota@de.ey.com

Immigration contact

Florian Brandl *(resident in Frankfurt/Eschborn)*	(6196) 996-27327 Fax: (6196) 996-27174 Email: florian.brandl@de.ey.com

International High Net Worth Group contact

Dr. Christian Reiter *(resident in Munich)*	(89) 14331-16539 Fax: (89) 14331-13680 Email: christian.reiter@de.ey.com

Performance and Reward contact

Dr. Jens Massmann *(resident in Frankfurt/Eschborn)*	(6196) 996-24574 Fax: (6169) 996-24416 Email: jens.massmann@de.ey.com

Social security contact

Thorsten Koch (211) 9352-10454
(resident in Duesseldorf) Fax: (211) 9352-10639
Email: thorsten.koch@de.ey.com

A. Income tax

Who is liable. Individuals are subject to tax on their worldwide income if they meet either of the following conditions:
- They have a domicile in Germany for their personal use.
- They have a "customary place of abode" in Germany. This means that 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 generally 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% or more of their worldwide income or their income not subject to German taxation does not exceed the amount of €8,004 per calendar year. This provision allows nonresidents to file German income tax returns like residents and to claim all deductions and allowances normally granted to residents.

Income subject to tax. German income tax law distinguishes among several categories of income, including income from employment, self-employment, investment, business and real estate. Income from each of the categories is combined, and taxable income is then determined by subtracting special deductions. However, income from investment is generally taxed at source with a flat tax rate.

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
- 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 actual moving expenses, education expenses for employees or contributions to a pension plan up to certain limits.

Allowances paid to foreign employees working in Germany, including foreign-service allowances, cost-of-living allowances and housing allowances, are considered to be employment income and generally do not receive preferential tax treatment.

Education allowances generally provided by employers to their employees' children must be considered for income tax and social security purposes. Under specified circumstances, on filing a personal income tax return, 30% of school fees is deductible for tax purposes as special expenses (see *Deductions*). However, this deduction is limited to €5,000 for each child.

In addition, two-thirds of child-care expenses (for example, kindergarten, babysitter and nanny) are deductible for tax purposes as special expenses or income-connected expenses, up to a maximum deduction of €4,000 per year depending on the age of the child and the performance of an occupation by the parents.

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 income tax rates. However, the basic tax-free allowance in the amount of €8,004 is not considered.

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 generally subject to value-added tax at a rate of 19% on fees received.

Investment income. Investment income, such as dividends and interest, is taxed at a flat tax rate of 25%, which must be withheld at source by the payer. A solidarity surcharge (5.5% of the flat withholding tax) and church tax, if applicable, (8% or 9% of the final withholding tax, depending on the location) is added. The flat withholding tax is the final tax. In general, investment income taxed at source does not have to be declared in the German income tax return. However, if the investment income was not subject to the flat tax withholding at source (in particular, capital investment income from foreign sources), the total annual investment income must be declared in the tax return. Taxpayers with an average personal income tax rate below 25% can apply the lower tax rate to the investment income that is declared in the German income tax return.

Negative investment income cannot be deducted from income of other sources. However, a net investment loss can be carried forward to be credited against future positive investment income. A special loss consideration rule applies to capital gains derived from the sale of shares.

Investment income is tax-free in an amount of €801 per year for a single taxpayer (€1,602 per year for a married couple filing jointly). Actual expenses higher than the lump-sum amount cannot be deducted. If the investor has provided the investment institution with an exemption order or a certificate of non-assessment, the final withholding tax is not deducted up to the amount of tax-free income.

Income from rentals and leases of real property located in Germany is taxed by assessment.

Taxation of employer-provided stock options. Tradable and nontradable stock options must be distinguished.

In general, stock options provided by employers are nontradable. For employer-provided nontradable 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, the taxable event occurs at exercise, and an amount equal to the difference between the fair market value of the stock at the date of exercise and the exercise price must be included in employment income. This amount is generally subject to tax at the ordinary progressive tax rates and may qualify for treaty relief. The taxable benefit may qualify for a reduction granted for compensation received for services performed over a period of several years (see *Personal deductions and allowances*). The grant of nontradable options is considered to be an additional incentive for future services. Consequently, such grant is considered to be compensation for services rendered during the period between the grant date and the date of vesting. For expatriates, the spread is allocated by reference to the work performed during the period between the grant date and the vesting date if treaty relief is available.

Tradable options may result in taxation either at time of grant or exercise depending on the details of the stock option plan. In both cases, for expatriates, a certain portion might not be taxable in Germany and may qualify for treaty relief.

For the capital gains treatment of shares acquired due to stock options, see *Capital gains*. To determine the amount of the capital gain, the acquisition price is deemed to be the fair market value at the date the option is exercised.

Capital gains

Real estate. Gains derived from the disposal of real estate held not more 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. The gain from such disposal is tax-free if the total gains in the calendar year amount to less than €600.

Sales of securities. Gains on the sale of shares are not subject to tax if all of the following conditions are satisfied:

• The shares were acquired before 1 January 2009.
• The vendor had a participation of less than 1% in the company.
• The shares were held by the vendor for more than one year.

Losses incurred on the sale of shares acquired before 2009 can be deducted from taxable gains from the sale of shares and certain other assets, particularly real estate, until the end of 2013. If losses incurred on the disposal of shares before 2009 are not balanced by 31 December 2013, they cannot be offset against gains from the sale of shares, and they may only be offset against gains from the sale of certain other assets (for example, real estate) as of 2014.

Gains derived from the sale of shares acquired after 31 December 2008 are subject to the 25% withholding tax mentioned in *Investment income*, regardless of the holding period. The gain is fully taxable. Losses incurred on the sale of shares acquired after 31 December 2008 can only be offset against gains derived from the sale of shares. Any remaining losses can be carried forward to the following calendar year.

Gains derived from a disposal of shares of a corporation are considered to be business income rather than investment income if the vendor has held a direct or indirect participation of at least 1% of the corporation in the last five years.

Sales of certain other assets. Gains derived from the disposal of certain other assets (not convenience goods, which are necessities or goods for day-to-day use) are not subject to tax in Germany if the individual holds them for more than one year. If the individual realizes income on these assets in at least 1 calendar year, the holding period is extended to 10 years. If the individual sells the assets before the expiration of the 10-year period, the gain derived from the disposal is subject to tax in Germany. A possible loss from the sale is subject to certain restrictions.

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 for business reasons
• Professional books and periodicals
• Membership dues paid to professional organizations, labor unions and similar bodies
• Child-care expenses (subject to certain limitations; see *Employment income*)

A standard deduction of €920 per year for business-related expenses is granted without any proof. However, an employee can claim a larger deduction if he or she proves that the expenses actually paid exceed this amount.

For retirees, the standard deduction is €102 per year.

Premiums under contracts for life, health, accident or liability insurance, regular payments to German building societies and compulsory payments to various forms of social security are deductible as special expenses within certain limits. Payments to foreign insurance companies are deductible only if the respective company has a registered office or an executive board in the European Union (EU) or a contracting member state of the European Economic Area (EEA) and is authorized to perform its insurance services in Germany. Other foreign insurance companies are required to hold a permit to operate in Germany. The deductions will be increased over the next years following the increasing of taxation of the future benefits.

Seventy-two percent of the employees' portion of the following payments, limited to an annual total of €20,000 less the tax-free employer's contribution, is deductible:
- Compulsory state old age insurance
- Certain professional group pension plans
- Qualifying life annuity pensions

Premiums for basic health care services under German social security law are deductible only as special expenses. Fees for additional services relating to private health care plans are not deductible.

Contributions under contracts for nursing care insurance entirely qualify as deductible special expenses.

In addition, taxpayers may claim deductions for contributions to health and nursing care insurance paid for spouses subject to unlimited taxation, common-law spouses and children for whom the taxpayer is entitled to receive child-care allowances under German regulations. The deduction is subject to the above-mentioned restrictions.

Other insurance contributions under contracts for unemployment, disability, accident, liability and life insurance are deductible only up to €1,900 for employees (€2,800 for all others), provided that this limit has not already been reached by contributions to health and nursing care insurance.

For an interim period up to 2019, the total deduction for insurance premiums available under the new law is compared to the total deduction under the law before 2010, and the highest possible deduction is granted.

Other items that may be claimed as special deductions include church tax and donations. Instead of itemizing these other items, a standard deduction of €36 (€72 for married couples filing jointly) per year is granted.

Personal deductions and allowances. The following tax benefits are granted to individuals:
- A basic tax-free allowance of €8,004 is available for single individuals (€16,008 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. This tax relief is also granted to individuals who are nonresidents for tax purposes.
- Private use of a company car is generally subject to income tax. However, it benefits from preferential tax treatment.

- Income derived on business days spent in foreign countries may be exempt from tax in Germany under the progression clause generally contained in tax treaties. However, proof of actual foreign tax paid or a waiver of the taxation of such income by the foreign tax authorities is required.

Taxpayers with children receive children-related deductions for the following:
- Each child under 18 years of age
- Each child under 21 years of age if the child is jobless
- Each child under 25 years of age if the child is attending school, college or university, or is receiving vocational training

The children allowance equals €182 for each child for each month of eligibility. Parents filing a joint return receive an allowance of €364 per child per month. The allowance in the amount of €364 also applies to a single parent if the 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 €110 (€220 under the circumstances mentioned above) is also granted for each eligible child. German tax residents and foreign individuals with certain residence titles are entitled to a monthly child subsidy payment of €184 per child for the first two children, €190 for the third child and €215 for the fourth child. The subsidy described above relates to children who are resident in the EU/EEA and qualify for the deductions mentioned above. Taxpayers who are entitled to claim child subsidy payments cannot benefit from both the child-related deductions and the child subsidy payments. When the income tax return is filed, the tax authorities determine automatically whether the child-related deductions or the child subsidy payments are more favorable to the taxpayer. The child-related deductions are not considered for wage tax withholding purposes, but they are considered in calculating the solidarity surcharge and church tax (if applicable), which is withheld via the payroll.

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 2011 gradually increase from an effective rate of 14% to a top marginal rate of 42%. The top rate of 45% applies if taxable income exceeds €250,730 (€501,460 for married taxpayers filing jointly). If taxable income is between €52,882 (€105,764 for married couples filing jointly) and €250,730 (€501,460 for married couples filing jointly), the top rate is 42%.

The following tables present the tax on selected amounts of taxable income in 2011.

Single taxpayers and married taxpayers filing separately

Taxable income €	Amount of tax* €	Effective tax rate %	Marginal tax rate %
30,000	5,625	18.75	31.53
40,000	9,007	22.52	36.10
50,000	12,847	25.69	40.68
60,000	17,028	28.38	42.00

Single taxpayers and married taxpayers filing separately

Taxable income €	Amount of tax* €	Effective tax rate %	Marginal tax rate %
70,000	21,228	30.33	42.00
80,000	25,428	31.79	42.00
100,000	33,828	33.83	42.00
120,000	42,228	35.19	42.00

Married taxpayers filing jointly

Taxable income €	Amount of tax* €	Effective tax rate %	Marginal tax rate %
30,000	2,820	9.40	24.67
40,000	5,402	13.51	26.95
50,000	8,212	16.42	29.24
60,000	11,250	18.75	31.53
70,000	14,518	20.74	33.82
80,000	18,014	22.52	36.10
100,000	25,694	25.69	40.68
120,000	34,056	28.38	42.00

* 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 "tax exemption under progression clause." 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% solidarity surcharge continues to be imposed on the income tax liability of all taxpayers. If a German tax resident is a member of a church entitled to impose church tax, church tax is assessed at a rate of 8% or 9% on income tax liability, depending on the location.

Business income is subject both to income tax and to trade tax. Trade tax rates vary, from 7% to 17.5%, depending on location. Trade tax is not levied on income from self-employment or professional services.

Salaries of nonresidents are subject to withholding tax (that is, wage taxes and solidarity surcharge) at rates that apply to residents who have single taxpayer filing status. However, no church tax is due. The withholding tax is generally the final income tax liability. The withholding tax on directors' fees is 30%.

For sample tax calculations, see Appendix 2.

Relief for losses. Tax losses up to €1 million (€2 million for married taxpayers filing jointly) may be carried forward indefinitely. For income and trade tax purposes, the loss carryforward exceeding €1 million 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 (€1,023,000 for married taxpayers filing jointly) annually. A taxpayer has a limited right to choose whether a loss is carried back or carried forward to the following years.

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 €20,000 (no familial relationship) to €500,000 (spouse or common-law 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 2011, the rates include the following:
- Spouse, common-law spouse, children and parents (only in case of acquisition for the reason of death) of the transferor: up to 30%
- Parents (in other cases), siblings and grandchildren: up to 43%
- No family relationship: up to 50%

To prevent double taxation, Germany has entered into estate tax treaties with Denmark, France, Greece, Sweden, Switzerland and the United States. Germany is negotiating treaties with Finland and Italy.

C. Social security

Coverage. Social security taxes comprise the following five elements:
- Old-age pension
- Unemployment insurance
- Health insurance
- Nursing care insurance
- 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 EU regulations or a social security totalization agreement. 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 2011, contributions amount to 22.9% (19.9% for old-age pension and 3% for unemployment insurance) of employment income, up to €66,000 (special contribution ceilings apply to the Eastern German federal states) a year. Income exceeding €66,000 (special contribution ceilings apply to the Eastern German federal states) is not subject to these contributions. One-half of the contributions must be paid by the employer. Employees' portions must be withheld by employers from their monthly compensation.

Health insurance coverage is compulsory if an individual's annual employment income does not exceed €49,500 for 2011. The rate of the contribution is 14.6%. Health insurance contributions must be paid on employment income up to €44,550 for 2011. One-half of the contribution must be paid by the employer. In addition, the employee must bear a surcharge of 0.9% (maximum per month of €33.41).

Individuals who earn more than €4,125 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 amount they would receive under the compulsory scheme (maximum of €271.01 per month).

Every employee is asked to contribute to nursing care insurance. If an employee's income is less than €49,500 in 2011, coverage is compulsory. If an employee has private health insurance coverage, the employee must also contribute to the private nursing care insurance. Nursing care insurance contributions are levied at a rate of 1.95% 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.

A health insurance reform in Germany entered into force on 1 January 2009. Employees who are assigned to Germany may be affected by this reform and be required to pay additional contributions for private health insurance in Germany.

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	Croatia	Morocco
Australia	India	Switzerland
Brazil	Israel	Tunisia
Canada	Japan	Turkey
Chile	Korea (South)	United States
China	Macedonia	Yugoslavia*

* Germany honors the totalization agreement with Yugoslavia with respect to the successor countries except for Croatia, Macedonia and Slovenia.

Effective from 1 May 2010, new EC Regulation No. 883/2004 entered into force. This regulation determines, among other items, which social security legislation applies to employees posted to other EU member countries. The new regulation applies to the EU member countries. Effective from 1 January 2011, the coverage of the new social security regulation is extended to non-EU nationals (third-country nationals) moving within the EU, with the exception of Denmark and the United Kingdom.

EC Regulation No. 1408/71 on social security also applies, in general, to citizens of European Free Trade Association (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 entered into with each of the EU/EFTA countries 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 31 December if the return is prepared with the assistance of a tax adviser. Extensions beyond 31 December are granted only in very exceptional cases.

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. Nonresidents are generally not allowed to file joint income tax returns.

A special provision applies to EU citizens and citizens of EEA countries. On application, married EU and EEA citizens may file joint returns, even though their spouses are not German residents, but are living in an EU or EEA country. If they qualify, the favorable rates for married persons filing jointly apply (see *Rates*).

Employers must withhold income tax (known as wage tax) as well as solidarity surcharge and church tax, if applicable, on wages. In addition, social security contributions must be withheld.

Nonresidents may file an income tax return only if they have income that is not subject to withholding tax. If a nonresident's income is subject to withholding tax, such as income from dependent work or investment income, an income tax return generally cannot be filed. However, a nonresident can file a German income tax return if he or she is a citizen of an EU/EEA member state. Nonresidents are subject to the individual income tax rates but the basic tax-free allowance in the amount of €8,004 does not apply to income other than employment income.

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 must generally be paid within one month after 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 or if the personal income subject to taxation is declared.

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. Under the "national subject-to-tax-clause," Germany excludes foreign-source income only if the taxpayer proves that he or she paid foreign taxes on this income. In addition, Germany does not exempt foreign-source income from tax if the taxpayer does not qualify to be a resident for tax purposes in the other country or if the other country interprets the double tax treaty in a different manner that results in the income being exempt from tax or subject to limited tax. 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 tax exemption under progression clause).

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

Algeria
Argentina
Australia
Austria
Azerbaijan
Bangladesh
Belarus
Belgium
Bolivia
Bulgaria
Canada
China (a)
Côte d'Ivoire
Croatia
Cyprus
Czechoslovakia (b)
Denmark
Ecuador
Egypt
Estonia
Finland
France
Georgia
Ghana
Greece
Hungary
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Jamaica
Japan
Jersey (c)
Kazakhstan
Kenya
Korea (South)
Kuwait
Kyrgyzstan
Latvia
Liberia
Lithuania
Luxembourg
Malaysia
Malta
Mauritius
Mexico
Mongolia
Morocco
Namibia
Netherlands
New Zealand
Norway
Pakistan
Philippines
Poland
Portugal
Romania
Russian Federation
Singapore
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Syria
Tajikistan
Thailand
Trinidad and Tobago
Tunisia
Turkey (d)
Ukraine
USSR (e)
United Arab Emirates (f)
United Kingdom
United States
Uruguay
Uzbekistan
Venezuela
Vietnam
Yugoslavia (g)
Zambia
Zimbabwe

(a) The treaty with China does not cover Hong Kong and Macau.
(b) Germany honors the Czechoslovakia treaty with respect to the Czech Republic and the Slovak Republic.
(c) The Jersey treaty entered into effect on 28 August 2009. It is a limited treaty with regulations for pensions and students.
(d) The treaty has been cancelled, effective from 1 January 2011. According to information received by the Ministry of Finance, a new tax treaty is expected to be retroactively effective from 1 January 2011. However, the new treaty has not yet been ratified.
(e) Armenia, Moldova and Turkmenistan have agreed to honor the USSR treaty.
(f) The United Arab Emirates treaty was cancelled retroactively as of 1 January 2009. A new treaty, which would be effective from 1 January 2009, has been signed but not yet ratified.
(g) Germany honors the Yugoslavia treaty with respect to Bosnia-Herzegovina, Macedonia and Serbia.

Germany is negotiating double tax treaties with Albania, Colombia, Costa Rica, Jordan, Libya, Liechtenstein, Oman and Qatar.

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 (both new member states since 1 May 2004), face no restrictions from an immigration point of view when entering, staying permanently and working in Germany. Effective from 1 May 2011, the same rules also apply to citizens of the new member states joining the EU on 1 May 2004 (Czech Republic, Estonia, Latvia, Poland, the Slovak Republic and Slovenia), because the relevant seven-year transition period ended on that date. 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 stays exceeding three months, they must register with the German Registration Office within one week after entering Germany. In addition, they must notify the German Foreigner's Office within three months after entering Germany (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, EU nationals of old member states, as well as of EU member states joining the EU on 1 May 2004, are exempt from all visa and residence-title requirements (including Labour Office requirements), even if they arrive intending to accept or look for employment and want to stay for work purposes. In other words, these EU nationals may search for employment in Germany without residence title and a visa. In addition, the local Foreigner's Office may request proof of health insurance coverage and proof that the respective EU national has sufficient money to live in Germany during the period of the employment search.

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 exceeding three months, a certificate of labor mobility issued by the Foreigner's Office must be obtained (see Section G). Such certificate of labor mobility confirms the right of the EU national to work and stay legally in Germany.

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 three months), they must register with the Registration Office. In addition, they must apply for a German residence title, which is a document similar to the certificate of labor mobility, with the responsible Foreigner's Office (see Section G).

Under the Schengen treaty, nationals of Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and Switzerland may cross national borders of these states with only their identification cards and are not required to show valid passports, because these states joined the Schengen treaty. In addition, individuals from non-EU countries who have a residence permit in any of these Schengen countries can travel through the above states without an additional German visa and may stay there for a maximum time period of 90 days.

EU nationals from new member states joining the EU on 1 January 2007. EU nationals from the new member states joining the EU on 1 January 2007 (Bulgaria and Romania) may enter Germany for tourist or business trips without a visa, but still face some restrictions when entering Germany for work purposes. For example, they must apply for a separate work permit.

Effective from 2009, a new law extended the rights of nationals of the states listed above. Under this law, they have the same rights as citizens of the old EU states if they have a sufficient qualified education.

Nationals of the states listed above 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 Bulgaria and Romania 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 an exception in the German immigration law. This measure applies to, among others, citizens of Argentina, Australia, Bolivia, Brazil, Brunei Darussalam, Canada, Chile, Costa Rica, Croatia, El Salvador, Guatemala, Israel, Japan, Korea (South), Macau, Macedonia (as of January 2010), Malaysia, Mexico, Montenegro (as of January 2010), New Zealand, Nicaragua, Panama, Serbia (as of January 2010), Singapore, the United States and Uruguay. 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 trip 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 the following:
- Trainees (in limited cases)
- Individuals who intend to begin scientific activities in Germany
- Individuals who intend to engage in various activities in Germany exceeding three months

In certain cases, the approval of the Labour Office is not required to claim the above relief (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. The following are the types of German visas:

- Schengen visa, which allows a stay in Germany for specific purposes (for example, business activities) up to three months per half year. A Schengen visa is issued by the national authorities of the member states of the Schengen treaty, which are Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and Switzerland.
- National visa, which allows a stay exceeding a three-month period 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.

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.

Citizens from most preferred countries (Australia, Canada, Israel, Japan, Korea (South), New Zealand and the United States) may apply directly for a residence title for work purposes in Germany with the local German Foreigner's Office.

Citizens from the other countries must apply for a national German visa for work purposes 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 into Germany, a foreigner must apply with the Foreigner's Office for a temporary or permanent residence title. Effective from 1 January 2005, the German immigration law was amended to establish a "one-stop government" procedure. Under this procedure, the residence title granted by the Foreigner's Office and the work permit are included in one document. The work permit is no longer the subject of a separate procedure or a separate document. A 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 (except for nationals of Bulgaria and Romania; see Section F).

The Foreigner's Office automatically involves the Labour Office in the application procedure. Beginning on 1 May 2011, the approval process of the Labour Office is mainly centralized at the Central Immigration Authority of the Labour Office (Zentrale Auslands-und Fachvermittlung, or ZAV). The residence title now shows a note specifying the allowed purpose of the stay, the kind of work allowed and the name of the employer.

Under the German immigration law, various types of residence titles are available.

A temporary residence title (Aufenthaltserlaubnis) is granted primarily in connection with stays for working and education purposes, for family reasons and for humanitarian and political reasons. The residence title 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.

Another type of residence title is the permanent residence title (Niederlassungserlaubnis). The permanent residence title is an unlimited residence title, which includes an unlimited work permit with respect to the duration and the type of work. Approval by the German Labour Office is necessary for the granting of this title. The permanent residence title is generally granted if a foreigner holds a valid temporary residence title for more than five years and fulfills other conditions. The permanent residence title is also granted from the beginning of the work in Germany to certain individuals with special qualifications, including scientists, professors and other professionals, if the individual's salary exceeds a special limit, which is currently approximately €66,000 (2011) per year.

In August 2007, as a result of a change to the German immigration law, two new residence titles were established.

The first of the new resident titles is an unlimited German residence/work title, known as Daueraufenthalt EG, may be granted to non-EU citizens if they meet several conditions, including, but not limited to, the following:
• They have lived in Germany for more than five years.
• They can arrange for their subsistence.
• They have basic German language skills.
• They have enough living space.

After the Daueraufenthalt EG is granted, a foreign national may work in Germany without any time or local restrictions; that is, the Daueraufenthalt EG is not limited to a certain time period and a certain place of work.

The second new resident title is a limited German residence title that may be granted to non-EU citizens who intend to enter Germany for more than a three-month period and who have been granted the Daueraufenthalt EG status in another EU country (the conditions for this status are described in the preceding paragraph). Individuals who are issued this limited residence title must apply for a work permit separately. After the first work permit has been granted and a year has passed, simplified rules apply to these individuals.

Registration. Nationals from the old EU member states, as well as from the new member states that joined the EU on 1 May 2004, 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. Nevertheless, this document is relevant because it can be used as proof of the right of the foreigner to stay in Germany.

In general, the same rules apply to nationals of Bulgaria and Romania. However, these nationals must apply for a separate work permit at the Labour Office before they are legally allowed 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). In addition, the changes to the German immigration law in August 2007 included a simplified procedure for mechanical and electrical engineers of the 10 new Central European and Eastern European EU member states (now applicable only to citizens of Bulgaria and Romania). The Labour Offices no longer have to check the German labor market for the availability of engineers and, accordingly, do not have to grant priority to German employees.

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 states joining the EU on 1 May 2004, must complete a special form to obtain the confirmation. Forms are available at the Foreigner's Offices or on the official homepage of the Foreigner's Office. The relevant Foreigner's Office is determined based on the individual's intended place of residence. Nationals of Bulgaria and Romania, 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 who enter Germany after 1 January 2005.

H. Approval of the Labour Office and self-employment

General. As discussed in Section G, a separate work permit in Germany only exists for nationals of the new EU member states. For other nationals, the approval of the Labour Office is included when the Foreigner's Office grants the residence title for working purposes.

Exceptions. 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.
- 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 internal training for employees of a foreign company in international groups, construction of machines sold by the employer, implementation of respective software for the machines, and repair and maintenance services for machines sold by a foreign 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 belongs to 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 may work without the 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). In addition, as a result of the August 2007 changes to the German immigration law, a check of the German labor market and the granting of priority of German employees is no longer required with respect to students from any country if the students find an appropriate job after completing their studies.

The 2009 immigration law introduced easier access to the German labor market for graduates from German universities or German schools in foreign countries.

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 the old EU member states, as well as states joining the EU on 1 May 2004, do not need to obtain the approval of the Labour Office when registering with the Foreigner's Office because they are protected by the EU right of free movement. In addition, Swiss citizens do not need the approval of the Labour Office.

The right of free movement does not yet fully apply to nationals of Bulgaria and Rumania. 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 the old EU member states. For those states that joined the EU on 1 May 2004, the transition period ended on 30 April 2011. For the states that joined the EU in 2007 (Bulgaria and Romania), the transition period will end on 31 December 2012. During the transition period, the nationals of these new EU member states (beginning 1 May 2011, only Bulgaria and Romania) must apply to the German Labour Office for an EU work permit. In general, the EU work permit is limited to one year and renewable each year.

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 that is 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.

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 specialist professional and a leading employee with personnel responsibility should receive a positive decision. An individual can also receive approval if he or she participates in an international assignment project. 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 preferred 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 privileged 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). In addition, in certain cases, it may be required that the foreigner be employed by a German company.

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 Labour 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 on application for each 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.

Fast-track procedure. Simplified rules can apply to internal transfers within a company under certain conditions, including the following:

- A comparable number of employees of a corporate group are assigned from Germany to work abroad.
- A foreign employee is assigned to Germany for project work in Germany. For example, certain employees make preparations in Germany for a certain project abroad and the employees themselves will participate in the realization of the project in the future.

Under the fast-track procedure, the ZAV may decide quickly without checking the German labor market, and the local Labour Offices do not get involved.

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 Commercial Office (Gewerbeamt) and business and professional associations. These rules may also apply to managing directors who hold a relevant stake in the company of which they are managing directors.

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.

As a result of the August 2007 changes to the German immigration law, the rules for foreign self-employed persons were eased. These changes include, among others, the following:

- The amount of mandatory capital investment is reduced from €500,000 to €250,000, effective from 1 January 2009.
- Foreign self-employed persons now have to create 5 jobs instead of 10 jobs.

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 stays in Germany. The U.S. national needs only to register with the Registration Office and to 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. Effective from 2009, simplification rules for family members of employees with specific titles are introduced. These rules allow the family members simplified access to the German labor market.

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 dependants may receive residence titles if unreasonable hardship would otherwise exist.

Under the August 2007 changes to the German immigration law, spouses of non-EU citizens may not stay in Germany on a dependent residence permit if they are under 18 years old. In addition, they must have basic German language skills or a higher education before their entry into Germany. Also, spouses of non-EU citizens may stay in Germany on a dependant residence title only if the other spouse is at least 18 years old (among other conditions).

The authorization for work of family members granted with their residence title depends on the residence title of the foreign national. In general, the entitlement of the family members to work depends on the work entitlement of the foreign national. In the most important case, if the foreign national holds a permanent residence title (valid for an unlimited period of time), the spouse receives a temporary 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, a dependant's 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 permanent residence title 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 permanent title if the foreign national holds a permanent title.

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 the value of their statutory pro rata share of their deceased relative's estate, regardless of the provisions of any will or testament to the contrary.

Drivers' permits. Citizens of EU and EEA member countries may use their home country driver's licenses until the expiration date of the licenses for the entire length of their stays in Germany without applying for German licenses.

Other foreign nationals on assignment in Germany may drive for a maximum of six months if they have valid foreign drivers' licenses. A foreign national must apply for a German license with the Public Affairs Office (Ordnungsamt) within three years after the date of entry into Germany. Citizens of the following countries can apply for a German driver's license without a new examination.

Andorra	Jersey	San Marino
Croatia	Korea (South)	Singapore
French Polynesia	Monaco	South Africa
Isle of Man	New Caledonia	Switzerland
Israel	New Zealand	Taiwan
Japan		

U.S. citizens may apply without examination if they hold specified state drivers' licenses (for example, Alabama, Arizona, Ohio and Utah). In general, Canadian citizens may apply without a new examination. However, even if an individual described in this paragraph applies for a German driver's license, he or she may not drive in Germany with his or her home country driver's license after a six-month period beginning with the date of entry into Germany.

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. This rule does not apply to citizens of EU or EEA member countries, Hong Kong, New Zealand, Senegal and Switzerland.
- Original and photocopy of the foreign driver's license.
- Name of the German driving school that the foreign national wishes to attend to prepare for the practical and theoretical exam (only if exam is required).

After a three-year period, proof of eye examination and a certificate for training in first aid procedures are required.

Appendix 1: Taxability of income items

	Taxable*	Not taxable	Comments
Compensation			
Base salary	X	—	—
Employee's 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	—
Travel expenses reimbursement	—	X	(b)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	—
Tax advisor fees	X	—	(c)
Other items			
Foreign-source personal ordinary income (interest and dividends)	X	—	—
Capital gain from sale of personal residence for own use in home country	—	X	(d)
Capital gain from sale of personal residence that is rented out in home country	—	X	(e)
Capital gain from sale of stock in home country	X	—	(f)

* Bracketed amounts reduce taxable income.

(a) Reimbursements for expenses incurred for maintaining or improving the employee's skills needed in the employee's profession are not taxable. This contrasts with educational allowances paid for family members, which are included in taxable income.

(b) In general, business-related travel expenses, such as costs for lodging, can be reimbursed tax-free by the employer under specified conditions.

(c) Fees for tax services rendered for the benefit of the employee (in particular, tax return preparation) are included in taxable income. A partial deduction may be possible.

(d) The gain is not taxable if the residence is sold after more than 10 years. The capital gain from the sale is also not taxable if the residence was continuously used by the individual in the year of sale and the two preceding years.

(e) The gain is not taxable if the residence is sold after more than 10 years.

(f) For shares acquired after 31 December 2008, the gain is subject to a flat withholding tax at a rate of 25%, regardless of the holding period. Gains on the sale of shares are tax-free if the shares were acquired before 1 January 2009, if the vendor held a participation of less than 1% of the company and if the shares were held by the individual for more than one year.

Appendix 2: Sample income tax calculations

Sample general tax calculations for 2011 are provided below for individuals who are married with two children under the age of 18 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:			
Lump-sum for insurance premium	(6,831)	(6,831)	(6,831)
Standard deduction	(72)	(72)	(72)
Child care allowance (d)	(2,640)	(5,280)	(5,280)
Children allowance (d)	(4,368)	(8,736)	(8,736)
Taxable income (b)	60,169	128,305	278,161
Calculation of taxes and social security			
Income tax (income-splitting tax table)	11,304	37,482	100,482
Solidarity surcharge	503	2,061	5,526
Compulsory social security taxes (employee's contribution):			
Old age and disability insurance	6,567	6,567	6,567
Unemployment insurance	990	990	990
Health insurance (c)	3,653	3,653	3,653
Nursing care insurance (c)	434	434	434
Total taxes and social security	23,451	51,187	117,652
Calculation of take-home net income			
Employment income	75,000	150,000	300,000
Total taxes and social security	(23,451)	(51,187)	(117,652)
Child subsidy payment (d)	2,208	—	—
Take-home net income	53,757	98,813	182,348

(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) Under German tax rules, the amount of the claim for child subsidy payments is added back to the income tax if the deduction of the children/child care allowances provides for higher tax savings (the latter being the case in these examples). For reasons of clarity, the income tax shown excludes the child subsidy payment (€2,208 per child per year).
(c) The health and nursing care contributions are calculated based on the mandatory contributions to the state system (health insurance rate of 15.5%).
(d) For the calculation with respect to €75,000 of employment income, it is more favorable to consider the child care allowance and the children allowance only for one child. For the second child, the consideration of the child subsidy payments in the amount of €2,208 is more favorable.

Ghana

(Country code 233)

Accra **GMT**

Ernst & Young
Mail address:
P.O. Box 16009, Airport
Accra
Ghana

Street address:
G15 White Avenue
Airport Residential Area
Accra
Ghana

Executive and immigration contacts

Wilfred Okine	(302) 779-742 Fax: (302) 778-894 Email: wilfred.okine@gh.ey.com
Yaw Asante-Boadi	(302) 772-001 Fax: (302) 778-894 Email: yaw.asante-boadi@gh.ey.com
Isaac Quaye	(302) 779-868 Fax: (302) 778-894 Email: isaac.quaye@gh.ey.com
Peter Dodoo	(302) 779-868 Fax: (302) 778-894 Email: peter.dodoo@gh.ey.com

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
- A citizen with a permanent home in Ghana who is temporarily absent from 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
- 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 reliefs.

Investment income. Investment income includes dividends paid by resident and nonresident corporate entities, interest income, annuities, royalties and rents.

The dividend tax rate is 8%.

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 15%.

Capital gains tax is generally assessed on gains realized on the disposal of the following chargeable assets:
- Buildings in Ghana
- Businesses and business assets, including goodwill but excluding trading stock and certain classes of depreciable assets located in Ghana
- Land, other than agricultural land in Ghana
- Shares of a resident company other than securities traded on the Ghana Stock Exchange

Capital gains are computed by deducting from the amount realized the cost base of the chargeable asset.

Capital gains are exempt from tax if either of the following conditions is satisfied:
- The sum realized on the disposal of a chargeable asset is used to acquire a similar asset within one year of realization.
- The gain amounts to less than GH¢50.

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. Expenses wholly, exclusively and necessarily incurred in the production of income from employment, business or investments are deductible.

Individuals may deduct the annual personal reliefs listed in the following table.

Type of allowance	Amount
Children's education allowance	GH¢100, per child or ward, up to a maximum of three children
Dependent elder relative allowance	GH¢50 per dependant, up to a maximum of two dependants
Marriage/responsibility relief	GH¢100
Disability allowance	25% of assessable income from business or employment
Life insurance premium allowance	Up to a maximum of the lesser of 10% of the sum insured or 10% of the individual's total assessable income from business, employment and investment
Old age relief	Up to GH¢100 per year
Professional/vocational training allowance	Up to a maximum of GH¢200

Rates. The following table presents the progressive rates of income tax applicable to resident individuals, effective from 9 June 2010. Nonresidents are subject to income tax at a flat rate of 15%.

Chargeable income		Tax on lower amount	Rate on excess
Exceeding GH¢	Not exceeding GH¢	GH¢	%
0	1,008	0	0
1,008	1,248	12	5
1,248	1,968	84	10
1,968	16,200	2,575	17.5
16,200	—	—	25

For a sample tax calculation, see Appendix 2.

Withholding tax. Management and technical service fees paid to nonresidents are subject to a 15% final withholding tax.

Relief for losses. Entities carrying on an agroprocessing, tourism, information and communication technology, mining, farming or manufacturing business may carry forward losses for five years. For this purpose, "manufacturing business" is defined as a business that manufactures mainly for export, "tourism business" means an operator of a tourism business registered with the Ghana Tourist Board, and an "information technology business" means a business that is engaged in software development. Similarly, losses incurred by venture capital financing companies on the disposal of shares in venture investments under Act 680 during the period of tax exemption may be carried forward for five years.

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 GH¢500 in value are taxed at a rate of 15% 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
- 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
- Goods or chattels not included in the categories listed above

C. Social security

Ghana imposes social security tax at a rate of 18.5%. Employers must pay social security tax at a rate of 13% of the employees' salary, and must withhold an additional 5.5% from each employee's salary. Employers remit the employer and employee contributions to the Social Security and National Insurance Trust. Self-employed persons may contribute up to 35% of their monthly income to the trust.

D. Tax filing and payment procedures

The tax year for individuals 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 monthly basis. Employees are subject to withholding tax on their salaries under the Pay-As-You-Earn (PAYE) system.

E. Double tax relief and tax treaties

Tax paid on income earned outside Ghana by a resident of Ghana is credited against the total tax payable when the income is brought into Ghana.

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

Belgium	Italy	Switzerland
France	Netherlands	United Kingdom
Germany	South Africa	

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 up to six months 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 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 Ministry of Interior considers whether the activity in which the foreign national will engage will be 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 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 immigration quota system. The immigration 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 the investment requirements of the following institutions:

- Ministry of Energy (Ghana National Petroleum Corporation): for investment in the oil and gas sector
- Minerals Commission: for investment in the mining sector
- Department of Social Welfare: for nongovernmental organizations (NGOs)
- Ghana Investment Promotion Center: investment in sectors other than those stated above

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 after-tax 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 (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	10% of the person's total cash emoluments
Accommodation only	7.5% of the person's total cash emoluments
Furnishing only	2.5% of the person's total cash emoluments
Shared accommodation	2.5% 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
Driver and vehicle with fuel	12.5% of the person's total cash emoluments, up to a maximum of GH¢350 per month
Vehicle with fuel	10% of the person's total cash emoluments, up to a maximum of GH¢300 per month
Vehicle only	5% of the person's total cash emoluments, up to a maximum of GH¢150 per month
Fuel only	5% of the person's total cash emoluments, up to a maximum of GH¢150 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 2011 tax year is provided below for an expatriate who is resident in Ghana for 2011 and is married with two dependent children under 18 years old. During 2011, the expatriate receives salary of GH¢32,400, of which GH¢8,400 was paid in Ghana. The balance was deposited in a home-country bank account and not remitted to Ghana. His employer provided him housing with furnishings at a cost to the company of GH¢600. The expatriate earned dividends from home-country investments of GH¢1,200, GH¢600 of which was remitted to Ghana. The following is the tax calculation using 2011 rates.

	GH¢	GH¢
Calculation of taxable income*		
Income:		
Salary	32,400	
Taxable value of accommodation with furnishing (10% of total emoluments of GH¢32,400)	3,240	
Total income		35,640
Personal deduction:		
Marriage allowance	(35)	
Total deductions		(35)
Taxable income		35,605

Calculation of tax

Tax on GH¢1,008		0
Tax on GH¢240	at 5%	12
Tax on GH¢720	at 10%	72
Tax on GH¢14,232	at 17.5%	2,491
Tax on GH¢19,405	at 25%	4,851
GH¢35,605		
Income tax payable		7,426

* The dividend received is presumed to have been taxed at a rate of higher than 8% in the home country. No dividend tax is payable on this income because Ghana's dividend tax rate is 8%.

Greece

(Country code 30)

Athens **GMT +2**

Ernst & Young
11th km National Road
Athens – Lamia
GR-144 51 Metamorphosis, Athens
Greece

Executive and immigration contacts

Stefanos Mitsios	(210) 288-6365 Email: stefanos.mitsios@gr.ey.com
Dimitri Menexis	(210) 288-6370 Email: dimitri.menexis@gr.ey.com

Changes to the tax law are expected to be introduced. Because of these expected changes, readers should obtain updated information before engaging in transactions.

A. Income tax

Who is liable. Individuals who are residents of Greece are taxed on their worldwide income. Nonresidents are taxed on their Greek-source income only.

Individuals are considered to be Greek tax residents if they satisfy any of certain specified conditions, including, among others, the following:

- They establish their domicile or place of habitual abode in Greece. An individual's habitual abode is deemed to be in Greece if the individual spends more than 183 days per calendar year in Greece unless he or she proves otherwise.
- They are Greek individuals who transfer their domicile or place of habitual abode to an uncooperative country.
- They are deemed to be Greek tax residents for a five-year period from the date on which they change their tax residence status if they satisfy all of the following conditions:
  - — They transfer their domicile or habitual abode into a preferential tax jurisdiction.
  - — They filed Greek tax resident returns during the five years preceding the transfer.
  - — They have a substantial economic interest in Greece.

Individuals considered to be Greek tax residents must declare their worldwide income and are subject to tax on such income in Greece.

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, stock-based compensation and any other payments periodically made in cash or in kind for services rendered and certain other income items.

Bonuses paid to employees in the banking industry are now taxed at rates of up to 90%. The applicable tax rates are higher than the average tax rate applicable to other sources of 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 *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
- 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
- Other allowances paid periodically and regularly (see Appendix 1)

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. Distributions and capitalizations by Greek companies (in the form of a *société anonyme* [SA] or *eteria periorismenis efthinis* [EPE]) that are approved on or after 1 January 2012 will be subject to a 25% withholding tax. Profits distributed or capitalized in 2011 are subject to a 21% withholding tax.

Profits distributed by Greek SAs or Ltds in the following forms are taxed at a rate of 25% (21% for dividends received during the 2011 fiscal year), regardless of whether they are paid in cash or in shares:

- Dividends or interim dividends
- Remuneration and percentages of profits paid to members of the board of directors and managers
- Remuneration to employees apart from salaries

The rate of 25% (or 21% for dividends received during the 2011 fiscal year) also applies to to profits credited or remitted to the head office by branches.

Individuals who are tax residents in Greece are taxed on the basis of the personal income tax rate scale with respect to the dividends that they receive, but are subject to different treatment depending on their total income.

Individuals whose total income (dividends included) is subject to a maximum tax rate lower than 25% (or 21% for dividends received during the 2011 fiscal year) are entitled to a refund of the excess amount of tax that has been withheld on the dividends. In contrast, the tax liability for dividends is final for individuals whose total income (dividends included) is subject to a maximum tax rate higher than 25% (or 21% for dividends received during the 2011 fiscal year).

Foreign dividends received by Greek resident individuals from foreign legal entities or other foreign legal forms are subject to a final tax at a rate 25% (21% for dividends received during 2011).

Banks must withhold a 10% tax from accrued interest earned by Greek residents on the transfer of foreign bonds or interest coupons. This tax is considered a final withholding tax.

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. For Greek tax residents, foreign interest is also subject to a 10% final withholding tax.

Rental income and royalties are aggregated with income from other sources and taxed at the rates set forth in *Rates*. For nonresidents, the withholding tax rate for royalties is 25% unless otherwise provided by a relevant double tax treaty.

Profits derived by individuals from the sale of shares listed on the Athens Stock Exchange or in any recognized foreign stock exchange market that are acquired on or before 31 December 2011 are subject to transaction tax at a rate of 0.15%, which is increased to 0.20% for sales taking place on or after 1 April 2011. Capital gains derived from the sale of listed shares acquired on or before 31 December 2011 are exempt from income tax.

Capital gains derived from the sale of listed shares acquired on or after 1 January 2012 will be subject to tax according to the general income tax provisions. No transaction tax duty applies.

Directors' fees. Effective from 1 January 2009, directors' fees paid in accordance with an employment agreement of the company, excluding fees insured with the Social Insurance Institute (IKA; see Section C) are taxed at a rate of 35%.

Directors' fees paid in accordance with an employment agreement with the company that are insured with the Social Insurance Institute are taxed at the progressive income tax rates for individuals (see *Rates*).

Salary and payments of any kind paid by Greek EPEs to their partners that are not insured with IKA are taxed at a rate of 35%, effective from 23 April 2010.

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:
- Taxable income
- Tax-exempt income or income that has been taxed under special rules, such as bank interest and directors' fees
- 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
• Gifts received or gains from lotteries

Capital purchases (for example, a home or car) constitute deemed income on an "actual expense" basis. Certain items generate deemed income under the "living expenses" section. In this context, deemed income from "living expenses" is derived from assets that are owned, while deemed income from "actual expenses" is derived from amounts spent to purchase assets. Currently, the list of deemed income items consists of the following:

• Motor cars, pleasure boats, aircraft, and chattels of great value.
• The annual deemed income for using a private home, owned or rented or granted for free. The deemed income is calculated based on the square meters of the home and on the zone prices applicable for the respective location. For secondary residences, the amount described in the preceding sentence is reduced by half.
• The annual objective living expense for cars is calculated according to the engine capacity of each car.
• Swimming pools.
• 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 €10,000.
• Loans granted except for loans to companies, joint ventures or societies from partners or shareholders.
• Private education and private school tuition fees, and remuneration for housemaids, private drivers, teachers and other household personnel.

Detailed rules are provided for the calculation of deemed income.

Taxation of employer-provided stock options. Effective from 23 April 2010, the benefits derived from stock options is determined through a new method. Under the new method, the stock-exchange price taken into account is the price applicable at the time the right is actually exercised instead of the price applicable at the time the right is granted (the price taken into account under the prior rule). If the beneficiary has left the company as a result of retirement, change of employment or similar reasons, the benefits are taxed as freelancers' income.

Capital gains. 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 25%. Gains derived from the transfer of a personal business or a limited or unlimited liability partnership to a first or second degree relative of the transferor, are taxed at a rate of 5% or 10%, respectively. Capital gains derived from the transfer of parts of EPEs are taxed at a rate of 20%. The actual sale value of unlisted shares of Greek companies or the agreed sale value of unlisted shares of foreign companies is subject to a 5% tax for individuals.

For individuals, no further tax is imposed on the gains described in the preceding paragraph.

Deductions

Personal deductions. An automatic dependent disability (over 67%) deduction may be deducted in determining an individual's tax base.

Personal allowances. The first tax-free threshold is increased by the following amounts:
- €2,000 if the individual has one dependent child
- €4,000 if the individual has two dependent children
- €12,500 if the individual has three dependent children
- €2,500 for each child in excess of three children

The tax-free threshold is not granted if the taxpayer fails to file with the tax authorities invoices equaling 25% or more of his or her taxable income (up to a maximum of €60,000 of taxable income).

An EU resident who acquires more than 90% of his or her income in Greece is not required to file any invoices to be granted the tax-free threshold. He or she may also take advantage of the deductions and credits available to Greek tax residents. In general, tax nonresidents are not required to collect invoices because the first income tax bracket is taxed at 5% in all cases.

If the value of invoices is less than the value required for the tax-free threshold, a 10% income tax is imposed on the amount of the deficiency.

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
- Repair and maintenance costs incurred on leasehold property in the financial year

Rates. The following table presents the income tax rates for income received in 2011.

Taxable income €	Income tax rate %	Tax €	Total income €	Total tax €
8,000	0	0	8,000	0
4,000	10	400	12,000	400
4,000	18	720	16,000	1,120
6,000	24	1,440	22,000	2,560
4,000	26	1,040	26,000	3,600
6,000	32	1,920	32,000	5,520
8,000	36	2,880	40,000	8,400
20,000	38	7,600	60,000	16,000
40,000	40	16,000	100,000	32,000
Excess	45			

The tax-free threshold is €12,000 for the following individuals:
- Individuals up to 30 years old
- Pensioners older than 65 years old
- Individuals with special needs
- Pensioners who have children with special needs

An additional tax of 1.5% is levied on gross income from the leasing of 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.

Severance payments made by Greek companies to departing employees are not taxed for amounts up to €60,000 and additional amounts are taxed on a progressive scale at rates from 10% to 30%.

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 life insurance premiums. This credit cannot be applied to amounts exceeding €1,200 for an unmarried individual and €2,400 for a family.
- 20% of lawyers' fees.
- 20% of donations to public entities, charities and nonprofit organizations.
- 10% of amounts incurred on certain energy-saving techniques with respect to real estate.
- 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 €240. 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 €240 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. 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.
- Obligatory and voluntary social security contributions in amounts that are established by law (excluding dependent services social security, which is fully deductible).

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.

Numerous tax credits provided by the tax law are reduced from 20% to 10% if the taxpayer has income over €40,000, but only for the portion of the expense exceeding this amount of income.

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.

Movable assets located abroad and belonging to a Greek tax resident who was established outside Greece for at least 10 consecutive years is exempt from Greek inheritance tax retroactively from 23 April 2010 (the date of enactment of Law 3842/2010). Certain exemptions apply.

The categories of rates for inheritance tax and gift tax 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 inheritance tax rates for categories of persons less closely related to the decedent.

Category	Threshold amount €	Tax on threshold amount €	Tax rate on amount exceeding threshold amount %
A	600,000	16,500	10
B	300,000	23,500	20
C	267,000	71,700	40

A gift or parental grant of cash is taxed separately at a rate of 10% or 20%, depending on the relationship of the beneficiary with the provider.

Estate tax treaties. Greece has entered into estate tax treaties with Germany, Italy, Spain and the United States to prevent double estate taxation.

Real estate taxes. Purchases of new real estate are subject to value-added tax (VAT) at a rate of 23% under certain circumstances. An exemption from VAT can be obtained for the purchase of a primary residence.

Annual Real Estate Tax (FAP) has replaced the prior annual real estate duty (ETAK). FAP applies to real estate property in Greece owned by individuals or legal entities on 1 January of each fiscal year, effective from 2010. For individuals, the tax is levied at progressive rates ranging from 0.1% to 1%, with a tax-free threshold of €200,000.

A special 15% tax is applied to real estate owned by foreign companies in Greece. Many exemptions are available. In certain circumstances, actions must be taken to obtain such exemptions.

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.

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, the maximum monthly salary subject to social security contributions is €2,432.25. For other employees, the maximum monthly salary subject to social security contributions is €5,543.55.

Salaries in Greece are paid on a 14-month basis for private employees, and, accordingly, 14 monthly contributions are made.

The following are the most common percentages applicable to occupations other than dangerous occupations:
• Employers: 28.56% of monthly salary
• Employees: 16.5% 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 jurisdictions listed below.

Argentina	Iceland	Switzerland
Australia	Libya	Syria
Brazil	Liechtenstein	United States
Canada	New Zealand	Uruguay
Egypt	Norway	Venezuela
EU member states	Quebec	

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 16 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 2 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.

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	Iceland	Qatar
Armenia	India	Romania
Austria	Ireland	Russian Federation
Azerbaijan	Israel	Saudi Arabia
Belgium	Italy	Serbia
Bulgaria	Korea (South)	Slovak Republic
China	Kuwait	Slovenia
Croatia	Latvia	South Africa
Cyprus	Lithuania	Spain
Czech Republic	Luxembourg	Sweden
Denmark	Malta	Switzerland
Egypt	Mexico	Tunisia
Estonia	Moldova	Turkey
Finland	Netherlands	Ukraine
France	Norway	United Kingdom
Georgia	Poland	United States
Germany	Portugal	Uzbekistan
Hungary		

F. Temporary visas

An entry visa, which may be obtained from any Greek embassy or consulate, is usually required for visiting Greece. However, a temporary 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.

Non-EU nationals, including citizens of the United States or citizens of countries that have signed reciprocity treaties with Greece, who intend to enter Greece to obtain a Greek residence permit need to obtain a special type of SCHENGEN visa before entering Greece. 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 SCHENGEN visa.

G. Permits for work and self-employment

EU nationals do not need permits to work in Greece. EU nationals who will reside in Greece for more than three months can obtain a European Citizen Residence Card. However, non-EU nationals must obtain work and 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 in Greece if they obtain an entry 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 obtain a European Citizen Residence Card. These cards, which may not be denied to EU nationals, are granted for an indefinite time period by the appropriate Police Department (Alien Bureau).

Non-EU nationals are granted residence permits. The competent authority for the issuance of a residence permit depends on the type of residence permit. For example, the Greek Ministry of Internal Affairs grants residence permits to members of boards of directors, administrators, legal representatives and higher executives of subsidiaries or branches of foreign companies exercising their commercial activities legally in Greece. 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, with the exception of families of members of boards of directors, administrators, legal representatives and higher executives of subsidiaries or branches of foreign companies exercising their commercial activities legally in Greece. These individuals may apply for a residence permit together with the main applicant. However, family members must file separate applications if they wish to work in Greece.

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 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 noncommunity 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 descendants, the parents and the surviving spouse of the decedent. If descendants 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	(a)
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 listed shares	—	X	(b)

* Bracketed amounts reduce taxable income.

(a) Moving expenses must be supported by perforated receipts and not granted as an allowance.

(b) Capital gains derived from the sale of listed shares acquired on or after 1 January 2012 will be subject to income tax according to the general income tax provisions. For further details, see *Investment income* in Section A.

Appendix 2: Sample tax calculation

The following is a sample 2011 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 (monthly salary of €2,000 x 16% x 14 months) (b)	(4,480)
	23,520

Calculation of tax

Tax on €12,000 at 0%	0
Tax on €4,000 at 18%	720
Tax on €6,000 at 24%	1,440
Tax on €1,520 at 26%	395.20
Income tax payable	2,555.20

(a) Salaries in Greece are paid on a 14-month basis in the private sector.
(b) 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, the maximum monthly salary subject to social security contributions is €2,432.25. For all others, the ceiling is €5,543.55.

Guam

(Country code 1)

Tamuning **GMT +10**

Ernst & Young
Ernst & Young Building
Suite 201
231 Ypao Road
Tamuning
Guam 96913

Executive contacts

Lance K. Kamigaki	(671) 649-3700 Fax: (671) 649-3920 Email: lance.kamigaki@gu.ey.com
Marlyn B. Oberiano	(671) 649-3700 Email: marlyn.oberiano@gu.ey.com
Edmund E. Brobesong	(671) 649-3700 Email: edmund.brobesong@gu.ey.com

Immigration contacts

Lance K. Kamigaki	(671) 649-3700 Fax: (671) 649-3920 Email: lance.kamigaki@gu.ey.com
Marlyn B. Oberiano	(671) 649-3700 Email: marlyn.oberiano@gu.ey.com

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:
• They are present in Guam for at least 31 days during the current year.
• They are deemed present in Guam 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 generally 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.
• They do not have a tax home outside Guam during any part of the tax year and do not have a closer connection to the United States or a foreign country during any part of the tax year.

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 US$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 (0% 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 2011.

Married filing joint return

Taxable income		Tax on lower	Rate on
Exceeding US$	Not exceeding US$	amount US$	excess %
0	17,000	0.00	10
17,000	69,000	1,700.00	15
69,000	139,350	9,500.00	25
139,350	212,300	27,087.50	28
212,300	379,150	47,513.50	33
379,150	—	102,574.00	35

Single individual

Taxable income		Tax on lower	Rate on
Exceeding US$	Not exceeding US$	amount US$	excess %
0	8,500	0.00	10
8,500	34,500	850.00	15
34,500	83,600	4,750.00	25
83,600	174,400	17,025.00	28
174,400	379,150	42,449.00	33
379,150	—	110,016.50	35

Head of household

Taxable income		Tax on lower	Rate on
Exceeding US$	Not exceeding US$	amount US$	excess %
0	12,150	0.00	10
12,150	46,250	1,215.00	15
46,250	119,400	6,330.00	25
119,400	193,350	24,617.50	28

Head of household

Taxable income		Tax on lower	Rate on
Exceeding US$	Not exceeding US$	amount US$	excess %
193,350	379,150	45,323.50	33
379,150	—	106,637.50	35

Married filing separate return

Taxable income		Tax on lower	Rate on
Exceeding US$	Not exceeding US$	amount US$	excess %
0	8,500	0.00	10
8,500	34,500	850.00	15
34,500	69,675	4,750.00	25
69,675	106,150	13,543.75	28
106,150	189,575	23,756.75	33
189,575	—	51,287.00	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 US$175,000 (after deducting the exemption amount), the applicable AMT rate is 26%. For amounts exceeding US$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 US$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 US$25,000 of other income. This offset is phased out for taxpayers with adjusted gross income between US$100,000 and US$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 2011, the old-age, survivor and disability insurance component (6.2%) of the social security tax applies to only the first US$106,800 of an employee's wages. The health insurance component (1.45%) applies to all wages. For 2011, the employee's portion of the old-age, survivor and disability insurance component of the social security tax is reduced by two percentage points (from 6.2% to 4.2%). The employer's portion of the old-age, survivor and disability insurance component is not changed (remains at 6.2%). The health insurance component is not changed for both employers and employees (remains at 1.45%). 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.

Guatemala City **GMT -6**

Ernst & Young
5th Avenue 5-55, Zone 14, 01014
EuroPlaza World Business Center
Penthouse, Tower I
19th and 20th Floors
P.O. Box 23862400
Guatemala City
Guatemala

Executive and immigration contacts

Lisa Maria Gattulli *(resident in San José, Costa Rica)*	+506 2208 9861 Fax: +506 2208 9999 Email: lisa.gattulli@cr.ey.com
Rafael Sayagués *(resident in San José, Costa Rica)*	+506 2208 9880 Fax: +506 2208 9999 Email: rafael.sayagues@cr.ey.com

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 employment income, 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 (General Tax Regime) or to a 31% tax on their net taxable income, which equals total earnings less deductible expenses (Optional 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. However, interest income is not taxable if all of the following three conditions are met:
• Payments are made to a first-order financial or banking institution registered as such in the country of origin.
• Proceeds of the loan are used to generate taxable income.
• The loan is negotiated by a bank or financial institution that is legally authorized to operate in Guatemala under the existing exchange regulations.

For royalties received by nondomiciled individuals, the 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 directors' fees in their taxable income.

Capital gains and losses. Capital gains are taxed at a rate of 10% for individuals operating under the General Tax Regime. For individuals operating under the Optional Tax 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 GTQ 36,000
• Life insurance premiums
• Social security contributions
• Retirement plan payments
• Alimony expenses
• Charitable contributions (maximum annual deduction of GTQ 500,000 [approximately US$64,500] or 5% of net income, whichever is less)
• Medical expenses (expenses incurred on medications do not qualify as medical expenses)
• Fees paid to local professional associations

Rates. For the 2011 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 amount	Rate on excess
Exceeding GTQ	Not exceeding GTQ	GTQ	%
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. To apply the 10% reduced withholding tax rate to salaries paid to nondomiciled individuals, the tax authorities require that a labor relationship be documented through a written contract between the foreign individual and the Guatemalan employer. However, for fees received for professional services rendered by a nondomiciled individual in a nondependent relationship, a 31% withholding tax applies.

Nondomiciled individuals with income subject to tax at a fixed withholding rate are not subject to further taxation.

Foreign individuals who render local services but are paid from abroad must register as self-employed persons and pay taxes in Guatemala under the General Income Tax Regime (see *Self-employment and business income*). In addition, value-added tax (VAT) at a rate of 12% applies to the services rendered.

For a sample tax calculation, see Appendix 2.

Credits. An employee may credit the VAT paid during the year against the income tax liability. The credit is limited to 12% of the employee's gross income. Employees are required to file a VAT Payroll Return with the tax authorities within 10 business days after the year-end.

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%. 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 individuals are not required to file an annual income tax return if their income tax liability has been satisfied through withholding. Self-employed individuals must file an annual income tax return, regardless of whether 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 reside 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)
- 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 and may be renewed for equal periods.

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 Labor and Social Security Ministry and must include the following documents:

- Proof that a temporary residence permit has been applied for or granted.
- Certificate stating that the applicant does not have a criminal record in the country or countries where he or she has lived (or, for countries that do not issue these certificates, a certificate stating the country's refusal). This document must be translated into Spanish by an official translator, and the signatures on the certificate must be authenticated by the Ministry of Foreign Affairs.
- Accounting certification stating the number of Guatemalan and foreign employees employed by the entity.
- Photocopy of the applicant's appointment, registered with the corresponding authorities.

- Affidavit issued by the employer indicating that the employer will be responsible for the applicant's conduct for the entire time the applicant is living in Guatemala.
- Proof indicating that the applicant understands, reads, speaks and writes Spanish.

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 in the event of a divorce.
- 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. In the event of a divorce, 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.
  - — 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 permit 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
- Complete photocopy of the passport

Depending on the circumstances, the Transit Department may request technical and practical driving tests.

A driver's license is granted for a period of one year to four years 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	—	—

	Taxable*	Not taxable	Comments
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) Guatemala has a territorial income tax system. However, amendments to the measures regarding income tax exemptions 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 GTQ 240,000 and a Christmas bonus and a special bonus, which are each GTQ 20,000. The special 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 return of projected income tax with the employer at the beginning of the tax year (January). Based on the projected income return, 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 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.

	GTQ	GTQ
Net annual income from salaries		280,000
Total net income		280,000
Deductions:		
Personal deductions	(36,000)	
Social security and unemployment insurance tax	(11,592)	
Life insurance premiums	(4,000)	
Accident and medical insurance premiums	(3,500)	
Christmas bonus	(20,000)	
Special bonus	(20,000)	
Total deductions		(95,092)
Taxable income		184,908

On the basis of the above declaration, the employer makes the following tax calculation.

	GTQ	GTQ
Tax payable:		
On GTQ 180,000	32,750	
On GTQ 4,908 at 25%	1,227	33,977
Less credit estimated for VAT:		
6% of GTQ 280,000		(16,800)
Annual tax subject to withholding		17,177
Monthly withholding tax:		
GTQ 17,177 ÷ 12		1,431

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. By 14 February, employers must charge to employees any balance of income tax due or refund to employees any income tax that was withheld in excess. 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.

	GTQ
Annual tax calculated	33,977
Less: 100% VAT credit allowed (and supported by the filed VAT return)	(33,600)
Definitive annual tax	377
Less withholdings made during the period	(17,177)
Excess amount withheld	(16,800)

Guernsey, Channel Islands

(Country code 44)

St. Peter Port **GMT**

Ernst & Young
P.O. Box 9
Royal Chambers
St. Julian's Avenue
St. Peter Port
Guernsey GY1 4AF
Channel Islands

Executive, immigration and International High Net Worth Group contacts

Graham Parrott	(1481) 717-490 Fax: (1481) 713-901 Email: gparrott@uk.ey.com
Alison Vine	(1481) 717-452 Fax: (1481) 713-901 Email: avine@uk.ey.com
Sharon Watson	(1481) 717-458 Fax: (1481) 713-901 Email: swatson4@uk.ey.com

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.
- 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.
- Guernsey is considered his or her permanent home.

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 nonresident employees whose duties are carried on outside Guernsey are exempt from Guernsey income tax.

Benefits in kind are taxed as part of payroll and are subject to social security contributions and Employees Tax Instalment (ETI) payroll tax deductions (unless insufficient cash from which to deduct the tax is available). An annual exemption of £450 applying to taxable benefits provided to an employee (excluding motor vehicles and accommodation) is taken into account by the employer on a prorated monthly basis.

The tax-exempt limit for redundancy payments is £30,000. A payment in lieu of notice is not considered to be a termination payment and is taxable in full. The excess over the £30,000 exemption is subject to ETI Scheme deductions (see Section D).

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%.

The income from investment companies that are owned by Guernsey resident individuals is generally subject to tax and social security in the hands of the individual.

Interest payable by Guernsey banks to nonresidents is exempt from Guernsey income tax.

Deemed distributions. Changes to the Guernsey company tax regime, which also affect the taxation of individuals, took effect on 1 January 2008. These changes include a reduction in the general rate of income tax paid by all Guernsey companies (except for specified types of regulated banking business and property) to 0%. As a result of the 0% tax rate, Guernsey resident shareholders are taxable on distributions received from Guernsey companies. Nonresident shareholders are not taxable. This includes investment income, which is deemed as taxable to the shareholder in the year in which it arises, rather than in the year in which it is distributed. *De minimis* levels of income apply and are different for trading and investment companies. The company must pay the tax on behalf of the shareholders.

Loans to shareholders are also taxable, with the company paying tax on the grossed-up amount of the loan when the loan is made.

The company taxation system is again under review and may be subject to change.

Taxation of employer-provided stock options. Any discount on the market value at the grant of a stock option 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.)

In addition, interest paid on a mortgage on a Guernsey principal residence is deductible only to the extent that the interest relates to the value of the mortgage up to £400,000.

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 may be claimed on the cost of plant and machinery. The rate of capital allowances is generally 20% of the declining balance. Allowances are also granted for buildings.

Rates. Income is taxable at a flat rate of 20%.

Tax cap. The tax payable on a Guernsey resident individual's non-Guernsey-source income was restricted to an upper limit, or "cap," effective from 2008. Individuals may elect either of the following options for the payment of tax:
- They may pay tax on non-Guernsey-source income restricted to £100,000, plus tax on Guernsey-source income.
- They may pay a £200,000 tax on worldwide income including Guernsey-source income.

Non-Guernsey source income is any income derived from non-Guernsey sources, including income from the following:
- A business not resident in Guernsey
- An office (for example, director or trustee) or employment with entities not resident in Guernsey
- Ownership of land and buildings outside Guernsey
- Other sources not located in Guernsey

For purposes of the above rule, any interest arising in Guernsey on money deposited with a licensed institution is considered to be non-Guernsey-source income.

Standard charge. The standard charge of £25,000 is effective from 2009. It applies to individuals who are resident but not solely or principally resident in Guernsey (see *Who is liable*). Previously, these individuals were subject to Guernsey tax on Guernsey-source income and income remitted to the island. Transitional rules applied for 2009.

Effective from 2010, the individuals described in the preceding sentence must declare and pay tax on their worldwide income, unless they elect to pay the standard charge. They are then entitled to continue to use the remittance basis, but may not claim any personal allowances or reliefs. If an individual elects and pays the standard charge he or she can offset the standard charge against the tax payable on Guernsey-source income.

The election must be made within two years after the end of the tax year to which it relates.

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

Contributions. Guernsey has a compulsory social security scheme. All persons over school-leaving age must pay contributions in Guernsey based on their total income as declared in their individual tax returns. No exemption is provided for individuals over retirement age.

Employed. Employers and employees under 65 years old must make contributions based on salaries at the rates of 6.5% and 6%, respectively, with an annual earnings limit of £91,884. The maximum annual contribution is £7,858 for employers and £5,513 for employees.

Not employed. All insured persons who are not employed or self-employed are in the not-employed class, as well as all persons over 65, even if they are employed or self-employed. The rate for contributions is 9.9% of income declared on their tax return, subject to the lower earnings limit of £6,451 for 2011. Individuals over age 65 pay the health insurance contribution rate of 2.6%.

Self-employed. Self-employed individuals under 65 years old must pay contributions based on their income levels, subject to an annual upper earnings limit of £91,884 and a lower earnings limit of £6,084.

Totalization agreements. To provide relief from double social security taxes and to assure benefit coverage, Guernsey has entered into totalization agreements, which usually apply for a maximum of 12 months, with the following jurisdictions.

Austria	Italy	New Zealand
Barbados	Jamaica	Portugal
Bermuda	Japan	Spain
Canada	Jersey	Sweden
Cyprus	Korea (South)	Switzerland
France	Malta	United Kingdom
Ireland	Netherlands	United States
Isle of Man		

D. Tax filing and payment procedures

Income tax is withheld from the remuneration of employees under 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, and will not change the total overall tax liability of the married persons.

All income is assessed on a current-year basis. The tax year runs from 1 January to 31 December.

Income tax is levied by assessment and is normally payable in two equal installments on 30 June and 31 December of the tax year except when the ETI scheme fully covers the tax due.

In general, a Guernsey resident making an income payment relating to Guernsey property to a person resident outside Guernsey is regarded as the agent of the nonresident. The agent may be assessed instead of the nonresident, and therefore the agent may 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.

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.

Guernsey has signed tax information exchange agreements (TIEAs) with 23 jurisdictions, including the United Kingdom and the United

States. The TIEAs relate to the exchange of tax information. Under the TIEAs, each jurisdiction may request information from the other, principally to assess and enforce collection of tax. As a result of the TIEAs, limited double tax treaties have been signed with several of the 23 jurisdictions.

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 States of Guernsey.

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, non-European Union (EU) nationals who require permission to settle in Guernsey may be employed only if their employers obtain permission from the Home Department.

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 the States of Guernsey for a work permit. No specific documentation is required.

Guernsey entry clearance includes 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 and work under the householder's LM license.

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. Same-sex 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.

Guernsey introduced changes during 2008 with respect to heirship. These changes primarily granted rights to unmarried children of the deceased. Further consultation is being undertaken on other possible changes to the law.

Drivers' permits. Foreign nationals may not drive legally in Guernsey using their home country drivers' licenses.

Guernsey has driver's license reciprocity with 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 practical test and a theoretical exam based on the highway codes.

Guinea

(Country code 224)

Conakry	**GMT +1**

FFA Conseils
Immeuble de l'Archevêche
Avenue de la République
B.P. 1762
Conakry
Guinea

Executive and immigration contacts

René Marie Kadouno	30-41-28-31, 30-41-21-82 Fax: 30-45-59-77 Email: rene-marie.kadouno@gn.ey.com
Patrice Camara	30-41-28-31, 30-41-21-82 Fax: 30-45-59-77 Email: patrice.camara@gn.ey.com
Billo Diallo	30-41-28-31, 30-41-21-82 Fax: 30-45-59-77 Email: billo.diallo@gn.ey.com

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.
- 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 consists of all remuneration received, including, salaries, treatments, indemnities, allowances, premiums and bonuses paid, benefits in kind and benefits in cash. However, the following indemnities, allowances, bonuses or premiums are not taxable:
- Housing
- Transportation
- Meals or food
- Cost of living
- Chalk

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 withholding tax, which constitutes a prepayment of the general income tax (see *Rates*). Under certain conditions, this withholding tax is a final tax. The withholding tax rate for dividends is 10%. Under the 2011 Finance Law, the withholding tax rate for interest is reduced from 15% to 10%.

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. Under the 2011 Finance Law, gains derived from the transfer of shares are subject to withholding tax at a rate of 10%.

Capital gains related to self-employment activities generally are included with other self-employment income and taxed as described in *Self-employment and business 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
- 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
- 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		Tax
Exceeding FG	Not exceeding FG	rate %
0	1,000,000	0
1,000,000	5,000,000	5

Taxable income Exceeding FG	Not exceeding FG	Tax rate %
5,000,000	10,000,000	10
10,000,000	—	15

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	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
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
- 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 1,500,000. 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 Economic Community of West African States (ECOWAS; the French translation is Communauté Économique des Etats de l'Afrique de l'Ouest or 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.

San Pedro Sula **GMT -6**

Ernst & Young
Calle 8, Avenida 14, N.O.
Barrio Los Andes
Edificio MEVA
San Pedro Sula
Honduras

Tegucigalpa **GMT -6**

Ernst & Young
Avenida París y Calle Viena
Lomas del Guijarro Sur
Edificio Plaza Azul
Tegucigalpa, M.D.C.
Honduras

Executive and immigration contacts

Lisa Maria Gattulli *(resident in San José, Costa Rica)*	+506 2208 9861 Fax: +506 2208 9999 Email: lisa.gattulli@cr.ey.com
Rafael Sayagués *(resident in San José, Costa Rica)*	+506 2208 9880 Fax: +506 2208 9999 Email: rafael.sayagues@cr.ey.com
Karem G. Márquez *(resident in San Pedro Sula, Honduras)*	2557-7921 Fax: 2557-8007 Email: karem.marquez@cr.ey.com

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 subject to a 10% withholding tax. Royalties from franchises are subject to a 10% withholding tax. Technical advice and similar payments are subject to a 10% withholding tax.

Directors' fees. Directors' fees paid to nonresident individuals are subject to a 10% 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 40,000.

Business deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. For the 2011 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	110,000	0	0
110,000	200,000	0	15
200,000	500,000	13,500	20
500,000	—	73,500	25

The above tax rates are subject to change by the government.

Withholding tax is imposed on nonresidents at a rate of 10% 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 7.2% for employers and 3.5% for employees. They are calculated on a maximum monthly salary of L 4,800.

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 treaties with other countries. However, Honduras has entered into a tax information and exchange agreement with the United States.

To avoid double taxation, the obligation to withhold from payments made to nonresident or nondomiciled individuals or companies, as provided in Sections 4 and 5 of the Income Tax Law, does not apply to payments made with respect to operations abroad, such as compensation paid to personnel hired abroad. The withholding obligation also does not apply to transportation companies and to rent paid for movable and immovable property located abroad, including ships, aircraft and vehicles.

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	—	—
Employer-provided housing	X	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—

	Taxable*	Not taxable	Comments
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	(576)	
Medical and educational expenses	(40,000)	
Total deductions		(40,576)
Taxable income		959,424
Calculation of income tax payable		
Tax on L 500,000		73,500
Tax on L 459,424 at 25%		114,856
L 959,424		188,356

Hong Kong

(Country code 852)

Hong Kong	GMT +8

Ernst & Young
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

Executive contacts

Paul Wen	2629-3876 Fax: 2118-4025 Email: paul.wen@hk.ey.com
Christina Li	2629-3664 Fax: 2118-4032 Email: christina.li@hk.ey.com
Winnie Walker	2629-3693 Fax: 2118-4035 Email: winnie.walker@hk.ey.com

Immigration contact

Winnie Walker	2629-3693 Fax: 2118-4035 Email: winnie.walker@hk.ey.com

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 the education of a child. 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 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, except for directors' fees, a specific statutory exemption applies if an employee renders all his or her services outside Hong Kong or if an employee renders services in Hong Kong during visits to Hong Kong not exceeding a total of 60 days in a year of assessment. Conversely, if a nonresident engaged in non-Hong Kong employment renders services in Hong Kong during visits totaling more than 60 days in a year of assessment, 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. Taxable income is determined in accordance with generally accepted accounting principles, as modified by the tax code 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 15%, resulting in an effective rate of 12%.

Profits tax, salaries tax and property tax are assessed separately. If beneficial, a permanent or temporary Hong Kong resident individual may elect to be assessed under personal assessment (that is, under the salaries tax method; see *Rates*) on the aggregate of his or her income or losses from all sources.

Investment income. Interest income not derived from investing the funds of a business and all dividend income are exempt from taxation.

No withholding taxes are levied in Hong Kong on dividends or interest paid to nonresidents. However, royalties paid to nonresident individuals for the use of intellectual property rights in Hong Kong are deemed to arise from a Hong Kong business and are subject to an effective 4.5% withholding tax. The withholding tax rate is increased to 15% if the recipient is related to the payer and if the intellectual property rights for which the royalties are paid were previously owned by a person carrying on a profession, trade or business in Hong Kong.

Directors' fees. Directors' fees derived from a company that has its central management and control in Hong Kong are subject to salaries tax 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 has non-Hong Kong employment and is taxed on a pro rata basis by reference to the number of days of his or her services in Hong Kong only, part or all of the option gain may be excluded from taxable income. The amount excluded depends on various factors including whether the option is granted conditionally or unconditionally, and, if granted conditionally, the number of days on which the individual performed Hong Kong services during the vesting period.

Taxation of employment-related share awards. Employment-related share awards are generally considered to be perquisites from employment and taxed as part of the remuneration. In general, they become taxable when an employee is entitled to the full economic benefit of the shares awarded. If the employee has a non-Hong Kong employment, proration of the income by reference to the number of days of his or her services in Hong Kong that is similar to the proration applicable to stock option benefits may also be allowed.

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 a taxpayer's assessable income. Depreciation allowances (capital allowances) may also be claimed on plant and machinery used in the production of assessable income.

Personal deductions and allowances. For salaries tax, certain education expenses paid to specified institutions are deductible up to HK$60,000 per year. Approved charitable donations are deductible up to 35% of assessable income. Home mortgage interest is deductible, up to HK$100,000 per year for a maximum of 10 years. Contributions to "recognized retirement schemes," as defined, are deductible up to HK$12,000 per year.

Personal allowances are also available under salaries tax to individuals with an income level at below the "break-even" point (that is, the point where the standard rate of 15% applies, see *Rates*). For the 2011–12 tax year, the following are the amounts of personal allowances available.

Personal allowances	**HK$**
Prescribed allowances	
Single (a)	108,000
Married (b)	216,000
Child allowance for	
1st child to 9th child (each)	60,000
Each child born during the year (additional)	60,000
Dependent parent/grandparent allowance (each)	
Aged 60 and above	
Residing with taxpayer	72,000
Not residing with taxpayer	36,000
Aged 55 to 59	
Residing with taxpayer	36,000
Not residing with taxpayer	18,000
Elderly residential care expenses (c)	Up to 72,000
Disabled dependent allowance	60,000
Dependent brother and sister allowance	30,000
Single-parent allowance	108,000 (d)

(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 a dependent allowance for the same dependant.
(d) Granted to a person who is single, widowed, married but separated from his or her spouse or divorced throughout the year and who is the sole or predominant care provider for a child. The person must be entitled to a child allowance as well.

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, plant and machinery used for manufacturing, eligible environmental protection machinery and environment-friendly vehicles 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 relevant class of the asset. An annual allowance (based on costs) of 20% for five years is allowed for certain environmental protection installation and refurbishment of a building or structure other than a domestic building or structure incurred by all businesses.

An initial allowance of 20% and an annual allowance of 4% of the cost or deemed cost of construction are granted on new industrial buildings. However, no initial allowance is granted for used second-hand industrial buildings. An annual allowance of 4% of the cost of construction is available on commercial buildings.

All of the above capital allowances may be subject to recapture if the assets are sold for amounts in excess of their tax-depreciated values.

Rates. Three separate income taxes are levied in Hong Kong instead of a single unified income tax. The following rates are the applicable rates for the three taxes for the period from 1 April 2011 through 31 March 2012:

- Profits tax: levied on noncorporate professional, trade or business income at a flat rate of 15%
- Property tax: levied at a flat rate of 15% on rental income, after a standard deduction of 20%
- Salaries tax: levied on net chargeable income (assessable income less personal deductions and allowances) at progressive rates ranging from 2% to 17%, or at a flat rate (maximum rate) of 15% on assessable income less personal deductions, whichever calculation produces the lower tax liability

The following are the progressive rates for salaries tax for the period from 1 April 2011 through 31 March 2012.

Taxable income		Tax on lower	Rate on
Exceeding HK$	Not exceeding HK$	amount HK$	excess %
0	40,000	0	2
40,000	80,000	800	7
80,000	120,000	2,800	12
120,000	—	4,800	17

For a sample tax calculation, see Appendix 2.

Tax rebate. It was proposed in the 2011–12 financial budget that a one-off tax rebate be granted for the 2010–11 tax year. This rebate would equal 75% of the final tax payable with respect to salaries tax and tax under personal assessment, subject to a ceiling of HK$6,000 in each case.

Relief for losses. Business losses of an individual are calculated in the same manner as profits and may be carried forward indefinitely against future income in the same business or may be offset against the individual's other sources of income under personal assessment. In both cases, losses cannot be carried back.

B. Estate tax

Estate duty was abolished, effective from 11 February 2006. Estates of persons who pass away on or after that date are not subject to estate duty.

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 unless the employees are covered by other recognized occupation retirement 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, if beneficial, elect a combined assessment of their income from all sources under personal assessment.

No payroll or withholding tax requirements apply for purposes of salaries tax, except for a taxpayer who is about to leave Hong Kong for over one month (other than in the course of his or her employment). Profits, property and salaries tax all operate under a system of prepaid tax, known as provisional tax. The provisional assessment for a tax year is an estimate, normally based on the preceding year's assessment, and is payable in two installments: one equal to 75% of the preceding year's tax liability, usually payable in the final quarter of the relevant tax year, with the remaining 25% payable three months later. When the actual income for the tax 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 engaged in Hong Kong employment is exempt from salaries tax on income derived from services performed outside Hong Kong if the income is subject to tax in the foreign jurisdiction and if foreign tax has been paid on the income.

Unless provided for under a double tax agreement, no credit is given in Hong Kong for foreign taxes paid, but in certain circumstances, foreign taxes paid may be deductible for profits tax purposes under the tax code of Hong Kong. A foreign tax credit is available to Hong Kong residents with respect to income that is subject to double tax in all of the double tax agreements entered into by Hong Kong.

Hong Kong has entered into double tax agreements with Austria, Belgium, Brunei Darussalam, Hungary, Ireland, Luxembourg, Mainland China, Thailand, the United Kingdom and Vietnam. It has also signed double tax agreements with the Czech Republic, France, Indonesia, Japan, Kuwait, Liechtenstein, the Netherlands, New Zealand, Portugal, Spain and Switzerland, but these agreements have not yet been ratified.

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 four to six 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. An applicant may not take up any employment in Hong Kong under a visitor visa.

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 generally valid for an initial period of up to one year and may be renewed. The first extension is granted for a maximum period of two years, followed by a second extension for a maximum period of two years and a final extension of up to three years.

After seven consecutive 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 Form ID990A, and send it, 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).
- 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.
- Form ID990B completed and signed by the local sponsor.
- 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 can 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 stated on the visa label. 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 ID990A and ID990B (completed by the applicant and local sponsor, respectively)
- 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
- 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 generally returned to the applicant within one day. After the Immigration Department approves the work visa and dependent visas, the applicant is notified for endorsement.

Extensions. To obtain an extension of a work visa, a month before the expiration date of the 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 approximately one month before the expiration date. It normally takes 14 to 21 working days for the Immigration Department to process the visa extension application. This extension is usually 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 for the Immigration Department to process.

Capital Investment Entrant Scheme. Foreigners who have been the beneficial owners of net assets or net equity with a market net value of HK$10 million or more for the preceding two years can apply for a residence visa under the Capital Investment Entrant Scheme. The applicant must prove that he or she has invested not less than a net amount of HK$10 million in designated permissible investment assets of which he or she is the beneficial owner. Permissible investment assets are equities, debt securities and other eligible investments. Real estate is suspended temporarily as a class of permissible investment assets.

Applicants first secure an Approval-in-Principle, which is a provisional grant of approval by the Immigration Department for the applicant to enter Hong Kong or to maintain his or her current resident status in Hong Kong. Approval-in-Principle is available to individuals who demonstrate that they had a net worth of at least HK$10 million in the two-year period preceding the date of the application.

Formal Approval is a confirmed grant of approval. An individual who has obtained an Approval-in-Principle is initially allowed to remain in Hong Kong as a visitor for three months. If the individual can provide evidence of active progress in investment in permissible investment assets for the purposes of the Capital Investment Entrant Scheme, his or her visitor status is extended for an additional three months. After the required amount of investment in permissible investment assets is attained, Formal Approval to stay in Hong Kong under a two-year residence visa is granted subject to the condition that the applicant must continue to satisfy the requirements of the scheme throughout this period. Two further extensions of two years each and a three-year extension are granted on the same conditions.

H. Residence visas

In addition to work visas, other visas permitting residence in Hong Kong include the following:

- Training 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 generally 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 time period as the work visa. A dependant visa holder is allowed to work in Hong Kong without prior approval from the Immigration Department. Dependent visas may be granted to other close relatives who are fully supported by the applicant or who are handicapped, subject to the approval of the Immigration Department.

Within one month after the issuance of the work visa and dependent visas, the applicant and his or her family must apply for Hong Kong identity cards from the Immigration Department if they are permitted to stay in Hong Kong for more than 180 days. 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 currently holds a visitor visa and if his or her home country is one of the following.

Australia
Austria
Bangladesh
Belgium
Canada
China (Mainland, Macau and Taiwan)
Denmark
Finland
France
Germany
Iceland
India
Ireland
Israel
Italy
Japan
Korea (South)
Luxembourg
Malaysia
Netherlands
New Zealand
Nigeria
Norway
Pakistan
Portugal
Singapore
South Africa
Spain
Sweden
Switzerland
United Kingdom
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 without a test if all of the following conditions are satisfied:

- The person possesses a driver's license issued by one of the above countries (not an international driving permit) during the past three years.
- The person 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 overseas license is valid or has not been expired for more than three years.
- One of the following circumstances exists:
  - — The driver resided in the issuing country for a period of not less than six months and the license was issued during the period of residence.
  - — The individual has held the license for five years or more preceding the date of the application.
  - — The driver holds a passport or equivalent travel document of the issuing country.

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 aged 70 or above, renewable each year or HK$270 for a 3-year license.
- A completed and signed Form TD63A.
- If the applicant is 70 years of age or older, a Transport Department medical examination report Form TD256, 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	—	—

	Taxable*	Not taxable	Comments
Home-leave allowance	X	—	—
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(b)
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	—

* 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 2011–12 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	(108,000)
Net assessable income	552,000
Calculation of income tax	
Tax computed at progressive rates	
Tax on first HK$120,000	8,400
Tax on HK$432,000 at 17%	73,440
Total	81,840
Tax computed at standard rate	
Total compensation of HK$660,000 at a rate of 15%	99,000
Tax payable	
Tax (lesser of the tax computed under the progressive rates or the standard rate)	81,840

Hungary

(Country code 36)

Budapest	**GMT +1**

Ernst & Young
1132 Budapest
Váci út 20
Hungary

Executive contacts

Tibor Pálszabó	(1) 451-8601 Email: tibor.palszabo@hu.ey.com
Sevim Demirbilek	(1) 451-8700 Email: sevim.demirbilek@hu.ey.com
Krisztina Bedő	(1) 451-8632 Email: krisztina.bedo@hu.ey.com
Emese Kovács	(1) 451-8263 Email: emese.kovacs@hu.ey.com
Katalin Rados	(1) 451-8680 Email: katalin.rados@hu.ey.com
Norbert Szabó	(1) 451-8643 Email: norbert.szabo@hu.ey.com

Immigration contact

Tibor Pálszabó	(1) 451-8601 Email: tibor.palszabo@hu.ey.com

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 override the domestic rule.

Hungarian citizens are considered residents. A dual citizen is not a Hungarian tax resident if he or she does not have either a permanent home or habitual abode in Hungary.

The following individuals are also considered Hungarian tax residents:

- European Economic Area (EEA) nationals who spend at least 183 days per year in Hungary
- Third-country (non-Hungarian and non-EEA) nationals with a permanent residence permit
- Foreign individuals who have a permanent home in Hungary only

Individuals who have permanent homes in Hungary and another jurisdiction or do not have a permanent home anywhere are deemed resident if their center of vital interests is located in Hungary. If tax residency cannot be determined by either the “permanent home test” or the “center of vital interest test,” the individual is deemed to be a Hungarian tax resident if he or she stays in Hungary at least 183 days in the 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. 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. Most benefits in kind are taxed at the company level.

Rent and other housing allowances provided to an expatriate can be exempt from Hungarian taxes, under certain circumstances.

Education and in-kind 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.

The "benefit in kind" category is replaced by two new categories, effective from 1 January 2011. These new categories are "certain specific benefits" and "fringe benefits." The tax base is 1.19 times the arm's length value that was not reimbursed by the individual, and the tax rate is 16%. Consequently, the effective tax rate is 19.04% of the arm's length value of the benefit. In general, "certain specific benefits" (for example, telephone services for private purposes) are also subject to a 27% health tax. However, "fringe benefits" (for example, hot and cold meal vouchers) are not subject to health tax. They are subject only to personal income tax at a rate of 19.04% (16% personal income tax applied to 1.19 times the value of the benefit). Both the personal income tax and 27% health tax are payable by the Hungarian employer.

Several benefits that were taxable to employers in the context of an employment relationship, are now taxed as regular employment income. These include, among others, vouchers for sports services, transport, and those elements of cafeteria systems that are not specified in the law. Consequently, for these benefits, the payer will have to calculate advance tax and pay the tax to the tax authorities even if it cannot be withheld from the employee. Benefits provided by foreign employers are generally considered taxable income of the employee.

Non-Hungarian tax residents who work in Hungary are generally subject to personal income tax on their income relating to their Hungarian workdays.

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, activities of private entrepreneurs and agricultural producers).

Investment income. Dividend income from Hungarian sources is subject to a final withholding tax at a rate of 16%. Capital gains are subject to the same tax rate.

Royalty income is included in ordinary taxable income, and is taxed, after the deduction of expenses, at the normal rate (20.32%) after the deduction of expenses.

Income derived from the renting out of real estate is considered part of the consolidated tax base. Depreciation of the property is deductible for tax purposes.

Non-Hungarian residents who are residents of treaty countries are subject to Hungarian withholding tax at the reduced treaty rate (certain treaties provide for no withholding tax) if specified administrative requirements are met (for example, certificate of residence).

Directors' fees. Directors' fees are generally subject to tax at the same rates as employment income. Directors' fees are sourced in the country in which the payer company is resident. 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, interest or dividends paid by a legal entity located in a low-tax country and student wages.

Taxation of employment-related stock options. Employment-related 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 of a Hungarian company 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 and transaction costs, if any. Foreign-source stock option income is also subject to health tax at 27%, payable by the employee. However, health tax may be assumed by the Hungarian employer. If the employee's stock option income is paid through a local Hungarian company, the local company must withhold personal income tax and employee social security contributions and pay employer social security contributions regarding the income.

Capital gains. Capital gains are taxed at a flat rate of 16%. In determining taxable capital gains, substantiated transaction expenses may be deducted. Losses derived from transactions carried out on regulated capital markets can be set off against capital gains arising from other transactions conducted on such capital markets. The following are transactions that fall into this category:
- Transactions regulated by the Hungarian Financial Supervisory Authority
- Transactions performed in other EEA member states or in states with which Hungary has entered into a tax treaty, and a mutual agreement on information exchange has been entered into by the Hungarian Financial Supervisory Authority and the other country's respective supervisory body.

Deductions

Personal tax credits and deductions. The most important personal tax benefits for 2011 are outlined in the following table.

Type of tax benefit	Amount of tax benefit (a)
Wage tax credit	16%, subject to limitations (b)
Family tax allowance (per child per month)	HUF 62,500 to HUF 206,250 (c)

(a) The total tax credit claimed may not exceed the tax payable (that is, credits are not refundable).
(b) The maximum wage tax credit is HUF 12,100 per month. The full amount of the wage tax credit can be applied up to an annual income of HUF 2,750,000. Above this annual income, a gradually decreasing amount can be applied up to an annual income of HUF 3,960,000.
(c) The family allowance applies without an income limit, even for the first child. The allowance reduces the tax base. It results in a monthly reduction of tax of HUF 10,000 per child for families with one or two children, or HUF 33,000 per child for families with three or more children. It is possible to take into consideration the fetus from the 91st day of pregnancy. The tax-base allowance can be divided between spouses or cohabitants.

Business deductions. An individual may deduct a 10% standard deduction, or the actual and documented deductible expenses recognized by the income tax law, from income from independent activities.

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 documented deductible expenses, is not allowed for a foreign national working under an employment contract with a non-Hungarian employer.

Rates. The taxation of Hungarian residents and foreign individuals for 2011 is described below.

Effective from 2011, a 16% flat personal income tax rate applies to both the consolidated tax base and investment income. The tax on the consolidated tax base continues to be payable based on the super gross tax base (gross income must be multiplied by 1.27). Consequently, the effective personal income tax rate on gross income is 20.32% in 2011.

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 nonresidents are subject to inheritance and gift tax on assets located in Hungary at rates of up to 40%. Inheritance and gift tax on assets transferred between lineal descendants has been abolished.

C. Social security

As a result of Hungary's accession to the European Union (EU) on 1 May 2004, new social security rules apply to citizens of the EEA and expatriates from outside the EEA, effective from that date. These rules reflect the EU's social security coordination regulations.

Coverage. In Hungary, social security contributions cover health, pension and unemployment insurance. Participation in the Hungarian social security system is mandatory for all individuals who work in Hungary under an employment contract, regardless of their nationality. A third-country national (non-Hungarian, non-EEA and non-totalization agreement country national) seconded to Hungary, by a foreign employer not registered in Hungary, is not required to participate in the social security system. Effective from 2012, this exemption will apply for two years only. If an individual qualifies for exemption, and if he or she leaves Hungary but then returns, this exemption applies again only if at least three years have elapsed between the end of the individual's previous stay in Hungary and his or her return.

Individuals holding a valid E101 or A1 certificate of coverage are not required to contribute to the Hungarian social security system.

If income is paid by a non-Hungarian company to persons insured in Hungary for their work performed outside Hungary or if the employee is employed by a non-Hungarian company in Hungary, in general, the non-Hungarian company must meet its social security contribution obligations through a representative (Hungarian branch or financial representative). In the absence of such a representative, the non-Hungarian company must register as an employer in Hungary. If it does not do so, the individual must eventually meet the statutory obligations.

Contributions. For 2011, employers must contribute at a rate of 28.5% (27% social security contribution consisting of a 24% pension contribution, 2% health care contribution and 1% labor force contribution, and 1.5% training fund contribution) of gross salary. In most cases, the social security base equals taxable income (no super-grossing applies). No ceiling applies to the amount of income subject to social security contributions by the employer.

For 2011, each employee is subject to a 17.5% social security contribution (10% pension contribution and 7.5% health care and labor force contribution) on wages from his or her principal employment. For employees, income in excess of HUF 7,665,000 is exempt from the pension component (10%) of the social security contribution.

For 2011, in addition to the above contributions, a 14% health tax is payable on capital gains, income from securities borrowing, dividends and the total amount of income from real estate rentals exceeding HUF 1 million. If the total amount of the annual Hungarian employee health care contribution (6%) and the 14% health tax paid during the tax year exceeds HUF 450,000, the 14% health tax is not payable.

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 time period, with Austria, Bosnia-Herzegovina, Bulgaria, Canada, the Commonwealth of Independent States (CIS), Croatia, the Czech Republic, Germany, Korea (South), Macedonia, the Netherlands, Poland, Quebec, Romania, Serbia and Montenegro, the Slovak Republic, Slovenia, and Switzerland. However, the EU social security rules generally override the totalization agreements that have been entered into with the EEA member states. Hungary has concluded a new totalization agreement with Montenegro which is not yet in force. In addition, Hungary has entered into a totalization agreement with India which is not yet in force.

Hungary has entered into health care agreements with Angola, Cuba, Finland, Iraq, Jordan, Kuwait, Mongolia, Norway, Sweden and the United Kingdom.

D. Tax filing and payment procedures

Essentially, Hungary has a self-assessment tax system. However, 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 couples are taxed separately, not jointly.

Employers must withhold the appropriate amount of income tax (personal income tax and social security contributions, if applicable) 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, calculated on the basis of actual income earned, 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.

If individuals do not possess the required information for preparing their personal income tax returns, and accordingly are not able to file their tax returns by 20 May and if they are not personally accountable for this lack of information, effective from 2011, they have the option of extending the filing deadline until 20 September. This option is first available for the 2010 personal income tax return. The tax authorities must be informed of any extension by 20 May, and the tax return must be filed by 20 September of the same year, together with an excuse letter. In this case, the tax authorities cannot impose a default penalty and late payment interest if the tax return is filed by 20 September.

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	Iceland	Portugal
Armenia	India	Romania
Australia	Indonesia	Russian Federation
Austria	Ireland	San Marino
Azerbaijan	Israel	Singapore
Belarus	Italy	Slovak Republic
Belgium	Japan	Slovenia
Bosnia-Herzegovina	Kazakhstan	South Africa
Brazil	Korea (South)	Spain
Bulgaria	Kuwait	Sweden
Canada	Latvia	Switzerland
China	Lithuania	Taiwan
Croatia	Luxembourg	Tajikistan
Cyprus	Macedonia	Thailand
Czech Republic	Malaysia	Tunisia
Denmark	Malta	Turkey
Egypt	Moldova	Ukraine
Estonia	Mongolia	United Kingdom
Finland	Morocco	United States
	Netherlands	

France	Norway	Uruguay
Germany	Pakistan	Uzbekistan
Greece	Philippines	Vietnam
Hong Kong	Poland	Yugoslavia*

* This treaty applies to Montenegro and Serbia.

Hungary has signed new tax treaties with the United States (4 February 2010), Germany (28 February 2011) and Denmark (27 April 2011). However, these treaties are not yet in force.

Hungary is currently negotiating double tax treaties with Mexico and Paraguay. Double tax treaty negotiations are expected with Barbados and Saudi Arabia.

Hungarian residents with foreign-source income from nontreaty countries are entitled to a credit equal to 90% of the foreign taxes paid on the income, but at least 5% tax must be paid in Hungary on such foreign-source income.

F. Entry visas

Foreign nationals entering Hungary must have valid travel documents (for example, passports) and, in certain cases, visas. Citizens of EEA countries and Switzerland can enter Hungary without visas. Based on international treaties, citizens of some 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 (Category A), which is for entering the international areas of the airport and remaining there until the departure of the flight to the destination country
- Transit visa (Category B), which is for single or repeated transit through the country, with a maximum stay of five days on each occasion
- Visa for short-term residence (Category C), which is for single entry or multiple entries within 6 months and a maximum of 90 days' presence in Hungary
- Residence visa, which authorizes a single entry for the purpose of picking up the residence permit obtained from abroad, valid for 30 days after the entry date

The Category A, B and C visas are so-called Schengen visas. A visa issued by a member state of Schengen is valid in Hungary. In addition, a Schengen visa issued by Hungary is valid in the entire territory of the Schengen area. Territorial restrictions may apply.

G. Work permits

As a result of Hungary's accession to the EU on 1 May 2004, new rules regarding work permits entered into force.

Work permits. The Hungarian government has opened the Hungarian labor market for EEA countries as of 1 January 2009. Under the current law, a work permit is not required in order for EEA and Swiss citizens to work in Hungary. For such citizens, the local company must notify the Hungarian Labour Office on or before the date on which the EEA citizen begins working.

All non-EEA nationals need a valid work permit to work in Hungary. A work permit is also required if the foreign citizen is not employed by a local company but performs work in Hungary. The work permit cannot be issued retroactively, and working in Hungary is not allowed before the permit is issued.

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 if the following conditions are satisfied:

- A Hungarian or EEA 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.
- The type of work does not fall under the exceptions set out by the Ministry of Labour.

In general, a work permit is issued within approximately 30 days and is valid for a maximum of two years. On application, it can be extended for another two years. A work permit extension request must be submitted no later than 30 days before the expiration of the authorized period.

In certain cases, a work 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. Any documents in a foreign language must be translated into Hungarian. The National Interpreter and Translation Attestor Office is the only approved translation office.

Exempt categories. Work permits are not required in the following cases:

- Provisions in treaties that Hungary has entered into 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 starting up an operation or the servicing of equipment under a contract entered into with a foreign supplier, including related services (allowed for no longer than 15 working days at a time).
- The foreign national is an executive officer or member of the supervisory board of a Hungarian company (registered by the Court of Registration) that is wholly or partially owned by foreigners or is in association with foreign nationals.
- The foreign national has been 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).
- The foreign national is engaged in providing church services as a profession in Hungarian-registered churches or their institutions.
- The foreign national's spouse is a Hungarian citizen, and the foreign national and his or her spouse live together in Hungary.

- The foreign national is a professional athlete involved in sport activities.

Self-employment. Citizens of EEA-member countries may be self-employed in Hungary.

H. Residence visas and permits

Residence permits and residence visas for non-EEA citizens. If a foreign citizen's entry into Hungary or paid employment in Hungary is subject to a visa (visa-liable) and if, on entry into Hungary, the foreign citizen intends to stay more that 90 days in Hungary, he or she must obtain a residence permit at the Hungarian embassy or consulate in the country of their permanent or usual residence. The residence permit application process may start as soon as the Labour Office issues the work permit. In exceptional cases, if a work permit is not required (see Section G), a Letter of Assignment or employment contract, and the company's documentation regarding court registration must be submitted to the embassy.

After residence permits of visa-liable citizens are issued, these citizens receive residence visas, which entitle them to enter Hungary and pick up their residence permit without undergoing any other application process. This residence visa is valid for 30 days after entering Hungary.

Visa-exempt foreign nationals can apply for their residence permit either from abroad as described above or after they enter Hungary.

In the residence permit application process, applicants must prove the following:

- They have valid passports.
- They have the necessary permissions to work in Hungary.
- They have a property rental agreement or proof of ownership of property in Hungary.
- They receive sufficient income to live in Hungary.
- They have comprehensive health insurance or sufficient funds to use medical services.

Family members must prove their family relationship (that is, marriage certificate for spouse and birth certificate for children).

The residence permit may be granted for a maximum of two years (for the duration of the work permit) and may be extended for up to two years. An application for a residence permit extension must be submitted no later than 30 days before the expiration of the authorized period of stay. In certain cases, a residence permit may be valid for a term of three years.

An applicant must submit the following documents with the application:

- A valid passport
- A photograph of the applicant
- A completed application form
- Original work permit, if necessary
- Employment contract or a Letter of Assignment
- Certification of the applicant's financial means
- Certification of the applicant's housing arrangements in Hungary
- Official medical certificate or health insurance card
- Certain company documentation, if a work permit is not required

Family members must prove their family relationship (that is, marriage certificate for spouse and birth certificate for children).

Processing the application for a residence permit takes 30 days from the date of submitting the required documents.

Residence registration cards for EEA and Swiss citizens. EEA and Swiss 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 registration cards at the Hungarian Immigration Office before the 75th day of their stay in Hungary.

EEA nationals must support their residence card application with the following:
- A valid travel document (passport or identification card)
- A completed application form
- Documents confirming the purpose of their stay in Hungary
- Official medical certificate or health insurance card (for example, A1 certificate of coverage or EU card)
- Certification of the applicant's financial means
- A property rental agreement or proof of ownership of a property in Hungary

Family members must prove their family relationship (that is, marriage certificate for spouse and birth certificate for children).

An application for a residence registration card takes one day to process if all required documents are provided.

The EEA residence registration card is valid until the EEA or Swiss national leaves Hungary permanently without intending to return. In this case, the residence registration card must be given back to the Immigration Office.

I. Family and personal considerations

Family members. The spouse or children of an expatriate may obtain the same visas, permits and residence registration cards as the expatriate. If entering the country as dependants, their documents are valid for the same duration as the expatriate's documents. If family members wish to engage in paid employment, they must also follow the procedure outlined in Section G.

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 EEA country for as long as it is valid or with their non-EEA home country drivers' licenses for up to one year. After one year, a local driver's license must be obtained, unless the foreign person holds an EEA-issued driver's license. 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 examinations 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	—
Housing contribution	(X)	—	—
Housing allowance	X	—	—
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	(b)
Value of meals 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) Employee contributions are not deductible from compensation.

(b) 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.

(c) The value of meals is taxable at a rate of 16% if it is provided in kind or in the form of meal vouchers up to HUF 18,000 per month. The company is also subject to 27% health tax on vouchers above HUF 18,000.

(d) The gain is not taxable if it is protected by treaty or if the residence is located outside Hungary.

(e) The gain is not taxable if it is protected by a treaty or if the seller is not resident in Hungary at the time of the sale.

Appendix 2: Sample tax calculation

The sample tax calculation below is for a non-Hungarian EU citizen who worked the entire year in Hungary for a Hungarian company. The expatriate receives his remuneration from a foreign employer and holds a valid A1 certificate of coverage.

	HUF
Remuneration	
Income paid by the non-Hungarian employer	2,000,000
Income tax assumed by the foreign employer	500,000
Gross taxable employment income	2,500,000
Calculation of tax base	
Tax base (super gross income) (HUF 2,500,000 at 127%)	3,175,000
Calculation of income tax	
Tax on HUF 3,175,000 at 16%	508,000

Iceland

(Country code 354)

Reykjavík	**GMT**

Ernst & Young
Borgatún 30
105 Reykjavík
Iceland

Executive contact

Hólmgeir El. Flosason	595-2500, 825-2575 Fax: 595-2501 Email: holmgeir.flosason@is.ey.com

Immigration contact

Helga Hauksdóttir	595-2500, 825-2585 Fax: 595-2501 Email: helga.hauksdottir@is.ey.com

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. Wages and remuneration may be considered Icelandic-source even if an employer does not have a permanent establishment in Iceland.

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, directors' fees, 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 a rate of 20%. Interest income and royalties are also subject to personal financial income tax at a rate of 20%. However, the first ISK 100,000 of interest income is not subject to tax. Income received by an individual from the rental of real properties is subject to personal financial income tax. Thirty percent of such rental income is tax-free, but the balance is subject to personal financial income tax at a rate of 20%.

Nonresidents are subject to a final withholding tax at a rate of 20% on dividends and interest income. If a nonresident has his or her domicile in a country that has entered into a double tax treaty with Iceland, the application of such treaty may result in the expatriate not being subject to tax on such income or being subject to tax at a lower rate. However, the expatriate might have to suffer withholding tax, which would subsequently be reimbursed.

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 progressive withholding tax and a municipal tax, which is also withheld at source. For details regarding the calculation of the withholding and municipal taxes, see *Rates*.

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 20%.

Capital gains. In general, a capital gains withholding tax at a rate of 20% 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 a 20% withholding tax. Gains derived from the sale of a principal residence are exempt from tax if the property has been owned for at least two years.

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.

Personal allowances. In calculating state and municipal income taxes for 2011 each taxpayer is allowed a personal tax credit of ISK 530,466. This tax credit is reduced proportionately if the individual is taxable in Iceland for only part of the fiscal year. The tax credit not fully used by one spouse may be transferred to the other spouse.

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
- Provisions for identified losses and expenses

Rates

Employment income tax. Employment income tax is computed by adding a municipal tax rate to the general rate. The income tax rates for 2011 consist of a municipal rate that varies from 12.44% to 14.48%, and a progressive income tax rate, depending on income. The following table sets forth the general income tax rates.

Monthly income		
Exceeding ISK	**Not exceeding ISK**	**Rate %**
0	209,400	22.9
209,400	680,550	25.8
680,550	—	31.8

If the total income tax base of a jointly taxed individual is higher than ISK 8,166,600 per year, the income tax base in excess of that amount is taxed at a rate of 25.8%. The taxable excess amount for the year is limited to the higher of half the income tax base of the individual receiving lower income and ISK 2,512,800.

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 2011, the rate of municipal business tax is 14.41%.

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. Net worth tax is levied at a rate of 1.5% on taxable net assets exceeding ISK 75 million for individuals and ISK 100 million for jointly taxed individuals.

Inheritance and gift taxes. The rate of inheritance tax is 10% of the market value of assets at the time of payment, exceeding ISK 1,500,000.

Gifts and donations are subject to income tax. Resident donees pay gift tax.

Media tax. If the taxable income of individuals aged 16 to 69 exceeds ISK 1,361,468, such individuals must pay a tax of ISK 17,900 to the state-owned media in Iceland.

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 8.65%.

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 various 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	India	Portugal
Canada	Ireland	Romania
China	Italy	Russian Federation
Czech Republic	Korea (South)	Slovak Republic
Denmark	Latvia	Spain
Estonia	Lithuania	Sweden
Faroe Islands	Luxembourg	Switzerland
Finland	Malta	Ukraine
France	Mexico	United Kingdom
Germany	Netherlands	United States
Greece	Norway	Vietnam
Greenland	Poland	
Hungary		

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 law 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 before the commencement of work.

Icelandic law provides for five categories of work permits. Each type of work permit may be revoked if the activities of the permit holder become inconsistent with the conditions for the permit. The categories of work permits are discussed below.

Work Permit 1 – Temporary Work Permit. A Work Permit 1, which is known as a Temporary Work Permit, is issued to the employer to allow the employment of a foreign national. The following are the conditions for granting Work Permit 1:

- Qualified persons cannot be found in Iceland, occupational sectors in the country lack workers, or other special reasons exist for granting such permits.

- The local trade union in the relevant branch of industry, or the appropriate national union, has provided its comment on the application.
- A signed employment contract covers a specific period or task and guarantees the employee wages and other terms of service equal to those enjoyed by local residents.
- The employer takes out health insurance for the foreign employee, which provides the same coverage as the coverage provided under the Social Security Act.
- The employer guarantees the payment of the cost of sending the employee back to his or her home if the employee becomes incapable of working for a long period as a result of illness or accident or if the employment is terminated because of reasons for which the employee is not responsible.
- A satisfactory health certificate for the employee is submitted.

Work Permit 1 is granted for an initial period of up to one year. It may be renewed for up to two years at a time.

Work Permit 2 – Specialist Work Permit. A Work Permit 2, known as a Specialist Work Permit, may be granted to a foreign national if a company without a branch in Iceland plans to send the individual to Iceland to perform services for the company. To qualify for a Work Permit 2, the last four conditions for Work Permit 1 must be satisfied and a service contract must be entered into with a company in Iceland. Work Permit 2 may be granted for a period of up to six months and may not exceed the duration of the relevant service contract.

Work Permit 3 – Unlimited Work Permit. A foreign national may be granted a Work Permit 3, which is known as an Unlimited (Permanent) Work Permit. To obtain Work Permit 3, the following conditions must be satisfied:

- The foreign national has been legally domiciled and lived in Iceland for three consecutive years.
- The foreign national has obtained a residence permit in Iceland.
- A Work Permit 1 was previously issued to the foreign national.

A Work Permit 3 is valid for as long as the foreign national is legally domiciled in Iceland.

Work Permit 4 – Student Work Permit. A Work Permit 4, which is known as a Student Work Permit, is granted to an individual who studies in an Icelandic school. This work permit is limited to jobs connected to the student's studies or jobs during school holidays. This work permit may be granted for periods of up to six months at a time.

Work Permit 5 – Au Pair Work Permit. Work Permit 5, which is known as an Au Pair Work Permit, is granted to an individual who performs domestic services in an Icelandic home. The terms of the engagement of the individual performing the services must be presented in the application for the permit. Work Permit 5 is available only to persons between 18 and 26 years of age. This work permit may not be issued for the engagement of an individual for a period exceeding one year.

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
- 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 2011 is provided below for an expatriate who is a resident in Iceland for all of 2011. The expatriate's wife is not employed. The expatriate pays a 4% contribution to the pension fund which is the legal minimum, but also adds an additional contribution of 4% and reaches his maximum deduction. During 2011, the expatriate received compensation of ISK 11 million. The individual was also provided housing by the employer. The expatriate earned dividends from home-country investments of ISK 300,000 and interest income of ISK 350,000. The following is the annual tax calculation for 2011.

Calculation of taxable income

	ISK	ISK
Income:		
Salary	11,000,000	
Taxable value of housing (5% of ISK 18,000,000)	900,000 (a)	
Total income		11,900,000
Deductions:		
Pension payments	(880,000) (b)	
Total deductions		(880,000)
Taxable income		11,020,000

Calculation of tax

Tax on ISK 2,512,800 at 37.31%	937,526	
Tax on ISK 5,653,800 at 40.21%	2,273,393	
Tax on ISK 2,853,400 at 46.21%	1,318,556	
Total		4,529,475
Personal tax credits:		
Taxpayer	(530,460)	
Wife	(530,460)	
Total credits		(1,060,920)
Income tax payable		3,468,555
Finance tax on dividend at 20%		60,000
Finance tax on interest income		30,000 (c)
Total tax payable		3,558,555

(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 2011, 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 Reykjavík 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.

(c) The total interest income is ISK 350,000, of which ISK 200,000 is tax free (ISK 100,000 for each individual). The finance tax of 20% applies to the balance of ISK 150,000.

India

(Country code 91)

Gurgaon (proximate to New Delhi) — **GMT +5½**

Ernst & Young Pvt Ltd.
S.R. Batliboi & Co.
Golf View Corporate Tower – B
Near DLF Golf Course
Sector 42
Gurgaon 122002
India

Executive and immigration contacts

Sonu Iyer, *National Practice Leader (resident in New Delhi)* — (11) 4363-3160, Email: sonu.iyer@in.ey.com

Amitabh Singh *(resident in New Delhi)*	(124) 464-4720 Email: amitabh.singh@in.ey.com
Mayur Shah *(resident in Mumbai)*	(22) 619-21104 Email: mayur.shah@in.ey.com
Alok Agrawal *(resident in Bangalore)*	(80) 6727-5073 Email: alok.agrawal@in.ey.com
Amarpal Chadha *(resident in Bangalore)*	(80) 6727-5258 Email: amarpal.chadha@in.ey.com

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:
- They are present 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).
- They are present in India for 60 days or more during the tax year and present in India for at least 365 days in aggregate during the preceding four tax years (the 60 days' condition is increased to 182 days in certain cases).

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:
- They were nonresident in India in 9 out of the preceding 10 tax years.
- They were 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. 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 residential status of the recipient.

Employees of foreign enterprises who are citizens of foreign jurisdictions are not subject to tax if all of the following conditions are satisfied:

- The foreign 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.
- 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, the following benefits may receive preferential tax treatment, subject to certain requirements:

- Company-provided housing. If the accommodation is owned by the employer, the amount of the benefit from company-provided housing equals a specified percentage of salary. The percentage is 15% for cities having a population of more than 2,500,000, 10% for cities having a population of more than 1 million, but not more than 2,500,000, and 7.5% for other cities. The population figures are based on the 2001 census. The benefit computed above is reduced by the amount recovered from the employee. If the accommodation is leased by the employer, the amount of the benefit equals the lower of actual rent paid or 15% of salary, less the amount recovered from the employee. Furniture and appliances provided by the employer in the accommodation are taxed at a rate of 10% of the cost if the employer owns the items or 10% of 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 charges paid by the employer or 24% of salary, reduced by any amount recovered from the employee, unless the accommodation is provided for up to 15 days on relocation. Such accommodation provided for relocation is exempt from tax.
- Interest-free or low-interest loans. The benefit of interest-free loans or low-interest loans exceeding INR 20,000 to an employee, to a person on behalf of the employee or to a member of an employee's household is taxable based on the purpose of the loan. However, no amount is taxable if the loan is provided for medical treatment with respect to "specified' diseases." The interest rate is the rate notified by the banks as of the first day of the tax year.
- 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 taking into account the gross-up. However, in such a situation, 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
- 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 end of employment is included in taxable salary income.

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 are taxed only on Indian-source income, income received in India and income received outside India arising from either a business controlled or a profession established in India. Persons who are nonresidents are taxed only on Indian-source income and income received in India.

The computation of an individual's income from a business is similar to the computation of income of a corporation. However, an individual may maintain accounts on a cash or accrual basis.

Investment income. Dividends are taxed in the following manner:
- Domestic companies are required to pay dividend distribution tax on profits distributed as dividends at a rate of 15% plus the applicable surcharge (7.5%) and education cess (3%).
- Amounts declared, distributed or paid as dividends by Indian companies are not taxable in the hands of the shareholders.

Dividends received from foreign companies are subject to tax in the hands of shareholders at the normal tax rates.

Interest payable on bank deposits in India is taxable and taxes are withheld at source by the banks if the interest exceeds INR 10,000 in the tax year. The rate of the withholding tax is 10% (plus cess). This withholding tax is not a final tax.

The following interest is exempt from tax:
- Interest earned on nonresident external (NRE) accounts of individuals who qualify as persons resident outside India according to the exchange control laws (see Section I) or who are permitted by the Reserve Bank of India (central bank) to maintain such accounts
- Interest payable by scheduled banks (on approved foreign-currency deposits) to nonresidents and to persons who are not ordinarily resident

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.

Directors' fees. Directors' fees are taxed at the progressive rates listed in *Rates*. Expenses incurred wholly and exclusively for earning fees are allowed as deductions.

Sums received above INR 50,000. Any sum of money in excess of INR 50,000 received by an individual without consideration is taxable in the hands of the recipient. However, the following exclusions to the rule exist:

- Amounts received by an individual from a relative (as defined in the Income Tax Act, 1961)
- Amounts received on the occasion of the marriage of the individual
- Amounts received under a will, by way of an inheritance or in contemplation of death of the payer

Capital gains and losses

Capital gains on assets other than shares and securities listed on a stock exchange in India. Capital gains derived from the transfer of short-term assets are taxed at normal rates.

The sales proceeds from a depreciable 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 at a rate of 30%.

Long-term capital gains are gains on assets that have been held for more than three years. Long-term capital gains are exempt from tax in certain cases if the gains are reinvested within six months in specified long-term assets. 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, 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.

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. Gains from the sale of agricultural land that are not reinvested are taxed as short-term gains if the agricultural land is held for three years or less, or as long-term gains if the agricultural land is held for more than three years.

Capital gains on shares and securities listed on a stock exchange in India. Long-term capital gains (gains derived from listed securities held longer than one year) derived from the transfer of equity shares or units of an equity-oriented fund listed on a recognized stock exchange in India are exempt from tax if Securities Transaction Tax (STT) is payable on such transaction.

The purchase or sale of such shares (or units of an equity-oriented fund) are 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 for 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 are taxable at a reduced rate of 15% (plus cess) if STT is payable on such transaction.

Inflation adjustments. In calculating long-term capital gains, the cost of assets may be adjusted for inflation. For assets held on or before 1 April 1981, the market value on 1 April 1981 may be substituted for cost in calculating gains. However, this adjustment is not available in the following cases:

- Transfer of shares of an Indian company acquired with foreign currency by nonresidents
- Transfer of bonds or debentures by residents or nonresidents, regardless of the currency with which the acquisition is made

Setting off capital losses. 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. To claim a carryforward and the set-off of losses, the tax return must be filed within the prescribed time limits.

Capital gains on foreign-exchange assets. Nonresident Indian nationals may be subject to a 10% withholding tax on long-term capital gains on specified 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.

Fringe Benefit Tax. Fringe Benefit Tax (FBT) was abolished, effective from 1 April 2009. As a result, some of the employer-provided benefits that were subject to FBT in the hands of the employer are now taxable in the hands of the employees.

Taxation of employer-provided stock options. Income arising from Employee Stock Option Plans (ESOPs) or other equity-based schemes, which was subject to FBT until 31 March 2009, is now taxed as a benefit in the hands of the employees. The value of ESOPs for the purpose of tax is the fair market value (FMV) as of the date on which the options are exercised by the employee, reduced by the amount of the exercise price paid by the employee. For this purpose, the FMV is the value determined in accordance with the method prescribed under the Income-tax Act, 1961.

In calculating the capital gains arising at the time of sale of shares acquired under schemes referred to in the preceding paragraph, the acquisition cost is the FMV as of the date of exercise that was taken into account to determine the taxable income at the time of allotment of shares.

The Indian government has prescribed the valuation rules to determine the FMV. The rules are similar to the rules that applied under the FBT regime and are effective from 1 April 2009. Accordingly, securities allotted or transferred on or after 1 April 2009 must be valued in accordance with these rules.

Valuation of shares listed on a recognized stock exchange in India. If the shares of a company are listed on a recognized stock exchange in India on the date of exercise of the options, the FMV is the average of the opening price and the closing price of the shares on the stock exchange on that date. However, if the shares are listed on more than one recognized stock exchange, the FMV is the average of the opening and closing price of the shares on the recognized stock exchange that records the highest volume of trading in the shares.

If no trading in the shares occurs on any recognized stock exchange on the exercise date, the FMV is the closing price on the date closest to the date of exercise of the option.

Valuation of unlisted shares or shares listed only on overseas stock exchanges. If, on the date of exercise of the options, the shares in the company are not listed on a recognized stock exchange in India, the FMV of the share must be determined by a recognized merchant banker.

The FMV can be determined on the date of exercise of the option or any date that falls within 180 days before the exercise date.

Deductions

Deductible items. For individuals, a deduction of up to INR 100,000 from gross total income may be claimed for prescribed contributions to savings instruments, pension funds and schemes and certain other recipients. A deduction for contributions made by the employer and the employee for the New Pension System (NPS) account is allowed. This is covered by the cap of INR 100,000 mentioned above.

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.

A deduction of INR 20,000 may be claimed by individuals with respect to investment in long-term infrastructure bonds notified by the government. This deduction is in addition to the existing limit of INR 100,000 for specified investments referred to in the preceding paragraph.

Medical insurance premiums for recognized policies in India may be deducted, up to a maximum of INR 15,000 (INR 20,000 if the insured is a resident of India and is age 65 or older) against aggregate income from all sources. An additional deduction up to a maximum of INR 15,000 is allowed to an individual for medical insurance premiums paid by the individual for his or her parents (INR 20,000 if the insured is a resident of India and is age 65 or older). The above limit applies to the total amount paid for both parents.

Donations to religious, charitable and other specified funds are eligible for deductions from taxable income of up to 50% or 100%, as prescribed.

Business deductions and tax concessions. Taxpayers may generally deduct from gross business 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 apply to resident and nonresident individual taxpayers for the year ending 31 March 2012.

Taxable income Exceeding INR	Not exceeding INR	Rate* %
0	180,000	0
180,000	500,000	10
500,000	800,000	20
800,000	—	30

* An education cess of 3% is levied on the tax payable. The maximum marginal tax rate on annual income is effectively 30.9% (30% + 3% education cess).

Resident individuals with income up to INR 180,000 do not pay the income tax and education cess. The exemption limit is INR 190,000 for resident women below the age of 60 years at any time during the financial year and INR 250,000 for resident senior citizens of the age of 60 to 80 at any time during the financial year. For very senior citizens (defined as individuals above the age of 80), the exemption limit is INR 500,000.

For a sample tax calculation, see Appendix 2.

Relief for losses. Business losses incurred in the current year can be set off against any other income under other heads except for income under the salaries head. If business losses in the current year cannot be wholly set off, such business losses may be carried forward for eight years if the income tax return for the year of the loss is filed on time. However, the losses carried forward can be set off against business income only. Unabsorbed losses from speculative transactions may be carried forward for four years only and can be set off against profits from speculative business only. 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 INR 3 million. Assets subject to tax include residential houses, cars, yachts, boats, aircraft, urban land, jewelry, bullion, precious metals, cash in excess of INR 50,000, any amount not recorded in the books of account and commercial property not used as business, office or factory premises. 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, as mentioned in *Sums received above INR 50,000* in Section A, any sum of money received by an individual in excess of INR 50,000 without consideration is taxable in the hands of the recipient.

C. Social security

Social security in India is governed by the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 (EPF Act). The EPF Act contains the following two principal schemes:
- Employees' Provident Fund Scheme, 1952
- Employees' Pension Scheme, 1995

Coverage. The Ministry of Labour and Employment has issued a notification extending the applicability of the Provident Fund and Pension Scheme rules to a new class of employees called "International Workers." Under the EPF Act, the following employees are considered to be "International Workers":
- An Indian employee (an Indian passport holder) who has worked or is going to work in a foreign country with which India has entered into a social security agreement and who is or will be eligible to avail of the benefits under a social security program of that country, in accordance with such agreement
- A foreign national who works for an establishment in India to which the EPF Act applies

The EPF Act applies to the following establishments:
- An establishment employing 20 or more persons engaged in a specified industry or an establishment or class of establishments notified by the central government
- An establishment employing less than 20 persons that opts voluntarily to be covered by the EPF Act

Covered employers must make a contribution towards the Provident Fund and Pension Scheme for their employees who are International Workers.

An "excluded employee" is not covered by the EPF Act. An employee is considered to be an "excluded employee" if the following conditions are satisfied:
- The employee is an International Worker who is contributing to a social security program of his or her country of origin, either as citizen or resident.
- The employee's home country has entered into a social security agreement with India on a reciprocity basis and the employee is considered to be a detached worker under the social security agreement.

India has entered into social security agreements with Belgium, Germany and Switzerland. It has also signed social security agreements with Denmark, France, Hungary, Luxembourg and the Netherlands, but these agreements have not yet entered into force.

Contributions. Every covered employer is required to contribute 24% (12% each for the employer's and the employee's share) of the employee's "monthly pay" (as defined) towards the Provident Fund and Pension Fund. The employer has the option to recover the employee's share from the employee.

Out of the employer's 12% share of the contribution, 8.33% of monthly pay is allocated to the Employees Pension Fund. The balance of the contributions is deposited into the Employees Provident Fund.

Local employees drawing a monthly salary of INR 6,500 or more are excluded from the legislation, but this exclusion does not apply to International Workers. Consequently contributions are required for International Workers even if the monthly pay of the employee exceeds INR 6,500.

Refunds of Provident Fund contributions are possible, subject to the satisfaction of certain conditions.

The employer contributions are exempt from tax up to 12% of monthly pay.

Withdrawal. An International Worker can make a withdrawal from the Provident Fund only in the following circumstances:
• He or she retires or reaches the age of 58, whichever is later.
• He or she suffers permanent and total incapacitation.

However, for members covered under a social security agreement, a withdrawal can be made on such terms as may be specified in such agreement.

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.

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 the accounts are subject to a tax audit, by 30 September. Wealth tax returns for individuals must be filed by the deadline applicable for income tax returns.

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 the 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 INR 10,000 must make advance payments, after deducting credit for tax withheld, in three installments on 15 September, 15 December and 15 March.

Nonresidents 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 on foreign-exchange assets 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 also be required to obtain a No Objection Certificate in certain specified circumstances.

Quarterly statement of tax withheld at source. Entities must file quarterly statements of tax withheld in a prescribed format with the prescribed authority.

Annual information return. All taxpayers must disclose the amounts with respect to the following specified financial transactions:

- Deposits of cash (excluding check or money transfers) totaling INR 1 million or more in any savings bank account for the year.
- Total payments made against bills raised with respect to India credit cards totaling INR 200,000 or more for the year.
- A payment in the amount of INR 200,000 or more for purchase of units of a mutual fund in India during the year.
- A payment in the amount of INR 500,000 or more for acquiring bonds or debentures issued by a company or institution in India during the year.
- A payment in the amount of INR 100,000 or more for the acquisition of shares issued by a company in India during the year.
- Purchase of immovable property valued at INR 3 million or more in India during the year.
- Sale of immovable property valued at INR 3 million or more in India during the year.
- Payments totaling INR 500,000 or more for investments in bonds issued by the Reserve Bank of India, during the year.

E. Double tax relief and tax treaties

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 comprehensive double tax treaties with the following countries.

Armenia
Australia
Austria
Bangladesh
Belarus
Belgium
Botswana
Brazil
Bulgaria
Canada
China
Cyprus
Czech Republic
Denmark
Jordan
Kazakhstan
Kenya
Korea (South)
Kuwait
Kyrgyzstan
Libya
Luxembourg (a)
Malaysia
Malta
Mauritius
Mexico (b)
Mongolia
Morocco
Saudi Arabia
Singapore
Slovenia
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Syria
Tanzania
Thailand
Trinidad
and Tobago

Egypt	Namibia	Turkey
Finland	Nepal	Turkmenistan
France	Netherlands	Uganda
Germany	New Zealand	Ukraine
Greece	Norway	United Arab Emirates
Hungary	Oman	United Kingdom
Iceland	Philippines	United States
Indonesia	Poland	Uzbekistan
Ireland	Portugal	Vietnam
Israel	Qatar	Zambia
Italy	Romania	
Japan	Russian Federation	

(a) This treaty was signed in June 2008, but it is not yet in force.
(b) This treaty was signed in November 2007, but it is not yet in force.

India has entered into limited double tax treaties with Afghanistan, Ethiopia, Iran, Lebanon, Pakistan and Yemen.

If no double tax treaty applies, 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.

F. Visas and other formalities

Business visa and employment visa. India has recently amended its visa rules with respect to the employment visa and business visa. The visa guidelines restrict the nature of activities for which a business visa can be issued and provide that an employment visa is required for all other types of activities. Under the guidelines, foreign nationals coming to India for the purpose of executing projects and contracts in India do not fulfill the conditions for the granting of a business visa. Consequently, a business visa is not granted to such foreign nationals. Instead, foreign nationals coming to India for the purposes of executing projects or contracts must obtain an employment visa.

Under the guidelines, the employment visa may be granted to the following individuals only:
• Skilled or qualified professionals
• Foreign nationals visiting India for employment in companies in India or in foreign companies executing projects in India

Under the guidelines, an employment visa may not be issued if a large number of qualified Indians are already available to fill the position or if the job is an ordinary secretarial or clerical job.

An employment visa may be issued to a foreign national visiting India for the purpose of carrying out the following activities:
• Execution of projects or contracts, regardless of duration
• Installation and commissioning of machinery with respect to a contract for supply
• Transfer of know-how for which an Indian company pays fees or royalties
• Consulting on a contract basis for an Indian company that pays fixed remuneration
• Taking up employment as a coach of a national- or state-level team or reputed sports club
• Performing as a foreign sportsperson for a specific period under contract with an Indian club or organization

- Providing engineering, medical, accounting, legal and other highly skilled services in the capacity of an independent consultant
- Serving as a foreign language teacher or interpreter
- Serving as a foreign specialist chef

The guidelines provide that a business visa may be issued to a foreign national visiting India for the purpose of carrying out the following activities:
- Establishing a business venture
- Exploring the possibility of an industrial or business venture in India
- Purchase and sale of industrial, commercial or consumer products
- Attending technical meetings or discussions
- Attending board meetings and general meetings
- Recruitment of manpower
- Functioning as partners or directors in a business
- Consultation or participation with respect to exhibitions, trade fairs or business fairs
- Meeting with suppliers or potential suppliers to evaluate or monitor quality, negotiate supplies, place orders and provide specifications for goods procured from India
- Monitoring progress on ongoing projects
- Meeting with Indian customers on ongoing projects
- Meeting to provide high-level technical guidance on ongoing projects
- Activity before and after a sale that does not amount to the execution of a contract
- In-house training at the regional hubs of a foreign company
- Serving as a tour conductor or travel agent

The business visa and employment visa may be issued only by the Indian Missions from the country of origin or from the country of domicile of the foreign national, provided that the period of permanent residence of the foreign national in such country is at least two years. Accompanied family members can come to India with an "X Visa." However, this visa is issued to legal spouses and dependants only. India does not recognize "common law" partners.

When applying for an employment visa, the intended legal entity and the location of work in India must be clearly specified because the mandatory registration at the Foreigners Regional Registration Office (FRRO) is based on the place of work as endorsed on the visa.

Visa on arrival. A visa-on-arrival facility is available for the citizens of Finland, Japan, Luxembourg, New Zealand and Singapore. In general, foreign passengers should ensure that they are in possession of a valid Indian visa before they begin their journey to India. However, nationals of Bhutan and Nepal do not need a visa to enter India, and nationals of Maldives do not require a visa for entry into India for a period up to 90 days. A separate visa regime exists for diplomatic and official passport holders.

Temporary Landing Facility/Temporary Landing Permit. A Temporary Landing Facility (TLF)/Temporary Landing Permit (TLP) allows the entry of foreigners arriving in emergency situations, such as death or serious illness in the family, without an Indian visa on the payment of a specified amount. This facility can also be extended to transiting foreigners who have confirmed onward journey tickets within 72 hours. In addition, foreign tourists in groups of four or more arriving by air or sea who are sponsored by recognized Indian travel agencies and have a preset itinerary can be granted a collective landing permit for a specified time period on the written request of the travel agencies to the immigration officer. This written request must provide the full personal and passport details of the group members, contain an undertaking to conduct the group in accordance with the itinerary and assure that no individual will be allowed to drop out from the group in any location in India. The above mentioned measures with respect to TLF/TLP are not available to the nationals of Afghanistan, Bangladesh, Ethiopia, Iran, Nigeria, Pakistan, Somalia and Sri Lanka.

Tourist visa. Visitors to India need visas to enter the country unless they are Indian citizens. Under a bilateral arrangement, a 10-year tourist visa is available to U.S. citizens only. Nonresident Indians holding citizenship in another country also must obtain visas before arriving in India unless they hold a Person of Indian Origin (PIO) card (see Section I) issued by the Indian government. A visa must 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, Sikkim and remote northeastern states.

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 feature should be specifically requested at the time of application.

Conference visa. A new category of visa, the conference visa, has been introduced. This visa is issued to foreign nationals visiting India to attend a conference if the individual meets all of the following conditions:

- He or she holds a valid passport and re-entry permit under the laws of his or her home country.
- He or she is not a persona-non-grata or the subject of a negative list, warning circular or other restrictive list.
- He or she is of assured financial standing.

The conference visa is issued for the duration of the conference and the traveling time.

"X Visa." Under recently issued guidelines, the visa of the spouse of an employee on an intracompany transfer may be converted from an "X Visa" to an employment visa subject to specified conditions.

Self-employment visa

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.

Journalists. A journalist visa is issued to professional journalists and photographers. Persons intending to make a documentary in India may contact the Press and Information wing of an embassy or consulate-general of India.

Others. Other types of visas issued in India include the student visa, yoga visa, research visa, missionary visa and conference visa.

G. Residence permits

All foreign nationals must 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 or if the visa stamp specifically requires this registration. A foreign national holding a visa with a duration of 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 I) 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:

- Application form
- Photocopy of the passport and initial visa
- Four photographs of the applicant
- Details of residence in India
- Notarized documents submitted to the President of India by a guarantor who will reimburse the government if the individual continues to reside in India, or if he or she is supported by the government
- Copy of the marriage certificate for persons seeking extension of stay on grounds of being married to an Indian national
- Accreditation certificate from the Press Information Bureau for a journalist visa
- Approval of the Department of Company Affairs for board-level appointees in public limited companies
- Two copies of the approval of the government of India, for a joint venture or a collaboration
- Copy of permission from the Reserve Bank of India for a business, joint venture or a collaboration
- Terms and conditions of appointments and copies of contract or agreements, for an employment visa
- Undertaking from the concerned Indian (typically providing information regarding the nature of work), for an employment or business visa

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 authorities' refusal to allow the foreign national to leave the country.

Formalities to be observed by registered foreigners. A registered foreigner is issued a registration booklet containing his or her latest photograph, details of residence and certain other information. Also, an endorsement is made in the passport regarding registration. A foreigner must notify the registration authorities regarding any permanent change in his or her address. A foreigner also must inform the registration officer if he or she proposes to be absent from his registered address for a continuous period of eight weeks or more. Similarly, a foreigner, who stays for a period of more than eight weeks in a district other than the district of his or her registered address, must inform the registration officer of that district of his or her presence.

H. 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 dependants 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 G). 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 valid for a period of one year from the date of issuance or until the domestic license becomes valid, whichever is earlier.

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.

I. Other matters

Exchange controls. Under the prevailing foreign-exchange rules, salaries earned locally may be repatriated only by individuals holding employment visas (see Section F). The following individuals are permitted to remit their salaries (net of retirement plan contributions and Indian taxes) to their home countries for maintenance of close relatives abroad:
- Foreign nationals who are residents but not permanently resident in India and who are regularly employed with Indian firms or companies and receive a monthly salary
- Indian nationals on deputation to an office, branch, subsidiary or joint venture in India of an overseas company

The definition of residential status of individuals under the exchange control law differs from the definition under the Income Tax Act, 1961.

A foreign national, who is an employee of a company incorporated in India, may open an Indian bank account, receive salary in an Indian bank account and remit the salary received in India to a foreign bank account maintained by him or her overseas, if income tax is paid on the entire salary in India.

A special rule applies to an expatriate worker (whether a foreign national or an Indian citizen) who is employed by a foreign company outside India and is deputed to an office, branch, subsidiary, joint venture in India of such foreign company. Such expatriate workers may receive salary in the foreign bank account outside India, if income tax is paid on the entire salary accrued in India. However, if an expatriate worker referred to above is deputed to work in India in an entity that is not directly related to its foreign employer (a directly related subsidiary, branch, liaison office or joint venture of its foreign employer), specific Reserve Bank of India approval for payment of salary outside India may be required.

India regulates the acquisition, 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$200,000 per individual per financial year are allowed for permissible current-account and permissible capital-account transactions, subject to certain exceptions. The scheme allows individuals to acquire and hold immovable property or shares, maintain foreign-currency accounts or other assets outside India without Reserve Bank of India 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 is in possession of the passport of any other country except for Afghanistan, Bangladesh, Bhutan, China, Nepal, Pakistan, Sri Lanka or any other country specified by the government, and 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 was 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 continuous stay in India does not exceed 180 days
- Acquisition, holding, transfer and disposal of immovable properties in India except acquisition of agriculture or plantation properties
- Facilities for obtaining admission to educational institutions in India
- Benefits under various housing schemes of the Life Insurance Corporation of India, state governments and other government agencies

Oversees Citizens of India. 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 including the United Kingdom and the United States) to acquire "Overseas Citizenship" of India without surrendering the citizenship of the other country. The benefit of dual citizenship was extended to a person who was eligible to become a citizen of

India on 26 January 1950, who was a citizen of India on or any time after 26 January 1950 or who belonged to a territory that became part of India after 15 August 1947, and to his or her children and grandchildren. To qualify for dual citizenship, the following additional conditions need to be satisfied:

- The person has acquired the citizenship of a foreign country other than Bangladesh and Pakistan.
- The country of nationality allows dual citizenship in some form under the local law.

Overseas Citizens of India are granted certain additional benefits such as the following:

- Multiple entry, multi-purpose and life-long visa to visit India
- Exemption from reporting to the police authorities for any length of stay in India

Restricted areas. Advance permission is required from Indian diplomatic missions abroad or from the Ministry of Home Affairs (MHA) in New Delhi, to visit the states of Arunachal Pradesh, Manipur, Mizoram, Nagaland, Sikkim, parts of Kulu district and Spiti district of Himachal Pradesh, border areas of Jammu and Kashmir, some areas of Uttaranchal, the area west of National Highway No. 15 running from Ganganagar to Sanchor in Rajasthan, the Andaman and Nicobar Islands, and the Union Territory of the Laccadives Islands (Lakshadweep). U.S. citizens who visit the Tibetan Colony in Mundgod, Karnataka, must obtain a permit from the MHA before visiting.

Appendix 1: Taxability of income items

	Taxable	Not taxable	Comments
Compensation			
Base salary	X	—	(a)
Bonus	X	—	(a)
Cost-of-living allowance	X	—	(a)
Tax perquisite (that is, tax paid by employer)	X	—	(b)
Rent-free housing	X	—	(c)
Utilities	X	—	(a)
Education reimbursement	X	—	(a)
Hardship allowance	X	—	(a)
Entertainment allowance	X	—	(a)
Other allowance	X	—	(a)
Moving expenses	—	X	(d)
Medical reimbursement	—	X	(e)
Value of meals provided during working hours	—	X	(f)
Other items			
Foreign-source personal ordinary income (interest and dividends)	—	X	(g)
Capital gain from sale of personal residence in home country	—	X	(g)
Capital gains from sale of other assets in home country (stocks and shares)	—	X	(g)

(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 subject to multiple gross-up in the hands of the employee. However, tax paid on nonmonetary benefits provided to an employee can be claimed as exempt, 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) Moving 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 not taxable, subject to the satisfaction of certain conditions.
(g) This item is not taxable for individuals who are considered resident and not ordinarily resident or who are considered nonresident, provided the income is not received in or directly remitted to India.

Appendix 2: Sample tax calculation

The tax calculation below is for an expatriate who was sent to India on 1 April 2010 for a two-year period. The calculation reflects the tax rates for the year ending 31 March 2011.

	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 (after exemption)	12,000	
Cost-of-living allowance	24,000	
Foreign-service premium	30,000	
Housing utilities	1,200	
Total of salary, bonus and taxable allowances		207,600
Perquisite (b):		
Unfurnished housing (lower of rent paid by the employer of US$36,000 or 15% of salary, bonus and taxable allowances, which equals US$29,700 [15% of US$198,000])		29,700 (c)
Taxable income		237,300
Taxable income in Indian currency (US$237,300 x 45) (d)		INR 10,678,500

Calculation of tax payable	**INR**
Income tax	3,055,550
Education cess at 3%	91,667
Total tax payable	3,147,217

(a) Employer contributions to a home-country plan may be claimed as nontaxable based on judicial pronouncements if the benefit is contingent.
(b) As a result of the abolishment of the Fringe Benefit Tax, car hire and maintenance charges and a driver's salary are now taxable in the hands of the employee, subject to certain conditions.
(c) It is assumed that the city where accommodation is provided for the employee has a population exceeding 2.5 million, according to the 2001 census.
(d) For purposes of the example, the conversion rate is US$1 = INR 45.

Indonesia

(Country code 62)

Jakarta **GMT +7**

PSS Consult
Mail address:
P.O. Box 1973
Jakarta 10019
Indonesia

Street address:
Indonesian Stock Exchange Building
Tower 1, 12th to 14th Floors
Jl. Jend. Sudirman Kav. 52-53
Jakarta 12190
Indonesia

Executive contacts

Ben Koesmoeljana
(21) 5289-5030
Fax: (21) 5289-5200
Email: ben.koesmoeljana@id.ey.com

Kartina Indriyani
(21) 5289-5240
Fax: (21) 5289-5150
Email: kartina.indriyani@id.ey.com

Immigration contact

Henry Tambingon
(21) 5289-5033
Fax: (21) 5289-5201
Email: henry.tambingon@id.ey.com

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 for tax purposes 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.

Under a tax regulation, which was issued on 12 January 2009, an Indonesian national who works overseas for more than 183 days within any 12-month period is considered a nonresident.

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
- 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. Approval for remote area status must be obtained by the employer. Benefits received in the form of cash allowances are taxable.

Termination pay and lump-sum pension payments are subject to final withholding tax at the rates set forth in *Rates*.

An Indonesian national who works overseas for more than 183 days is not subject to tax on his or her employment income that is earned overseas and that is subject to tax overseas.

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
- Savings accounts

Income from the rental of land and buildings is subject to a final withholding tax at a rate of 10%.

Dividends paid to resident individuals are subject to a final withholding tax at a rate of 10%.

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. An additional tax at a rate of 0.5% of the share value is levied on sales of founder shares associated with a public offering. Both withholding taxes are final. Founder shareholders must pay the 0.5% tax within one month after the shares are listed. Founder shareholders who do not pay the tax by the due date are subject to income tax on the gains at the ordinary income tax rates.

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.

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 IDR 6 million a year
- 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 IDR 2,400,000 a year.

Personal allowances. The following annual allowances are deductible from taxable income.

Type of allowance	Amount of allowance IDR
Personal allowance	15,840,000
Married persons' additional allowance	1,320,000
Wife's additional allowance if receiving income not related to husband's or other family member's income	15,840,000
Additional allowance for each dependent family member in direct blood line and for adopted children, up to a maximum of three individuals	1,320,000

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
- 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, with exceptions for certain donations
- Personal expenses
- Salary paid to a member of an association, partnership or a limited partnership whose capital is not divided into shares
- 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 tax rates apply to individuals.

Taxable income		Rate on
Exceeding IDR	Not exceeding IDR	excess %
0	50,000,000	5
50,000,000	250,000,000	15
250,000,000	500,000,000	25
500,000,000	—	30

The final withholding tax rates apply to termination pay.

Taxable income		Rate on
Exceeding IDR	Not exceeding IDR	excess %
0	50,000,000	0
50,000,000	100,000,000	5
100,000,000	500,000,000	15
500,000,000	—	25

The final withholding tax rates apply to lump-sum payments of pensions.

Taxable income		Rate on
Exceeding IDR	Not exceeding IDR	excess %
0	50,000,000	0
50,000,000	—	5

Nonresident taxpayers are subject to tax at a flat rate of 20% on all Indonesian-source income.

If the resident individual does not have a required Tax Identification Number, the tax rates for withholding tax on employment income are increased by 20%. As a result, the rates range from 6% to 36%.

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 IDR 1 billion or less and at a rate of 0.2% if the taxable sales value is greater than IDR 1 billion. The Minister of Finance determines the taxable sales value. Property valued at IDR 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. 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 IDR 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	
	Employer	Employee
Program	%	%
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 IDR 30,000 per month.
(c) Up to a maximum contribution of IDR 60,000 per month.

D. Tax filing and payment procedures

The tax year in Indonesia is the calendar year.

Married persons can separately file their own income tax returns even if they did not enter into a prenuptial agreement.

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 withholding tax rate is 2% 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
Australia
Austria
Bangladesh
Belgium
Brunei Darussalam
Bulgaria
Canada
China
Czech Republic
Denmark
Egypt
Finland
France
Germany
Hungary
Hong Kong
India
Iran
Italy
Japan
Jordan
Korea (North)
Korea (South)
Kuwait
Luxembourg
Malaysia
Mexico
Mongolia
Netherlands
New Zealand
Norway
Pakistan
Philippines
Poland
Portugal (a)
Qatar (b)
Romania
Russian Federation
Saudi Arabia
Seychelles
Singapore
Slovak Republic
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Syria
Taiwan
Thailand
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Venezuela
Vietnam

(a) This treaty is not yet effective.
(b) This treaty has not yet been ratified.

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	Macau	Philippines
Chile	Malaysia	Singapore
Hong Kong	Morocco	Thailand
	Peru	Vietnam

The 30-day free visas described above may not be extended or changed into any other type of visa.

Visitors from 63 jurisdictions may obtain a visa on arrival and pay a visa-on-arrival fee, which is US$25. The visa has a duration of up to 30 days and can be extended only one time for an additional period of up to 30 days. The following are the jurisdictions whose nationals may obtain a visa on arrival.

Algeria	India	Panama
Argentina	Iran	Poland
Australia	Ireland	Portugal
Austria	Iceland	Qatar
Bahrain	Italy	Romania
Belgium	Japan	Russian Federation
Brazil	Korea (South)	Saudi Arabia
Bulgaria	Kuwait	South Africa
Cambodia	Laos	Slovak Republic
Canada	Latvia	Slovenia
Czech Republic	Libya	Spain
China	Liechtenstein	Suriname
Cyprus	Lithuania	Sweden
Denmark	Luxembourg	Switzerland
Egypt	Maldives	Taiwan
Estonia	Malta	Tunisia
Fiji	Mexico	United Arab Emirates
Finland	Monaco	United Kingdom
France	Netherlands	United States
Germany	New Zealand	
Greece	Norway	
Hungary	Oman	

Visitors from other countries must apply for a visa at an Indonesian embassy or consulate abroad.

Foreign visitors wishing to conduct business meetings or non-commercial activities that have governmental, tourism, social and cultural aspects may obtain one of the following entry visas from an Indonesian embassy or consulate abroad:

- Visa Kunjungan (VK) (single entry/single visit visa)
- Visa Kunjungan Beberapa Kali Perjalanan (VKBP) (multiple entries/multiple visit visa)

Application must be made by a sponsor to an office of the Directorate General of Immigration in Indonesia. The Directorate General of Immigration informs the overseas Indonesian embassy or consulate through a telex confirmation when the visa application is approved. The applicant must obtain telex confirmation from the Directorate General of Immigration Jakarta, before submitting a visa application to the embassy or consulate. The embassy or consulate then issues the visa. A holder of VK or VKBP is not eligible for a work permit.

A VK is issued for a visit of up to 60 days. The company or sponsor must provide a valid reason for requesting the visa, which may be renewed for additional one-month periods, subject to a maximum duration of the visa of six months. A VK becomes invalid on exit from Indonesia, and another similar visa is required for any subsequent similar visits.

A VKBP is valid for a maximum period of 12 months. 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.

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 a maximum period of 12 months and may be extended, subject to approval from the government.

Application procedure. First, an employer or sponsor must submit a Foreign Manpower Utilization Plan (Rencana Penggunaan Tenaga Kerja Asing, or RPTKA) document to the Ministry of Manpower and Transmigration (Kementerian Tenaga Kerja dan Transmigrasi, or Menakertrans) or to the Investment Coordinating Board (Badan Koordinasi Penanaman Modal, or BKPM). The Menakertrans 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 time frame planned for each function, the number of Indonesians to be trained to replace the expatriates (not required for expatriates who will hold director or commissioner positions) 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 Founding and Placement at the Ministry of Manpower Office or to the Head of the BKPM at the BKPM office. 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.
- A copy of the marriage certificate.
- Copies of the children's birth certificates (if any).

- 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 shareholders' resolution in the form of a deed confirming the appointment of the director.
- Copy of the employment agreement between the company and expatriate (for expatriates employed at the manager level).
- Copy of valid insurance card (medical, health and life insurances).

On approval of the application, the Menakertrans or BKPM issues a recommendation letter (TA01) to the Directorate General of Immigration to arrange for a limited-stay visa (Visa Tinggal Terbatas, or VTT).

The expatriate must identify an Indonesian embassy or consulate abroad where the VTT 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 VTT. It is recommended that the expatriate bring a copy of the telex to the embassy with the request for the VTT.

Within seven days after entering Indonesia, the holder of the VTT 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 and a photo session are 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 12 months or 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 Menakertrans or BKPM. For each new application and renewal, the employer must pay in advance the Skill Development Fund levy of US$100 per month or US$1,200 per year before the work permit (Izin Mempekerjakan Tenaga Asing, or IMTA) can be approved. Menakertrans or BKPM then issues the work permit. The work permit is valid for a maximum of one year. The work permit expires when the KITAS card expires. This card is valid for a maximum of 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, known as Exit Permit Only (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 residence visa, known as a limited-stay visa (Visa Tinggal Terbatas, or VTT; see Section G) is valid for a period of seven days on arrival. It is issued exclusively to expatriates who are working in accordance with the prevailing government regulations. Expatriates working in Indonesia on work permits must obtain a residence card, called a limited-stay permit card (Kartu Izin Tinggal Terbatas, or KITAS) and other relevant stay permits. They should apply for the KITAS within the seven-day period mentioned above.

A VTT, KITAS and other stay permits may also be applied for by dependants who accompany the expatriates to reside in Indonesia.

A KITAS 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 IMTA 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$170 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)	—	—

	Taxable*	Not taxable	Comments
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 the entire tax year. During the tax year, the expatriate receives the following salary and benefits.

	IDR
Salary and benefits	
Base salary	550,000,000
Bonus	30,000,000
Cost-of-living allowance (COLA)	20,000,000
Education	56,500,000
Housing	160,000,000
Home leave	24,000,000
Indonesian income tax	116,864,000
Total	957,364,000

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 the expatriate's home country in a total amount of IDR 20 million. The expatriate paid home country income tax of IDR 5 million on such income.

The following is the tax computation.

Employer's return	**IDR**
Taxable compensation (salary, bonus and COLA)	600,000,000
Less:	
Occupational allowance	(6,000,000)
Personal allowance	(15,840,000)
Married person's allowance	(1,320,000)
Dependant's allowance (limited to maximum of three)	(3,960,000)
Taxable income	572,880,000
Tax withheld by employer	116,864,000

Employee's return	
Taxable employment income (salary, bonus and COLA)	572,880,000
Add: Investment income	20,000,000
Taxable income	592,880,000
Tax	122,864,000
Less: Foreign tax credit	(5,000,000)
Net tax liability	117,864,000
Less: Withholding from employer's return	(116,864,000)
Balance of tax due	1,000,000

Iraq

(Country code 964)

Baghdad **GMT +3**

Ernst & Young
Mail address:
P.O. Box 6004
Baghdad
Iraq

(1) 543-0357
Fax: (1) 543-9859
Email: baghdad.iraq@iq.ey.com

Street addresses:
Baghdad office
Al-Mansoor/Al-Ameerat St.
Block 609
Street 3
House 23
Baghdad
Iraq

Kurdistan office
Gulan St.
English Village
Villa 284
Erbil, Kurdistan
Iraq

Executive and immigration contacts

Mustafa Abbas
(resident in Baghdad)
(1) 543-0357
Mobile: 7700-824-139
Email: mustafa.abbas@iq.ey.com

Abdulkarim Maraqa
(resident in Erbil, Kurdistan)
750-798-4444
770-045-4444
Email: abdulkarim.maraqa@iq.ey.com

A. Income tax

Who is liable. Residents and nonresidents of Iraq are subject to tax on their income derived from Iraq. In addition, residents and nonresidents of Iraq are subject to tax on income that is realized outside Iraq on income arising from funds and deposits held in Iraq, including the following:
- Interest
- Commissions
- Investment returns and profits from trading in currencies, valuable metals and securities

Iraqi nationals are considered residents for tax purposes. In addition, a non-Iraqi national is considered resident for tax purposes if either of the following circumstances exists:
- He or she has Arabic nationality.
- He or she resides in Iraq for a total period of at least six nonconsecutive months or a period of 120 consecutive days in a tax year.

Residents may claim personal allowances.

Income subject to tax

Employment income. Income tax is assessed on all remuneration and benefits earned in Iraq. This includes directors' fees and employer-paid rent, school fees and relocation expenses.

Self-employment and business income. Iraqi individuals must pay tax on income earned from all taxable self-employment and business activities in Iraq at the rates described in *Rates*.

Investment income. In general, dividends received are exempt from tax. Interest is subject to income tax at the normal rates (see *Rates*). Royalties are subject to a 15% withholding tax.

Capital gains. Capital gains derived from the sale of fixed assets are taxable at the normal personal income tax rates (see *Rates*). Capital gains derived from the sale of shares and bonds not in the course of a trading activity are exempt from tax. Capital gains derived from the sale of shares and bonds in the course of a trading activity are taxable at the normal personal income tax rates.

Deductions

Personal deductions and allowances. Individuals are granted the following deductions and allowances:
- An amount equal to 100% of salaries received from the government, public institutions and local authorities.
- Deductions from salaries received from the private sector equal to the following:
  — IQD 5 million for the employee.
  — IQD 4 million for a nonworking wife.
  — IQD 400,000 per child, regardless of the number of children.
  — IQD 600,000 for persons over 63 years old.
  — IQD 6,400,000 for a widow or divorcee and IQD 400,000 for every child lawfully maintained by such person, regardless of the number of children.
- Contributions to a social security system, provident fund medical insurance plan, pension fund or similar fund approved by the tax authorities.

- Delegation or overseas allowances received by foreign employees, up to 25% of the basic salary.
- Other allowances, up to 30% of the basic salary.
- Hospitalization costs incurred and paid in Iraq by an employee.

Business deductions. All business expenses incurred in generating income are deductible. However, certain limitations apply to certain expenses, including entertainment expenses.

Rates. Tax rates for individuals are levied according to the following scale.

Taxable income		
Exceeding IQD	Not exceeding IQD	Rate %
0	500,000	3
500,000	1,000,000	5
1,000,000	2,000,000	10
2,000,000	—	15

For payments made by resident taxpayers to nonresidents for taxable activities in Iraq, the resident taxpayers must withhold 15% of the gross payments and remit this withholding tax to the tax authorities within 21 days after the date of withholding. The 15% withholding tax is considered a final tax. In the Kurdistan region the first IQD 700,000 of basic salary is exempt. The amount exceeding IQD 700,000 is subject to tax at a rate of 5%.

B. Other taxes

Inheritance and gift taxes. Iraq does not impose inheritance and gift taxes.

Property tax. Property tax is imposed on the annual rent from buildings at a rate of 9% and on the annual rent from land at a rate of 2%.

Stamp fees. Stamp fees are imposed on the total contract value at a rate of 0.2%.

C. Social security

Rates of social security contributions are applied to the salaries and benefits of local and expatriate employees, after deduction of a portion of employee allowances (transportation, accommodation, housing and other allowances) up to an amount equaling 30% of the base salary. The general rates are 12% for employers and 5% for employees. For oil and gas companies, the rates for social security contributions are 25% for employers and 5% for employees.

D. Tax filing and payment procedures

Employers are responsible and guarantee the payment of tax. Tax is withheld from the employees' income for each month of the fiscal year. The withheld tax must be sent monthly to the General Commission for Taxes, one of its branches or to an authority designated by the tax authority by the 15th day of the month following the month of withholding.

If the tax is not paid by the due date, an addition of 7% of the tax amount is imposed on the employer after the lapse of 21 days from the due date. This percentage is doubled if the amount is not paid within 21 days after the expiration of the first 21-day period.

E. Tax treaties

Iraq has entered into double tax treaties with Egypt, Jordan, Libya, Somalia, Sudan, Syria, Tunisia and Yemen.

F. Temporary visas

All visitors must obtain entry visas to visit Iraq. The following temporary visas are offered to foreign nationals:
- Collective tourist visa for a period not exceeding 30 days.
- Visit visa for various reasons for an extendable one-month period, but not exceeding a total of 90 days.
- Political visa.
- Work visa issued to individuals who wish to take up employment in Iraq. It entitles the employee to stay in Iraq for a maximum period of one year from the date of entry and may be extended.

Visa applications may be made from either the foreign national's home country or from Iraq.

G. Work permits

Individuals of all nationalities must apply for a work permit if they want to work in Iraq. An applicant may not begin working in Iraq before obtaining a work permit. Priority is given to Arab nationals if the relevant expertise is not available locally. Work permits are issued with the approval of the Ministry of Interior.

Work permits may not be transferred between employers. Consequently, if an employee changes employers, the previous work permit is cancelled, and the worker must apply for a new permit.

H. Residence permits

Temporary residence is granted to foreign nationals who intend to work in Iraq. The permit is valid for 1 to 12 months and is renewable once. The renewed permit is valid for three months.

To apply for temporary residence, foreign nationals must provide the following items:
- A passport valid for at least six months
- Passport copies (relevant pages)
- One passport-size photograph
- Employment contract
- Sponsor's letter indicating the employee's name, organization, commercial registration number and other details
- Proof that the applicant for residency will be able to meet his or her living costs during his or her stay in Iraq

I. Family and personal considerations

Family members. The spouse of a foreign national holding a work permit does not automatically receive the same type of work permit as his or her spouse. He or she must file independently from the primary holder of a work permit if he or she wishes to work in Iraq.

If a member of the family is granted temporary residency status, he can sponsor his or her family members after obtaining approval for them from the Immigration Department.

Drivers' permits. Foreign nationals holding tourist visas who are in Iraq may not drive legally in Iraq with their home country drivers' licenses.

Ireland, Republic of

(Country code 353)

Dublin **GMT**

Ernst & Young
Ernst & Young Building
Harcourt Centre
Harcourt Street
Dublin 2
Republic of Ireland

Executive and immigration contacts

Jim Ryan	(1) 221-2434 Fax: (1) 475-0569 Email: jim.ryan@ie.ey.com
Pat O'Brien	(1) 221-2963 Fax: (1) 475-0599 Email: pat.obrien@ie.ey.com
Aileen Downes *(resident in Edinburgh)*	+44 131 777 2278 Fax: +44 131 777 2001 Email: adownes@uk.ey.com
Emer Dufficy *(resident in Limerick)*	(61) 319-988 Fax: (61) 319-865 Email: emer.dufficy@ie.ey.com
Oonagh Casey	(1) 221-2557 Fax: (1) 475-0599 Email: oonagh.casey@ie.ey.com
Catriona Coady	(1) 221-2432 Fax: (1) 475-0569 Email: catriona.coady@ie.ey.com
Sinead Langan, *Immigration and Global Mobility*	(1) 221-2443 Fax: (1) 475-0569 Email: sinead.langan@ie.ey.com
Gareth Carroll	(1) 221-2475 Fax: (1) 475-0569 Email: gareth.carroll@ie.ey.com
Clare Fitzgerald	(1) 221-2033 Fax: (1) 475-0569 Email: clare.fitzgerald@ie.ey.com
Kay Barry *(resident in Cork)*	(21) 480-5745 Fax: (21) 427-731 Email: kay.barry@ie.ey.com
Marion Bradley *(resident in Limerick)*	(61) 319-988 Fax: (61) 319-865 Email: marion.bradley@ie.ey.com

International High Net Worth Group contacts

Jim Ryan	(1) 221-2434 Fax: (1) 475-0569 Email: jim.ryan@ie.ey.com
John Heffernan *(resident in Limerick)*	(61) 317-784 Fax: (61) 319-865 Email: john.heffernan@ie.ey.com
Pat O'Brien	(1) 221-2963 Fax: (1) 475-0599 Email: pat.obrien@ie.ey.com

The rules regarding work permits and self-employment discussed in Section G of this chapter are regularly changed. Because of these changes, readers should obtain updated information before engaging in transactions.

A. Income tax

Who is liable. Income tax liability in Ireland depends on an individual's tax residence and domicile.

For the 2011 tax year, an individual is regarded as an Irish tax resident if he or she meets any of the following conditions:
- He or she spends 183 or more days in Ireland during the period from 1 January 2011 to 31 December 2011.
- He or she spends an aggregate of 280 or more days in Ireland during the two-tax-year period from 1 January 2010 to 31 December 2011, with more than 30 days in Ireland in each tax year.
- He or she 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.

An individual is considered as present for a day if he or she is present in Ireland at any time during that day.

Tax concessions apply to the year when an individual becomes, or ceases to be, an Irish tax resident.

An individual becomes ordinarily tax resident in Ireland after being tax resident for three consecutive tax years. An individual who is ordinarily tax resident and who ceases to be tax resident in Ireland is treated as continuing to be ordinarily resident for three tax years after the tax year of departure.

Domicile in Ireland is not defined in the 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:
- Foreign-domiciled individuals
- Individuals who live in border areas and work in Northern Ireland

Individuals domiciled outside Ireland are entitled to a remittance basis of assessment in Ireland on investment income arising outside Ireland and on income from employment duties performed outside Ireland, to the extent that the employment income is paid outside Ireland under a foreign contract. Effective from 1 January 2008, the remittance basis of taxation was extended to include U.K.-source income. Consequently, individuals who are entitled to benefit from the remittance basis of taxation are not subject to income tax on U.K.-source income unless they remit that income into Ireland.

If an individual is on Irish payroll, Pay-As-You-Earn (PAYE) withholding must be accounted for on all employment earnings, including benefits. If an individual is on a payroll outside Ireland, PAYE withholding is required on the amount of employment earnings (including benefits) attributable to duties performed in Ireland. Certain exemptions apply if the employee is from a treaty country and spends less than 183 days in Ireland.

Advance approval may be granted by the Irish Revenue on the proportion of the earnings to which PAYE should be applied if earnings are paid outside Ireland and if the proportion is unclear and only a portion of the earnings is likely to be assessable in Ireland.

Tax relief is available to certain nondomiciled expatriate employees who are seconded to work in Ireland. The relief takes the form of a partial rebate of PAYE tax paid, and is subject to several conditions. The relief applies only to an assignee seconded by a relevant employer. For this purpose, a relevant employer is a company incorporated and resident in a country in the European Economic Area (EEA; the EEA countries consist of the European Union [EU] countries and Iceland, Liechtenstein and Norway), or outside the EEA with which Ireland has entered into a double tax treaty.

The employee must be employed and paid by a relevant employer and must have worked for that same relevant employer, or an associated company of the relevant employer, before being seconded to Ireland. The assignment must be for a minimum period of three years (one year if the assignee becomes resident in Ireland after 1 January 2010) and the assignee must be tax resident in Ireland with respect to the year in which the claim is made.

Nonresidents are generally 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: For new cars provided on or after 1 January 2009, the assessable benefit is calculated by reference to the car's carbon dioxide emissions (the applicability of this measure is subject to a Ministerial Commencement Order which to date has not yet been implemented). At the time of writing, the pre-2009 rules apply to all cars. For cars provided before 1 January 2009, the assessable benefit is 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: 12.5% of the amount of the loan, with a reduction for interest paid by the employee. The rate is 5% for a home loan.
- Housing: 8% of the market value of the property or rent paid, plus utilities paid by the company.
- 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 the Universal Social Charge (USC; see Section B) 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 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 credited on or after 1 January 2011 on most bank and building society deposits is taxed at source at a rate of 27% (25% for interest credited in the period of 7 April 2009 through 31 December 2010), unless it is paid or credited to nonresidents. A credit is given for tax withheld if the person is taxed on the interest. The final income tax on deposit interest taxed at source is 27% (25% if paid in the period of 7 April 2009 through 31 December 2010).

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 received from foreign companies if all of the duties are performed outside Ireland 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. A portion of income from the following sources is exempt from income tax:
- For tax-resident individuals only, income derived from writing, composing music, painting and sculpting. This exemption is limited to profits or gains of €40,000, effective from 1 January 2011.
- Profits or gains from forestry activities.
- Shares provided to an employee under an Approved Profit Sharing Scheme, up to a value of €12,700 in a tax year.

An individual may use the first two reliefs mentioned above to reduce the tax liability, subject to restrictions. Effective from 1 January 2010, an individual effectively pays income tax at a minimum rate of 30% if his or her total income exceeds €400,000 and if sufficient specified tax reliefs are claimed. The effective tax rate for individuals with total income between €125,000 and €400,000 is lower because the restriction applies on a tapering basis.

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. Effective from 5 April 2007 a gain arising on the exercise, assignment or release of certain share options granted on or after 1 January 2006 is subject to income tax in Ireland by reference to the number of work days spent in Ireland during the vesting period. For gains arising after 1 January 2004, an individual may claim a tax credit for foreign taxes paid on the same option gain in a jurisdiction with which Ireland has entered into a double tax treaty. If an income tax charge arises in a nontreaty country, Ireland reduces the gain subject to Irish income tax by the tax payable in the other jurisdiction.

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.

Restricted stock unit and stock appreciation rights are generally taxed at the date of vesting.

Effective from 1 January 2011, employers must withhold the following from payroll:
- The USC (see Section B) on the net value of all share awards
- PRSI employee contributions, on awards granted and vested or exercised after 1 January 2011
- PAYE on share schemes that are not Revenue approved (excluding share option schemes; the employee is required to account for tax regarding these schemes within 30 days of exercise)

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 unless the proceeds are remitted to Ireland. Capital gains are taxed at a rate of 25% for disposals on or after 8 April 2009 (22% for disposals in the period of 15 October 2008 to 7 April 2009).

Nonresidents are taxable on capital gains derived from the following assets located 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
- 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. The value of the asset cannot be increased for inflation beginning 1 January 2003. 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 2011 tax year
- Capital gains derived from the taxpayer's principal residence
- Assets transferred on death
- Wasting chattels (that is, tangible movable property with a useful life of less than 50 years)

Retirement relief for capital gains is available, 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 2011 tax year are listed in the following table. Credits are deducted from the individual's income tax liability.

Credits	Amount (€)
Married persons jointly assessed	3,300
Single person	1,650
Widowed person	2,190
Widowed person in year of bereavement	3,300
Pay-As-You-Earn (PAYE) allowance (if salary is subject to tax at source)	1,650
Mortgage interest on new or existing mortgages (varies)*	
Maximum relief (single person)	3,000
Maximum relief (married couple)	6,000
Medical and dental insurance	20% of the gross premium*

* The tax relief is granted at source.

The principal allowances for the 2011 tax year are listed in the following table. 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 (a)(b)	Varies from 15% to 40% of earnings, depending on age of individual
Investments in Business Expansion Schemes (c)	€150,000
Investment in qualifying film production companies	€50,000 (maximum)
Relief for seed capital investments (c)	€100,000 plus a carryback of €100,000 against each of the preceding six years
Employee Approved Share Scheme	€12,700

(a) A cap of €2,300,000 applies to all individual retirement funds. If the value of such a fund was higher at 7 December 2010, the individual can claim a personal fund threshold (maximum of €5,418,085), subject to agreement with the tax authorities (this claim must be filed before 7 June 2011). Any excess is subject to a one-off charge of 41% on drawdown.
(b) Pension contributions are subject to an earnings cap of €115,000 in 2011 (€150,000 for 2010).
(c) The Business Expansion Scheme and Seed Capital Scheme are being reformed and will be replaced by the Employment and Investment Incentive (EII). This is subject to both European Commission approval and a commencement order to be signed into law by the Minister for Finance.

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. Motor vehicles purchased on or after 1 July 2008 are subject to a new scheme of capital allowances based on carbon-dioxide emissions. Capital allowances for motor vehicles purchased before 1 July 2008 are calculated on the original cost (restricted to €24,000) of the vehicle. Rates in excess of the basic rates are permitted for certain assets.

Rates. The following table presents the 2011 income tax rates for single or widowed individuals.

Taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
€	€	€	%
0	32,800	0	20
32,800	—	7,280	41

The following are the 2011 income tax rates for a married couple jointly assessed.

Taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
€	€	€	%
0	41,800*	0	20
41,800	—	9,080	41

* 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 €23,800. Consequently, for a married couple, the maximum amount of taxable income potentially subject to the 20% rate is €65,600.

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. Other taxes

Universal Social Charge. Effective from the 2011 tax year, the Health Levy and the Income Levy were abolished and replaced by a new Universal Social Charge (USC), which is imposed at the following rates and income thresholds.

Income		
Exceeding	Not exceeding	Rate
€	€	%
0	4,004	0 (a)
0	10,036	2
10,036	16,016	4
16,016	100,000	7
100,000	—	10 (b)

(a) The 0% rate applies if income does not exceed €4,004.
(b) The 10% rate applies to "relevant income," excluding employment income that exceeds €100,000. Consequently, the 7% rate applies to employment income exceeding €100,000.

The USC applies to all income, including noncash benefits-in-kind and equity compensation under an unapproved scheme, subject to certain exceptions. It applies to all income before relief for pension contributions and deductions for capital allowances. Chargeable persons are required to pay the USC as part of preliminary tax (see Section D). Employers deduct the USC from payments to employees at the rates shown above.

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.
- 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 is imposed at a rate of 25% for gifts and inheritances received on or after 8 April 2009 (22% for benefits received in the period 20 November 2008 through 7 April 2009). It 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 2011, the following are the relevant thresholds.

Group	Threshold (€)	When applicable
A	332,084	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	33,208	If the beneficiary is a brother, sister, niece, nephew or lineal ancestor or lineal descendant of the decedent
C	16,604	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

Rates. Ireland imposes payroll taxes for Pay Related Social Insurance (PRSI) on all employment income, including most benefits. The following are the rates of social security contributions for 2011.

Social security taxes	Contribution rate (a)
PRSI; paid by	
Employee	4% on gross income (no maximum income) (b)
Employer	10.75% on gross income (no maximum income)
Self-employed	4% on gross income (no maximum income)

(a) Lower rates apply for low-paid workers.
(b) A noncumulative allowance of €127 per week is available in calculating the employees' liability.

Social insurance. Employed individuals are generally subject to PRSI on income from employment, including benefits in kind. 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 (now known as Jobseekers Benefits; for employees only)
- Sickness benefits (for employees only)
- Limited dental benefits (for employees only)
- Limited medical (optical and hearing) benefits (for employees only)

Social insurance is payable by individuals employed in Ireland. However, non-EEA nationals, other than individuals from Australia, Canada, New Zealand, Quebec, 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 (including those from Quebec) and New Zealanders may remain covered by their home-country social insurance systems for a specified time period.

Ireland also has an agreement that applies to the Isle of Man and the Channel Islands (Aldernay, Guernsey, Herm, Jersey and Jethou). These are the parts of the United Kingdom that are outside the EEA.

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.

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 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, including the USC (see Section B), for the year 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. 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.

Capital gains tax on gains arising on disposals during the period from 1 January to 30 November must be paid by 15 December in that tax year, and the tax on gains arising on disposals from 1 December 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 2011.

	Due date
Pay balance of 2010 income tax liability	31 October 2011
File 2010 income tax return	31 October 2011
Pay 2011 preliminary tax equal to 90% of the actual income tax liability or 100% of the previous year's final income tax liability*	31 October 2011
Capital gains tax due	
For period of 1 January 2011 through 30 November 2011	15 December 2011
For period of 1 December 2011 through 31 December 2011	31 January 2012
File 2011 return	31 October 2012
Balance of 2011 tax due	31 October 2012

* In assessing the preliminary tax liability for 2011, the USC (see Section B) is deemed to have been payable for 2010.

E. Double tax relief and tax treaties

Ireland has entered into 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	Poland
Austria	Iceland	Portugal
Bahrain	India	Romania
Belarus	Israel	Russian Federation
Belgium	Italy	Serbia
Bulgaria	Japan	Singapore
Canada	Korea (South)	Slovak Republic
Chile	Latvia	Slovenia
China	Lithuania	South Africa
Croatia	Luxembourg	Spain
Cyprus	Macedonia	Sweden
Czech Republic	Malaysia	Switzerland
Denmark	Malta	Turkey
Estonia	Mexico	United Kingdom
Finland	Moldova	United States
France	Netherlands	Vietnam
Georgia	New Zealand	Zambia
Germany	Norway	
Greece	Pakistan	

Double tax treaties with Albania, Bosnia-Herzegovina, Kuwait, Montenegro, Morocco and the United Arab Emirates have been signed, but are not yet in force. However, certain Irish domestic withholding tax exemptions available to residents of treaty countries are extended to residents of these countries and, effective from 1 January 2009, to residents of a country with which Ireland signs a double tax treaty (from the date of signing of such treaty). A treaty with Hong Kong will be effective from 1 January 2012.

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 national passport holders are classified as "non-visa required nationals." Consequently, they are not required to apply for an entry visa for Ireland. In addition, nationals of the following countries do not require an entry visa for Ireland.

Andorra	Hungary	Samoa (Western)
Antigua and Barbuda	Iceland	San Marino
Argentina	Israel	Seychelles
Australia	Japan	Singapore
Bahamas	Kiribati	Slovak Republic
Barbados	Korea (South)	Slovenia
	Latvia	Solomon Islands

Belize
Bolivia
Botswana
Brazil
Brunei Darussalam
Canada
Chile
Costa Rica
Croatia
Cyprus
Czech Republic
Dominica
El Salvador
Estonia
Fiji
Grenada
Guatemala
Guyana
Honduras
Hong Kong
Lesotho
Liechtenstein
Lithuania
Macau
Malawi
Malaysia
Maldives
Malta
Mauritius
Mexico
Monaco
Nauru
New Zealand
Nicaragua
Norway
Panama
Paraguay
Poland
Romania
South Africa
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Swaziland
Switzerland
Tonga
Trinidad and Tobago
Tuvalu
United Kingdom (and colonies)
United States
Uruguay
Vanuatu
Vatican City
Venezuela

An individual holding a non-visa required passport is not automatically guaranteed entry to Ireland. An immigration officer at Immigration clearance has the authority to grant or deny permission to enter Ireland and also has the authority to decide on the duration of a person's stay in Ireland. Consequently, an individual wishing to enter Ireland must satisfy the immigration officer at Immigration clearance that, after arrival in Ireland, the individual intends to act in accordance with their stated purpose of visit to Ireland (appropriate supporting documents at entry are important).

Non-EU national passport holders and nationals of countries not mentioned above must apply for an entry visa before their arrival in Ireland at any Irish consular office or embassy abroad, or to the Department of Foreign Affairs in Dublin.

Although an Irish entry visa affixed to an individual's passport indicates that a person has permission to travel to Ireland during the dates stated on the visa, it does not automatically guarantee entry to Ireland. An immigration officer at Immigration clearance has the authority to grant or deny permission to enter Ireland and also has the authority to decide on the duration of a person's stay in Ireland. Consequently, an individual wishing to enter Ireland must satisfy the immigration officer at Immigration clearance that the individual intends to comply with the conditions of the visa held by them at the point of entry to Ireland (appropriate supporting documents at entry are important).

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 permits. Six categories of work permits exist in Ireland. Each of these categories has its own qualification requirements. In general, EEA nationals and Swiss nationals are not required to have work permits to live and work in Ireland. The Department of Enterprise, Jobs and Innovation (DETI) issues work permits.

An employer wishing to hire a nonexempt individual is required to apply for a work permit on behalf of the applicant. An individual may also apply for a work permit if he or she has received a job offer that is conditional on the holding of a valid work permit. In addition to work permits, depending on their country of origin, non-EU nationals may also need an entry visa (see Section F). The categories of work permits in Ireland are summarized below.

Standard Work Permits. To obtain a Standard Work Permit, an individual must be employed in an eligible occupation under an Irish employment contract and paid directly from an Irish payroll. The minimum salary requirement is €30,000, excluding any bonuses or benefits such as subsistence and accommodation. In addition, the employer must advertise the vacancy with the FAS (government sponsored job agency)/EURES network and in both national and local newspapers to demonstrate that they were unable to fill the vacancy with an EEA national. Individuals engaged in eligible occupations except those that are contrary to public interest may qualify for Standard Work Permits. Standard Work Permits are available for an initial period of either six months (€500 fee) or two years (€1,000 fee). An extension of up to a maximum period of three years is available after the initial two years. If the first Work Permit application is submitted before 1 June 2009, the DETI fees payable are €500 for up to 6 months, €1,000 for up to 24 months and €1,500 for up to 36 months. The DETI fees increase by 50% if the first Work Permit application is submitted on or after 1 June 2009. After five years, an indefinite extension may be available for no fee. No more than 50% of employees of an Irish employer may be from non-EEA countries.

Normal Green Card Permits. To obtain a Normal Green Card Permit, an individual must be employed under an Irish employment contract and paid directly from an Irish payroll. The minimum salary requirement is €60,000, excluding any bonuses or benefits such as subsistence or accommodation allowances. All occupations except those that are contrary to public interest may qualify for a Normal Green Card Permit. Permits are available for an initial period of two years (€1,000 fee). No more than 50% of employees of the Irish employer can be from non-EEA countries. The offer of employment must be for a period of at least two years.

Special Green Card Permits. To obtain a Special Green Card Permit, an individual must be employed under an Irish employment contract and paid directly from an Irish payroll. The minimum salary requirement is between €30,000 and €59,999, excluding any bonuses or benefits such as subsistence or accommodation allowances. Special Green Card Permits are available to employees who will fill eligible occupations in the following sectors:
- Information technology
- Finance
- Health care
- Engineering
- Research and natural sciences

The offer of employment must be for a period of at least two years. An initial permit is available for a period of two years (€1,000 fee). No more than 50% of employees of an Irish employer may be from non-EEA countries.

Extension of Normal and Special Green Card Permits. Effective from 1 January 2009, Green Card permit holders who satisfy the necessary criteria may present themselves at the Garda National Immigration Bureau (GNIB) with appropriate documentation to apply for an extension of 12 months of the duration of their GNIB card (see Section H).

The cost of the GNIB card renewal is €150 per applicant.

Intracompany Transfer Permits. To obtain an Intracompany Transfer Permit, an individual must remain on an overseas (non-Irish) payroll and must be transferred to a company related to his or her employer in Ireland (that is, sister, parent or subsidiary). The minimum salary is €40,000, excluding any bonuses or benefits such as subsistence or accommodation allowances. Intracompany Transfer Permits are available only to senior management, key personnel and individuals who are assigned to Ireland for specific training purposes. To obtain an Intracompany Transfer Permit, an individual on an overseas (non-Irish) payroll must transfer to a company in which a corporate link exists between the sending organization and the host organization, while remaining on the overseas payroll. Intracompany Transfer Permits are available for an initial period of six months (€500 fee) or two years (€1,000 fee). An extension for an additional three years is available (€1,500 fee). No further extensions are available. The number of individuals working under an Intracompany Transfer Permit may not exceed 5% of the Irish work force. This 5% restriction reduces the 50% percentage mentioned with respect to the other work permits on a one-for-one basis.

Graduate Scheme. The purpose of the Graduate Scheme is to allow legally resident, non-EEA third-level graduates to remain in Ireland for the purpose of seeking employment and applying for a Green Card or work permit. A non-EEA student who, on or after 1 January 2007, received a primary, masters or doctorate degree from an Irish third-level educational institution is permitted to apply for the Graduate Scheme. At the time of application, the student must hold a current Certificate of Registration issued by the Garda National Immigration Bureau. No minimum salary requirement is imposed for the Graduate Scheme. To facilitate the pursuit of employment opportunities by students in Ireland, the application for the Graduate Scheme must be submitted to the Irish Naturalisation and Immigration Service (INIS) for permission to stay in Ireland. The maximum period of stay is six months from the date the individual receives his or her examination results.

Spouse and Dependent Permits. To obtain a Spouse and Dependent Permit, the spouse or dependant must satisfy the following conditions:

- He or she must be in a qualifying relationship with an eligible Irish employment permit holder.
- He or she must be legally resident in Ireland and must have an offer of employment from an employer registered and trading in Ireland.

The advertising of the job vacancy is not required for Spouse and Dependent Permits. The permits are available for all occupations. No application fee is payable. The permit expires on the same date as the spouse's or primary dependant's permit. No more than 50% of employees of an Irish entity may be from non-EEA countries.

Other work permit exemptions. The following individuals are not required to obtain employment permits in Ireland:
- A non-EEA national who has obtained explicit permission from the Department of Justice, Equality and Law Reform to remain resident and employed in Ireland
- A non-EEA national who has been granted refugee status
- A non-EEA national who holds appropriate business permission to operate a business in Ireland
- A non-EEA national who is a registered student working less than 20 hours a week
- Swiss nationals

Bulgarian and Romanian nationals. On 17 December 2008, the DETI announced that, from 1 January 2009, it will continue to restrict access to the Irish labor market for nationals of Bulgaria and Romania. An Irish employment permit continues to be required for Bulgarian and Romanian nationals to take up employment in Ireland, and the job continues to be subject to the requirement for a labor market test.

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. This gives the individual the right to carry out business in Ireland.

To obtain Business Permission from the Department of Justice, the following requirements must be satisfied:
- The individual must apply for permission in writing.
- The individual must present a full description of the business venture and business plan.
- The individual must produce evidence of financing for the business venture (currently a minimum of €300,000, subject to change).
- The individual must provide details of the number of staff to be employed and their nationalities.
- The proposed business must create employment for at least two EEA nationals for a new project or maintain employment in an existing business.

The following categories of non-EEA nationals are exempt from the requirement to obtain Business Permission:
- Persons who have been granted refugee status by the Minister for Justice, Equality and Law Reform.
- Dependent relatives of EEA nationals exercising a valid right to reside in Ireland.
- The following persons who have been granted permission to remain in Ireland:
  - A person who has permission to remain in Ireland as the spouse of an Irish national.
  - A person who has permission to remain in Ireland on the basis that he or she is the parent of an Irish-born child.
  - A person who has been granted temporary leave to remain in Ireland on humanitarian grounds or has been in the asylum process.

H. Residence permits and naturalization

Residence permits. In general, EEA nationals and Swiss nationals are not required to apply for a Garda National Immigration Bureau (GNIB) Card (residence permit). Non-EEA and non-Swiss nationals who intend to remain longer than 90 days in the Dublin area must register their residency and obtain a GNIB card from the Garda National Immigration Bureau in Dublin. In areas outside Dublin, registration takes place at the local police station.

Long-term residency. To obtain Irish long-term residency, an individual must have been legally resident in Ireland continuously for over five years (60 months) on the basis of holding an employment permit (work permit, spousal permit or working authorization [a working authorization was a form of employment permit that was available before 1 February 2007; in February 2007, the new arrangements discussed in Section G replaced the working authorization scheme]).

At the time of writing, the Immigration Residence and Protection Bill 2010 was under review. Subject to parliamentary approval and enactment of the legislation, the bill would establish a process for Green Card Permit holders and individuals who have reregistered with the GNIB to apply for long-term residency. In this context, residency differs from tax residency.

Under the current policy, Intracompany Transfer Permit holders (secondments and trainees) are not eligible to apply for long-term residency.

Naturalization (citizenship). In general, an individual applying for naturalization must fulfill several requirements, including the following:

- He or she had continuous reckonable residence (qualifying periods of lawful residence) in Ireland for the one year immediately before the date of application.
- During the eight years preceding the year described in the first bullet, he or she had a total of four years reckonable residence in Ireland.

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.

Drivers' permits. Foreign nationals may drive legally in Ireland using their home country drivers' licenses without restriction for six months. After the six-month period expires, if the individual wishes to continue to drive in Ireland, he or she must apply for an Irish Learners Permit.

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)	—	—

	Taxable*	Not taxable	Comments
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	—	—
Subsistence allowances	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 an Irish source. Individuals who are not tax resident in Ireland and individuals who are not Irish domiciled and are employed outside Ireland are taxable only 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. Assignees and their employers who have been a member of their home country pension plan for 18 months before moving to Ireland are generally exempt from Irish tax on employer and employee pension contributions. In all other cases, if pension scheme provisions broadly fall within the requirements of Irish law, approval may be granted for the scheme. 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. In certain circumstances, the taxable benefit for the first 12 months can be exempt.

(d) These are generally taxable but, in some cases, the Irish Revenue has agreed that some home-leave expenses may be tax-free.

(e) The Irish Revenue exempts 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) In general, subsistence allowances are exempt from income tax for the first 12 months, subject to certain conditions.
(h) The pro rata portion of the gain may be taxable on a remittance basis 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 2011 tax calculations for a single individual and a married couple with only one spouse earning income.

Single individual	**€**
Calculation of income tax	
Salary	30,000
Benefits	15,000
Total income	45,000
Tax on €32,800 at 20%	6,560
Tax on €12,200 at 41%	5,002
€45,000	11,562
Less personal tax credit	(1,650)
Less PAYE tax credit	(1,650)
Net tax payable	8,262
Calculation of USC	
€10,036 at 2%	201
€5,980 at 4%	239
€28,984 at 7%	2,029
	2,469
Calculation of social taxes	
Employee's PRSI:	
€45,000* at 4%	1,800
Employer's PRSI:	
€45,000 at 10.75%	4,838

Married couple with one income earner	
Calculation of income tax	
Salary	50,000
Benefits	2,000
Total income	52,000
Tax on €41,800 at 20%	8,360
Tax on €10,200 at 41%	4,182
€52,000	12,542
Less personal tax credit	(3,300)
Less PAYE tax credit	(1,650)
Net tax payable	7,592
Calculation of USC	
€10,036 at 2%	201
€5,980 at 4%	239
€35,984 at 7%	2,519
	2,959
Calculation of social taxes	
Employee's PRSI:	
€52,000* at 4%	2,080
Employer's PRSI:	
€52,000 at 10.75%	5,590

* This ignores the €127 weekly deduction.

Isle of Man

(Country code 44)

Douglas **GMT**

Ernst & Young
Rose House
51-59 Circular Road
Douglas IM1 1AZ
Isle of Man

Executive and immigration contacts

Mary Palmer	(1624) 691-826 Fax: (1624) 691-801 Email: mepalmer@im.ey.com
Chris Kelly	(1624) 691-815 Fax: (1624) 691-801 Email: ckelly@im.ey.com
Mike Travers	(1624) 691-842 Fax: (1624) 691-801 Email: mtravers@im.ey.com

This chapter reflects the tax rates that are effective from 6 April 2011.

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 are present for an average of 90 or more days per tax year over a period of four or more consecutive years.
- The individual's specific circumstances indicate "a view or intent to establish residence." The Assessor of Income Tax considers several factors in determining the applicability of this condition.

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 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.

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 can be subject to income tax on Manx-source income only for the first three years of residence. For the company, financial assistance may be 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, concessional tax exemption is granted to directors and employees of bodies corporate for the following:
- Acquisitions after 5 April 1989 of rights to acquire shares under approved savings-related share option schemes
- Appropriations after 5 April 1989 of shares under approved profit sharing schemes

The schemes must conform to U.K. legislation on the subject area and must be approved by the Assessor of Income Tax.

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 a personal pension scheme. The maximum deduction in a tax year for contributions to a personal pension scheme is £300,000, or 100% of relevant earnings, whichever is less. The Isle of Man does not provide for a lifetime allowance with respect to benefits from personal pension schemes.

In addition, the following expenses are deductible from total income:
- Mortgage or other loan interest payable to an Isle of Man lender. A £7,500 (£15,000 for couples electing to be taxed jointly) annual limit applies. If the £15,000 limit applies, the deduction is allowed regardless of which partner is responsible for making the interest payments.
- Private medical insurance premiums for residents 60 years of age and older (up to £1,800 per year).
- Payments made under Educational Deeds of Covenant of up to £5,500 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 entered into before 6 April 2011 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.
- Nursing expenses incurred in caring for a dependent relative (up to £9,300 for the year ending 5 April 2012).

Personal deductions and allowances. The following personal allowances apply for the tax year ending 5 April 2012.

Type of allowance	**Amount (£)**
Single allowance	9,300
Married allowance	18,600
Single parent	6,400
Blind person (additional)	2,900
Disabled person (additional)	2,900
Person aged 65 or over at beginning of tax year (additional)	2,020

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
- 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 reducing-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.

Rates. For the tax year ending 5 April 2012, the income tax rates for resident individuals are the lower rate of 10%, which applies to the first £10,500 of taxable income, and the higher rate of 18%, which applies to taxable exceeding £10,500. The 10% rate applies to the first £10,500 of income for each individual above their personal allowance (see *Personal deductions and allowances*). Married couples wishing to be taxed jointly must make an election. If an election is made, the 10% rate applies to the first £21,000 of joint income in excess of the married allowance (£18,600 for the tax year ending 5 April 2012).

A cap on an individual's annual tax liability is available on application. The maximum amount of income tax payable by an Isle of Man resident taxed under the cap is £115,000 (£230,000 for married couples electing to be taxed jointly) for the year ending 5 April 2012, regardless of the amount of his or her worldwide taxable income.

Nonresidents are taxed at a rate of 20% on all income arising in the Isle of Man. Effective from 6 April 2010, nonresidents are not entitled to a personal allowance. The tax liability of nonresidents with respect to certain types of income is limited to the income tax deducted at source, if applicable. For a sample tax calculation, see Appendix 2.

The Attribution Regime for Individuals (ARI) applies to Isle of Man companies that pay tax at the standard rate of 0% and that have Manx-resident shareholders. The ARI is effective for accounting periods beginning on or after 6 April 2008. Under the ARI, trading companies are required to distribute at least 55% of their distributable profits within 12 months after the end of the company's accounting period. If this occurs, the Manx resident shareholders are subject to income tax on the actual dividend received. If this does not occur, 100% of the company's distributable profits are attributed to the Manx resident shareholders based on the ratio of their shareholdings. The shareholders are subject to income tax on their attributed profits, even though they may not have actually received the income. Subsequent dividends paid from profits subject to the ARI are exempt from tax in the hands of the Manx-resident recipients. For investment companies, attribution occurs in all cases, regardless of the amount of the distribution.

Attributed profits are treated as received 12 months after the end of the accounting period of the company.

Relief for losses. Business losses may be carried forward and offset against future profits from the same trade or, by concession, carried back to the immediately preceding year and offset against profits from the same trade. Business losses incurred in the first four years of assessment may be carried back against other income. On the permanent discontinuance of a trade, a terminal loss may be carried back and offset against profits from the same trade in the three preceding 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. Land registry fees are payable on the transfer of Isle of Man property. The general rate is £4.50 for each £1,000 of value. However, some exceptions exist.

C. Social security

In general, National Insurance contributions are payable on the earnings of individuals who work in the Isle of Man.

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 year ending 5 April 2012, an employee's National Insurance contribution is 11% of weekly earnings between £115 and £750 (9.4% 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 an employee's National Insurance contributions at a rate of 11% is £39,000. Earnings above this amount are subject to National Insurance contributions at a rate of 1% for the year ending 5 April 2012. An employer must pay contributions of 12.8% of an employee's weekly earnings exceeding £115 (£5,980 per year) for the year ending 5 April 2012, with no ceiling.

A self-employed individual must pay a weekly flat-rate contribution of £2.50 per week if annual profits are expected to exceed £5,315 for the year ending 5 April 2012. In addition, an annual contribution equal to 8% of profits between £5,980 and £39,000 is also payable for the year ending 5 April 2012. This contribution is collected together with the individual's income tax. Effective from 6 April 2010, an additional Class 4 contribution equal to 1% of the profits or gains of self-employed individuals above the annual upper profits limit is required.

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 end of the tax year. An initial £100 filing penalty is imposed for late submissions.

Married couples may elect to be taxed jointly, enabling the sharing of allowances and lower rate thresholds.

Income tax and National Insurance contributions 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 or 30 days after the notice of assessment if income from which tax is not deducted at source (for example, investment or self-employment income) is expected to arise in the tax year. This payment equals 105% of the tax liability for the preceding tax year if greater than £250. If less than £250, no payment on account is required.

If 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. Any tax payable is due on 6 January following the end of the tax year or within 30 days of the date of the assessment, whichever is later.

A separate assessment is issued for profit-related National Insurance contributions.

For late income tax payments, interest is charged at an annual rate of 5% on the amount of overdue tax, or 10% if the return is not submitted by 5 April following the year of assessment.

Nonresidents must 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 20% is imposed on rental payments to nonresident individuals (the rate is 10% for payments to nonresident companies), but no withholding tax is imposed on dividends and interest.

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
• The marginal amount of Isle of Man income tax attributable to the foreign-source income

The Isle of Man has entered into double tax treaties with Estonia, Malta and the United Kingdom. It has also signed double tax treaties with Belgium and Bahrain, but these treaties are not yet in force. The Isle of Man has also entered into agreements with Australia and New Zealand that allocate the taxing rights for certain income of individuals.

In addition, the Isle of Man has entered into agreements with the following countries to eliminate the double taxation of profits with respect to enterprises operating ships or aircraft in international traffic.

Denmark (a)	Germany	Norway (a)
Faroe Islands (a)	Greenland (a)	Sweden (a)
Finland (a)	Iceland (a)	United States
France (b)	Netherlands	

(a) These countries have also signed agreements with the Isle of Man to eliminate the avoidance of double taxation on individuals.
(b) This treaty is awaiting ratification.

The Isle of Man has signed tax information exchange agreements (TIEAs) with the following countries.

Australia*	Germany*	New Zealand*
Canada*	Greenland	Norway
China*	Iceland	Poland*
Denmark	India	Portugal*
Faroe Islands	Ireland	Sweden
Finland	Mexico*	United Kingdom
France*	Netherlands	United States

* TIEAs with these countries are awaiting ratification.

F. Temporary permits

The basic immigration law in the Isle of Man follows 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 Economic Development before taking up employment or self-employment in 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:

- He or she was born in the Isle of Man.
- He or she has been ordinarily resident in the Isle of Man for at least 10 consecutive years.
- He or she has been ordinarily resident in the Isle of Man for at least 5 consecutive years and has not lived elsewhere more than once in the following 15 years.
- He or she is married to an Isle of Man worker.
- He or she was married to an Isle of Man worker and 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.
- He or she is the child of an Isle of Man worker who was serving in the armed forces, or married to a person who was serving in the armed forces, at the time of birth.
- He or she is the child of a parent who was born in the Isle of Man, provided that the parent lived in the Isle of Man for his or her first five years.
- He or she 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 Work Permit Committee. Employment may not begin before a permit is issued.

Before beginning 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.

Effective from 9 July 2010, a Manx Points Based System (PBS) replaced The Overseas Labour Scheme. The PBS applies to individuals born outside the European Union (EU). Details of the scheme may be obtained from the Department of Economic Development. The PBS is in line with U.K. legislation.

H. Residence permits

No regulations restricting the entrance of new residents into the Isle of Man currently exist.

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)	—	(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	(c)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
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	—
Capital gains from sale of stock in home country	—	X	—

* Bracketed amounts reduce taxable income.
(a) Payments made by employees into approved pension schemes are deductible.
(b) 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.
(c) 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 accommodation during the first six months of the individual's stay in the Isle of Man.
(d) 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 2011–12 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		(18,600)
Taxable income		51,400
Calculation of tax		
Tax on £21,000 at 10%		2,100
Tax on £30,400 at 20%		6,080
£51,400		
Income tax payable		8,180

* 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

(Country code 972)

Tel-Aviv **GMT +2**

Kost Forer, Gabbay & Kasierer
Certified Public Accountants
3 Aminadav Street
Tel-Aviv 67067
Israel

Executive and immigration contact
Hagit Korine-Frenkel
(3) 623-2733
Fax: (3) 563-3424
Email: korine.hagit@il.ey.com

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 or permanent place of employment
- Place where assets and investments are located
- 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.
- The individual is present in Israel at least 30 days in the current tax year and a cumulative total of 425 days in the current and two preceding tax years.

Effective from 1 January 2007, if an individual is not considered an Israeli resident for two consecutive years (Years 3 and 4), the individual is also not considered an Israeli resident retroactively as of the move date for the preceding two years (Years 1 and 2), provided that the individual spent less than 183 days in Israel during those preceding two years (Years 1 and 2). For example, if an individual is not considered an Israeli resident in 2012 and 2013 (because the individual's center of living is outside Israel), the individual is not considered an Israeli resident retroactively for 2010 and 2011, provided that the individual spent less than 183 days in Israel in those years.

New immigrants (Oleah Hadash) or senior returning residents (who spent more than 10 years outside of Israel and were considered nonresident during that 10-year period) 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. For new immigrants and senior returning residents, they may be considered a nonresident for tax purposes during the first twelve months as of the move to Israel if they submit a special notice within a limited time frame to the Israeli tax authority.

A distinctive regime is available for returning residents. The regime includes tax benefits for these individuals on their return to Israel.

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 vehicles registered on or before 31 December 2009 depends on the price group of the model shown on the vehicle registration. The usage value for vehicles registered on or after 1 January 2010 equals a certain percentage of the vehicle's cost as defined in detailed regulations. 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 (attribution of a specific amount).

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 11,650 (as of 2011) per year of service.

Some Israeli employers provide a range of social benefits through externally approved provident funds. These funds are administered by Israeli insurance companies, private brokers or the Histradut labor movement. The social benefits for employees typically include some or all of the benefits shown in the following tables.

	Contribution as a percentage of salary	
	Employee	Employer
Benefit	%	%
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	0 to 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. Employers' contributions are exempt from tax if contributions are made on monthly employment income not exceeding NIS 33,228. 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.

(c) These are the maximum rates. Employers' contributions are exempt from tax if contributions are made on monthly employment income not exceeding NIS 15,712. Contributions exceeding this amount are taxable as employment income.

As a result of major amendments to the law, the calculations of the above tax credits and deductions have become very complicated. Readers should seek professional advice before making decisions.

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 16% 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. The following tax rates apply to investment income and gains derived by individuals.

Income	Rate (%)
Real (inflation adjusted) capital gains derived from publicly traded and untraded securities	
General rate for individuals on gains accruing from 1 January 2003	20
Individuals who were 10%-or-greater shareholders (material shareholders) in the company concerned at any time within the 12 preceding months	25
Gains accruing before 1 January 2003; old rates that apply to the time-based linear portion of the gains	Up to 45
Capital gains from securities that are not linked to the consumer price index or foreign currency, such as bonds, short-term government bonds and commercial paper	15
Interest	
On "linked" (that is, linked to the consumer price index in Israel) or foreign instruments	20
On "unlinked" Israeli instruments	15
Material shareholders	Up to 45
Dividends	
General rate for individuals	20
Material shareholders	25
Paid from the profits of an approved or privileged enterprise or approved property under the Law for the Encouragement of Capital Investments, 1959	0/4/15
Others	
Real Estate Investment Trust (REIT), if conditions met	Up to 45
Residential rental income derived by an individual landlord from individual tenants, not exceeding NIS 4,790 per month (any excess reduces the exemption by the amount of the excess)	Exempt up to ceiling

Double tax relief provisions may apply in certain cases (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 allowed for certain qualified plans called Section 102 plans, which are administered by a trustee, if, for options granted on or after 1 January 2006, at least two years have elapsed since the options were granted. Options granted according to the capital gains alternative (see below) before 1 January 2006 are subject to a minimum holding period of 24 months as of the end of the year in which the options were granted or 30 months from the grant date, depending on the election of the employee.

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.

Employers may choose between alternative rules for dividing gains between salary income (the employer deducts an option expense and the employee is subject to income tax at rates of up to 45% 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%).

Restricted Stock Units (RSU) plans may be qualified in the same manner as Section 102 plans by filing an application for tax ruling with the Israeli tax authority and depositing the stock units in the hands of a qualified trustee for a period of at least two years.

Capital gains and losses. Residents and nonresidents are generally 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 and transfers by material shareholders. Special rules apply to publicly traded securities (see below). Resident individuals are also subject to capital gains tax on their capital gains derived abroad.

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 sale of the assets concerned (including shares and options) based on the linear portion of the gain.

Calculation of taxable amount. Capital gains are divided into real and inflationary components. In general, real gains derived before 31 December 2002 are taxed at the regular personal tax rates (30% to 45%). However, real gains derived from foreign publicly traded securities before 31 December 2004 are generally taxed at a rate of 35%. Any capital gains derived after these dates are taxed at a rate of 20% (or 25% if a 10%-or-greater shareholder [material shareholder]). The inflationary component is exempt from tax to the extent 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 above). Regular tax rates up to 45% apply if any of the following conditions are satisfied:

- Interest expense is deducted.
- The interest income is business income.
- A special relationship exists (for example, customer-supplier, employer-employee or related parties).

Gains derived from sales of bonds issued by a foreign country or foreign mutual funds are subject to tax at the rate of 20% (or 25% if a material shareholder). Nonresidents are exempt from Israeli tax on capital gains derived on the Tel-Aviv stock exchange or on 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.

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 the regular rates of up to 45% for the portion of the gain that relates to the period before 7 November 2001. For the linear portion that relates to the period after that date, the applicable rate is 20% from 2007, with the exception of material shareholders who are taxed at a rate of 25%. Assets acquired in 2002 are eligible for a tax rebate of 20%. Assets acquired in 2003 are eligible for a 10% rebate. Various exemptions apply to residential homes. A sales tax of 2.5% on certain real estate sales was repealed, effective from 1 August 2007. Also, see *Real estate tax* in Section B.

In addition, the purchaser of real estate must pay transfer fees (acquisition tax) at various rates ranging from 0% to 5%. For an interest acquired in a real estate entity, acquisition tax is imposed on the underlying real estate asset value without offsetting liabilities or borrowings.

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, only 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.

Percent 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 2011 is NIS 249,000. This limit is adjusted annually.

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.

As a result of major amendments to the law, the calculation of personal deductions has become complicated. Readers should seek professional advice before making decisions.

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 310 per day if the employment income exceeds NIS 12,600 per month.

Foreign journalists who are members of the Foreign Press Association in Israel and foreign athletes are entitled to a tax rate of 25% and the above-mentioned expatriate deductions for the first 36 months of work in Israel for foreign journalists and the first 48 months of work for foreign athletes.

A levy at the rate of 20% is imposed on foreign employees' employment income unless the employees are journalists or athletes or if the employment income exceeds NIS 16,614 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 2011.

Annual taxable income		
Exceeding NIS	Not exceeding NIS	Tax rate %
0	60,840	10*
60,840	103,920	14*
103,920	168,840	23*
168,840	254,880	30
254,880	482,760	33
482,760	—	45

* 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 to the first NIS 254,880, a tax rate of 33% applies to income between NIS 254,881 and NIS 482,760, and a tax rate of 45% applies to an amount above NIS 482,760.

The Israeli government intends to reduce personal tax rates to 40% gradually up to 2016.

A maximum tax rate of 25% for up to three years (extendible for up to five more years) applies to an expatriate if a resident approved entity invites the expatriate to work in Israel and applies to the Ministry of Industry, Trade and Labor for an 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 applies to only 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 209 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*).
- Tax credit for 35% of charitable contributions to recognized institutions if a taxpayer's annual contributions exceed NIS 310. However, no credit is given for annual contributions exceeding 30% of taxable income or NIS 7,636,000, whichever is lower.
- Additional credits in various other cases, including new immigrants, returning residents, one-parent families, divorcées, graduates of a higher education institute in 2005 and subsequent years 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. 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. In general, sellers of real estate assets are subject to land appreciation tax on capital gains at rates of up to 45% on any appreciation before 7 November 2001, and at a rate of 20% on any appreciation after that date, with certain exceptions, including exemption provisions for homes owned by an individual.

Purchasers of real estate interests in Israel pay an acquisition tax at rates ranging from 0% to 5%.

C. Social security

Contributions. National insurance contributions are generally payable on taxable income as calculated for income tax purposes. The table below 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 (a) %	Employee %	Self-employed persons (b) %	Nonworking passive income recipients (b) %
	Contribution as percentage of income			
Israeli residents (c)				
Monthly income up to NIS 4,984	3.85	3.5 (d)	9.82	9.61
Monthly income from NIS 4,984 to NIS 73,422	5.43	12 (d)	16.23	12
Nonresidents				
Monthly income up to NIS 4,984	0.54	0.04	0.58	—
Monthly income from NIS 4,984 to NIS 73,422	0.77	0.87	1.5	—
Nonresidents from a social security treaty country				
Monthly income up to NIS 4,984	3.85	0.4	—	—
Monthly income from NIS 4,984 to NIS 73,422	5.43	7	—	—

(a) Effective from 1 April 2011, the employer rates are 3.45% and 5.9% instead of 3.85% and 5.43% for Israeli residents and 0.49% and 1.17% instead of 0.54% and 0.77% for non-Israeli residents.
(b) 52% of national insurance contributions paid in a tax year on nonemployment income is deductible for income tax purposes in that year.
(c) Lower contributions apply to Israeli residents who work abroad as self-employed persons for continuous periods exceeding six months or for non-resident employers, unless they were hired in Israel.
(d) An organization levy at rates of 0.7% to 0.95% is also payable by Israeli residents who are members of certain unions or who work in a unionized workplace.

Totalization agreements. Israel has entered into social security totalization agreements with the following countries.

Austria	Finland	Poland
Belgium	France	Sweden
Bulgaria	Germany	Switzerland
Canada	Italy	United Kingdom
Czech Republic	Netherlands	Uruguay
Denmark	Norway	

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.

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, for the 2010 tax year, an exemption from filing may apply if all of the following conditions are satisfied:
  — The salary does not exceed the annual ceiling of NIS 613,000 per spouse.
  — Interest in Israel does not exceed the annual ceiling of NIS 607,000.
  — The amount of each type of other income (rent and foreign income) earned by the individual is less than NIS 318,000 for each type of income.

Notwithstanding the above, the following individuals must file annual income tax returns:
- Ten percent 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 settlors 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 non-publicly traded foreign company or other foreign assets worth more than NIS 1,768,000 at any time during the tax year or a foreign bank account with a balance exceeding NIS 1,768,000 at any time during the tax year
- Individuals required to file returns for the previous year, unless a specific exemption is granted
- Any other person or entity instructed to file a return by a tax assessor

Individuals must also file half-year returns for capital gains if the full amount of the tax was not withheld at source. The returns are due on 31 January and 31 July.

Online filing. Online filing is required for those who have to file a tax return. Failure to file an online tax return by the due date results in a penalty of NIS 1,090 for each full month of delay.

Due dates for tax returns. For those who do not have to file an online tax return, the due date is 30 April following the year-end. Taxpayers who are required to file an online tax return must file it 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 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 (foreign tax credit) on foreign-source income.

Under Israeli domestic law or applicable tax treaties, foreign capital gains tax on dispositions of foreign assets may be credited by Israeli residents against Israeli capital gains tax on such dispositions. Any excess foreign 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	Slovenia
Bulgaria	Japan	South Africa
Canada	Korea (South)	Spain
China	Latvia	Sweden
Croatia	Lithuania	Switzerland
Czech Republic	Luxembourg	Taiwan
Denmark	Mexico	Thailand
Estonia	Moldova	Turkey
Ethiopia	Netherlands	Ukraine
Finland	Norway	United Kingdom
France	Philippines	United States
Germany	Poland	Uzbekistan
Greece	Portugal	Vietnam
Hungary	Romania	

Israel is negotiating tax treaties with several countries.

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.

Albania
Andorra
Argentina
Australia
Austria
Bahamas
Barbados
Belgium
Bolivia
Brazil
Bulgaria
Canada
Central African Republic
Chile
Colombia
Costa Rica
Croatia
Cyprus
Czech Republic
Denmark
Dominican Republic
Ecuador
El Salvador
Estonia
Fiji
Finland
France
Germany (born after 1 January 1928)
Greece
Grenada
Guatemala
Haiti
Honduras
Hong Kong
Hungary
Iceland
Ireland
Italy
Jamaica
Japan
Korea (South)
Latvia
Lesotho
Liechtenstein
Lithuania
Luxembourg
Macau
Macedonia
Malawi
Malta
Mauritius
Mexico
Micronesia
Monaco
Mongolia
Montenegro
Netherlands
New Zealand
Norway
Panama
Paraguay
Peru
Philippines*
Poland
Portugal
Romania
Russian Federation
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
San Marino
Serbia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Suriname
Swaziland
Sweden
Switzerland
Trinidad and Tobago
Ukraine
United Kingdom
United States
Uruguay
Vanuatu
Vatican City

* It is recommended that nationals of the Philippines submit an application to the Ministry of the Interior to obtain advance approval.

In general, all visit visas, with the exception of B1 and B3 class visas, are valid between 90 and 180 days and may be renewed. A B1 visa may be renewed annually for up to 63 months.

Each country has a unique filing procedure to obtain a visit visa; please contact an immigration service provider for assistance.

Application takes place at an Israeli consulate or at a special unit of the Ministry of Interior.

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, B4 or A1 visa.

An applicant for a temporary residence visa for employment must file certain items. The following are examples of such items (other forms or submissions may be required):

- Recommendation of the Ministry of Interior
- Employee's certificate of valid medical insurance
- Employment contract or proof of required mininum salary
- 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
- 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 amount to approximately US$2,800.

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 one year and may be renewed two times for a total of 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.

Unless the individual is staying in Israel for the reasons mentioned in categories A1 to A4 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. In certain circumstances, a B2 visa may be granted to the spouse and dependent 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 spouses who were married on or after 1 January 1974, whose place of residence at the time of their marriage was in Israel, on the termination of a marriage through divorce or death of a spouse, each spouse has a right to half of the value of the couple's assets except the following:
- Assets owned by either spouse before the marriage
- Assets received by gift or inheritance during the marriage
- A pension paid to one of the spouses by Israel's National Insurance
- A pension or compensation payable to one of the spouses by reason of bodily injury or death
- Assets for which the spouses agreed in writing that their value would not be distributed

In the event that one spouse passes away, the right to the balance of the resources is transferred to the heirs of that spouse.

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

(Country code 39)

Milan and Rome	GMT +1

Studio Legale Tributario
Via Wittgens, 6
20123 Milan
Italy

Studio Legale Tributario
Via Po, 28/32
00198 Rome
Italy

Executive, immigration and International High Net Worth Group contacts

Claudia Giambanco	(06) 8556-7332 Email: claudia.giambanco@it.ey.com
Paolo Santarelli	(02) 851-4271 Email: paolo.santarelli@it.ey.com
Wim Cocquyt	(06) 8556-7392 Email: wim.cocquyt@it.ey.com
Fabrizio Cimino	(06) 8556-7341 Email: fabrizio.cimino@it.ey.com

Marcello Ascenzi	(06) 8556-7365 Email: marcello.ascenzi@it.ey.com
Cinzia Conserva	(06) 8556-7359 Email: cinzia.conserva@it.ey.com
Barbara Damin	(02) 851-4459 Email: barbara.damin@it.ey.com
Alessandra Dionisi	(02) 851-4534 Email: alessandra.dionisi@it.ey.com
Manuela Stefoni	(06) 8556-7300 Email: manuela.stefoni @it.ey.com

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.
- 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)
- 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
- 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
- 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.
- 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 3.9% or 4.97% (see *Business income*), and bookkeeping is required.

Real estate income. Income from unrented 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 3.9% or 4.97% 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. 49.72% (40% for earnings yielded before 1 January 2008) of dividends derived from qualified participations that are received by Italian tax residents from resident and nonresident entities is 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 and 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 and representing no more than 25% of the issued capital.

One hundred percent of the dividends received by an individual that are derived 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 a final withholding tax at a rate of 30%. In some cases, this tax is imposed on 60% or 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% (49.72% beginning 1 January 2009) 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 and if the property had not been used as a principal abode. 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 20%. 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
- Main residency (deduction equal to the main residency taxable income)

A tax credit of up to 19% is granted for various items, including the following:

- 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
- Funeral expenses, up to a maximum amount of €1,549.37

A tax credit for family members may be claimed by resident taxpayers, regardless of the category of income earned. The following are the amounts of the tax credit.

Type of tax credit	**Theoretical amount (€)**
Dependent spouse (a)	800 (b)
Each dependent child (a)	800 (b)(c)

(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 tax credit available. The dependent spouse tax credit is not granted for income higher than €80,000. The child tax credit is not granted for income higher than €95,000.

(c) For each dependent child under three years of age, the amount is increased by €100. For each handicapped child, the amount is increased by €220. If the taxpayer has more than 3 dependent children, an additional amount of €200 is granted.

An additional tax credit of €1,200 may be claimed by resident taxpayers if they have four or more dependent children. This tax credit is shared between the two spouses. However, if one spouse is a dependant of the other spouse, the tax credit may be fully claimed by the other spouse.

Foreign taxes paid in a definitive manner 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.

Taxable income		Rate on
Exceeding	Not exceeding	excess
€	€	%
0	15,000	23
15,000	28,000	27
28,000	55,000	38
55,000	75,000	41
75,000	—	43

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 0.8% 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 0.9% of the cadastral value (legal value) of the real estate.

ICI is not payable on a nonluxury principal abode.

Inheritance and gift taxes. Inheritance and gift taxes apply to residents and nonresidents. The tax base is related to the value of the assets. The following are the applicable tax rates:

- 4% for recipients in a direct relationship (spouse and children) with the deceased or the donor, to the extent that the assets have a taxable value of greater than €1 million
- 6% for brothers, to the extent that the assets have a taxable value of greater than €100,000
- 6% for other relatives, with no assets exclusion
- 8% for recipients who are not related to the deceased or the donor, with no assets exclusion

In addition to the above taxes, cadastral and mortgage taxes apply if immovable properties are inherited or given as a gift. The applicable tax rate is 3%. However, if the real estate inherited or gifted is classified as a primary home, the cadastral and mortgage taxes are imposed at a fixed amount of €168 each.

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
• 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 €93,622 for 2011.

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 17% to 26.72% on annual income up to a maximum of €93,622 for 2011.

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	Channel Islands (a)	Tunisia
Australia	Croatia	United States
Bosnia-Herzegovina	Israel	Uruguay
Brazil	Korea (South)	Vatican City
Canada and Quebec	Macedonia	Venezuela
Cape Verde	Monaco	Yugoslavia (former) (b)
	San Marino	

(a) The Channel Islands consist of Alderney, Guernsey, Herm, Jersey and Jethou.
(b) This treaty applies to Montenegro and Serbia.

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 30 September, 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 1/10 (within 30 days after the payment due date) or to 1/18 (within the filing deadline for the following tax year) of the otherwise applicable penalty.

Income tax must be paid by 16 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 16 June, and the remaining 60% must be paid by 30 November. Individuals who make a late payment during the period of 17 June to 16 July must pay a 0.4% additional surtax. If a late payment is made between 17 July and 16 August, the effective rate of the additional surtax due is 3%, plus annual interest of 1.5%. If a late payment is made after 17 August and on or before 30 September of the following year, a surtax of 3.75% plus annual interest of 1.5% 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	India	Saudi Arabia
Algeria	Indonesia	Senegal
Argentina	Ireland	Singapore
Armenia	Israel	Slovak Republic

Australia	Japan	Slovenia
Austria	Jordan	South Africa
Azerbaijan	Kazakhstan	Spain
Bangladesh	Kenya (a)	Sri Lanka
Belarus	Korea (South)	Sweden
Belgium	Kuwait	Switzerland
Brazil	Latvia	Syria
Bulgaria	Lithuania	Tanzania
Canada	Luxembourg	Thailand
China	Macedonia	Trinidad and Tobago
Côte d'Ivoire	Malaysia	Tunisia
Croatia	Malta	Turkey
Cyprus	Mauritius	Uganda
Czech Republic	Mexico	Ukraine
Denmark	Morocco	United Arab Emirates
Ecuador	Mozambique	United Kingdom
Egypt	Netherlands	United States
Estonia	New Zealand	USSR (b)
Ethiopia	Norway	Uzbekistan
Finland	Oman	Venezuela
France	Pakistan	Vietnam
Georgia	Philippines	Yugoslavia (former) (c)
Germany	Poland	Zambia
Ghana	Portugal	
Greece	Romania	
Hungary	Russian Federation	
Iceland		

(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.
(c) This treaty applies to Bosnia-Herzegovina, Croatia, Montenegro and Serbia.

The treaties above 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.
- 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
- 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.

International travelers, who are nationals of Visa Waiver Program (VWP) countries, do not require a visa to enter Italy for short-term visits.

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 enroll with the Office of Resident Population (Anagrafe) if his or her stay exceeds 90 days.

Special rules are provided for nationals of Romania and Bulgaria who joined the EU on 1 January 2007.

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 three 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 United Immigration Office issues 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).
- 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.

A simplified registration process applies to non-EU citizens entering Italy for short-term reasons (business or tourism).

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 in 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	—	—
Housing allowance	X	—	(a)
Housing	X	—	(a)(b)
Housing contribution	(X)	—	(a)
Education allowance	X	—	—
Hardship allowance	X	—	—

	Taxable*	Non-taxable	Comments
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 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
- 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 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. During the year, 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)	36,170
Family tax credits*	(0)
Net income tax (excluding regional and local tax)	36,170

* The applicable tax credits are calculated using a formula.

Jamaica

(Country code 1)

Kingston **GMT -5**

Ernst & Young
8 Olivier Road
Manor Park
Kingston 8
Jamaica

Executive and immigration contacts

Juliette Brown	(876) 969-9000 Fax: (876) 755-0413 Email: juliette.brown@jm.ey.com
Allison Peart	(876) 925-2501 Fax: (876) 755-0413 Email: allison.peart@jm.ey.com

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 totaling 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 income exceeding J$441,168 are subject to tax. Nonresidents are generally not eligible for the J$441,168 exemption available to Jamaican residents. To be considered a resident for tax purposes in the 2011 tax year, and benefit from the income tax threshold of $441,168, a person is required to be in Jamaica for 183 days or more in the 2011 tax year. 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 a benefit that is fully taxable to the employee. For further information, see Appendix 2.

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.

No income tax is payable on ordinary dividends paid by Jamaican resident companies to Jamaican resident shareholders. Preference dividends paid to Jamaican residents that qualify for income tax deduction are subject to tax in the hands of the recipients, while preference dividends that do not qualify for income tax deduction may be treated as ordinary dividends and taxed at 0%. Ordinary or preference dividends paid by Jamaican resident companies to nonresident individuals are subject to tax at a rate of 25% or at a lower rate prescribed by an applicable double tax treaty.

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 Commissioner of the Taxpayer Audit and Assessment Department, lump-sum payments up to the prescribed limit specified by the Income Tax Act may be exempt from income tax. Lump sums paid from the government's Consolidated Fund are not subject to income 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$80,000 of the income. The exemption is restricted to the lower of the pension income or J$80,000 if the pensioner is under 55 years of age. Individuals 65 years of age and older enjoy an income exemption of J$80,000.

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.

Resident self-employed individuals are entitled to an income tax exemption for the first J$441,168 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 actual grant 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 an employee's annual remuneration to approved pension schemes and contributions to the national insurance scheme are deductible for the employee. However, if an employer contributes less that 10% of the employee's annual remuneration, the employee may contribute the difference between the employer's actual contribution and the maximum contribution payable by the employer (that is, 10%). The difference contributed by the employee is also deductible for income tax purposes.

Business deductions. All expenses incurred wholly and exclusively in producing self-employment or business income are deductible.

Rates. The following are the income tax rates from 1 January 2010 through 31 March 2011.

Taxable income Exceeding J$	Taxable income Not exceeding J$	Rate %
0	441,168	0
441,168	5,000,000	25
5,000,000	10,000,000	27.5
10,000,000	—	35

The higher rates of 27.5% and 35% expire on 31 March 2011. Effective from 1 April 2011, a flat income tax rate of 25% applies to individuals, regardless of the level of income.

Withholding taxes are levied on management fees, dividends, certain interest, royalties and directors' fees.

For sample tax calculations, 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 carryback of losses is 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. Other taxes

Transfer tax. Although Jamaica has no estate tax, 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	4
Transfer on death	
On the first J$100,000	0
On the balance	1.5/4*

* Effective from 16 May 2011, the rate of transfer tax on deceased estates is reduced from 4% to 1.5%.

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 located.

Stamp duty. Effective from 16 May 2011, if a mortgage is refinanced for an equal or lesser amount, stamp duty is payable at a rate of J$100. If the refinancing is for a greater amount than the original amount, a stamp duty rate of 1.25 cents per J$200 or part thereof applies to the additional amount secured (the difference between the refinanced amount and the original amount secured).

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$1 million. 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, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago and the United Kingdom.

For purposes of the U.K. totalization agreement, the United Kingdom is defined to include Alderney, the Channel Islands of Guernsey, Herm, Jersey and Jethou, England, the Isle of Man, Northern Ireland, Scotland and Wales.

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 income tax returns must be filed, and the final income 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 who engage in business in

Jamaica must file tax returns. Credits are available for withholding taxes paid.

An individual may obtain a tax credit in Jamaica if tax is deducted from investment income. Prescribed persons such as banks and other financial institutions as described by the Income Tax Act normally withhold tax at a rate of 25% from investment income.

E. Double tax relief and tax treaties

Jamaica has entered into double tax treaties with Canada, China, Denmark, France, Germany, Israel, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United States and CARICOM nations (Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, 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 from certain specified countries may visit Jamaica without a visa. A visa is required if a visit exceeds the time allowed by the immigration officer at the point of landing or if the foreign national's home country is not one of the specified countries. A 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	—	—

	Taxable*	Not taxable	Comments
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 gain 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) Effective from 1 August 2009, the total amount of cash payments made to a third-party landlord or to the employee with respect to accommodation is subject to income tax at the ordinary income tax rates (see Section A). However, if the employee is provided with accommodation either on the premises where the employment is exercised or resides elsewhere and if it can be established that the employee needs to have the accommodation for the exercise of his or her employment, the employee is taxed on an amount (taxable benefit) not exceeding 30% of his or her gross emoluments excluding the cost or value of the accommodation.

(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 calculations

Two sample tax calculations for the 2011 tax year are provided below for an expatriate who is married with two dependent children under 18 years old.

Scenario 1

The expatriate was a resident of Jamaica for all of 2011, but was not domiciled in Jamaica. During 2011, the expatriate received compensation of J$3 million, 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 million). 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 for Scenario 1.

	J$
Calculation of taxable income	
Salary	3,000,000
Taxable value of housing (fully taxable)	600,000
Dividends	5,000*
Taxable income	3,605,000

		J$
Calculation of income tax		
Tax on J$441,168	at 0%	0
Tax on J$3,163,832	at 25%	790,958
J$3,605,000		
Income tax payable		790,958

* 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.

Scenario 2

The expatriate was a resident of Jamaica for all of 2011, but was not domiciled in Jamaica. During 2011, the expatriate received compensation of J$6 million, J$600,000 of which was paid in Jamaica and the balance was deposited in a home-country bank account and not remitted to Jamaica. The individual's employer provides the expatriate with a 2009 motor vehicle for company use. The motor vehicle is valued at J$10 million and has 65% business usage in 2011.

The following is the calculation for Scenario 2.

	J$
Calculation of taxable income for 1 January 2011 through 31 March 2011	
Salary (J$6,000,000 ÷ 12 x 3)	1,500,000
Taxable value of motor vehicle (120,000 ÷ 12 x 3)	30,000
Taxable income	1,530,000
Less national insurance contribution	(6,250)
Statutory income	1,523,750

		J$
Calculation of income tax for 1 January 2011 through 31 March 2011		
Tax on J$110,292 (J$36,764 x 3)	at 0%	0
Tax on J$1,139,708	at 25%	284,927.00
Tax on J$273,750	at 27.5%	75,281.25
J$1,523,750		
Income tax payable through 31 March 2011		360,208.25

	J$
Calculation of taxable income for 1 April 2011 through 31 December 2011	
Salary	4,500,000
Taxable value of motor vehicle	90,000*
Taxable income	4,590,000
Less national insurance contribution	(18,750)
Statutory income	4,571,250

		J$
Calculation of income tax for 1 April 2011 through 31 December 2011		
Tax on J$330,876	at 0%	0
Tax on J$4,240,374	at 25%	1,060,093.50
J$4,571,250		
Income tax payable for 1 April 2011 through 31 December 2011		1,060,093.50
Total income tax payable (J$360,208.25 + J$1,060,093.50)		1,420,301.75

* The expatriate is taxed on the personal use of the company car. The taxable amount is calculated based on the table set forth in Section A after taking into consideration the following:
  - The age of the vehicle is two-years old because it is a 2009 motor vehicle.
  - The cost of the vehicle is J$10 million.
  - The private usage of the vehicle is 35%, and the business usage is 65%.

Japan

(Country code 81)

Tokyo **GMT +9**

Ernst & Young Shinnihon Tax
Kasumigaseki Bldg., 32nd Floor
3-2-5, Kasumigaseki
Chiyoda-ku, Tokyo 100-6032
Japan

Executive contacts

Kiyohide Iwasaki	(3) 3506-2014 Fax: (3) 3506-2040 Email: kiyohide.iwasaki@jp.ey.com
Harish Shrivastava	(3) 3506-2017 Fax: (3) 3506-2040 Email: harish.k.shrivastava@jp.ey.com

Immigration contact

Masayo Mitani	(3) 3506-2019 Fax: (3) 3506-2040 Email: masayo.mitani@jp.ey.com

A. Income tax

Who is liable. In Japan, the tax liability of individuals is determined by their residence status. Individual taxpayers are classified into the following three categories:

- A permanent resident is an individual who is a Japanese national or has been present in Japan for at least 5 years within the past 10 years.
- A nonpermanent resident is an individual of non-Japanese nationality who has not resided or maintained his or her domicile in Japan for more than 5 years within the past 10 years.
- A nonresident is an individual who does not meet the requirements for qualification as a permanent resident or a nonpermanent resident.

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 for less than one year.

Permanent residents are subject to income tax on their worldwide income, regardless of source. Nonpermanent residents are subject to tax on income earned in Japan (for example, employment income from services performed in Japan, regardless of payroll location) plus any non-Japan source income that is paid in or remitted to Japan. Nonresidents are subject to tax on their Japanese-source income only.

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 home-leave expenses, are excluded from taxable income.

Favorable tax treatment is available for employer-provided housing if the following conditions are satisfied:
• The lease is in the employer's name.
• The employer pays the rent directly to the landlord.
• The individual pays to the employer an amount equal to the "legal rent" for the premises from after-tax monies.

For purposes of the last condition above, 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 a formula involving the area and assessed value of the rented property. If the 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**
650,000	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%]

Gross compensation Exceeding ¥	Not exceeding ¥	Employment income deduction
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 securities 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 received by shareholders who own 5% or more of listed shares are included in taxable income and taxed at progressive rates (see *Rates*). Dividends from listed shares are taxed at a flat rate of 20% (15% national tax plus 5% local inhabitant tax). A reduced tax rate of 10% (7% national tax plus 3% local inhabitant tax) applies until 31 December 2011. For dividends from listed shares that are received through a Japanese paying agent (securities company or trust company in Japan), a withholding tax is deducted by the Japanese paying agent. A taxpayer does not need to report the dividends as income on the tax return if the dividends are from listed shares and are received through 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 on public bonds and deposits paid in Japan 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 (plus a final 5% local withholding tax) if received through a paying agent in Japan. Otherwise, interest earned overseas is taxed at progressive rates.

Interest up to certain amounts on postal savings and deposits, public bonds and securities 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 time deposits, public bonds, debentures and securities investment trusts, up to a maximum principal amount of ¥3.5 million
- 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 shares are generally taxed at 20% (15% national tax plus 5% local inhabitant tax). If a taxpayer sells certain listed shares through a securities company or bank in Japan, a reduced tax rate of 10% (7% national tax plus 3% local inhabitant tax) applies until 31 December 2011.

Capital gains derived 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 defined as income from the transfer of land and buildings that have been owned for more than five years as of 1 January of the year of transfer.

Short-term gains are taxed at a rate of 30%, plus a 9% inhabitant tax on taxable gains. Long-term gains are taxed at a rate of 15%, plus a 5% inhabitant tax on taxable gains.

Gains derived from the sale of residential property held longer than 10 years are taxed at a rate of 10% (plus a 4% local inhabitant tax) on taxable gains of up to ¥60 million and at a rate of 15% (plus a 5% local inhabitant tax) on gains in excess of ¥60 million. This favorable treatment applies to sales of residential property that have been held for more than 10 years as of 1 January of the year of transfer. A special deduction of ¥30 million is available on gains from the sale of residential property if specified conditions are met.

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.

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 technical skills or knowledge directly required by employees for the performance of their 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 maximum deductible amount is ¥50,000 for earthquake insurance contracts and ¥15,000 for long-term insurance contracts entered into by 31 December 2006. The maximum total deduction for earthquake and long-term casualty premiums is ¥50,000.

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 lower of total contributions, or 40% of adjusted total income reduced by ¥2,000.

Personal deductions and allowances. The following personal deductions are available for national income tax purposes.

	¥
Physically handicapped person	270,000
Seriously physically handicapped person	400,000
Seriously physically handicapped dependant, living with taxpayer	750,000
Widow (or divorcee), widower or working student	270,000
Spouse	380,000
Senior spouse (70 years of age or older)	480,000

	¥
Dependant (16 years of age or older)	380,000
Senior dependant (70 years of age or older)	480,000
Senior dependant who is a parent of, and lives with, the taxpayer	580,000
Basic deduction	380,000

For eligible dependants who are at least 19 years of age but less than 23 years of age, an additional education deduction of ¥250,000 is allowed.

The deduction for dependants up to 15 years old and the education deduction for dependants between 16 years of age but less than 19 years of age are abolished, effective from the 2011 tax year.

Personal deductions for inhabitant tax purposes are lower than those for national income tax purposes.

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. The rates range from 5% (on taxable income of up to ¥1.95 million) to 40% (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	1,950,000	0	5
1,950,000	3,300,000	97,500	10
3,300,000	6,950,000	232,500	20
6,950,000	9,000,000	962,500	23
9,000,000	18,000,000	1,434,000	33
18,000,000	—	4,404,000	40

Local inhabitant tax rates (prefectural and municipal). Local inhabitant tax consists of prefectural tax (a flat rate of 4% plus ¥1,000 of per capita levy) and municipal tax (a flat rate of 6% plus ¥3,000 of per capita levy). Nonresidents are not subject to local inhabitant tax.

For sample tax calculations, see Appendix 2.

Relief for losses. Losses from rental, business and forestry activities may be used to offset income from other ordinary income 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.

Losses from the sale of shares can offset only gains from the sale of shares. However, the losses from the sale of listed shares through a securities company or bank in Japan may offset dividend income from listed shares. The net loss remaining after using all available losses to reduce dividend income from listed shares may be carried forward for three years by a taxpayer filing a tax return.

B. Other taxes

Inheritance tax. Inheritance tax is levied on heirs and legatees who acquire properties 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 properties, 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		Tax on lower	Rate on
Exceeding ¥ (millions)	Not exceeding ¥ (millions)	amount ¥ (millions)	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 has Japanese nationality and is 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 2011.

Taxable amount		Tax on lower amount	Rate on excess
Exceeding ¥	Not exceeding ¥	¥	%
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 rates described below are the applicable rates as of 1 April 2011.

The premium for health insurance is 9.32% of monthly remuneration and bonus, up to a maximum premium of ¥112,772 (bonus ceiling of ¥503,280 per year). The premium for nursing care insurance is 1.5% of monthly remuneration and bonus, up to a maximum premium of ¥18,150 (bonus ceiling of ¥81,000 per year). For welfare pensions, the premium is 16.058% of monthly remuneration and bonus, up to a maximum premium of ¥99,559 (bonus ceiling of ¥240,870 per year). Costs are borne equally by employers and employees for the types of insurance mentioned in this paragraph.

The premium for unemployment insurance is 1.55%, of which 0.95% is borne by the employer and 0.6% by the employee. The premium for workers' accident compensation insurance is borne entirely by the employer at a rate of 0.3% 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, prepayments of income tax for the current year are 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 tax 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 another 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 under certain conditions.

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 tax rate. Japan has entered into double tax treaties with the following countries.

Armenia
Australia
Austria
Azerbaijan
Bangladesh
Belarus
Belgium
Bermuda
Brazil
Brunei Darussalam
Bulgaria
Canada
China
Czech Republic
Denmark
Egypt
Fiji
Finland
France
Georgia
Germany
Hungary
India
Indonesia
Ireland
Israel
Italy
Kazakhstan
Korea (South)
Kyrgyzstan
Luxembourg
Malaysia
Mexico
Moldova
Netherlands
New Zealand
Norway
Pakistan
Philippines
Poland
Romania
Singapore
Slovak Republic
South Africa
Spain
Sri Lanka
Sweden
Switzerland
Tajikistan
Thailand
Turkey
Turkmenistan
Ukraine
USSR*
United Kingdom
United States
Uzbekistan
Vietnam
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. Entry into Japan

Before entering Japan, a foreign national must obtain a visa corresponding to the purpose of his or her visit from a Japanese embassy or consulate abroad.

Foreign nationals from countries that have entered into reciprocal visa exemption agreements are not required to obtain visas if they intend to stay in Japan for not more than a specified time period for the purpose of various activities, including, but not limited to, sightseeing, rest, visiting relatives, market research, going on inspection tours and attending business meetings. The maximum period of stay varies from 14 days to 90 days, depending on the reciprocal agreement.

Japan has entered into reciprocal visa exemption agreements with various countries, including, but not limited to the following.

Australia	Iceland	Norway
Austria	Ireland	Portugal
Belgium	Italy	Singapore
Canada	Korea (South)	Spain
Denmark	Liechtenstein	Sweden
Finland	Luxembourg	Switzerland
France	Netherlands	United Kingdom
Germany	New Zealand	United States
Hong Kong		

G. 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 contracts, or other similar activities during a short period of stay in Japan.

H. 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 I).

It is possible for expatriates to be self-employed in Japan; however, it is very difficult. The expatriate must also obtain a CoE.

I. 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 are 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. However, activities included in the Professor category are excluded.
- 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.
- Intra-Company 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 included in the Engineer or Specialist in Humanities or International Services categories.
- 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.

Extension. 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 not earlier than three months 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.
- The person must have adequate moral standing.
- The person must be in good health.

J. 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. 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 Belgium, France, Germany, Italy, Switzerland and Taiwan are exempt from this rule because Japan has driver's license reciprocity with these 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	—	—

	Taxable	Not taxable	Comments
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(a)
Employer-provided housing	X	—	(a)
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 ordinary personal 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)

(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 to a nonpermanent resident unless it is Japan-source or remitted to Japan.

Appendix 2: Sample tax calculations

Tax calculations are provided below for 2011, 2012, 2013 and 2014 for an expatriate who, with a spouse and two children, ages 7 and 9, arrives in Japan on 1 October 2011 and departs on 31 July 2013. The expatriate does not have Japanese citizenship and did not reside in Japan for more than 5 years in the past 10 years. The expatriate does not have any "business days outside Japan" while residing in Japan. The housing meets all the conditions to qualify for favorable tax treatment for an employer-provided-housing. The expatriate receives interest in home-country currency of (HC) 2,000 and dividends of HC 500, which are not taxable for the first five years if they are from home-country sources and not remitted to Japan.

	2011 ¥	2012 ¥	2013 ¥	2014 ¥
Income				
Base salary	2,000,000	8,000,000	4,666,666	—
Bonuses paid for services performed in Japan	—	—	2,000,000	2,000,000

	2011 ¥	2012 ¥	2013 ¥	2014 ¥
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)	(2,100,000)	—
Personal allowances:				
Spouse	(380,000)	(380,000)	(380,000)	—
Dependants (b)	—	—	—	—
Basic allowance	(380,000)	(380,000)	(380,000)	—
Taxable income	1,160,000	8,940,000	6,139,000	2,000,000
Tax (a)				
National income tax accrued	58,000	1,420,200	800,300	400,000
Local inhabitant tax accrued	125,000	905,500	—	—
Total	183,000	2,325,700	800,300	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) Effective from 1 January 2011, the deduction for dependents who are less than 16 years of age is abolished for both national and local inhabitants tax purposes.

Jersey, Channel Islands

(Country code 44)

St. Helier **GMT**

Ernst & Young
Liberation House
Castle Street
St. Helier
Jersey, JE1 1EY
Channel Islands

Executive and immigration contacts

Neil Oliver	(1534) 288-221 Fax: (1534) 288-688 Email: noliver@uk.ey.com
Gary Todd	(1534) 288-282 Fax: (1534) 288-688 Email: gtodd1@uk.ey.com
Áine Slater	(1534) 288-604 Fax: (1534) 288-688 Email: aslater@uk.ey.com

Keng Yip Cheong	(1534) 288-244 Fax: (1534) 288-688 Email: kcheong@uk.ey.com
Anthony Chandlen	(1534) 288-230 Fax: (1534) 288-688 Email: achandlen@uk.ey.com
Graham Parrott *(resident in Guernsey)*	(1481) 717-490 Fax: (1481) 717-496 Email: gparrott@uk.ey.com

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 six months.
- They are physically present in Jersey for an average of three months a year over any consecutive four-year period.
- They have accommodation available in Jersey and stay there during the year.

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.
- They have accommodation available in Jersey and visit on average for more than three months.

Resident and ordinarily resident individuals are subject to Jersey income tax on their worldwide income.

Resident but not ordinarily resident individuals are subject to Jersey income tax on their Jersey-source income and their non-Jersey-source income remitted to Jersey.

Nonresidents are subject to tax on Jersey-source income only, excluding the following:
- Interest on bank deposits
- Cash and stock dividends issued by a company resident in Jersey that is taxable at a rate of 0%
- Income from a purchased life annuity
- Interest received from a company resident in Jersey
- Earnings from serving as director of a company
- Royalties or other amounts paid with respect to the use of patents
- Jersey state pensions

Jersey residents receiving pension income from a country that has entered into a double tax agreement with Jersey may be exempt from tax in that country, depending on the terms of the double tax agreement. Non-Jersey residents receiving Jersey pensions may be exempt from income tax in Jersey on such pension income. Professional advice should be obtained if necessary.

Income subject to tax

Employment income. Taxable 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. Housing benefits are also subject to tax. Shareholder benefits (for example, loans) may also be subject to tax.

Self-employment and business income. All self-employed individuals carrying on a trade, business or profession are subject to tax on business profits.

Tax on self-employment and business income is imposed on the accounting profits, adjusted for tax purposes, of noncorporations at a flat rate of 20%. Accounting profits are assessed on a current-year basis.

As a result of the European Union (EU) Code of Conduct and in accordance with Jersey's policy of constructive engagement with the EU, effective from 1 January 2009, Jersey introduced a general corporate income tax rate of 0% and a rate for certain regulated financial services companies of 10%. Jersey resident individuals who, directly or indirectly, beneficially own more than 2% of the shares of a Jersey trading company may be taxed on a deemed dividend for 2011. This rule will be withdrawn, effective from 1 January 2012.

Jersey resident individual shareholders who own more than 2% of the ordinary share capital in a company that is subject to full attribution are liable to pay tax on their portion of the company's relevant profits as if that portion was the individual's own profits. A company is subject to full attribution if it is a Jersey resident company that is taxed at a rate of 0% and that is not a trading company. These full attribution rules will also be removed, effective from 1 January 2012.

Utility companies and companies engaged in the importation and supply of oil are subject to a tax rate of 20%. In addition, the 20% rate applies to income derived from the rental of Jersey land and property development profits derived from Jersey land or from extraction trades relating to Jersey land. The business taxation regime is currently under review in Jersey. Following this review, the current tax regime applicable to Jersey companies may be amended.

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.

An individual must disclose in his or her tax return any interests in the following that have not been previously disclosed to the tax office:
- Companies
- Trusts
- Any property in Jersey or elsewhere, regardless of whether it is income producing

Although Jersey is not part of the EU, it has adopted a withholding tax regime for interest on savings paid to individuals residing in EU member states. These measures, which are equivalent to the EU Savings Directive, took effect on 1 July 2005. The withholding tax rate is 20% until 30 June 2011 and 35% after that date. The paying agent must withhold the tax. If the paying agent is satisfied that the individual is either not liable for or exempt from tax on the interest in his or her EU home country of residence, the agent may pay the interest gross.

To avoid the withholding tax, individuals can request exchange of information or produce a certificate from their home-country tax authorities confirming that tax was paid on the relevant income or that they are exempt from tax on such income in their home country of residence.

Jersey residents are subject to the above measures with respect to payments of savings income made to them from EU member states.

Taxation of employer-provided stock options. Jersey tax liability generally 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. 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 are 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 allowances and reliefs available to those on higher incomes are severely reduced, effective from 1 January 2011.

All taxpayers may deduct payments made to an approved superannuation fund or a pension scheme and premiums paid under a retirement annuity contract, with certain restrictions. The total amount of pension scheme contributions that are deductible is limited to the lower of £50,000 and the related earnings of individuals during the year of assessment.

In certain circumstances, life assurance premiums are allowable. To be deductible, life insurance premiums must be related to a policy in place on or before 31 December 2006. Life insurance premiums are deductible from taxable income. The tax-deductible premium cannot exceed 7% of the capital sum assured on death. The allowable deduction is restricted to 20% of the premiums paid. However, the taxpayer is entitled to a minimum deduction of £1,000 for any year of assessment if this results in a greater deduction than 20% of the qualifying premium, subject to the satisfaction of the test described in the preceding paragraph. A further limit is that the deduction, in aggregate, cannot exceed one-sixth of total net income.

In addition to the personal deductions discussed above, all taxpayers may claim the child allowance, which is a deduction of £3,000 from taxable income for each child of the taxpayer. A £6,000 allowance may be claimed for children attending higher-education institutions full-time. Child allowances are reduced if the child's own income exceeds £3,000. A child's earnings after completion of a course in full-time higher education in that year are disregarded.

Interest paid on personal loans and debts is not a deductible expense, unless the loan was obtained for an allowable purpose such as for buying into a business. Qualifying interest payments are deductible for all taxpayers.

If an individual is not taxed on the basis of being fully resident in Jersey throughout the year of assessment, allowances and deductions to which they are entitled may be reduced to reflect the proportion of the year they are present in Jersey.

Exemption limits and marginal relief. For taxpayers earning less than certain exemption thresholds (for 2011, £12,790 for a single person and £20,510 for a married couple in which the husband is under 63), no tax liability arises. The exemption thresholds are increased by the allowances described above plus other additional allowances described below.

For taxpayers whose total income exceeds their exemption threshold (including the additional allowances described below plus the allowances and relief described above), two tax calculations are required. The amount of income that exceeds the exemption threshold is subject to tax at a rate of 27%. If this results in a lower liability than the standard calculation, the lower liability is used. This allows low and middle income earners to benefit from an additional deduction, namely "marginal relief," which is the difference between the two calculations when the calculation using the exemption limits is lower than the standard calculation. Some allowances can be deducted from both tax computations. However, some, as described below, are available only in the marginal computation. The allowances are added to the relevant exemption thresholds.

The calculation of their tax liability at the marginal rate of 27% and allowing marginal relief ensures that no disproportionate increase in the tax bill results if taxpayers' income exceeds their exemption threshold.

In addition to the exemption thresholds mentioned above, a taxpayer can add certain additional allowances to the allowances and reliefs discussed above. The following are the allowances that may be added to the exemption thresholds:

- Child care tax relief (maximum of £6,150)
- Wife's earned income relief (100% of wife's earnings, up to £4,500)
- Qualifying maintenance payments
- Qualifying interest payments (including interest payments on a loan taken out to purchase a taxpayer's main residence, subject to limits)

A nonresident is entitled to a proportion of the personal allowances listed 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 granted for machinery and equipment at an annual reducing-balance rate of 25% and for greenhouses at an annual rate of 10%.

Rates. Income tax is imposed at a flat rate of 20% on taxable income.

Tenants paying rent to nonresident landlords are required to withhold Jersey income tax at a rate of 20%. Landlords can apply to the Taxes Office for permission for the rent to be paid gross.

Relief for losses. Noncorporate business losses may be carried forward indefinitely if the business continues to operate, or they can offset income for the year in which the losses arose or profits derived from the same trade in the preceding year.

Different rules for the use of business losses apply to companies.

B. Other taxes

No wealth tax or estate tax is levied in Jersey. For probate to be granted on death, stamp duty may be payable. The amount payable depends on the domicile of the deceased, the situs of property and whether the property is immovable or movable.

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).

Class 1. Employers and employees must make contributions based on salaries at rates of 6.5% and 6%, respectively, with an annual earnings limit of £44,232. The maximum annual contribution is £2,875.08 for employers and £2,653.92 for employees.

The States of Jersey have resolved to introduce a lower rate of charge above the annual earnings limit. However, at the time of writing, no changes have been announced to the contribution rates and the annual earnings limit is still effective for 2011.

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. However, it may be possible to obtain an extension if agreed to by the social security department. Totalization agreements are currently in effect with the following jurisdictions.

Alderney	Iceland	Norway
Austria	Ireland	Portugal
Barbados	Isle of Man	Spain
Bermuda	Italy	Sweden
Canada	Jamaica	Switzerland
Cyprus	Japan	United Kingdom
France	Korea (South)	United States*
Guernsey	New Zealand	

* U.S. citizens may be exempted from paying social security for up to five years.

D. Tax filing and payment procedures

The income year in Jersey is the calendar year. Persons subject to income tax must file income tax returns with the Comptroller of Taxes 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 Installment 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. New residents pay ITIS on a current-year basis. Married persons are assessed jointly, not separately, on all types of income, unless they elect otherwise. Separate assessment does not provide a financial advantage.

See Section A for information regarding changes to the assessment of self-employment and business income.

Taxpayers are normally notified of tax assessments in the year following the income year. Tax must be paid to the Comptroller of Taxes on the day after the day on which the assessment is issued. However, in practice, a reasonable amount of time to pay is allowed. A 10% surcharge is levied on any remaining tax unpaid by the specified date, which is the first Friday following the first Monday in December in the year following the year of assessment.

Returns are required to be filed by the last Friday in May following the year of assessment (last Friday in July if an agent has been appointed). The latter date also applies to corporate returns. A £250 penalty is imposed for returns not submitted by 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 Australia, Denmark, Estonia (not yet in force), the Faroe Islands, Finland, France, Germany, Greenland, Guernsey, Iceland, Malta, New Zealand, Norway, Sweden, and the United Kingdom.

The majority of these treaties are extremely limited in scope. The treaty with France addresses only the exemption of air transport and shipping profits. The treaties with Australia, Germany and New Zealand address only the avoidance of double taxation on individuals. The treaties with Denmark, the Faroe Islands, Finland, Greenland, Iceland, Norway and Sweden address the avoidance of double taxation on individuals and the exemption of air transport and shipping profits. The treaties with Estonia, Guernsey, Malta and the United Kingdom provide a credit for tax levied on all sources of income, excluding dividends and debenture interest in the U.K. treaty.

Jersey has entered into tax information exchange agreements (TIEAs) with the following jurisdictions.

Australia	Germany	Norway
Canada*	Greenland	Portugal
China*	Iceland	Sweden
Denmark	Ireland	Turkey*
Faroe Islands	Mexico*	United Kingdom
Finland	Netherlands	United States
France	New Zealand	

* This agreement is not yet in force, but it is expected to enter into force in 2011.

Several double tax treaties and TIEAs are currently under negotiation.

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 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 Jersey 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 Minister may grant an individual permission (a 1(1)K) to reside in Jersey if the permission can be justified on social or economic grounds. Consent is normally granted if the Housing Minister is satisfied that the applicant would make a major contribution to the island's tax revenues while residing in Jersey. Each application is considered on its individual merits.

High-value residents are subject to a different tax regime than other residents in Jersey. They are taxed at a standard rate of 20% on all Jersey-source income. Non-Jersey-source income is assessed differently, and worldwide income must be declared. If non-Jersey-source income exceeds £1 million, the first £500,000 is assessed at 10%, and the balance is assessed at 1%. This should result in a minimum tax of £125,000 per year for a successful applicant.

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 Jersey, 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 Minister 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 Housing Minister 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 Housing Minister considers in determining whether to grant J category status to an applicant:

- The contribution made to Jersey 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
- The overall staffing framework within the business

If the Housing Minister 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, lodging in a private dwelling, or occupying certain unqualified residences. After 10 years of continuous residence in Jersey, such persons gain permanent residential status.

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 jurisdictions.

Alderney	Finland	Latvia
Australia	France	Liechtenstein
Austria	Germany	Malta
Barbados	Gibraltar	Netherlands
Belgium	Guernsey	New Zealand
British Virgin Islands	Hong Kong	Norway
Cyprus	Iceland	Poland
Denmark	Ireland	Singapore
Falkland Islands	Isle of Man	Switzerland
	Italy	United Kingdom

To obtain a driver's license in Jersey, an individual should take driving lessons from a qualified instructor on the island. The driving test includes a vision test, a short drive and a written theory test.

Jordan

(Country code 962)

Amman **GMT +2**

Ernst & Young
Mail address:
P.O. Box 1140
Amman 11118
Jordan

Street address:
300, King Abdullah Street
Amman
Jordan

Executive and immigration contact

Ali H. Samara
(6) 552-6111
Fax: (6) 553-7314
Email: ali.samara@jo.ey.com

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, income that is realized outside Jordan by Jordanian and other residents, including interest, commissions, investment returns and profits from trading in currencies, valuable metals and securities, is taxable if such income arises from funds and deposits held in Jordan.

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 (but excluding goodwill), 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 and family allowances. The following personal and family allowances are granted:
• Single person: JD 12,000
• Married couple: JD 24,000

Business deductions. All business expenses incurred in generating income are deductible. However, certain limitations apply.

Rates. Tax rates for individuals are levied according to the following graduated scale.

Taxable income Exceeding JD	Not exceeding JD	Rate %
0	12,000	0
12,000	24,000	7
24,000	—	14

For payments made by resident taxpayers to nonresidents for taxable activities in Jordan, taxpayers must withhold 7% of gross payments and remit this withholding tax to the tax authorities within 30 days after the due date or payment date, whichever is earlier. This tax is final.

For payments made by resident taxpayers to individual service providers, companies that do not have a tax number and resident professionals, such as engineers, auditors or lawyers, taxpayers must withhold 5% of gross payments and remit this withholding tax to the tax authorities within 30 days after the due date or payment date, whichever is earlier.

For rent payments made by resident taxpayers (except rent paid by governmental parties), taxpayers must withhold 5% of gross payments and remit this withholding tax to the tax authorities within 30 days after the due date or payment date, whichever is earlier.

Relief for losses. Taxpayers may carry forward losses indefinitely to offset profits if the losses are supported by proper accounting records, are acknowledged by the tax assessor and relate to taxable sources of income.

B. Other taxes

Jordan does not levy 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 12.25%, and the employee's share is 6.5%. 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.

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, which is valid for a maximum of 48 hours.
- Business visa, which is valid for three months. A work permit must be obtained after arrival.
- Student visa, which is valid for the period that the foreign national is attending school in Jordan.
- Medical visa, which is valid for the time required to finish the medical treatment.
- Tourist visa, which is 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
- JD 120 for foreign nationals in agriculture

According to Ministry of Labor instructions, an employer must submit a bank letter of guarantee to the order of the Ministry of Labor in the amount of approximately JD 300 to JD 1,000 for each expatriate employee.

Foreign investors may engage in almost any type of economic activity. Jordan does not impose any limits on foreigners' investments. Except for certain sectors, including construction and trade, in which foreign ownership may 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
- Mining
- Industrial
- 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
- 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.

Kazakhstan

(Country code 7)

Almaty **GMT +6**

Ernst & Young
Esentai Tower
77/7 Al-Farabi Avenue
050060 Almaty
Kazakhstan

Executive and immigration contacts

Zhanna Tamenova	(727) 2585-960 Fax: (727) 2585-961 Email: zhanna.s.tamenova@kz.ey.com
Dinara Tanasheva	(727) 2585-960 Fax: (727) 2585-961 Email: dinara.tanasheva@kz.ey.com
Madina Savina	(727) 2585-960 Fax: (727) 2585-961 Email: madina.savina@kz.ey.com

A. Income tax

Who is liable. Residents are taxed on their worldwide income. Nonresidents are taxed on Kazakhstan-source income only, regardless of where it is paid. Income is deemed to be from a Kazakhstan source if it is paid for work performed in Kazakhstan. Kazakhstan-source income also includes, but is not limited to, interest income from residents and nonresidents having a permanent establishment in Kazakhstan and dividends from resident legal entities.

For tax purposes, individuals are considered residents if they are present in the country for more than 183 days in any consecutive 12-month period ending in that year.

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 simultaneously:
- The individual is a Kazakhstan citizen or has permission to live in Kazakhstan.
- The family or close relatives of the individual reside in Kazakhstan.
- 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.

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. For a table outlining the taxability of employment income items, see Appendix 1.

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 such 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, advocates and private notaries.

Losses from entrepreneurial activities may be carried forward for up to 10 years to offset taxable income. Losses may not be carried back.

Investment income. In general, investment income is included in taxable income. The tax rates are set forth in *Rates*.

Certain investment is exempt from tax (see *Exempt income*).

Exempt income. Certain items are exempt from tax, including but not limited to, the following:
- Business trip per diems within established norms and reimbursement of certain business trip expenses.
- Accommodation and meal expenses within established norms for rotators while they are at the work site.
- The excess of the market value of shares covered by a stock option at the time of the exercise over the exercise price of the option. The exercise price of the stock option is the price fixed in the relevant document based on which the stock option is granted to an employee.
- Alimony.
- Medical expenses within established norms.
- Dividends and interest on securities if, at the time of the accrual of such dividends and interest, the securities are on the official list of a stock exchange operating in Kazakhstan.
- Dividends received from a resident legal entity if the shares or participating interests have been held for more than three years and if at least 50% of the value of the charter (equity) capital or of shares (participating interests) in the legal entity at the date of payment of the dividends is attributable to the assets of a company that is not a subsurface user.
- Interest income on deposits paid to individuals by licensed organizations in Kazakhstan.
- Income from Kazakhstan state securities.

Capital gains. Capital gains are subject to tax at the rates set forth in *Rates*. Capital gains derived from the securities that are listed on the stock exchange operating in Kazakhstan at the date of realization are exempt from tax.

Capital gains derived from the sale of securities or participation interests in legal entities or consortiums is exempt from tax if at least 50% of the value of the charter (equity) capital or of the shares (participating interests) in the legal entity or consortium on the date of sale is attributable to the assets of a company that is not a subsurface user.

The capital gain derived from the disposal of shares acquired through the exercise of a stock option equals the positive difference between the sales price and the acquisition price. The acquisition price includes the exercise price of the option and expenses incurred on the acquisition of the option.

Deductions. The minimum monthly salary (MMS), which amounts to KZT 15,999 (approximately US$110) per month for 2011, for an employee, 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

- Insurance premiums for the individual's own benefit under accumulative insurance agreements

If the amount of the MMS exceeds the amount of the employee's monthly taxable income, reduced by the amount of obligatory pension contributions, the excess can be carried over to subsequent months within the calendar year to reduce the employee's taxable income.

If an individual's workplace changes during the tax period, the above does not apply to the individual's new workplace. As a result, the employee may not use the excess amount referred to in the preceding paragraph to offset income earned at his or her new workplace.

Rates. The following withholding tax rates apply to resident and nonresident individuals for various types of income.

Type of Income	Rate (%)
Employment income of residents and nonresidents	10
Income of advocates and private notaries	10
Capital gains, interest and winnings	10
Dividends received by residents (paid offshore and locally)	5
Dividends, interest, royalties paid to nonresidents by Kazakhstan legal entities	15
Income of nonresidents registered in a country with preferential taxation	20
Other employment income not from employment paid to nonresidents	20

Income received in foreign currency is converted into tenge at the exchange rate on the date the income is received.

B. Other taxes

Property tax. Individuals are subject to property tax at rates ranging from 0.05% to 1% 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$1,220 per vehicle.

C. Social security

Social tax. Kazakhstan does not have a social security tax as it is known in 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.

The tax base for social tax equals the employer's expenses related to employees' income.

Exemptions from social tax include, but are not limited to, the following:
- Compensation resulting from the liquidation of an organization or termination of the employer's activities, a call to military service or personnel reductions
- Compensation paid by an employer to employees for unused vacation
- Obligatory pension fund contributions

Employers must pay social tax at a flat rate of 11% of gross income, less the obligatory pension fund contributions for Kazakhstan citizens. The minimum tax base for social tax per employee is the MMS.

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*).

For individual entrepreneurs (excluding entrepreneurs working under special tax regimes), private notaries and advocates (attorneys), the rate of social tax is 2 times the minimum calculated index (MCI; approximately US$20) for themselves and one MCI (approximately US$10) for each employee, if any.

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 2011, income received in excess of KZT 1,199,925 (approximately US$8,275) 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 at a rate of 5% are payable by employers on income paid to employees. They are capped at KZT 7,999 (approximately US$55) per month.

Individual entrepreneurs are also subject to obligatory social insurance contributions. The rate of the obligatory social insurance contributions for individual entrepreneurs is also 5%. This rate is applied to the MMS.

D. Tax filing and payment procedures

The tax year in Kazakhstan is the calendar year.

A tax agent is responsible for withholding and remitting income tax from payments made to resident and nonresident individuals.

Under the withholding mechanism, a tax agent withholds actual personal income tax on a monthly basis not later than the date on which the income is paid and remits the tax to the Kazakhstan state budget before the 25th day of the month following the reporting month. The tax agent must file a personal income tax withholding and social tax report, which includes pension fund contributions and social insurance contributions, on a quarterly basis by the 15th of the second month following the reporting month.

If a tax agent is not available in Kazakhstan, resident and nonresident individuals are responsible for the calculation of personal income tax liabilities and filing a Kazakhstan tax return. The filing deadline for a Kazakhstan tax return is 31 March of the year following the reporting year, and the income tax liability, if any, must be settled within 10 calendar days after the filing deadline.

Kazakhstan tax returns must also be filed by the following tax resident individuals:
- Individual entrepreneurs
- Individuals who receive property income

- Individuals who receive income not taxed at the source of payment in Kazakhstan, including income outside Kazakhstan
- Individuals having funds in foreign bank accounts outside Kazakhstan

Individuals who are tax nonresident in Kazakhstan are not required to file a Kazakhstan tax return if their Kazakhstan-source income is subject to withholding in Kazakhstan.

The law provides for late payment interest penalties, late filing fines 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. To apply for a foreign tax credit, a document confirming income received and income tax paid or withheld must be enclosed with the Kazakhstan tax return. The document must be issued and verified by the foreign tax bodies.

An individual receiving Kazakhstan-source income who meets the conditions of a double tax treaty may apply a treaty exemption if the individual provides a properly *apostilled* tax residency certificate issued by the competent tax authority.

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

Austria
Azerbaijan
Belarus
Belgium
Bulgaria
Canada
China
Czech Republic
Estonia
Finland
France
Georgia
Germany
Hungary
India
Iran
Italy
Japan
Korea (South)
Kyrgyzstan
Latvia
Lithuania
Malaysia
Moldova
Mongolia
Netherlands
Norway
Pakistan
Poland
Romania
Russian Federation
Singapore
Slovak Republic
Sweden
Switzerland
Tajikistan
Turkey
Turkmenistan
Ukraine
United Kingdom
United States
Uzbekistan

Double tax treaties with Armenia, Kuwait, Luxembourg, Saudi Arabia and the United Arab Emirates are under discussion.

F. Visas

Kazakhstan authorities issue the following categories of visas:
- Diplomatic
- Official
- Investor
- Business
- Private
- Tourist
- Missionary
- Study
- Work
- Medical treatment

• Permanent residency
• Exit
• Transit

Diplomatic, official, investor, business, missionary, study and work visas may be issued for a single, double-, triple- or multiple-entry and exit. Tourist, private and transit visas may be issued for a single-, double- or triple-entry and exit. Visas for medical treatment and permanent residency may be issued only for a single- or double-entry and exit. Visas are issued for up to three years.

In Kazakhstan, visas are issued by the Department of Consular Service of the Ministry of Foreign Affairs and abroad by the Kazakhstan consular establishments (for example, the Consular Department of an Embassy of Kazakhstan). A visa is issued based on a letter of invitation by a local Kazakhstan company or a branch or representative office of a foreign company, which must be submitted to the Department of Consular Service of the Ministry of Foreign Affairs. To obtain a work visa, a work permit must also be submitted. The fee for issuing a visa ranges between US$10 to US$400, depending on the country of residence of the invited party and the type of visa sought. A visa should be issued within five business days.

An individual may obtain a single diplomatic, private, official or business visa or a single- or double-tourist visa without a letter of invitation by submitting a written application to the Department of Consular Service of the Ministry of Foreign Affairs or to the Kazakhstan consular establishment in the respective country if he or she is a citizen of one of the following countries.

Australia	Iceland	Oman
Austria	Ireland	Poland
Belgium	Israel	Portugal
Brazil	Italy	Qatar
Bulgaria	Japan	Romania
Canada	Korea (South)	Saudi Arabia
Croatia	Latvia	Singapore
Cyprus	Liechtenstein	Slovak Republic
Czech Republic	Lithuania	Slovenia
Denmark	Luxembourg	Spain
Estonia	Malaysia	Sweden
Finland	Malta	Switzerland
France	Monaco	United Arab Emirates
Germany	Netherlands	United Kingdom
Greece	New Zealand	United States
Hungary	Norway	

G. Work permits

Employers must apply for work permits on behalf of foreign nationals. These permits are issued in accordance with the quota established by the government of Kazakhstan. The process of obtaining a work permit may take up to four to five months.

The local authorities review the submitted documents before issuing a work permit, which is usually valid for one year. The renewal process may be completed in up to two months.

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
- The heads and general managers of Kazakhstan legal entities engaged in investment activities in prioritized activity categories that have concluded contracts with an authorized investment body
- Crew members of sea and river vessels, aircraft and rail and automobile transport
- Accredited journalists

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 Kazakhstan 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.

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 some of the Commonwealth of Independent States (CIS) countries, including, but not limited to, Belarus, Kyrgyzstan, the Russian Federation, Ukraine and Uzbekistan.

A foreigner may obtain a Kazakhstan driver's license after taking a two month to six month theoretical and practical training course and passing written, practical 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 employment 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	—	—

	Taxable*	Not taxable	Comments
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.

Kenya

(Country code 254)

Nairobi **GMT +3**

Ernst & Young
Mail address:
P.O. Box 44286-00100
Nairobi
Kenya

Street address:
Kenya Re Towers
Off Ragati Road
Nairobi
Kenya

Executive and immigration contact

Geoffrey Karuu
(20) 271-5300
Fax: (20) 271-6271
Email: geoffrey.g.karuu@ke.ey.com

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, regardless of whether their duties are performed within or outside Kenya.
- 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. Taxable benefits arising from employment include the following:

- Housing. The taxable benefit from employer-provided housing equals the higher of rent paid by the employer or 15% of employment income excluding the value of housing premises. If the premises are provided under an agreement with a third party that is not at arm's length, the benefit is valued at the higher of the fair market rental value of the premises or the rent paid by the employer. If the employer owns the premises, the benefit is taxed at the fair market rental value of the premises.

- Education. Education allowances provided by employers to their local or expatriate employees' relatives are taxable for income tax purposes.
- Motor vehicles. The value of the benefit of an employer-provided motor vehicle is the higher of 2% per month of the initial capital expenditure by the employer on the car or the actual cost to the employer. If an employee is provided with a leased or hired car, the taxable benefit is the cost of lease or hire of the vehicle. For employees who have restricted use of motor vehicles, the Commissioner of Income Tax determines a lower rate of the benefit depending on the usage of the motor vehicle if the Commissioner is satisfied based on proof provided by the employee that use of the motor vehicle is restricted.
- Loans. The benefit from employer loans is taxable to the employer as fringe benefit tax for loans granted after 11 June 1998 and for loans granted before that date if the terms or conditions of the loan have been changed since 11 June 1998. The tax is imposed on the benefit at the resident corporate tax rate of 30% and is payable by the 10th day of the month following the imposition of the tax. For loans granted on or before 11 June 1998, the benefit is taxable to the employee as a low interest rate benefit. The benefit is valued at the difference between the interest rate on the employer's loan and the rate prescribed by the Commissioner of Income Tax.
- Employer-provided stock options. The value of the benefit from employer-provided stock options equals the difference between the market value per share and the offer price per share at the date the option is granted by the employer. The benefits under employee share ownership plans accrue only if such plan is registered with the Commissioner of Income Tax as a collective-investment scheme, as defined under the Capital Markets Authority Act. The benefit is deemed to have accrued to the employee at the end of the vesting period.

Specific exemptions include the following:

- The cost of medical services borne by the employer.
- Employer contributions to accredited pension or provident fund schemes.
- Withdrawal benefits from a pension or provident fund. The limit is KSH 60,000 for each year worked, up to a maximum of KSH 600,000.
- The first KSH 300,000 of annual pension income.
- Refunds of National Social Security Fund contributions plus interest. The limit is KSH 60,000 for each year worked, up to a maximum of KSH 600,000.
- For noncitizens recruited outside Kenya and their families, the cost of passage on joining the company, for annual leave and for departure.
- The first KSH 2,000 paid to an employee per day as an allowance while on official duty. This amount is deemed to be a reimbursement and, consequently, not taxable.
- Noncash benefits, up to a maximum of KSH 36,000 per year.
- Meals served in canteens and cafeterias operated by an employer for the benefit of low-income employees.

Up to KSH 50,000 per month of costs relating to healthcare services and facilities for persons with disabilities are not taxable benefits. The minimum taxable income for persons with disabilities is KSH 150,000 per month.

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 Domestic Taxes 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
- Interest and dividend income accruing to a resident from investments outside Kenya
- Interest that is earned on deposits of up to KSH 3 million with a registered Home Ownership Savings Plan (HOSP)

Rental profits are aggregated with profits from other sources and taxed at the rates set forth in *Rates*.

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 and reliefs. 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

• Contributions to a home ownership savings plan, up to a maximum of KSH 48,000 per year

Reliefs. Resident taxpayers are granted the following reliefs against tax payable:
• Personal relief in the amount of KSH 13,944 per year
• Insurance relief (including education and health insurance) in the amount of 15% of premiums paid, up to a maximum relief of KSH 60,000 per year

Business deductions. In general, 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 the following is allowed:
• Manufacturing premises
• Plant
• Electric power generating projects with capacity to supply the national grid or to transform and distribute electricity through the national grid
• Hotel buildings

The investment deduction is increased to a rate of 150% for an investment for manufacturing purposes that is made outside the city of Nairobi or the municipalities of Kisumu or Mombasa and that has an investment value of KSH 200 million or more. Allowances are available on a straight-line basis for other industrial buildings and hotels, and on the amount remaining after subtracting the investment deductions, at a rate of 10% (manufacturing), 25% (commercial buildings as well as rental residential buildings constructed in a planned developed area approved by the minister responsible for housing), 10% (hotel buildings) and 50% (hostels and buildings used for educational and training purposes). A first-year deduction of 100% applies to capital expenditure on farm works. 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. The rate for software and telecommunication equipment is 20%. The rate for the irrevocable right to use fiber optic cable is 5%. A wear-and-tear allowance may be claimed with respect to concessionary arrangements on a straight-line basis over the period of the concession.

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.

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

Taxable income		Tax on lower	Rate on
Exceeding KSH	Not exceeding KSH	amount KSH	excess %
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, training 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
Telecommunication service fees	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 and professional income (including self-employment, rent, dividend and interest income)
- Other business activities

Profits are aggregated. Losses may be carried forward to offset future profits from the same specified source without monetary limits. They may be used in the income year in which they arise and in the following four years. 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. Individuals whose total annual tax payable does not exceed KSH 40,000 are also exempt.

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.

However, effective from 9 June 2011, if an employee's entire income consists of employment emoluments and if the tax on the income has been fully accounted for through PAYE, the employee is not required to file a self-assessment return.

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. Married women have an option to file self-assessment returns with respect to their income from all sources or to aggregate their income with the income of their husbands.

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 the following types of income earned outside Kenya:
- Income from employment
- Income earned by artists and sportsmen

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

Canada	Germany	Sweden
Denmark	India	United Kingdom
France	Norway	Zambia

In general, the treaties above provide that foreign income taxes may be offset against equivalent Kenyan taxes payable on the same income.

F. Temporary visas and passes

All visitors other than East African citizens must have visas to enter Kenya, unless they are from a country for which visa requirements have been eliminated. These countries include most of the British Commonwealth countries, Eritrea, Ethiopia, Ghana, Guyana, India, Namibia, New Zealand, Nigeria, Pakistan, San Marino, Sri Lanka, Turkey and Uruguay. Visitors from these countries are issued visitors' passes at the point of entry. In addition, visas are not required for holders of a re-entry pass to Kenya as well as transit passengers continuing their journey by the same or first connecting aircraft if they hold valid onward or return documentation and do not leave the airport.

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 are usually 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, which is issued to individuals in transit and is valid for a maximum of seven days. A fee of US$20 is payable on application.
- Ordinary/Single-journey visa, which is issued to visitors, including tourists, making single trips to Kenya. A fee of US$50 is payable.
- Multiple-journey visa, which is issued to foreign nationals, such as businesspersons, expecting to make several trips to Kenya within a period of six months to one year. A fee of US$100 is payable.
- Diplomatic visa, which is issued free of charge to holders of diplomatic passports on official business.
- Official/Service visa, which is issued free of charge to holders of official or service passports on official visits.

Passes. The following types of passes are issued:
- Visitors' pass, which is issued to foreign nationals from countries without visa requirements.
- Dependents' pass, which is issued to family members of foreign nationals with entry permits.
- Students' pass, which is issued to foreign students who wish to study in Kenya.
- Prohibited immigrants' pass, which is issued to foreign nationals who do not have valid entry documents or to foreign nationals who have contravened certain immigration rules. For example, this pass may be issued if the visa or entry permit has expired or the passport is lost.
- Re-entry pass, which is issued to holders of valid entry permits who intend to leave the country and return before the permits expire.
- Special pass, which is issued to others who do not qualify for the above passes, such as 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 who are over 18 years of age and stay 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, which is issued to a person who is offered specific employment by a specific employer.
- Class B, which was issued to persons offered specific employment by the government of Kenya or any other authority under the control of the government. Under a legal notice, Class A permits are now issued to persons who were entitled to Class B permits. No fee is charged for the permit.
- Class C, which is issued to a person who is offered specific employment under an approved technical aid scheme, sponsored by the United Nations or another approved agency.
- Class D, which is issued to a person holding a dependents' pass who is offered specific employment by a specific employer.
- Class E, which is issued to a person who is a member of a missionary society approved by the Kenya government.
- Class F, which is issued to a person who intends to engage in, whether alone or in partnership, the business of agriculture or animal husbandry in Kenya.
- Class G, which is issued to a person engaged in prospecting for minerals in Kenya.
- Class H, which is issued to 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, which is issued to a person who intends to engage in, whether alone or in partnership, specific manufacturing in Kenya.
- Class J, which is issued to a member of a prescribed profession who intends to practice that profession in Kenya, whether alone or in partnership.
- Class K, which is issued to a person satisfying all of the following conditions:
  - He or she is at least 21 years of age.
  - He or she has in his or her own right an assured annual income.
  - He or she will not accept paid employment of any kind if he or she is granted an entry permit of this class.
- Class L, which is issued to a person satisfying any of the following conditions:
  - He or she is unemployed.
  - He or she was issued a resident's certificate or would have qualified for one under the repealed acts.
  - He or she has held an entry permit in any of the above classes for a continuous period of at least 10 years immediately before the date of application.
- Class M, which is issued to a refugee recognized by the government of Kenya.

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 obtain the necessary licenses and registrations required and must have sufficient capital or resources for investment.

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.

Korea

(Country code 82)

Seoul **GMT +9**

Ernst & Young Han Young
Mail address:
Seoul 150-777
Korea

Street address:
Taeyeong Building
4th Floor
10-2, Yeoido-dong
Yeongdeungpo-gu
Seoul
Korea

Executive and immigration contacts

Danielle Suh	(2) 3770-0902 Fax: (2) 3787-4098 Email: danielle.suh@kr.ey.com
Min Ah Kim	(2) 3770-1019 Email: min-ah.kim@kr.ey.com
Na Young Hwang	(2) 3770-1014 Email: na-young.hwang@kr.ey.com
Hai-Rim Yoon	(2) 3787-4177 Email: hai-rim.yoon@kr.ey.com

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 for one year or longer.

Effective from the 2009 tax year, a foreign-national who is tax resident in Korea and who has resided in Korea for 5 years or less during the preceding 10 years is taxed in Korea on foreign-source income only if the relevant income is paid out of or remitted into Korea.

Income subject to tax. Personal income is divided into the following separate categories:
- Composite Income, which includes wages, salaries, interest, dividends, rental income, business income, pension income and miscellaneous income
- Severance pay
- Capital gains

For a table outlining the taxability of income items, see Appendix 1.

Employment income. Salary and wage income includes the following payments in addition to basic monthly payroll:
- Reimbursement for personal expenses, entertainment expenses and other allowances not considered legitimate business expenses.
- Various allowances for family, position, housing, health, overtime and other similar expenses.
- Insurance premiums paid by the company on behalf of the employee. However, an exclusion of up to W 700,000 per year applies to premiums relating to insurance satisfying the following conditions:
  - — The proceeds of the insurance are to be paid for an employee's death, injury or disease.
  - — The insured and beneficiary are employees.
  - — The paid-in premiums are not refundable at the maturity of the policy or the amounts that are refundable do not exceed the amount of the paid-in premiums at its maturity.

The following items are excluded from salary and wage income:
- Automobile allowances that are paid instead of reimbursements for automobile operating expenses, up to W 200,000 a month, to employees using their own cars for company business
- Meal allowances, up to W 100,000 a month, to employees who are not provided meals and other foods through internal meal services or similar methods

The 30% income exclusion for foreign employees and executive officers, which applied to Korean-source employment income until 2009, is no longer applicable, effective from the 2010 tax year.

Salary and wage income is classified into two different types and the reporting method differs for each type.

The first type of employment income is earned income paid and deducted by a Korean entity. Salaries paid by a foreign entity but charged back (or to be charged back under a prior agreement) to the Korean entity fall in this category. This type of income is subject to income and social tax withholding and reporting by the Korean entity on a monthly basis.

The second type of income is earned income paid by a foreign entity but not claimed as a corporate deduction in Korea by any Korean entity. The individual recipient, not the payer, is responsible for declaring the income on a Composite Income tax return annually or through a taxpayers' association on a monthly basis. For income declared through a taxpayers' association in a timely manner, an individual is entitled to a tax credit of 10% of the adjusted tax liability (see Section D).

Previously, the above income was known as Class A income and Class B income, respectively under the Korea tax law. However, this terminology has been abolished. Other than the terminology change, the reporting method is the same as under the prior law.

The following foreign employees are exempt from personal income taxes:

- Foreigners assigned to Korea under bilateral agreements between governments are exempt from taxes on employment income received from either government without limitation.
- Foreigners rendering designated high-technology services to qualified exempt foreign-invested companies under tax-exempt technology inducement contracts that satisfy the requirements of the Foreign Investment Promotion Law are exempt from 50% of taxes on the relevant employment income up to the month in which two years have passed from the date on which they began to render the relevant employment services (on or before 31 December 2011). 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 50% of taxes on the relevant employment income for two years if the employment contracts are entered into 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 bachelor's degree or higher):
  - Technology-intensive industries as enumerated in the Tax Preferential Control Law (TPCL).
  - Mining.
  - Construction.
  - Engineering.
  - Logistics.
  - Market research.
  - Business and management consulting.
  - Professional, scientific and technical services, including technology testing, examination, and analysis.
  - Professional design services.

To enjoy the tax exemption mentioned above, foreign engineers must submit an application for the tax exemption to the tax authorities. Until 2009, eligible foreign engineers were 100% exempt from Korean personal income taxes on qualified Korean-source employment income for the first five years. However, the exemption period and the magnitude of the exemption are reduced, effective from the 2010 tax year.

Self-employment and business income. Self-employment and business income is income derived from the continuous operation of a business by an individual and includes all income derived from businesses and personal services, including services provided by the following individuals:

- Entertainers
- Athletes
- Lawyers, accountants, architects and other professionals
- Persons with expert knowledge or skills in science and technology, business management or other fields

Business income is combined with the individual's other Composite Income and taxed at the progressive tax rates (see *Rates*).

Investment income. Dividends, interest, royalties and rental income are generally categorized as Composite 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% (including resident surtax) withholding tax. No other tax reporting is required for this income if the total annual amount of the income is W 40 million or less. Nonresidents are taxed at the rates set forth in *Rates*.

Capital gains and losses. Capital gains are taxed separately from Composite Income.

Preliminary capital gains tax returns must be filed within two months after the end of the month of the sale transaction (two months after the end of the quarter of a sale of shares). Effective from 2010, penalties are assessed for failing to file a preliminary return by the due date. In addition to the preliminary returns, taxpayers must file final annual capital gains tax returns based on the preliminary returns filed and pay any additional taxes by 31 May of the year following the tax year. However, if only a single sales transaction occurs during the tax year, the reporting obligation with respect to the capital gain can be satisfied through the filing of a preliminary return.

In general, capital gains derived from the transfers of the following are taxable in Korea:
- Land
- Buildings
- Rights related to real estate
- Goodwill transferred with fixed assets for business
- Rights or membership for the exclusive or preferential use of installations (for example, facilities)
- Shares of unlisted companies

Although capital gains derived from the transfer of shares in a company listed in the Korean stock market are not taxable, the shareholder of such a listed company is subject to capital gains tax on gains derived from the transfer of shares if the shareholder, together with related parties, 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% (22% including resident surtax). 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% (11% including resident surtax). Second, transfers of shares are taxed at a rate of 30% (33% including resident surtax) 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.
• 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 (%)
Land, buildings and rights related to real estate	
Held by the seller for at least one year, but less than two years	40
Held by the seller for less than one year	50
One of three houses or more held by one household or one of the relevant houses if the aggregate number of houses and the association occupation rights held by one household is three or more	60*
One of two houses held by one household or the relevant house if one house and one association occupation right are held by one household	50*
Land not used for business or securities of a corporation of which more than 50% of the value of the total assets of the corporation is attributable to land that is not used for business activities	60*
Assets not registered with the court in the seller's name	70
Securities or shares	
Securities of companies that are not small or medium-sized and that are transferred by a majority shareholder who held the securities for less than one year	30
Securities of small and medium-sized corporations	10
Other securities or shares	20

* For capital gains arising from a sale of relevant houses and land used for a nonbusiness purpose through 31 December 2012, the progressive tax rates as set forth in the table below apply. However, the rate is 40% for the assets held for at least one year but less than two years, and the rate is 50% for the assets held for less than one year.

In addition, resident taxes are imposed as surtax on income tax at a rate of 10%.

Other land, buildings and rights related to real estate (registered in the seller's name and held by the seller for at least two years) are taxed at the following rates.

Tax base		Tax on lower amount	Rate on excess
Exceeding W (thousands)	Not exceeding W (thousands)	W (thousands)	%
0	12,000	0	6
12,000	46,000	720	15
46,000	88,000	5,820	24
88,000	—	15,900	35

In addition, resident taxes are imposed as 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
• Land, buildings, rights related to real estate, and other assets specified in the Individual Income Tax Law

Capital losses may not be carried forward.

Nonresidents are taxed on capital gains in the same manner as residents. However, gains derived from the disposal of foreign assets are taxable if the transferor has been a Korean resident for five years or more at the time of sale.

Deductions

Earned income deduction. For individuals receiving W 5 million or less in annual compensation, the earned income deduction equals 80% of compensation. For individuals receiving more than W 5 million but not more than W 15 million, the earned income deduction equals W 4 million plus 50% of the amount exceeding W 5 million. For individuals receiving more than W 15 million but not more than W 30 million, the earned income deduction equals W 9 million plus 15% of the amount exceeding W 15 million. For individuals receiving more than W 30 million but not more than W 45 million, the deduction equals W 11,250,000 plus 10% of the amount exceeding W 30 million. For individuals receiving more than W 45 million, the deduction equals W 12,750,000 plus 5% of the amount exceeding W 45 million.

Personal deductions. The personal deductions described below are available in determining taxable income.

Taxpayers receive a basic deduction of W 1,500,000 each for themselves, their spouses and each eligible dependant who are financially supported by the taxpayer and do not have a certain level of income in the relevant tax year. For purposes of this basic deduction, the following are qualified dependants:
• Parents and grandparents (aged 60 or older).
• Children and adopted children (aged 20 or less).
• Siblings (aged 20 or less or aged 60 or older).
• Children aged less than 18 who were "raised" for 6 months or more during the tax year (including the immediately preceding year if a basic deduction was not claimed for the children concerned in that preceding year) by the authorized taxpayer and who have been financially supported by the taxpayer and have had income less than a certain amount (depending on income type) for the relevant tax year. For this purpose, "raised" means bringing up a child who is not a person's own child (for example, a foster child).

Additional deductions of W 1 million each are available for persons aged 70 or older and children, including adopted children, aged 6 or younger. An additional deduction of W 2 million for disabled persons is available. An additional deduction of W 500,000 is available for a working woman who is the head of a household with dependants or who has a spouse. For children who were born or adopted and registered in the tax year concerned, an additional deduction of W 2 million per person is available. Additional deductions are also available for large households. Resident individuals who have employment income or business income are entitled to a total deduction of W 1 million for two eligible children and an additional deduction of W 2 million per child, beginning with the third child.

Pension insurance premium deduction. Insurance premiums paid for the national pension, Public Officials Pension or Veterans' Pension or paid under the Guarantee of Workers' Retirement Benefits Act in the relevant tax year are fully deductible up to the amount of Composite Income for the relevant tax year.

Standard and itemized deductions. Employees and good-faith self-employed persons (these are persons who satisfy the following requirements: they register themselves as businesses accepting credit card sales or they introduce an Enterprise Resource Planning/Point of Sales System; they maintain their books in accordance with Korean generally accepted accounting principles [GAAP]; and they open and report a business bank account) are eligible for a special standard deduction of W 1 million per year. Other self-employed persons are eligible for a special standard deduction of W 600,000 per year. Instead of the standard deduction, employees may elect to claim the following special itemized deductions:

- Insurance premiums paid for life, casualty and other insurance are deductible, up to W 1 million a year. Premiums for insurance offered exclusively to disabled individuals, up to W 1 million per year, are also deductible. Premiums for mandatory national health insurance, long-term convalescent insurance for the elderly and unemployment insurance are fully deductible.
- Medical expenses paid by the taxpayer on behalf of dependants, other than disabled persons and elderly parents supported by the taxpayer, are deductible to the extent that they exceed 3% of total taxable compensation, subject to a maximum deduction of W 7 million per year. All medical expenses paid for the taxpayer, and disabled persons and elderly parents supported by the taxpayer, less any amount of medical expenses paid on behalf of these dependants that falls below the 3% total taxable compensation threshold are deductible.
- Education expenses (primarily tuition, including tuition for graduate school, related registration fees, costs for school meals and textbooks, fees for extracurricular activities and school uniforms [up to W 500,000 per middle and high school student]) are deductible for the taxpayer. However, other fees, such as bus fees, are not deductible. Education expenses for the spouse, dependent children and siblings, excluding expenses for graduate school, are deductible up to the following amounts for each qualifying student:
  - University or college: W 9 million per year.
  - Elementary, middle and high school: W 3 million per year.
  - Kindergarten: W 3 million per year.
- 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 that is smaller than 85 square meters in a residential area and that has a standard value announced by the Korean authorities at the time of purchase of no more than W 300 million, and interest on a mortgage loan with a duration of 15 years or longer, are deductible up to W 10 million (up to W 15 million if the long-term mortgage loan has a duration of 30 years or longer).

- 100% of donations made to the government by the taxpayer, spouse or children eligible for the basic deduction are deductible up to the amount of adjusted Composite Income (as defined in the tax law). Other specified donations are deductible to the extent of 30% of the amount of adjusted Composite Income less other types of donations eligible for 30% deductions. However, donations to religious organizations are deductible to the extent of the sum of the following:
  - — 10% of the amount of adjusted Composite Income less other types of donations.
  - — The lesser of nonreligious donations and 20% of the amount of adjusted Composite Income less other types of donations.

Business deductions. Most normal business-related expenses are deductible, including depreciation and bad debts, provided that they are booked in a manner stipulated in the law.

In addition to deductions for business expenses, individuals engaged in small and medium-sized businesses are allowed an exemption equal to the tax amount computed by applying the following exemption ratios to income tax on income accruing from the relevant business for the tax year:
- 10% for small enterprises prescribed by the Presidential Decree that are engaged in wholesale business, retail business or medical service business
- 20% for small enterprises engaged in a business in a qualified industry under the TPCL, other than the businesses listed in the first bullet above, in the Seoul metropolitan area
- 30% for small enterprises engaged in a business in a qualified industry under the TPCL, other than the businesses listed in the first bullet above, in an area other than the Seoul metropolitan area
- 5% for medium-sized enterprises engaged in a business listed in the first bullet above in an area other than the Seoul metropolitan area
- 10% for medium-sized enterprises engaged in a knowledge-based business that is prescribed by the Presidential Decree in the Seoul metropolitan area
- 15% for medium-sized enterprises engaged in a business in a qualified industry under the TPCL, other than the businesses listed in the first bullet above, in an area other than the Seoul metropolitan area

Rates. Tax rates applied to Composite Income in 2011 are set forth in the following table.

Tax base		Tax on lower	Rate on
Exceeding W (thousands)	Not exceeding W (thousands)	amount W (thousands)	excess %
0	12,000	0	6
12,000	46,000	720	15
46,000	88,000	5,820	24
88,000	—	15,900	35

In addition, resident taxes are imposed as surtax on income tax at a rate of 10%.

The income tax on severance income of a resident is calculated by first dividing the severance payment made in the current year by the number of years of service to determine the severance tax base. The progressive tax rates above are then applied to the severance tax base to determine the initial tax liability. The initial tax liability is then multiplied by the number of years of service to determine the total severance tax liability. This methodology is cumbersome, but it is designed to average the lump-sum severance pay over the years of service. In addition, the 10% resident taxes are applicable.

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. Foreign employees and executive officers may elect to apply a 16.5% flat tax rate (including resident surtax) without any exemption, deductions or credits to their salary and wage income received for their services in Korea if this provides a more favorable result than the progressive tax rate system (see *Rates*).

To elect the flat rate system, a foreign employee must file an application for use of the flat tax rate. This application must be filed at the time of the year-end true-up settlement of the tax on employment income with the withholding obligor by 10 March following the close of the calendar tax year. Alternatively, he or she can file such application with the competent tax office, together with the Composite Income tax return, in May following the close of the calendar tax year.

Effective from April 2011, the flat tax rate can also be elected for the monthly withholding tax calculation. Under prior law, only the progressive tax rates were allowed.

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, machines, and similar items	2%
Income from professional services, technical services or services of athletes or entertainers	20%
Interest, dividends, royalties and other income	20%
Capital gains	Lower of 10% of sales price or 20% of capital gains

In addition, resident taxes are imposed as surtax at a rate of 10% on the above income withholding taxes.

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 can be carried forward for 10 years and can 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, inheritors and donees are subject to inheritance and gift taxes on assets acquired worldwide. Nonresident inheritors and donees are subject to inheritance and gift taxes on assets located in Korea only.

The following rates are applied after the deduction of exempt amounts (see below) for the purposes of both inheritance and gift tax.

Tax base Exceeding W (thousands)	Tax base Not exceeding W (thousands)	Tax on lower amount W (thousands)	Rate on 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
Lineal descendant allowance	W 30 million
Allowance for a minor (younger than 20 years of age)	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 disabled	W 5 million x the number of years up to the expected remaining years announced by Statistics Korea, considering the gender and age
Financial asset deduction	
Net value of asset is W 20 million or less	Total net value of the asset
Net value of asset of more than W 20 million	Greater of W 20 million and net value of asset x 20%, up to a maximum of W 200 million

Heirs deduct the sum of the above deductions or W 500 million, whichever is greater. The amount of the deduction is W 500 million if no report is filed.

Donees who acquire property must pay gift tax at the same rates that apply for inheritance tax after deducting the following exempt amounts.

Type of donation	Exempt amount W (millions)
Donation from spouse	600
Donation from lineal ascendant or descendant	30
Donation to a minor from lineal ascendant	15
Donation to other relatives	5

C. Social security

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. The 9% contribution is shared equally at 4.5% by the employee and the employer. The maximum amount for both the employer's and employee's share of the monthly premium for the national pension is W 165,600 per employee. This amount is computed on a monthly average salary of W 3,680,000. The premium must be paid by the 10th day of the month after the month in which the salary is paid.

National health insurance. Under the National Health Insurance Law, an ordinary workplace with at least one employee must join the national health insurance plan. The rate for the National Health Insurance is 6.00942% (including an additional contribution for the long convalescence of the aged) of an employee's salary, which is shared equally by the employee and the employer. The maximum amount of the employer's and employee's share of the monthly premium for national health insurance is W 1,976,790 per employee. This amount is computed on a monthly average salary of W 65,790,000. The premium must be paid by the 10th day of the month after the month in which the salary is paid.

Effective from August 2007, foreigners who were previously subject to the mandatory national health insurance described above on their employment income may be exempt from the insurance requirement on application if they are covered by insurance provided by their home country or foreign statutory insurance, or if their employer provides them with the same level of medical coverage provided by the Korean national health insurance. Documents required for the exemption differ according to the types of existing insurance plans.

Unemployment insurance. A company with at least one employee must pay unemployment insurance premiums and employee ability development premiums. Annual unemployment insurance premiums are payable at a rate of 0.9%, which are shared equally at 0.45% by the employer and employee. Employee ability development premiums are payable by employers only at a rate ranging from 0.25% to 0.85%, depending on the number of employees.

Foreign nationals with certain visa types, such as D-7, D-8, D-9, F-2, or F-5, are required to pay unemployment insurance.

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 annually. The premium, which is paid by the employer only, is normally calculated at a rate ranging from 0.6% to 35.4%, depending on the industry.

Social security agreements. Korea has entered into social security agreements with the following countries as of October 2010.

Australia	Germany	Poland
Belgium	Hungary	Romania
Bulgaria	Ireland	Slovak Republic
Canada	Italy	United Kingdom
China	Japan	United States
Czech Republic	Mongolia	Uzbekistan
France	Netherlands	

Most of the social security agreements listed above apply to national pensions only.

D. Tax filing and payment procedures

The income tax year in Korea is the calendar year.

Taxes on employment income eventually borne by a Korean entity and deductible for corporate tax purposes under the Korea tax law are withheld by the employer. Taxpayers who receive other types of income, such as interest, dividends or rental income, must file a Composite Income return between 1 May and 31 May of the year following the tax year. Taxes due must be paid when the return is filed. No extensions of time are granted.

Taxpayers reporting employment income eventually borne by a foreign entity have the following options:

- They may file an annual tax return and pay relevant taxes in the month of May of the year following the income tax year.
- They may join an authorized taxpayers' association through which monthly tax payments are made to the tax authorities. In return for timely payments made to an authorized taxpayers' association, taxpayers receive a 10% credit on the adjusted income tax liability (the adjusted income tax liability is computed based on a complicated formula provided in the law).

Married persons are taxed separately, and no joint tax returns are allowed.

In principle, foreign nationals must file returns at least 10 days before departing from Korea.

Self-employed persons operating certain types of businesses must make interim tax payments during the tax year.

Foreign financial account reporting. Residents, including foreigners who have resided in Korea 5 years or more aggregate during the past 10 years as of the year-end, must report their financial accounts, including bank accounts and stock brokerage accounts held in foreign countries to the Korean tax authorities. This rule applies only if the aggregate value of the foreign financial accounts exceeds W 1 billion at any time during the calendar year beginning with 2010. The reporting period is from 1 June to 30 June of the year following the calendar year.

E. Double tax relief and tax treaties

A credit for foreign income taxes paid is available, up to the ratio of foreign-source adjusted taxable income, to worldwide adjusted taxable income.

Korea has entered into double tax treaties with the following 77 countries as of 30 June 2010.

Albania	Iran	Poland
Algeria	Ireland	Portugal
Australia	Israel	Qatar
Austria	Italy	Romania
Azerbaijan	Japan	Russian
Bangladesh	Jordan	Federation
Belarus	Kazakhstan	Saudi Arabia
Belgium	Kuwait	Singapore
Brazil	Laos	Slovak Republic
Bulgaria	Latvia	Slovenia
Canada	Lithuania	South Africa
Chile	Luxembourg	Spain

China
Croatia
Czech Republic
Denmark
Egypt
Estonia
Fiji
Finland
France
Germany
Greece
Hungary
Iceland
India
Indonesia
Malaysia
Malta
Mexico
Mongolia
Morocco
Myanmar
Nepal
Netherlands
New Zealand
Norway
Oman
Pakistan
Papua New Guinea
Philippines
Sri Lanka
Sweden
Switzerland
Thailand
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Venezuela
Vietnam

F. Temporary visas

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. As of 30 May 2010, 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.

Algeria
Antigua and Barbuda
Argentina
Austria
Azerbaijan
Bahamas
Bangladesh
Barbados
Belarus
Belgium
Belize
Benin
Bolivia
Brazil
Bulgaria
Cambodia
Chile
Colombia
Costa Rica
Croatia
Cyprus
Czech Republic
Denmark
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Germany
Greece
Grenada
Guatemala
Haiti
Hungary
Iceland
India
Iran
Ireland
Israel
Italy
Jamaica
Japan
Kazakhstan
Kyrgyzstan
Laos
Latvia
Lesotho
Liberia
Liechtenstein
Lithuania
Luxembourg
Malaysia
Malta
Mexico
Mongolia
Morocco
Myanmar
Netherlands
Norway
Pakistan
Panama
Paraguay
Peru
Philippines
Poland
Portugal
Romania
Russian Federation
Singapore
Slovak Republic
Spain
St. Kitts-Nevis
St. Lucia
St. Vincent
Suriname
Sweden
Switzerland
Thailand
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Ukraine
United Kingdom
Uruguay
Uzbekistan

Estonia	New Zealand	Venezuela
Finland	Nicaragua	Vietnam
France		

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 nationals of Canada (6 months) and Australia, Hong Kong, Japan, Slovenia and the United States (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 Ministry of Justice. A foreign national who does not hold a working status of sojourn may not be employed in Korea.

Categories of working status of sojourn. The maximum sojourn periods for the various categories of working status of sojourn range from six months to five years. However, depending on individual circumstances and the discretion of relevant immigration offices, the duration of the period is often six months to one year.

Although the relevant information has not yet been officially announced, the call center of Seoul Immigration office has confirmed that the sojourn periods listed below apply as of 8 June 2011.

Five years. The following categories of individuals have a five-year period of sojourn:
- Foreign nationals invited by Korean public or private institutions to provide special industrial techniques or skills
- Spouses and dependants of the foreign nationals described above
- Foreign nationals in certain professions, including doctors and professors
- Foreign nationals invited by Korean public or private institutions to engage in study or research in the area of natural science or sophisticated technology

Three years. Foreign nationals in certain professions, including accountants and lawyers, have a three-year period of sojourn.

Two years. The following categories of individuals have a two-year period of sojourn:
- Foreign nationals who work for foreign companies as employees in Korea or who engage in trade or other profit-making businesses
- Spouses and dependants of the foreign nationals described above
- Foreign nationals employed as trainees by public institutions
- 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

One year. The following categories of individuals have a one-year period of sojourn:
- Foreign nationals who perform in profit-oriented entertainment, sports or other shows
- Foreign nationals employed as trainees by private companies
- Foreign-language teachers

Procedure. In general, 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. However, the supporting documents to obtain a work permit may differ by type of visa. 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 Ministry of Justice. A foreign national who plans to stay in Korea for longer than 90 days 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 diplomatic status must obtain permits to change the status of sojourn from the Ministry 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 Ministry 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 up to 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 paid by employer	X	—	—
Retained hypothetical tax	(X)	—	—
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	X	(a)
Housing contribution	—	(X)	—
Educational allowance	X	—	(b)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home leave	X	X	(c)
Other compensation income	X	—	—
Moving expense reimbursement	X	X	(d)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Other items			
Foreign-source personal income (interest, dividends, rental income and so forth)	X	X	(e)
Capital gain from sale of personal residence or stock outside Korea	X	X	(f)

* The bracketed amount reduces taxable income.

(a) The rental portion of housing costs paid by the employer is not taxable if the relevant lease agreement is entered into in the name of the employer. However, if the assignee lives in a residence hotel or a hotel, the cost may be taxable regardless of whether the employer enters into the agreement entered in its name. Utilities and similar items are taxable, regardless of whether they are paid directly by the employer or whether the employee is reimbursed for the cost of such items.

(b) A deduction is allowed for tuition paid to a qualified school.

(c) Home-leave reimbursements for the employee are not taxable if the foreign expatriate has worked or will work for one year or longer in Korea and if the company reimburses round-trip airfare to the home country and required lodging at the time of transfer in a reasonable and economical amount in accordance with the company policy. Home-leave reimbursements for the spouse and dependants are always taxable. A lump-sum home leave allowance is taxed, regardless of how it is used by the employee and his or her family.

(d) In general, moving expense reimbursements for one direction are not taxable.

(e) Effective from the 2009 tax year, foreign-nationals who are tax residents of Korea and who have resided in Korea for 5 years or less during the past 10 years are not taxed on their foreign-source income unless the income is paid out of or remitted into Korea.

(f) Gains derived from the disposal of assets located outside Korea are not taxable if the transferor has resided in Korea for less than five years as of the sale date.

Appendix 2: Sample tax calculations

The following are sample tax calculations.

Case 1

Assume that a foreign-national who is tax resident is married and has three children aged 8 through 14. The spouse and children had no income and were supported by the individual for an entire tax (calendar) year. The compensation paid in Korea consists of the following:

- A base salary of W 30 million
- A W 8,400,000 cost-of-living allowance
- A W 8 million utilities allowance and other miscellaneous allowances
- W 6 million for the three children's school tuition (W 2 million each) and bus fees of W 500,000

The employer paid directly the qualified housing rental costs under a lease agreement entered into between the employer and the landlord. The individual also received a bonus of W 10 million for services rendered in Korea. A non-Korean company paid this bonus. The individual paid the tax on this bonus on a monthly basis through a taxpayers' association. The individual received no other types of income. No intercompany recharges of the salary costs (including bonus) for the individual have been or will be made. The individual is responsible for the individual's own Korean taxes. All social security contributions are exempt. 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 taxable earned income	62,900,000	62,900,000
Less deductions:		
Earned deduction	(13,645,000)	
Basic income	(1,500,000)	
Spouse	(1,500,000)	
Dependent children	(4,500,000)	
Big household	(3,000,000)	
School tuition (excluding bus fees of W 500,000)	(6,000,000)	
Taxable income	32,755,000	62,900,000
Calculation of tax liability		
Tentative income tax liability	3,833,250	9,435,000
Less:		
Taxpayers' association credit (adjusted tax liability x 10%)	(60,941)	—
Credit for earned income	(500,000)	—
Net income tax (rounded down)	3,272,300	9,435,000
Residents tax (net income tax x 10%)	327,230	943,500
Total tax liability (rounded down)	3,599,530	10,378,500

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 paid and borne by the non-Korean company without a recharge to Korea. This income is properly reported to a taxpayers' association in the month received.

	W
Taxable income	32,755,000
Calculation of tax liability	
Tentative income tax liability	3,833,250
Less:	
Taxpayers' association credit (W 3,833,250 x 10%)	(383,320)
Credit for earned income	(500,000)
Net income tax (rounded down)	2,949,920
Residents tax (net income tax x 10%)	294,990
Total tax liability (rounded down)	3,244,910

Case 3

Assume the same individual as in the previous cases except that annual gross pay is W 150 million. 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 (either 100% borne by the Korean entity or the foreign entity).

	Progressive tax system W	Flat tax system W
Annual gross pay	150,000,000	150,000,000
Gross earned taxable income	150,000,000	150,000,000
Less deductions:		
Earned deduction	(18,000,000)	
Basic income	(1,500,000)	
Spouse	(1,500,000)	
Dependent children	(4,500,000)	
Big household	(3,000,000)	
School tuition (excluding bus fees of W 500,000)	(6,000,000)	
Taxable income	115,500,000	150,000,000

Calculation of tax liability

	Progressive tax system Entirely paid by Korea entity W	Progressive tax system Entirely paid by foreign entity W	Flat tax system W
Tentative income tax liability	25,525,000	25,525,000	45,000,000
Taxpayers' association credit (W 75,925,000 x 10%)		(2,552,500)	
Credit for earned income	(500,000)	(500,000)	—
Net income tax	25,025,000	22,472,500	22,500,000
Residents tax (10% of net income tax)	2,502,500	2,247,250	2,250,000
Total tax liability	27,527,500	24,719,750	24,750,000

As illustrated above, the application of the flat tax system to employment income eventually borne by a Korean entity exclusively could result in greater tax savings at this particular income level. For employment income eventually borne by a foreign entity exclusively, the example shows that depending on income and deduction level, joining a taxpayers' association to report and pay taxes on a monthly basis under the progressive income tax system could be more tax beneficial than the flat income tax rate system in this particular case.

Kuwait

(Country code 965)

Kuwait **GMT +3**

Ernst & Young
(Al Aiban, Al Osaimi & Partners)
Mail address:
P.O. Box 74 Safat
13001 Safat
Kuwait

Street address:
Baitak Tower
18th – 21st Floors
Abdullah Mubarak Street
Safat
Kuwait

Executive and immigration contact

Alok Chugh
2295-5104
Fax: 2245-6419
Email: alok.chugh@kw.ey.com

A. Income tax

No income taxes are currently imposed on individuals in Kuwait.

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 7.5% 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 more than 40 countries. In addition, double tax treaties have been signed or initialed, but not yet ratified, with several other 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 obtained on arrival enables a visitor to stay a maximum of three months in Kuwait. The maximum stay is one month for other entry permits, which may be extended to two 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. To obtain a business visa, photocopies of a passport showing the personal information of an applicant and the applicant's university degree, as well as an application form signed by a Kuwaiti sponsor, are normally required. 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. As a result of 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 month 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 a maximum of three years from the date of issuance.

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, it is possible to convert the visit visa to a work permit (visa) if the work permit relates to the same sponsor. To convert a visa, attested copies of the university degree and police clearance certificate are required.

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 take government medical insurance, which costs KD 50 per year.

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 three months. 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 three months. 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 Foreign Affairs of Kuwait
- Marriage certificate if the visa applicant is a spouse, attested to in the same way as the affidavit mentioned above
- Copies of the passport and Civil ID of the sponsor
- Application form signed by the sponsor

Dependent visa. Spouses and dependent children 18 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 3,800 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 driver's 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.

Laos

(Country code 856)

Please direct all inquiries regarding Laos to the person listed below in the Hanoi, Vietnam office of Ernst & Young.

Vientiane **GMT +7**

Ernst & Young
ANZ Commercial Building
3rd Floor, 33 Lane Xang Avenue
Vientiane
Laos

Executive and immigration contact

Huong Vu *(resident in Hanoi, Vietnam)*	+84 4 3831 5100 Fax: +84 4 3831 5090 Email: huong.vu@vn.ey.com

A. Income tax

Who is liable. Resident Lao nationals are subject to personal income tax on their Laos-source income and foreign-source employment income. However, they are not taxed on their foreign-source income if they work abroad for less than 180 days and if their foreign-source income is taxed in the source country. Nonresident Lao nationals are subject to personal income tax on their Laos-source income only.

Resident foreigners are subject to personal income tax both on their Laos- and foreign-source income. Nonresident foreigners are subject to personal income tax on their Laos-source income only.

Residence for tax purposes is not based on an individual's nationality, place of birth or place of domicile. Instead, tax residence status is determined by the duration of the individual's stay in Laos. A person who spends more than 180 days in Laos is taxed as a 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. Taxable employment income includes income from salary, general labor wages, bonuses, position and title honoraria, annual allowances, allowances relating to board of directors meetings of a company and other benefits received in cash or in-kind.

Income received in foreign currency is converted to Lao kip in calculating taxable income.

The following items of employment income are exempt from tax:
- Salary below LAK 300,000
- Salaries of foreign experts implementing aid projects in Laos, as provided for in an agreement between the Lao government and the relevant party
- Salaries of diplomats and employees of other international organizations located in Laos
- Certain types of allowances that are required to be paid under the labor law
- One-time allowances, pensions and per diems
- Income from artistic activities, sports, charity or other public activities that have been properly authorized

Self-employment and business income. Sole-trader enterprises that belong to Lao citizens and resident foreigners that carry out activities generating profit in Laos are subject to corporate profit tax rather than personal income tax. Lao and foreign individuals engaged in business in Laos are subject to 35% profit tax on their business income. Effective from 1 October 2011, the rate is 28%.

Income from produce that is grown and sold by farmers in Laos, such as rice and vegetables, is exempt from tax.

Individuals who have been licensed by the government to invest in projects and other priority areas in Laos may receive tax exemptions or pay profit tax at a reduced rate on a case-by-case basis in accordance with the law on promotion of investment. To receive tax exemptions or to pay tax at a reduced rate, investors must maintain a proper accounting system in accordance with the enterprise accounting law.

Investment income. Certain types of income are subject to a final withholding tax at the rates shown in the following table.

Type of income	**Rate (%)**
Income from intellectual property	5
Dividend income, interest income and income from selling securities	10
Rental income	15
Income from nonbusiness activities of public and social organizations	15

Deductions

Personal deductions and allowances. For Lao nationals, a monthly deduction of LAK 300,000 is allowed against employment income if the individual earns a monthly salary of no more than LAK 1,500,000.

Monies withheld for pension funds and certain other welfare funds, and spousal or child allowances are also deductible.

Rates. Foreigners employed in Laos are taxed at a flat rate of 10% on gross income, including any benefits in kind. For Lao nationals, income is subject to progressive rates up to 25%.

The following tables present the tax rates on the monthly income for Lao nationals having income not exceeding LAK 1,500,000 and for Lao nationals having income greater than that amount.

Lao nationals with income not exceeding LAK 1,500,000

Taxable income Exceeding LAK	Not exceeding LAK	Rate %
0	300,000	0
300,000	1,500,000	5

Lao nationals with income exceeding LAK 1,500,000

Taxable income Exceeding LAK	Not exceeding LAK	Rate %
0	1,500,000	5
1,500,000	4,000,000	10
4,000,000	8,000,000	15
8,000,000	15,000,000	20
15,000,000	—	25

The tax law changes the tax rates for both foreigners and local employees, effective from 1 October 2011. The following are the new tax rates on the monthly income of individuals, effective from 1 October 2011.

Taxable income Exceeding LAK	Not exceeding LAK	Rate %
0	1,000,000	0
1,000,000	3,000,000	5
3,000,000	6,000,000	10
6,000,000	12,000,000	15
12,000,000	24,000,000	20
24,000,000	40,000,000	25
40,000,000	—	28

It is not clear as to whether foreign investment enterprises entitled to a 10% income tax rate for their employed foreigners under the provisions of the Law on Promotion of Foreign Investment in Laos No. 11/NA, dated 22 October 2004, may continue to apply the 10% income tax rate after 1 October 2011.

Relief for losses. The personal income tax system does not provide relief for business losses. Individuals who are subject to profit tax can carry forward losses for a period of three years.

B. Other taxes

Net worth, estate and gift taxes are not levied in Laos.

C. Social security

Contributions. The rates for social security contributions in Laos are 4.5% for employers and 5% for employees. These rates are applied to salaries up to LAK 1 million. Consequently, the maximum monthly contributions are LAK 45,000 for employers and LAK 50,000 for employees.

Coverage. Social security applies to the following:
- Employees of state-owned enterprises, private enterprises and joint ventures
- Enterprises that employ 10 or more persons

- Enterprises that employ less than 10 persons but are part of a larger entity

Social security does not apply to the following:
- Employees of diplomatic missions and international organizations
- Foreigners employed by companies that have networks covering several countries and that are established in Laos for less than 12 months
- Lao employees assigned overseas for 12 months or more
- Civil servants
- Students or other trainees who do not receive wages from employers

D. Tax filing and payment procedures

Payroll taxes are deducted at source and payable by the 15th day of the following month to the tax authorities. The employer is responsible for the filing of the return and payment of the taxes with the authorities.

Tax on rental income must be declared within 10 days of receipt of the income. The recipient of the income must file a tax declaration with the authorities.

Entities or individuals who make certain payments must withhold tax and file a declaration within 10 days after making such payments. The following are the payments:
- Dividends
- Interest on loans
- Payments for intellectual property
- Payments for the purchase of shares

E. Tax treaties

Laos has entered into double tax treaties with China, Korea (South), Thailand and Vietnam.

F. Entry visas

Types of visas. The various categories of visas for foreign nationals entering Laos are described below.

Diplomatic (A1 and A2). Diplomatic A1 visas are issued to diplomats from United Nations' agencies and other international organizations, and their dependants (spouse and children) holding diplomatic passports. A2 visas are issued to staff members of diplomatic missions, consulates, United Nations' agencies and other international agencies and their dependants (spouse and children) holding official passports.

Courtesy, business and visit visas (B1, B2, and B3). Courtesy (B1) visas are issued to foreign experts holding diplomatic, official and ordinary passports and performing assignments under bilateral cooperation or grant assistance projects for the government of Laos. They are also issued to the dependants of such persons.

Business (B2) visas are issued to the following:
- Foreign workers performing assignments for projects that are governed by loan agreements and that are provided for in employment contracts or project wards (authorized project agreements)
- Experts and volunteers from nongovernmental agencies

- Experts in education and medical sciences generating income for international organizations operating in Laos
- Staff members of Diplomatic Missions, General Consulates, United Nations agencies and other international organizations, who hold ordinary passports from their countries
- Foreign businesspersons

Visit (B3) visas are issued to relatives of foreign workers in Laos.

Tourist visas. Tourist visas are issued to foreign visitors for the purpose of holiday and tourism in Laos. These visas are valid for 30 days, and are available at Lao Embassies or Consulates, or at international checkpoints into Laos.

Transit visas. Transit visas are issued to foreign visitors who travel through Laos to a third country. Transit visa holders are permitted to stay in Laos for a period not exceeding seven days.

Visa application procedures. Holders of diplomatic or official passports whose assignments in Laos exceed 30 days must apply for visas from Embassies or General Consulates of Laos, according to procedures provided under bilateral agreements. On their entry into Laos, the relevant foreign agency must apply for an identity card and a multiple-entry visa from the Department of Consular Affairs of the Ministry of Foreign Affairs.

Foreign experts of different categories and volunteers, together with their dependants, holding official or normal passports and having assignments in Laos that will exceed thirty days must obtain visas from Embassies or General Consulates of Laos. On their entry, the relevant international organization or agency must apply for identity cards and multiple-entry visas from the relevant departments.

Family members and relatives entering Laos under visit (B3) visas obtain visas from Embassies or General Consulates of Laos.

Diplomats, staff members of Consulates and international agencies, foreign experts and volunteers that are based abroad and that have assignments in Laos not exceeding 30 days may obtain a 15-day visa on arrival at Wattay International Airport or Friendship Bridge in Vientiane, or at the Luang Prabang International Airport.

Diplomats, consular officers, staff members of international agencies, foreign experts and volunteers performing assignments in Laos may invite family, relatives and friends for visits in Laos for a period not exceeding 30 days. Such time period may be extended twice under B3 visas.

Documentary requirements. An applicant must submit the following documents to obtain a multiple-entry business visa:
- An application form completed and signed by the applicant
- Two recent 4 x 6 mm photographs

In addition, the individual must have a passport with remaining validity of at least six months.

G. Work permits

To work in Laos, a foreign national must obtain a business visa and apply for a work permit and foreign identity card. Work permits are issued to foreigners only for positions requiring a high level of professional or managerial skill. Permits are issued on an annual basis.

The employer must submit an application dossier to the Department of Immigration of the Ministry of Public Security. The application dossier must contain the following items:
- Letter requesting the issuance of work permit for the employee
- Application form for an identification card
- Invitation letter to foreign employee
- Copy of passport showing visa for Laos

Any document certified in a foreign country must be translated into Lao and legally notarized.

H. 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.

Drivers' permits. A foreign national with a home country driver's license can apply for an equivalent driver's license in Laos.

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	—	—
Housing contribution	X	—	—
Education reimbursement	—	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)	—	—	(c)
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	(e)
Capital gains from sale of stock in home country	—	X	(e)

(a) The tax law states that "Moneys withheld for pension funds or some other welfare funds" are exempt from income tax.

(b) The tax law provides that certain allowances are exempt from income tax if they have been approved under the labor law. These include allowances relating to the direct obligation to train and upgrade the professional qualifications and skills of workers.
(c) Laos does not have a specific rule regarding tax reimbursements.
(d) The value of hotel accommodation provided to an employee as part of a travel and subsistence allowance is not taxable.
(e) The regulations are unclear but, in general, Laos taxes Laos-source income only.

Latvia

(Country code 371)

Riga	GMT +2

Ernst & Young
Muitas 1A
LV-1010 Riga
Latvia

Executive contacts

Dace Lubane	6704-3980 Fax: 6704-3802 Email: dace.lubane@lv.ey.com
Ilona Butane	6704-3836 Fax: 6704-3802 Email: ilona.butane@lv.ey.com

Immigration contact

Dace Lubane	6704-3980 Fax: 6704-3802 Email: dace.lubane@lv.ey.com

A. Income tax

Who is liable. 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.
- 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. In determining residency for tax purposes, the provisions in Latvia's double tax treaties must be considered.

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 is taxed at a rate of 25%. 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 at a rate of 25%.

For purposes of determining income tax on self-employment income, taxable income equals gross income minus eligible expenses.

An individual who has registered with the State Revenue Service of Latvia as a performer of economic activities can choose to pay a fixed personal income tax amount depending on his or her income level, unless he or she does not have employees and his or her gross income (before deduction of eligible expenses) from economic activities did not exceed LVL 10,000 in the year before the tax year. The rate of the fixed tax is 5%. If income from economic activities exceeds LVL 10,000, an additional 7% tax is applied to income exceeding LVL 10,000.

The amount of the advance payment of fixed personal income tax is LVL 25.

Individuals performing business activities in certain specified areas (for example, florists, and beauty and haircare services) may choose to pay the fixed patent fee instead of paying personal income tax and social security contributions based on the amount of income. The option of paying a fixed patent fee is available if certain conditions specified by the law are satisfied. The amount of the patent fee varies from LVL 30 (€43) to LVL 120 (€171), depending on the type of business activities performed and the place where these activities are carried out.

Investment income. For residents and nonresidents, the following investment income is taxed at a rate of 10%:
- Dividends
- Interest income and income related to interest
- Income from contributions in private pension funds
- Income from concluded life insurance contracts with the accumulation of funds

Directors' fees. Board members of resident and nonresident companies are subject to personal income tax at a rate of 25% on their directors' fees, regardless of whether the fees are paid by Latvian-registered companies or foreign companies.

Taxation of employer-provided stock options. Latvian law does not specifically address the taxation of employer-provided stock options.

Benefit from use of company's car. The use of an employer's car for private purposes is considered to be a benefit to the employee that is subject to personal income tax, unless the employer has paid tax on the use of its vehicles.

Capital gains. Capital gains are taxed at a rate of 15% in Latvia.

Capital gains equal the difference between the disposal price of a capital asset and the acquisition price of that capital asset. In the event of the liquidation of a company, the capital gains on investments in share capital equal the difference between the liquidation quota and the investment value.

The following are considered to be capital assets:

- Shares, investments in partnerships and other financial instruments
- Investment fund certificates and other transferable securities
- Debt securities (promissory notes, certificates of deposit and short-term debt instruments issued by companies) and other money instruments
- Real estate (with certain exceptions)
- A company within the meaning of the commercial law
- Intellectual property

Capital gains derived from the sale of real estate are not taxable if the individual has owned the real estate for more than 60 months and if the address of the real estate has been the person's declared place of residence for at least 12 months before the sale.

Capital gains derived after 1 January 2010 from the sale of investment certificates, acquired on or before 31 December 2009, equal the difference between sales and acquisition price proportionate to the number of months for which certificates were owned after 1 January 2010.

Sales of other types of personal property in one-off transactions that are not part of a commercial activity are not subject to personal income tax.

Income, including sales income, from government promissory notes is not subject to personal income tax.

Deductions

Deductible expenses. Individuals may deduct the employees' portion of social security contributions from the income reported on their tax returns. They also may deduct the employees' portion of payments in other European Union (EU)/European Economic Area (EEA) member states that are essentially similar to social security contributions and that are determined by legislative acts of such states.

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. However, 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. However, both types of contributions are limited to 10% of annual taxable income or LVL 300 per year, whichever is lower.
- Medical expenses.
- Acquisition costs for investment certificates of investment funds (acquired on or before 31 December 2009) if these certificates have been owned by a private individual for at least 60 months. These costs may not exceed 20% of an individual's annual taxable income (applicable until 31 December 2014).
- Expenses for professional education (together with medical expenses up to the limit of LVL 150).
- Donations to acceptable charitable organizations and governmental institutions of up to 20% of annual taxable income.

The total deduction for the sum of contributions to private pension funds, contributions to life insurance schemes and donations is limited to 20% of annual taxable income.

The current nontaxable amount is LVL 45 per month.

A parent may deduct LVL 70 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 70, 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 may not be claimed by nonresidents, except for nonresidents who are residents of another EU/EEA member state and have derived more than 75% of their total income from Latvia in the tax year.

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.

Expenses incurred to obtain intellectual property rights are deductible, subject to limits set forth in rules of the Cabinet of Ministers.

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 land, buildings and engineering constructions. The property tax rate is 1.5% of the cadastral value of land, buildings and constructions (however, see below the rates for houses and flats not used for commercial purposes). Agricultural land that is not cultivated (except for land that has an area not exceeding one hectare and land subject to limitations on its use for agricultural activities) is subject to 3% real estate tax. Engineering constructions that are owned by natural persons and that are not used for commercial activities, buildings included in individual residential house constructions and parts of apartment houses that are used for living (ancillary buildings) are exempt from property tax.

The following are the property tax rates for houses and flats not used for commercial purposes:
- 0.2% of the cadastral value below LVL 40,000
- 0.4% of the cadastral value exceeding LVL 40,000 but below LVL 75,000
- 0.6% of the cadastral value exceeding LVL 75,000

Estate and gift taxes. Estate and inheritance taxes are not imposed in Latvia. Gifts above LVL 1,000 received from nonrelatives are taxed as personal income. Royalties received by legal successors of deceased persons are taxable as personal income. State authorities may impose duties on the value of inheritances at rates ranging from 0.25% to 7.5%.

Microenterprise tax. On meeting certain requirements, a company may apply for the microenterprise tax payment procedure. Under this procedure, the company pays microenterprise tax at a rate of 9%. The microenterprise tax payment includes corporate income tax, state social insurance contributions, personal income tax and the state corporate risk duty for the employees of a microenterprise.

C. Social security

Employers and employees make social security contributions on monthly salaries at general rates of 24.09% and 11%, respectively. Foreign employees, who do not have a permanent place of residence in Latvia, but who remain in Latvia for more than 183 days in any 12-month period and who are employed by a non-EU company, pay quarterly social security contributions at a rate of 32.22%.

If a company from an EU/EEA member state employs citizens of Latvia, it must register with the State Revenue Service in Latvia for the purpose of social security contributions or the employee can register as a social security contribution payer. Regulation (EC) No 883/2004 of the European Parliament and of the Council of 29 April 2004 on the coordination of social security systems applies to nationals of a member state, stateless persons and refugees residing in an EU member state who are or have been subject to the legislation of one or more of the EU member states, as well as to the members of their families and to their survivors.

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. For income received until 31 December 2010, the return must be filed before 1 April 2011. For income received after 1 January 2011, the tax return must be filed during a period from 1 March to 1 June of the year following the tax year.

For income received after 1 January 2011, any excess of the final tax over the prepaid tax must be paid by 15 June. If the tax payable exceeds LVL 450, the tax may be paid in three equal installments, which are due on 16 June, 16 July and 16 August.

If a payer of capital gains does not withhold income tax, the person deriving the capital gains must declare the capital gains on an annual basis (capital gains up to LVL 100), monthly basis (capital gains exceeding LVL 100 but not exceeding LVL 500) or quarterly basis (capital gains exceeding LVL 500).

Capital asset transactions beginning, but not completed, during the tax year must be declared by 1 April of the year following the tax year.

A nonresident who permanently leaves Latvia before year-end must file an annual tax declaration within 30 days after he or she stops receiving income.

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 Lithuania.

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

Albania
Armenia
Austria
Azerbaijan
Belarus
Belgium
Bulgaria
Canada
China
Croatia
Czech Republic
Denmark
Estonia
Finland
France
Georgia
Germany
Greece
Hungary
Iceland
Ireland
Israel
Italy
Kazakhstan
Korea (South)
Kyrgyzstan
Lithuania
Luxembourg
Macedonia
Malta
Moldova
Morocco
Netherlands
Norway
Poland
Portugal
Romania
Serbia and Montenegro
Singapore
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Tajikistan
Turkey
Ukraine
United Kingdom
United States
Uzbekistan

Latvia is currently negotiating double tax treaties with India, Cyprus, Mexico, Pakistan, Turkmenistan and Vietnam.

Latvia has signed tax treaties with Kuwait and the Russian Federation, but these treaties have not yet entered into force.

Latvia has initialized, but not yet signed tax treaties with Bosnia-Herzegovina, Egypt, Mongolia, South Africa, Tunisia and the United Arab Emirates.

Latvia is negotiating with Norway regarding changes to the double tax treaty between the countries.

F. Entry visas

All member states of the Schengen Agreement have unified procedures and conditions for issuing Schengen visas. The Schengen visa is a visa that provides to a foreigner the right to stay in Latvia and in other Schengen member states for a period indicated in the visa sticker.

Types of visas. The types of Schengen visas are described below.

Airport transit visa (Category A). An airport transit visa (Category A) may be issued for a stay in an international transit zone at the airport of a Schengen member state. An airport transit visa is required for nationals of certain countries who need to change an airplane at the airport of a Schengen member state or whose airplane lands in the airport of a Schengen member state on the way from one non-Schengen member state to another non-Schengen member state.

Short-term visa (Category C). A short-term visa (Category C) is issued for a short-term visit to Schengen member states or for transit through such states. Depending on the purpose of the visit, it may be issued for one, two or multiple entries. The validity period of the visa may not exceed five years. An entry means crossing the border between a Schengen member state and a non-Schengen member state. A foreigner holding a C visa may stay in Schengen member states for up to 90 days in a half-year period after the first crossing of the border between a Schengen member state and a non-Schengen member state.

Long-term visa (Category D). Depending on the circumstances, a foreigner who needs to stay in Latvia more than 90 days in a half-year period can apply for a long-stay visa (or a residence permit).

Visa with a limited territorial validity. If a third-country national needs to enter a Schengen member state, but circumstances forbid such person from having a uniform visa that is valid in all Schengen member states, he or she may be granted a visa with a limited territorial validity. This means that visa is valid for entering only those Schengen member states that are indicated on the visa. If a visa states that it is valid only for Latvia, a foreigner is barred from entering other Schengen member states.

Visas with limited territorial validity may be issued for transit or a short-term visit in a Schengen member state that does not exceed 90 days in a half-year period.

Rules applicable to citizens of various countries. Citizens of EU/EEA member states and Switzerland must obtain a residence card if their stay in Latvia exceeds 90 days in a half-year period, counting from the date of entry. The following is a list of these countries.

Austria
Belgium
Bulgaria
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Italy
Liechtenstein
Lithuania
Luxemburg
Malta
Netherlands
Norway
Poland
Portugal
Romania
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
United Kingdom

Citizens of the following third countries may enter and stay in the Schengen area without visas.

Albania (a)
Andorra
Antigua and Barbuda
Argentina
Australia
Bahamas
Barbados
Bosnia-Herzegovina (a)
Brazil
Brunei Darussalam
Canada
Chile
Costa Rica
Honduras
Hong Kong (Special Administrative Region of the People's Republic of China)
Israel
Japan
Korea (South)
Macau (Special Administrative Region of the People's Republic of China)
Macedonia (a)
Malaysia
Montenegro (a)
New Zealand
Nicaragua
Northern Mariana Islands
Panama
Paraguay
St. Kitts and Nevis
San Marino
Serbia (a)
Seychelles
Singapore
Taiwan (b)
United States
Uruguay

Croatia	Mauritius	Vatican City
El Salvador	Mexico	Venezuela
Guatemala	Monaco	

(a) Only for holders of biometric passports.
(b) Only for holders of passports with personal identification number.

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. EU citizens are not required to obtain a residence permit. However, they must register and obtain a residence card or permanent residence card (with the exception of an EU citizen who works in Latvia but travels back to his or her residence country on a weekly basis).

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 12 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	—	—
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	—	—

	Taxable*	Not taxable	Comments
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	—	—
Capital gain from sale of personal residence in home country	X	—	(e)
Capital gains from sale of stock in home country	X	—	—

* The bracketed amount reduces taxable income.

(a) Employee and employer contributions to home-country benefit plans (insurance and pension) established in EU/EEA countries 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) Capital gains derived from the sale of property are not taxable if the property was owned more than 60 months and if the address of the real estate has been the person's declared place of residence for at least 12 months before the sale.

Appendix 2: Sample tax calculation

The following is a sample monthly tax calculation.

	LVL
Monthly gross income	1,000.00
Less social security tax at 11%	(110.00)
Less personal allowance	(45.00)
Less allowance for dependants	(70.00)
Taxable income	775.00
Income tax on LVL 775 at 25%	(193.75)
Net income	696.25
Employer's social security contributions (LVL 1,000 x 24.09%)	240.90

Lebanon

(Country code 961)

Beirut **GMT +2**

Ernst & Young
P.O. Box 11-1639
Commerce & Finance Building – 1st Floor
Kantari Street
Beirut
Lebanon

Executive and immigration contact

Ramzi Ackawi	(1) 760-800 Fax: (1) 760-822/3 Email: ramzi.ackawi@lb.ey.com

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 non-commercial professions
- Salaries, wages and pensions
- 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
- 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.
- 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	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	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	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 a rate of 3 per 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 five 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
• End-of-service indemnity

Contributions. All companies that have at least one employee must register with the Social Security National 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 the 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.

Lesotho

Please direct all inquiries regarding Lesotho to Rendani Neluvhalani of the Johannesburg, South Africa office (office telephone: +27 11 772 3948; fax: +27 11 772 4948; email: rendani.neluvhalani@za.ey.com) or to Josephine Banda of the Gaborone, Botswana office (office telephone: +267 3974 078; fax: +267 3974 079; email: josephine.banda@za.ey.com).

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
- 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 5,000 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 Exceeding M	Not exceeding M	Rate %
0	40,368	22
40,368	—	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.
- 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
- 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
- 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.

Libya

(Country code 218)

Tripoli **GMT +1**

Ernst & Young and Partners
Bashir Ibrahimi Street
Al-Dahra 91873
Tripoli
Libya

Executive and immigration contact

Abdulmunaem Elbusaifi	(21) 334-4130 Mobile: (91) 321-8366 Jordan mobile: +962 779 737 538 Fax: (21) 334-4372 Email: abdulmunaem.elbusaifi@ly.ey.com

This chapter reflects the law in Libya as of 1 January 2011. In view of the current transition in Libya, the legislative situation is difficult to assess and may be subject to change. Consequently, readers should obtain updated information before engaging in transactions.

A. Income tax

Who is liable. Libyan nationals and foreigners are subject to income tax on income arising in Libya. Libyan nationals and foreigners are considered to be resident if they satisfy any of the following conditions:
- They are Libyan.
- They are in Libya with a work visa.
- They undertake employment in Libya.

Residence results in liability for Libyan personal income tax for the year of residence.

Income subject to tax. The taxation of various types of income is described below.

Employment income. Income tax is levied on employment income paid in cash or in kind.

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. Bank interest on nonsavings accounts is subject to withholding tax at a rate of 5%.

Other income. Other income is subject to tax at various rates.

Taxation of employer-provided stock options. Income derived from employer-provided stock options is taxed in the same manner as employment income.

Capital gains. The law does not make any reference to tax on capital gains. Company capital gains are treated as trading income.

Exempt income. The following items are exempt from income tax:
- Income from deposits in savings accounts
- Payments to beneficiaries of life insurance policies
- Payments for disability arising from employment
- Income from agricultural activities
- Income of civil servants and state employees
- Income from pensions
- Income derived from writing and research in the fields of science and culture

Deductions

Deductible expenses. Expenses that may be deducted include life insurance premiums, general insurance premiums, social security contributions, and medical insurance contributions.

Personal deductions and credits. Individuals may claim the following annual personal allowances:
- LD 1,800 for a single taxpayer
- LD 2,400 for a married taxpayer
- LD 300 for each dependent child, up to the age of 18

Rates. The following are the tax rates applicable to annual taxable income.

Annual taxable income Exceeding LD	Not exceeding LD	Rate %
0	12,000	5
12,000	—	10

For a sample tax calculation, see Appendix 1.

Jihad tax. Jihad tax is withheld monthly from earned income. It is imposed on gross income less the Social Unity Fund contribution (see below) and the employee's social security contribution at the following rates:
- 1% if monthly income does not exceed LD 50
- 2% if monthly income does not exceed LD 100
- 3% if monthly income exceeds LD 100

Social Unity Fund contribution. One percent of monthly gross salary is withheld as a contribution to the Social Unity Fund.

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.

B. Other taxes

Property tax. Only Libyan nationals may own property. Tax at scale rates is assessed on 60% of rental income. The top rate of property tax is 15%.

The transfer of immovable property is not formally subject to any property transfer tax.

Inheritance and gift taxes. Libya does not impose inheritance tax or gift tax.

C. Social security

Social security contributions are payable monthly on salaries, wages, bonuses and other compensation income.

The contribution rates are 11.25% for employers and 3.75% for employees. The state pays a 0.75% portion of the contribution for Libyan companies. Employers withhold the employee contributions monthly.

D. Tax filing and payment procedures

The tax year in Libya for individuals is the calendar year.

Employees who have only income from employment are not required to file annual income tax returns.

Individuals with nonemployment income must file an annual tax return within 60 days after the end of the tax year (31 December). For such individuals, tax is payable in four quarterly installments, beginning on 10 March, with a 15-day grace period, or on the next day in a quarter after the issuance of an assessment.

E. Double tax relief and tax treaties

Under Libya's double 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 Libya.

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

Arab Maghreb Union countries	India	Slovak Republic
Egypt	Malta	Sudan
France	Pakistan	United Kingdom

Libya has signed double tax treaties awaiting ratification with the following countries.

Austria	Croatia	Singapore
Azerbaijan	Germany	Slovenia
Belarus	Italy	Spain
Belgium	Korea (South)	Switzerland
Bosnia-Herzegovina	Netherlands	Syria
China	Qatar	Turkey
	Russian Federation	Ukraine

F. Temporary entry visas

A valid passport and entry visa are required to enter Libya.

Libya 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
- Business visas, which may be single-entry visas valid for 30 days, or multiple entry visas valid for 3, 6 or 12 months
- Residence/work visas, which are provided outside Libya if the individual will enter Libya 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 Libya. Foreign nationals who will work under an employment contract must obtain a work authorization, which is valid for up to one year.

Foreign nationals may not be self-employed.

After the period of validity for a work authorization or work permit expires, an individual may reapply for such items.

H. Residence permits

Residence permits are granted to foreigners on the basis of employment. They are granted on the application of the employing company. A residence permit is regarded as temporary and is not issued until it has been determined that a similarly qualified national is not available. A national must be employed and trained to replace the foreigner, and some occupations are restricted to nationals (for example, secretarial and clerical).

Employed foreign nationals who reside in Libya for more than 15 years may obtain a 5-year residence permit, which is renewable every 5 years.

The following documents must be submitted with the application for residence permit for workers:
- Application form containing family details
- Detailed *curriculum vitae* and copies of qualifications
- Passport and a copy of the passport
- Copy of the work visa
- Work authorization issued by the Manpower Department
- Twelve passport-size photos

Requirements and documentation are subject to frequent change.

I. Family and personal considerations

Family members. Dependent relative visas are usually granted automatically to family members of a foreign national who holds a valid work authorization or permit. However, an expatriate's spouse must file an application for a residence permit through the expatriate's employer and may not undertake employment.

Marital property regime. The default marital property regime in Libya is based on Islamic law. Under Islamic law, a legal share of the estate automatically devolves to the surviving spouse and children.

Drivers' permits. Expatriates may drive legally in Libya using their home-country drivers' licenses for up to three months. Holders of residence permits must apply for local driving licenses.

Appendix 1: Sample tax calculation.

A sample tax calculation for income earned in 2010 is provided below for a single individual who has no dependants and resides in Libya for the entire year. The individual works entirely in Libya and is paid an annual salary and bonus of LD 100,000.

The following is the tax calculation.

	LD
Calculation of taxable income*	
Salary and bonus	100,000
Nontaxable social security contribution	(3,750)
Nontaxable Social Unity Fund contribution	(1,000)
Taxable income	95,250
Calculation of tax	
Personal income tax	9,450
Jihad tax	2,857
Total tax	12,307

* Stamp duty at a rate of 0.5% of net salary payable is deductible from employee income, but it is customarily borne by the employer.

Liechtenstein

(Country code 423)

Vaduz **GMT +1**

Ernst & Young
Mail address:
P.O. Box 555
FL-9490 Vaduz
Liechtenstein

Street address:
Lettstrasse 5
FL-9490 Vaduz
Liechtenstein

Executive and immigration contact

Roger Krapf *(resident in St. Gallen, Switzerland)*
+41 58 286 21 25
Fax: +41 58 286 20 23
Email: roger.krapf@ch.ey.com

A. Income tax

Who is liable. Under Liechtenstein's tax system, the national government and regional communities levy income and net worth taxes. The regional communities levy surcharges on the taxes of the national government. Income tax is levied on all forms of income. As a result of the tax reform that entered into force on 1 January 2011, the net worth tax is no longer calculated separately but is integrated into the income tax.

All resident or domiciled individuals are subject to income tax on worldwide income, with the exception of income from real estate located abroad and income from either a fixed place of business or a permanent establishment located abroad. In addition, all resident or domiciled individuals are subject to income tax based on the standardized return level of worldwide net assets other than real estate and business premises located abroad.

Nonresidents are subject to tax if they are employed in Liechtenstein, if they own real property in Liechtenstein or if they have business premises in Liechtenstein. Nonresidents are subject to tax on income derived from Liechtenstein sources including Liechtenstein real estate, owned or leased, and business premises. In addition, nonresidents are taxed on income from self-employment and business activities carried out in Liechtenstein.

Individuals are considered resident or domiciled in Liechtenstein if they meet any of the following conditions:
- They maintain a legal residence in Liechtenstein.
- They have a "customary place of abode" in Liechtenstein. This means that they are present in Liechtenstein for at least six consecutive months.

Income subject to tax

Employment income. Taxable income includes compensation from employment, self-employment and income from secondary employment.

In general, retirement benefits in Liechtenstein are also included in taxable income. Retirement benefits are derived from the following sources:
- Mandatory social security system (old-age and survivors' insurance). Pensions are based on premiums paid and on the number of years employed. Benefits generally satisfy minimum cost-of-living requirements.
- Company pension plans.
- Individual savings.

At least 30% of old-age and survivors' pension benefits and disability insurance benefits is taxable. The taxation of other pensions depends on the manner in which the pensions are financed. At least 70% of pension benefits is taxable if the taxpayer paid half of the contributions. Benefits are subject to a higher tax rate if the taxpayer contributed less than half of the contribution amounts.

Self-employment and business income. In general, income taxes are levied on individuals who earn self-employment or business income in Liechtenstein. However, for nonresident partners of companies domiciled in Liechtenstein, the companies are subject to taxes on profits.

Self-employment and business income is taxed with other income at the rates set forth in *Rates*.

Investment income. Rental income and investment income from dividends, interest, royalties and licenses are not taxed based on the amount of effective income. Instead, they are taxed based on the application of the standardized return rate to the net market value of all movable and immovable assets (see Section B).

Directors' fees. Resident directors are subject to tax on directors' fees from companies in Liechtenstein together with other income at the rates described in *Rates*.

Capital gains and losses

Movable assets. Capital gains derived from transfers of business and personal movable assets are generally exempt from income tax.

Immovable assets. Capital gains derived from transfers of personal and business immovable assets are subject to a separate capital gains tax on real estate. The gains are taxed at the same rates as the income tax rates applicable to unmarried persons, which are progressive rates with a maximum rate of 21%. Recapture of depreciation of immovable business assets is treated as ordinary income and taxed at the ordinary tax rates (not at the rates applicable to capital gains).

Deductions

Deductible expenses. Employees may deduct necessary expenses incurred in connection with their employment, including travel expenses, meals and education.

Premiums for old-age and survivors' insurance, disability insurance and unemployment insurance are fully deductible from taxable income. Contributions and premiums payable to pension funds are deductible, up to a maximum of 12% of taxable income.

Personal deductions and allowances. A limited amount may be deducted for premiums paid for life, accident and health insurance, for expenditure for medical and dental treatment, and for costs related to children's education.

No specific personal allowances are granted to individual taxpayers.

Business deductions. Individuals may deduct all business expenses and 4% (standardized return rate) of the amount of their business working capital. Income taxes and net worth taxes are not deductible.

Rates

Income tax. The progressive income tax rates for 2011 range from 3% to 21% (for a commune applying a communal multiplier of 200). Income from foreign assets, including real property and business premises, and other foreign income is considered in calculating the progressive tax rate.

The tax levied by the state consists of income tax and the surcharge. Communities impose an additional surcharge on the state tax at rates ranging from 150% to 200% (in 2010), resulting in a maximum income tax rate of 21%.

Lump-sum taxation. Instead of net worth and income tax, lump-sum taxation may apply to individuals who meet all of the following conditions:
- They are domiciled or reside in Liechtenstein and they are not citizens of Liechtenstein.
- They are not employed in Liechtenstein.
- They live on income from assets or other payments received from sources abroad.

Lump-sum tax is assessed on the living costs of the taxpayer. For the sake of convenience, the living costs are usually a multiple of the annual rent. The taxable amount results from multiplying the living costs by the applicable tax rate. The maximum applicable tax rate is 15% (5% plus 2 times 5%). According to the practice of the tax administration of Liechtenstein, the lump-sum tax must be a substantial amount. Otherwise, the regular tax regime applies.

Relief from losses. Business losses of self-employed individuals may be carried forward for five years. No carrybacks are allowed.

B. Other taxes

Net worth tax. Because the net worth tax is now integrated into the income tax through the calculation of the standardized return, wealth is not taxed separately. The determination of the amount of the taxable assets is relevant only for the purpose of determining the standardized income that is subject to income tax. The annually determined standardized return rate, which is applied to the net market value of all moveable and immoveable assets, is 4% in 2011. In addition, the surcharges described in *Rates* may apply. Real estate and business premises abroad are not subject to taxation. Liabilities and any increase in assets during the year may be deducted.

Inheritance and gift taxes. As part of the tax reform the inheritance and gift tax was abolished.

C. Social security

Contributions

Employees. Liechtenstein's contribution rate for old-age and survivors' insurance and for family pension funds for 2011 is 11.6% of total (unlimited) salary. The employer pays 7.05%, and the employee pays 4.55%. The employer withholds the employee's share monthly. In addition, contributions of 1%, on annual salary of up to CHF 126,000, must be made to the unemployment insurance fund. The cost is divided equally between the employer and the employee.

All employees who pay into the Liechtenstein social security system must contribute to a pension plan. The employer's contribution must equal at least the employee's mandatory 5% contribution, resulting in total contributions of at least 10% for each employee.

Self-employed. In 2011, self-employed individuals must make social security contributions at a rate of 11.6% of their income from a business or profession. The 11.6% rate also applies to partnership profits. Self-employed persons are not required to be members of a pension plan.

Totalization agreements. Liechtenstein has adopted European Regulation 1408/71 concerning the application of social security schemes. The regulation applies to all European Union (EU) and European Free Trade Association (EFTA) countries. Liechtenstein has not entered into social security agreements with other countries.

D. Tax filing and payment procedures

The tax year in Liechtenstein corresponds to the calendar year.

Liechtenstein has a self-assessment tax system. All taxpayers must prepare and file tax returns in April of the year following the tax year. Employers must withhold income from their employees' salaries and wages.

Married individuals are taxed jointly on all income.

E. Tax treaties

Liechtenstein has entered into comprehensive double tax treaties with Austria and Luxembourg. It has signed double tax treaties with Hong Kong, San Marino and Uruguay, which are subject to ratification. The treaties follow the draft model of the Organization for Economic Cooperation and Development (OECD).

Liechtenstein has also entered into limited double tax treaties with Switzerland and with two cantons of Switzerland.

F. Residence visas

The government has limited immigration to Liechtenstein, making it difficult for foreign nationals to emigrate to the country. Limited exceptions are made for citizens of Switzerland and of EU and European Economic Area (EEA) member countries.

Lithuania

(Country code 370)

Vilnius **GMT +2**

Ernst & Young
Subaciaus 7
LT-01127 Vilnius
Lithuania

Executive and immigration contacts

Kestutis Lisauskas	(5) 274-2252 Email: kestutis.lisauskas@lt.ey.com
Aldona Saviciute	(5) 274-2250 Email: aldona.saviciute@lt.ey.com

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 received for real estate located in Lithuania
- Income on sales of immovable property and movable property subject to mandatory registration in Lithuania
- Employment income
- Income of sportspersons and performers
- 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.
- 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 an individual activity (for example, income from rendering independent services) that is registered with the Lithuanian tax authorities is subject to tax under the Law on Resident Income Tax at a rate of 5% or 15%, depending on the type of activities performed.

Investment income. Dividends received from Lithuanian and foreign companies (with certain exceptions) are taxed at a rate of 20%.

Interest from credit institutions (banks, credit unions or other credit institutions) of Lithuania and European Economic Area (EEA) countries is not taxable in Lithuania. Interest from credit institutions of other countries is taxed at a rate of 15%. Interest on nonbanking 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, 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 and is taxed at a rate of 15%.

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 (in certain cases)
- The difference between annual proceeds received from the sale of property not requiring legal registration and its acquisition price, not exceeding LTL 8,000 (€2,317)
- Income received from the sale of movable property legally registered in Lithuania or immovable property located in Lithuania (in certain cases)

- Income from the sale of securities (in certain cases)
- 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 depends on the income received. The annual nontaxable minimum amount may not be greater than LTL 5,640 (€1,633) if annual income does not exceed LTL 9,600 (€2,780). If annual income is greater than LTL 9,600 (€2,780), the nontaxable minimum amount is calculated according to a formula provided in the Law on Resident Income Tax. For specified groups of residents, including disabled persons, the nontaxable minimum amount is greater.

Individuals who have one or two children may deduct an additional nontaxable income amount. For each parent, the monthly amounts are LTL 50 (€14.48) for the first child and LTL 100 (€28.96) for any subsequent child.

Nonresidents may deduct the general nontaxable minimum amount from Lithuanian-source income at the end of the tax year.

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.
- Expenses relating to vocational training or studies (if first higher education or qualification is obtained on graduation), and to first doctoral studies and first post-graduate art 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 total amount of the above deductions may not exceed 25% of taxable income (taking into account deductions).

Rates. The three rates of individual income tax are 5%, 15% and 20%. The 5% rate applies for some types of individual activities that, according to the Law on Residents Income Tax, are not considered as "liberal professions." The 20% rate applies only to income from distributed profits. Other income is subject to tax at a rate of 15%.

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 0.1% 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 500,000 (€144,810) and 10% if the taxable value exceeds LTL 500,000. Close relatives, such as children, parents, spouses and certain other individuals, may be exempt from this tax.

C. Social security

Social security contributions. 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 27.98%, 28.18% or 28.7%, depending on the type of 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 4,000 or €1,158)
- Reimbursement of business travel expenses in the amount specified under the laws or government resolutions
- Payments for the training and requalification of employees
- Allowances for illness compensated by the Lithuanian employer for the first two days of illness
- Directors' fees received by board members

Self-employed individuals and individuals that register an individual activity in Lithuania, sportspersons, performing artists, individuals working under copyright agreements and farmers must pay social security contributions that vary depending on the amount of income received.

Health insurance. Health insurance contributions are separated from social security contributions and residents' income tax. Employers must withhold health insurance contributions at a rate of 6% from an employee's gross salary as health insurance contributions payable by an employee and pay health insurance contributions themselves in the amount of 3% in addition to the employee's gross salary.

Under the Law on Health Insurance, self-employed individuals and individuals that register an individual activity in Lithuania, sportspersons, performing artists, individuals working under copyright agreements and farmers are subject to compulsory health insurance contributions depending on the amount of income received (with certain exceptions).

In certain cases, Lithuanian tax residents must pay 6% health insurance contributions.

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 Lithuanian tax 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 Lithuanian tax 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 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.
- 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.
- 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	Hungary	Portugal
Austria	Iceland	Romania
Azerbaijan	Ireland	Russian Federation
Belarus	Israel	Serbia
Belgium	Italy	Singapore
Bulgaria	Kazakhstan	Slovak Republic
Canada	Korea (South)	Slovenia
China	Kyrgyzstan	Spain
Croatia	Latvia	Sweden
Czech Republic	Luxembourg	Switzerland
Denmark	Macedonia	Turkey
Estonia	Malta	

Finland
France
Georgia
Germany
Greece
Moldova
Netherlands
Norway
Poland
Ukraine
United Kingdom
United States
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.

Albania (b)
Andorra
Antigua and Barbuda
Argentina
Armenia (b)
Australia
Bahamas
Barbados
Bosnia-Herzegovina (b)
Brazil
Brunei Darussalam
Canada
Chile
China (b)
Costa Rica
El Salvador
Georgia (b)
Guatemala
Honduras
Hong Kong (c)
Iceland
Israel
Japan
Korea (South)
Liechtenstein
Macau (c)
Macedonia (a)
Malaysia
Mauritius
Mexico
Moldova (b)
Monaco
Montenegro (a)
Morocco (b)
New Zealand
Nicaragua
Norway
Panama
Paraguay
Russian Federation (b)
San Marino
Serbia (a)
Seychelles
Singapore
Switzerland
Turkey (b)
Ukraine (b)
United States
Uruguay
Vatican City
Venezuela

(a) For holders of biometrical passports only.
(b) For holders of diplomatic and official passports only.
(c) For Hong Kong and Macau Special Administrative Region passport holders only.

In general, Lithuania allows such citizens to stay in Lithuania for up to three months in a six-month period without obtaining any specific stay document.

An ordinary visa allows an individual to enter and stay in Lithuania for up to three months during a six-month period, which is calculated from the date of arrival in Lithuania or any other Schengen country.

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 exist, including the following:

- An individual is the manager of a company registered in Lithuania that has authorized capital exceeding LTL 50,000 (approximately €14,500).

- An individual is the owner of a company that is registered in Lithuania and his or her presence in Lithuania is crucial for the company (the capital requirement also applies).
- A foreigner is the co-owner of a Lithuanian company that has authorized capital exceeding LTL 50,000 (€14,500) and his or her presence in Lithuania is crucial for the Lithuanian company.
- A foreigner comes to Lithuania to negotiate the conclusion of an agreement, to instruct personnel, to deal regarding a commercial establishment, to implement equipment or to engage in similar activities, for a period of not longer than three months in a particular year.
- A trainee comes to work in Lithuania for a period of three months or less throughout the year.
- A non-EU citizen legally and permanently works for an EU member state company that seconds him or her to Lithuania and obtains an E101 (A1) or E102 form issued by an EU member state (except Denmark where any other document proving insurance coverage there is also acceptable).
- Certain other cases.

The State Labor Exchange issues work permits, which are valid for up to two years.

H. Residence permits

The following are the two types of temporary residence permits:

- EU citizens must obtain temporary residence permits if they intend to reside in Lithuania for longer than 90 days during a 6-month period. The migration authorities issue the residence permit within five working days after the application form and other documents (for example, employment contract) are submitted. The permit is valid up to five years.
- Non-EU citizens may obtain temporary residence permits on the grounds that they intend to work legally in Lithuania (either as an employed person or the owner of a company). The Lithuanian law also provides other grounds for the issuance of a residence permit. The residence permit for non-EU nationals is valid up to one year. It is issued within six months after the submission of all the required documents.

Non-EU nationals 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. If the non-EU national is legally present in Lithuania, the documents can be submitted to the migration authorities.

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 five years. For non-EU citizens, the minimum period is five years without interruption.

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 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
- 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 an 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 may be changed to a Lithuanian driver's license if certain conditions are met.

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	—	(e)
Capital gain from sale of personal residence in home country	X	—	(e)
Capital gains from sale of stock in home country	X	—	(e)

* 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 2011 is provided below for an expatriate, who is a resident in Lithuania for all of 2011 and is married with two dependent children under 18 years old. During 2011, 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 2011, the expatriate paid a tuition fee of LTL 10,000 for the expatriate's first Master's studies. 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	(0)	
Children	(3,600)*	
Total nontaxable income amounts		(3,600)
Personal deductions:		
Tuition fee	(10,000)	
Total deductions		(10,000)
Taxable income		196,400
Calculation of tax		
Income tax on LTL 196,400 at 15%		29,460

* It is assumed that the individual's spouse does not use half of the deduction for children.

Luxembourg

(Country code 352)

Luxembourg City	**GMT +1**

Ernst & Young
Mail address:
P.O. Box 780
L-2017 Luxembourg

Street address:
7, rue Gabriel Lippmann
Parc d'Activité Syrdall 2
L-5365 Munsbach
Luxembourg

Executive and immigration contacts

Sylvie Leick	42-124-7242 Fax: 42-124-57242 Email: sylvie.leick@lu.ey.com
John Hames	42-124-7265 Fax: 42-124-57265 Email: john.hames@lu.ey.com
Jacqueline Guérinel	42-124-7336 Fax: 42-124-57336 Email: jacqueline.guerinel@lu.ey.com
Emmanuel Carlen	42-124-7243 Fax: 42-124-57243 Email: emmanuel.carlen@lu.ey.com

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. Under certain conditions, registered partners are entitled to claim joint taxation through the filing of a joint income tax return.

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
- A taxable company resident in a country that has entered into a double tax treaty with Luxembourg

A 15% tax is withheld by a 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 (2003/48/EC) 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 rate is 15%, effective from 1 July 2005, 20%, effective from 1 July 2008, and 35%, effective from 1 July 2011.

A final withholding tax of 10% is imposed on interest income paid by a paying agent established in Luxembourg to beneficial owners resident 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 applies to 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 (assets used in self-employment or business activities) of the investor rather than from private assets. The definition of interest payment subject to a final withholding tax is the same as the definition 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.

Individuals resident in Luxembourg may opt for a final tax of 10% on eligible interest income received after 31 December 2007 from paying agents located in the following jurisdictions:
• EU member states
• European Economic Area (EEA) states
• Jurisdictions that have entered into an agreement with Luxembourg that includes measures equivalent to those of the EU Savings Directive (2003/48/EC) (that is, dependent and associated territories and third countries)

The option for a final withholding tax of 10% applies to the same eligible interest income (deriving from private assets only) as defined by Luxembourg law (see above). The annual tax-free ceiling of €250 per individual and per paying agent also applies to eligible interest income paid outside Luxembourg. The option for a final withholding tax of 10% is requested through a specific form that must be filed before 31 March of the year following the year of payment.

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/partners 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/partners jointly taxable). Expense deductions may not create a loss that could be offset against other sources of income, except in certain limited cases.

Royalties and income from the rental of real estate are aggregated with other income and taxed at the rates set forth in *Rates*.

Nonresidents are subject to the 15% withholding tax on dividends received from Luxembourg companies. However, if an applicable double tax treaty provides a lower tax rate, nonresidents can claim a refund of the excess tax withheld. Most of the double tax treaties entered into by Luxembourg provide for a maximum tax rate of 15% on gross dividends.

Nonresidents are not subject to withholding tax on royalties.

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%.

Special tax regime for expatriate highly skilled employees. A beneficial income tax regime has been introduced for expatriate highly skilled employees. This regime provides tax relief for certain costs linked to expatriation and is subject to several conditions. The tax regime, which entered into force on 1 January 2011, applies to employees who are sent to work temporarily in Luxembourg on an assignment between intragroup entities. It also applies to employees who are directly recruited abroad by a Luxembourg company to work temporarily in Luxembourg.

Under certain conditions, various costs directly related to the expatriation are not considered taxable employment income. Under the special tax regime, the following expatriate benefits and allowances are not taxable.

- Moving costs (transportation of goods, transfer travel expenses, furnishing costs and similar expenses).
- Costs related to housing in Luxembourg and expatriation (rent and utilities if the former accommodation is maintained in the home country or the housing differential if the former accommodation is not maintained), one home-leave trip and tax-equalization costs. However, these costs are limited to €50,000 per year (€80,000 for married couples or partners sharing accommodation) or 30% of the fixed total annual remuneration, whichever is less.
- School fees for children in primary and secondary education.
- Cost-of-living allowance and miscellaneous expenses (not specifically provided for) linked to the expatriation. However, these costs are limited to €1,500 per month or 8% of the fixed monthly remuneration (€3,000 and 16%, respectively, for married couples or partners sharing accommodation provided that they are not performing a professional activity), whichever is less.

The tax regime applies for the duration of the assignment with a maximum of five years. To benefit from the tax regime, the Luxembourg company must file a written motivated application with the competent tax office within two months after the start of the expatriate's employment. The employer must present the professional qualifications and fulfill conditions by precise and consistent evidence. In addition, the company must operate a Luxembourg payroll and withhold tax on salaries for each eligible employee.

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 average tax rate (a maximum rate of either 20.28% or 20.67% and an additional temporary crisis contribution of 0.8%) and tax relief of €50,000 (€100,000 for spouses or partners jointly taxable) apply to capital gains if substantial shareholders sell the shares after a six-month holding period. 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.
- The taxpayer sold his or her shares in Luxembourg companies 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/partners 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 (a maximum rate of either 20.28% or 20.67% and an additional temporary crisis contribution of 0.8%). An additional allowance of €75,000 for each spouse/partner 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.

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 derived from real estate located in Luxembourg in the same manner as residents.

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*)

In addition, interest on loans contracted to purchase owner-occupied housing is deductible up to a ceiling that decreases with the length of time the housing is occupied, as indicated in the following table.

Year of occupation	Ceiling (€)*
From 2006	1,500
From 2001 to 2005	1,125
2000 and previous years	750

* This is the ceiling for each member of the household.

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, unemployment and third-party automobile insurance
- Interest on consumer loans
- 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
- Employment of domestic staff

The dependent partner (an unmarried registered partner) allowance was abolished, effective from 1 January 2008. Registered partners (under Luxembourg or foreign law) may claim joint taxation through the filing of a joint income tax return. The eligible partners need to share a common domicile or residence and their partnership must exist during the entire fiscal year concerned.

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
- Loss carryforwards

Rates. Tax rates are progressive with a maximum rate of either 40.56% or 41.34% for 2011 (4% or 6% unemployment fund contribution included) and an additional temporary crisis contribution of 0.8%. The marginal tax rate is 41.34% for income exceeding €150,000 for taxpayers in Tax Class 1 (single individuals) and Tax Class 1a (single, separated or divorced individuals with children) and €300,000 for taxpayers in Tax Class 2 (married couples or partners jointly taxable).

Effective from 1 January 2008, the tax classes for dependent children were abolished. This tax relief was replaced by a monthly tax bonus of €76.88 per child, which is paid by the Luxembourg Family Allowance Authority (Caisse Nationale des Prestations Familiales, or CNPF) for children qualifying for Luxembourg family allowances. However, the tax bonus is already included in the state financial aid granted to resident students in higher education. If the bonus is not paid by the CNPF or not included in the state financial aid, the tax relief needs to be requested through the filing of a tax return or refund application (*décompte annuel*).

The table below sets forth the average income tax rates for 2011 taking into account the 4% unemployment fund contribution and the tax credit of €300 for professional income (effective from 1 January 2009). The contribution to the unemployment fund is 6% on income exceeding €150,000 for taxpayers in Tax Classes 1 and 1a and €300,000 for taxpayers in Tax Class 2. The following is the table of average income tax rates for 2011.

	Single individual		Married couple	
Taxable income €	**Amount of tax €**	**Effective tax rate %**	**Amount of tax €**	**Effective tax rate %**
20,000	757	3.78	0	0
40,000	6,294	15.73	1,813	4.53
60,000	14,387	23.98	6,259	10.43
80,000	22,499	28.12	12,887	16.11
100,000	30,611	30.61	20,962	20.96
120,000	38,723	32.27	29,074	24.23
140,000	46,835	33.45	37,186	26.56

Nonresidents are also subject to the above rates.

Business profits tax. Net business profit is subject to income tax, municipal business tax and an additional temporary crisis contribution of 0.8%.

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% (6.75% for Luxembourg City).

Nonresidents who carry on business through a permanent establishment in Luxembourg are taxed at the same rates as residents.

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 main professional earnings from activities in that company.

B. Other taxes

Net worth tax. The wealth tax for resident and nonresident individuals was 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, death tax is levied only on real estate located in Luxembourg. The inheritance tax rates range from 0% to 48%. The rate applicable to heirs in direct line (for example, a son or daughter, or grandson or granddaughter) is 0%. A 0% rate also applies to any inheritance between spouses or registered partners of more than three years with at least one common child. Death taxes are imposed on real estate located in Luxembourg that is left by a person who was not an inhabitant of Luxembourg, even a person 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 [*dons manuels*]) 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 contribution rates for employers and employees apply as of 1 January 2011.

	Employee %	Employer %
Pension (a)	8	8
Illness (a)	3.05	3.05
Accident (a)	N.A.	1.15 (b)
Health at Work (a)	N.A.	0.11 (c)
Mutual insurance (a)	2.1 (d)	0.62 to 2.38 (e)

(a) The contribution rates are subject to an annual ceiling of €105,453.72, effective from 1 January 2011.
(b) The rate is the same regardless of the employer's sector of activity.

(c) The Health at Work contribution is payable only by employers that are members of the National Service for Health at Work.
(d) This contribution applies to blue-collar workers only. However, the employer contribution applies to the whole staff.
(e) The rate varies according to the risk class of the employer based on the rate of absenteeism of the employees.

In addition, care insurance to support the elderly and the disabled is payable by employees at a rate of 1.4% on total gross income with no ceiling, but after an annual deduction of €5,272.68, effective from 1 January 2011. 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. As an EU member state, Luxembourg applies new EC Regulation No. 883/2004 on the coordination of social security systems as well as EEC Regulation No 1408/71. In addition, Luxembourg has entered into bilateral social security totalization agreements with the following jurisdictions.

Brazil	Macedonia	Turkey
Canada	Quebec	United States
Cape Verde	Serbia and Montenegro	Yugoslavia (former)*
Chile	Tunisia	
Croatia		

* According to the Social Security Ministry, the bilateral totalization agreement between Luxembourg and the former Yugoslavia has been replaced by a new totalization agreement between Luxembourg and Croatia, Macedonia, Serbia and Montenegro and Slovenia. The bilateral totalization agreement between Luxembourg and the former Yugoslavia continues to apply to Bosnia-Herzegovina. However, a new bilateral agreement is being negotiated.

A bilateral social security totalization agreement with Morocco has not yet entered into force. A bilateral social security totalization agreement with India entered into force on 1 June 2011.

D. Tax filing and payment procedures

The tax year corresponds to the calendar year.

Taxpayers must file annual income tax returns by 31 March 2011 for income earned in 2010. The filing deadline may be extended on the request of a taxpayer.

Special rules apply to certain taxpayers. For example, employees who are subject to withholding tax and who do not have another source of income must file tax returns only if their annual taxable remuneration exceeds €100,000. 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 €100,000 and if they have been employed continuously during nine months of the tax year. Married nonresidents who are jointly taxable must file tax returns if their joint salaries and pensions exceed €36,000.

Under certain conditions, nonresident taxpayers can elect to be treated as Luxembourg resident taxpayers to qualify for the same deductions and allowances. The request is made in the taxpayer's income tax return.

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.

Armenia	Ireland	Russian Federation
Austria	Israel	San Marino
Azerbaijan	Italy	Singapore
Bahrain	Japan	Slovak Republic
Belgium	Korea (South)	Slovenia
Brazil	Latvia	South Africa
Bulgaria	Liechtenstein	Spain
Canada	Lithuania	Sweden
China	Malaysia	Switzerland
Czech Republic	Malta	Thailand
Denmark	Mauritius	Trinidad and Tobago
Estonia	Mexico	Tunisia
Finland	Moldova	Turkey
France	Monaco	United Arab Emirates
Georgia	Mongolia	United Kingdom
Germany	Morocco	United States
Greece	Netherlands	Uzbekistan
Hong Kong	Norway	Vietnam
Hungary	Poland	
Iceland	Portugal	
India	Qatar	
Indonesia	Romania	

Luxembourg has voted for the ratification of tax treaties with Argentina and Ukraine. These treaties will enter into force after the ratification process is completed by both parties to the treaties.

Luxembourg has signed tax treaties with Albania, Barbados, Kazakhstan, Kuwait and Panama, but these treaties have not yet been ratified.

Tax treaty negotiations with Cyprus, Kyrgyzstan, Lebanon, Macedonia, Montenegro, Pakistan, Serbia, Syria and Uruguay have been announced.

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, such as tourists, students enrolled in training courses in Luxembourg for less than three months and people on business trips.

The short-stay visa can be issued for a single entry or multiple entries. In the event of multiple entries, the total duration of the stay cannot exceed 90 days over a period of 6 months. The maximum period for a visa during which authorized visits can be made is one year.

The renewal of visas depends on the situation of the visa holder. In general, renewals are granted for one year.

G. Residence authorizations

The law on the free movement of EU citizens and on immigration policies, dated 29 August 2008, covers residence authorizations, which are work and stay permits for citizens outside the EU, EEA or Switzerland.

Under Luxembourg law, nationals of EU member states (with the exception of Bulgaria and Romania), EEA states (Iceland, Liechtenstein and Norway) or Switzerland do not need a residence authorization to perform their professional activities in Luxembourg. Nationals of the last EU accession countries (Bulgaria and Romania) are still required to hold a work permit during a transitional period extending until 31 December 2011.

Residence authorizations are not required for spouses (regardless of their nationality) of EEA or Swiss citizens who reside in Luxembourg. This exemption also applies to spouses (regardless of their nationality) of Luxembourg citizens resident in Luxembourg.

Luxembourg immigration requirements vary depending on the citizenship of the individuals and the length of their stay.

Citizens of the EU, EEA or Switzerland

Right to move and reside up to three months. Citizens of the EU, EEA or Switzerland and their family members (regardless of their nationality) may move to and reside in Luxembourg for a period of up to three months without any conditions other than the requirement to hold a valid identity card or passport. An entry visa may be requested for family members who are themselves third-country nationals.

Right of residence for more than three months. Citizens of the EU, EEA or Switzerland have the right of residence in Luxembourg for a period of more than three months if they satisfy either of the following conditions:
- They are workers or self-employed persons.
- They can provide proof of sufficient resources for themselves and their family members, and they have valid health insurance (as of 1 January 2011, the amount that can be requested is the guaranteed minimum income, which is €1,251.95 per month for one adult).

Citizens of Bulgaria and Romania still need to hold a work permit during a transitional period currently extending until 31 December 2011.

If the planned period of residence in Luxembourg exceeds three months, the individuals concerned and their family members must register with the communal administration within three months after the date of arrival. A registration certificate is then delivered. Family members who are themselves third-country nationals must request a residence card from the municipality within three months after the date of arrival. The residence card of a family member is valid for five years.

After a continuous period of five years of legal residence in Luxembourg, citizens of the EU, EEA or Switzerland and their family members (regardless of their nationality) have the right of permanent residence (on request).

Third-country nationals

Conditions of entry, exit and residence up to three months. In principle, the third-country national must personally request the residence authorization and submit it to the competent authorities before entry into Luxembourg.

Third-country nationals may enter and reside in Luxembourg up to three months within a six-month period provided that a valid passport and visa (if applicable), sufficient resources and health insurance are presented. These nationals must declare their entry into Luxembourg with the communal administration within three days after the date of arrival (no declaration is necessary for tourists residing in hotels). If they want to exercise employment or self-employment activities, these nationals need a residence authorization.

However, third-country nationals do not need an authorization if they come to Luxembourg for less than three months within one calendar year for business trips, if they are working for the same group of companies, or if they are working as, among others, artists, sportsmen or academic lecturers.

Conditions of residence for more than three months. Third-country nationals have the right of residence in Luxembourg with a valid passport and visa (if applicable) for a period of more than three months if they obtain a residence authorization before their entry. In addition, these nationals must declare their entry with the municipality within three days after their date of arrival.

Workers with employment contracts. A residence authorization allowing third-country nationals to work in Luxembourg is granted if the individual has entered into an employment contract and if several other conditions are met. However, limited requirements apply to certain sectors of the economy experiencing substantial labor shortages.

The residence authorization is valid for a period of one year in one profession and one business activity but it is valid for any employer. It can be renewed for a two-year period.

Workers temporarily assigned for cross-border services. Companies established in another EU/EEA member state or in Switzerland can freely assign their workers (regardless of their nationality) to Luxembourg for the rendering of cross-border services (these are services provided in Luxembourg by workers for employers established in another EU/EEA member state or Switzerland) if these workers are authorized to work and stay in their home country for the duration of the assignment.

Third-country nationals temporarily assigned to Luxembourg by companies established outside EU/EEA member states or Switzerland for the rendering of cross-border services must have a residence authorization that is issued on request of the home-country company.

Workers temporarily assigned to a company group. On request of the host company, residence authorizations are granted to third-country workers who are assigned between intragroup entities.

Highly qualified workers. Residence authorizations for a maximum period of three years (renewable for another period of three years on request) are granted to third-country workers having a higher education qualification or at least five years of professional experience.

Self-employed persons. Residence authorizations for a maximum period of three years (renewable) are granted to third-country self-employed persons if the following conditions are satisfied:
- They have the professional qualifications and hold a business license or any adequate professional authorization.
- They have sufficient resources and accommodation.
- The exercise of the independent activity benefits the economic interests of Luxembourg.

Other categories of residence authorization. Under certain conditions, residence authorizations are granted to, among others, the following persons:
- Third-country students
- Exchange students
- Unremunerated trainees
- Researchers
- Sportspersons
- Inactive persons
- Other persons for exceptional reasons (for example, medical treatments)

EC long-term resident status. Third-country nationals can obtain long-term resident status if they have five years of legal and continuous residence in Luxembourg before the submission of the relevant application. The EC long-term resident status is valid for a period of five years, and is automatically renewed on request.

Steps for obtaining residence authorizations

General. When hiring foreign and Luxembourg wage earners, employers must notify the Labor Administration (Administration de l'Emploi, or ADEM) of all job vacancies within three working days before publication in the press. A special form, called "Vacancy Declaration" ("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 a residence authorization must be obtained, depending on the citizenship of the prospective employee, as outlined above.

Employers must inform the Social Security Registration Authority (Centre d'Affiliation de la Sécurité Sociale, or CASS), by use of the "Entry Declaration" ("Déclaration d'Entrée") form, to have an employee affiliated with social security.

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.

Application for a residence authorization. Before arrival, the foreign worker must submit a written request for a temporary residence authorization to the Ministry of Immigration. The request must be sent together with a certified copy of the passport, birth certificate, police record extract, *curriculum vitae*, diplomas, employment contract and a motivation letter (letter providing information on the foreign worker's motivation to work for a certain employer).

Within 90 days after the date the temporary residence authorization (*autorisation de séjour*) is issued by the Ministry of Immigration, the foreign worker must either request a visa (if applicable) or enter Luxembourg (if a visa is not required). The entry must be declared with the communal administration within three days after the date of arrival.

Within three months after the date of arrival, the foreign worker must submit a form to obtain a definitive residence authorization called "Issuing Request for a Residence Authorization" ("Demande en délivrance d'un titre de séjour"). The form must be sent to the Ministry of Immigration together with the following:
- A certified copy of the temporary residence authorization
- An arrival declaration to the communal administration
- A medical certificate issued by a Luxembourg doctor
- Proof of suitable accommodation in Luxembourg
- A recent photo (biometrical)
- Proof of payment of a €30 stamp duty, which must be wired to the bank account of the Ministry of Immigration

The validity period of the definitive residence authorization is one year from the date of registration with the municipality. Two months before the expiration of the authorization, the Ministry of Immigration notifies by letter the foreign worker of the formalities to be followed to obtain a renewal of the authorization. The validity period for the first renewal is two years, while the validity period for subsequent renewals is three years.

H. 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.

Family members who are EEA or Swiss nationals need only request a registration certificate.

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

- 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

	General tax regime			Special tax regime for expatriates		
	Taxable			Taxable		
	Yes*	No	Comments	Yes*	No	Comments
Compensation						
Base salary	X	—	—	X	—	—
Employer contributions to home complementary pension plan	X	—	(a)	X	—	(a)
Employee contributions to home complementary pension plan	—	—	(b)	—	—	(b)
Employer contributions to home country benefit plan	X	—	—	X	—	—
Employee contributions to home country benefit plan	—	—	(c)	—	—	(c)
Bonus	X	—	—	X	—	—
Retained hypothetical tax	(X)	—	—	(X)	—	—
Cost-of-living allowance	X	—	—	—	X	(d)
Housing allowance	X	—	—	—	X	(e)

	General tax regime			Special tax regime for expatriates		
	Taxable			Taxable		
	Yes*	No	Comments	Yes*	No	Comments
Employer-paid housing in the host country	X	—	(f)	—	X	(e)
Education reimbursement	X	—	—	—	X	(g)
Hardship allowance	X	—	—	X	—	—
Other allowance	X	—	—	X	—	(h)
Premium allowance	X	—	—	X	—	—
Home-leave allowance	X	—	—	X	—	—
Other compensation income	X	—	—	X	—	—
Transportation of goods to and from the host country	—	X	(i)	—	X	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(j)	X	—	(k)
Value of meals provided	X	—	(l)	X	—	—
Other benefits	X	—	(m)	X	—	—
Other items						
Foreign-source personal ordinary income (interest and dividends)	X	—	—	X	—	—
Capital gain from sale of personal residence in home country	—	X	—	—	X	—
Capital gain from sale of stock in home country	—	X	(n)	—	X	(n)

* The bracketed amounts reduce 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) Ceilings apply (see Section A).

(e) Conditions and ceilings apply (see Section A).

(f) 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.

(g) This applies to school fees for children in primary and secondary education only.

(h) This item may also be included in the cost of living allowance and miscellaneous expenses linked to the expatriation.
(i) This item is exempt from tax if the reimbursement is based on invoices. Otherwise, it is taxable.
(j) All elements of compensation are taxable in the year in which they are received in cash. If the employer reimburses or pays 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.
(k) Only tax-equalization costs are not taxable. Ceilings apply (see Section A).
(l) 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.
(m) 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), reduced by the discount granted by the vendor, if any.
- 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 2% (the 2011 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 and single parents with dependent children) 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 and single parents with dependent children).

(n) 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 not eligible for the special tax regime who is married with two children is assigned to Luxembourg for several years. The expatriate acquired a home with an interest-free loan of €400,000 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 2011 tax calculation for the expatriate.

	€	€
Calculation of taxable income		
Employment income		
Gross salary	100,000	
Benefit on zero-rated loan	2,000 (a)	
Standard and commuting allowances	(936)	
Net employment income		101,064
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	(2,000) (a)(b)	
Negative rental income		(1,850)
Personal expenses		
Social security contributions paid (except care insurance)	(11,271) (c)	

	€	€
Private life insurance paid (€3,800 paid, but maximum deductible amount is 4 x €672)	(2,688)	
Total personal expenses		(13,959)
Taxable income		86,705

Calculation of tax

Income tax	15,257	
Unemployment surtax (4% of income tax)	610	
Total tax liability	15,867	
Wage tax withheld	(16,915)	
Tax credit	(375)	(d)
Care insurance (1.4% on taxable investment income)	20	(e)
Crisis contribution (0.8% on taxable investment income)	11	(f)
Tax refund	(1,392)	

(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 (2% of €400,000)	8,000
Tax-exempt benefit	(6,000)
Taxable benefit	2,000

(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 €2,000.

(c) The social security contributions are based on rates and ceilings, which are effective from 1 January 2011.

(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 2011.

(€102,000 – €5,272.68) x 1.4% = €1,354

(f) The crisis contribution on employment income is directly withheld at source each month. In this example, the following is the calculation of the contribution crisis on employment income as of 1 January 2011.

(€102,000 – €21,090.72) x 0.8% = €647

Macau

(Country code 853)

Macau	**GMT +8**

Ernst & Young
Avenida de Almeida Ribeiro No. 37-61
21/F Central Plaza
Macau

Executive contacts

Paul Wen *(resident in Hong Kong)*	+852 2629 3876 Fax: +852 2118 4025 Email: paul.wen@hk.ey.com
Tyrone Chan *(resident in Hong Kong)*	+852 2629 3667 Fax: +852 2118 4171 Email: tyrone.chan@hk.ey.com

Immigration contact

Winnie Walker *(resident in Hong Kong)*	+852 2629 3693 Fax: +852 2118 4035 Email: winnie.walker@hk.ey.com

As a result of a general lack of tax practice and precedent, several unresolved tax issues exist in Macau.

A. Income tax

Who is liable. Individuals are subject to tax on income arising in or derived from Macau. Macau observes a territorial basis of taxation. Consequently, the concept of tax residency has no significance in determining tax liability, except in limited circumstances.

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 10%. For property that is not rented, the tax is levied at a rate of 6% 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.

For 2011, a property tax deduction of up to MOP 3,500 is granted for each property unit.

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 10 years after construction for buildings located on Coloane and Taipa islands, and during the first 5 years after construction for buildings located in other parts of Macau

- 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. Stock options granted by employers with respect to employees' services in Macau are subject to professional tax. The taxable stock option amount is calculated as follows:

Taxable stock option income = (market value on exercise date – option price) x number of shares exercised

Employers are required to notify the Macau tax authorities within 30 days after granting a stock option.

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 the rates listed in the following table.

Sales price or assessable value		
Exceeding MOP	Not exceeding MOP	Rate %
0	2,000,000	1
2,000,000	4,000,000	2
4,000,000	—	3

For 2011, a first-time purchase of residential property by a Macau resident for a cost of up to MOP 3 million is exempt from stamp duty.

Deductions

Personal deductions and allowances. A 25% exemption and a personal allowance of MOP 144,000 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		
Exceeding MOP	Not exceeding MOP	Rate on excess %
0	144,000	0
144,000	164,000	7
164,000	184,000	8
184,000	224,000	9
224,000	304,000	10
304,000	424,000	11
424,000	—	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 200 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 calendar year.

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 without work permits. Professional tax collected by employers must be remitted quarterly under Article 32 of the Professional Tax Regulations and/or monthly under Article 36 of the regulations 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 double tax treaties with Mainland China, Mozambique and Portugal. Macau-source income is taxable in Macau, regardless of whether foreign tax is paid on the income.

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 90 days for nationals of the following countries.

Andorra	Iceland	New Zealand
Australia	India	Norway
Austria	Indonesia	Philippines
Belgium	Ireland	Poland
Bosnia-Herzegovina	Israel	Portugal
	Italy	Romania
Brazil	Japan	Samoa
Bulgaria	Kiribati	Seychelles
Canada	Korea (South)	Singapore
Cape Verde	Latvia	Slovak Republic
Chile	Lebanon	Slovenia
Croatia	Liechtenstein	South Africa
Cyprus	Lithuania	Spain
Czech Republic	Luxembourg	Sweden

Denmark	Malaysia	Switzerland
Dominica	Mali	Tanzania
Egypt	Malta	Thailand
Estonia	Mexico	Turkey
Finland	Monaco	United Kingdom (up to six months)
France	Mongolia	United States
Germany	Namibia	Uruguay
Greece	Netherlands	
Hungary		

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. These individuals may stay in Macau for 30 days.

Foreign nationals staying in Macau under visitor status may not engage in any form of employment in Macau, except for those who qualify for an exemption (see Section G).

G. Work permits

Before a blue card is granted by the Immigration Department, a work permit must be obtained from the Human Resource Office (HRO), the government authority that handles the employment of foreign nationals.

Before an application is made to the HRO, the employer must register the vacant position with the HRO'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 Labour and Employment Bureau'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 non-resident. The employer must prove that the HRO was notified of the vacant position and was unable to provide a prospective employee.

To obtain work permits from the HRO for their foreign employees, employers must generally submit the following documents to the HRO:
- A prescribed application form completed in full with details of the employer, reason for employing the foreign national, and number and positions of existing resident and nonresident employees
- Photocopy of the employer's commercial registration document from the Identification Bureau 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 proof for local recruitment from the Labour Affairs Bureau

- 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

If an application is approved by the HRO, a letter of approval is issued to the applicant for submission to the Immigration Department to process the foreign employee's blue card. A foreign national may not undertake employment in Macau until a blue card is issued. The work permit and blue card are 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. In general, 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. A fee of MOP 100 is charged for the granting and renewal of a blue card.

Work permits are normally granted for an initial period of one to two years and are renewable by the HRO on renewal of the employment contract. The application form for the renewal of a work permit, together with a renewed employment contract and other required documents, must be submitted to the HRO three to four months before the expiration date of the work permit. The applicant must also apply for renewal of a blue card from the Immigration Department when the work permit is renewed by the HRO.

Foreigners who enter Macau to set up their own businesses are also required to obtain approval from the HRO. They must follow the procedures for recruiting nonresident skilled workers and submit the following documents:

- Copy of the applicant's identification document
- Copy of the latest Business Tax Registration or Declaration of Start/Alteration of Activity Form M/1
- Proof of the activities performed by the applicant, such as academic certificates or work reference letters
- Proof of applicant's economic capacity in Macau
- Copy of the contributions to the Social Security Fund
- Personal information of recruited local workers including positions, remuneration and identity documents

An expatriate who wants to work in Macau is exempt from the work permit requirements under the following circumstances:

- An enterprise with a registered office located outside of Macau and an enterprise with a registered office in Macau enter into an agreement with respect to the performance of specified or occasional guidance, technical, quality control or supervisory duties.
- An individual or collective person with a registered office in Macau invites a nonresident to engage in religious, sports, academic, cultural interchange or artistic activities.

The above work permit exemptions are limited to a maximum period of 45 consecutive or nonconsecutive days in each period of 6 months.

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 six months to one year 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 of the Public Security Police Force, which issues a confirmation notice for the temporary residence permit. The issuance of the temporary residence permit (residence permit letter) takes approximately two weeks. After obtaining the letter, the applicant can go to the Identification Bureau of Macau and use the letter to apply for a Macau Non-permanent Resident Identity Card. This process 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 a 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 within 180 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.

The Macau Special Administrative Region (SAR) government has suspended the application for a residence permit based on an investment in real estate until further notice.

I. Family and personal considerations

Family members. In general, foreign nationals who hold blue cards or residence permits may be accompanied to Macau by their family members on application. Family members include a spouse, children and other close relatives that are financially supported by the applicant. Unskilled workers may not have dependants 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.

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, and community property for property acquired during marriage
- 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 who have resided in Macau for at least six months may exchange their foreign drivers' licenses for Macau drivers' licenses. 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 and copy of the applicant's valid foreign driver's license. An official translation of the license into Chinese or Portuguese must be included 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.
- 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. However, the imputed benefit is limited to 15% of the total income other than actual housing cost. 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 2011 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.

Calculation of assessable income		MOP
Salary and bonus		600,000
25% deduction from employment income		(150,000)
Net assessable income		450,000
Tax on MOP 144,000		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 26,000	at 12%	3,120
MOP 450,000		
Total tax payable		30,920
Less: 25% tax relief		(7,730) (a)
Net tax payable		23,190 (b)

(a) The government of Macau grants 25% tax relief.
(b) Tax deducted by the employer must be paid to the Macau tax authorities within 15 days after the end of each quarter.

Macedonia, Former Yugoslav Republic of

(Country code 389)

Skopje **GMT +1**

Ernst & Young (Skopje) DOOEL
Marshall Tito 19
1000 Skopje
Macedonia

Executive and immigration contacts

Alexandros Karakitis *(resident in Tirana, Albania)*	+355 4 241 9571 Fax: +355 4 241 9570 Email: alexandros.karakitis@al.ey.com
Dusko Stevceski	(2) 311-3310 Fax: (2) 311-3438 Email: dusko.stevceski@mk.ey.com

Macedonia is in transition from a direct-command economy to a free-market economy, and new commercial laws, rules and regulations are being adopted. The government of Macedonia is proposing an economic restructuring of the country. As a result, many of the past laws, rules and regulations are being reviewed, modified or superseded. Because the tax and other legislation in Macedonia is still evolving and is subject to change and because of the lack of established tax precedents, it is difficult to predict the tax results of transactions with the same confidence that could be expected in many other European countries. For these reasons, readers should obtain updated information and seek professional advice before engaging in transactions.

A. Income tax

Who is liable

Territoriality. Individuals resident in the Republic of Macedonia (RM) are subject to income tax on their worldwide income.

Nonresident individuals are subject to income tax on their income earned in the RM.

Definition of resident. An individual is a resident of the RM if he or she has a permanent or temporary residence in the RM. An individual is considered to be resident in the RM if he or she is present in the RM either continuously or with interruptions for 183 or more days in any 12-month period.

Income subject to tax. Under the Macedonian Personal Income Tax Law, the following types of income are subject to tax:
- Personal earnings
- Self-employment income
- Income from property and property rights
- Income from copyrights and industrial property rights
- Investment income
- Capital gains
- Gains from games of chance and other prize games
- Other revenues

For a table outlining the taxability of income items, see Appendix 1. The various types of income are discussed below.

Personal earnings. The following items are included in personal earnings:
- Salaries and allowances (to the extent that the amounts exceed the legal threshold amounts for allowances) arising from employment, performance-based remuneration (for example, bonuses) and fringe benefits
- Pensions
- Income realized by members of management and supervisory boards of enterprises
- Income realized by officials, members of parliament, advisers and similar high-level persons
- Income realized by professional sportsmen
- Sick-leave allowances
- Annual leave allowances
- Allowances for judges and jury members, forensic experts and receivers not employed by the respective institutions or enterprises
- Compensation and remuneration paid to the members of the Macedonian Academy of Sciences and Arts
- Salaries earned and paid abroad based on employment contracts with Macedonian employers
- Income derived from rendering services under contracts with entities and individuals on a temporary or occasional basis

Self-employment income. Self-employment income includes income from the following types of activities:
- Business activities
- Professional and other intellectual services
- Agricultural activities
- Other activities with the objective of realizing revenues

Self-employed persons must maintain accounting books, except individuals whose total income from agricultural activities does not exceed MKD 1,300,000 annually. The tax base for employment income is net income, which is the difference between revenues and expenditures.

Income from property and property rights. Income from property and property rights includes income earned through the lease or sublease of land, residential or business premises, garages, leisure and recreational premises, equipment, transportation vehicles and other types of property.

Income from copyrights and industrial property rights. Income from copyrights and industrial property rights is considered to be payments received for the use of, or the right to use, such items.

Investment income. Under the Macedonian personal income tax law, investment income includes the following items:
- Dividends and other income realized through participations in the profits of legal entities and noncorporate entities
- Interest on loans granted to legal entities and individuals
- Interest on bonds or other securities

The gross amounts of the above items are taxable.

Capital gains. Capital gains consist of income realized through sales of securities, shares of capital and real estate. The tax base equals the difference between the higher selling price and lower purchase price. Only 70% of capital gains is included in taxable income.

Gains from games of chance and other prize games. Each amount of gain exceeding MKD 10,000 from games of chance and other prize games is subject to personal income tax.

Other income. Other income is any other type of income that is not specifically mentioned in the Personal Income Tax Law as being exempt from tax. Other income includes income realized by acquiring securities and equity shares without consideration if the income is not taxed under the law on property taxes. For such income, the basis for the calculation of the tax is the market value on the day of the acquisition.

Taxation of employer-provided stock options. No specific measures in the Macedonian tax law cover the taxation of stock options. Stock options granted are generally regarded as part of employment remuneration.

Deductions

Deductible expenses. Deductible expenses for personal income tax purposes include the following:
- Contributions by an individual for pension, disability and health insurance and for employment
- Contributions by the individual for voluntary pension and disability insurance
- Fees and other public duties paid

Nonresident individuals may not claim the above deductions.

Personal deductions and allowances. Resident individuals may claim a deductible personal exemption in the annual income tax calculation. For 2011, the annual personal exemption equals MKD 87,792. Nonresident individuals may not claim such exemption.

Rates. Personal income tax is imposed at a rate of 10%.

For a sample tax calculation, see Appendix 2.

Tax credit. Individuals donating financial resources to a legal entity under the Law on Donations and Sponsorship of Welfare

Activities may claim a credit against personal income tax in their annual tax return. The credit may not exceed an amount equal to the first 20% of the annual tax debt, up to a maximum of MKD 24,000.

Relief for losses. Capital losses from sales of shares can be carried forward for three years. Loss carrybacks are not allowed.

B. Other taxes

Property tax. Property tax is imposed on the owners of real estate, nonagricultural land, residential buildings or flats, business areas, administrative buildings, buildings or flats for rest and recreation, garages and other constructions. Property tax rates range between 0.1% and 0.2%, depending on the type and location of the property.

Real estate transfer tax. Transfers of real estate are subject to real estate transfer tax at a rate of 2% to 4% of the market value of the real estate.

Inheritance and gift taxes. Inheritance and gift taxes are imposed on the transfer of certain property by inheritance or gift. Inheritances and gifts are subject to tax if the market value of the inheritance or gift is higher than the amount of the average annual salary in the RM in the preceding year, according to the data from the State Statistics Bureau. The following types of property are subject to tax:

- Immovable property
- Money and claims of money
- Securities and other movable property

The inheritance and gift tax rates vary depending on the order of succession of the recipient. The tax rate is 0% for taxpayers in the first line of succession. For taxpayers in the second line of succession, the tax rate is between 2% and 3%. For other taxpayers, the rate is between 4% and 5%. The municipal authorities fix the actual rate of tax.

C. Social security

Contributions. Employers are required to withhold the following contributions from gross salary.

Contribution	Rate (%)
Pension insurance	18
Health insurance	7.3
Unemployment insurance	1.2
Additional health insurance	0.5

The employee bears the entire amount of the social security contributions. Self-employed individuals must make social security contributions at the rates stated above.

The minimum base for social security contributions equals 50% of the average monthly salary for the current month in the RM. The ceiling amount for social security contributions equals four times the average monthly salary for the current month in the RM.

Totalization agreements. To provide relief from double social security contributions and to assure benefit coverage, Macedonia has entered into totalization agreements, which usually apply for a maximum of two years, with the following countries.

Australia*	Croatia	Poland
Austria	Czech Republic	Romania
Belgium	Denmark*	Serbia
Bosnia-Herzegovina	Germany	Slovenia
Bulgaria	Luxembourg	Switzerland
Canada*	Montenegro	Turkey
	Netherlands	

* This agreement has not yet been ratified.

D. Tax filing and payment procedures

Individuals must submit an annual tax return (PDD-GDP form) reporting taxable income by 15 March of the tax year following the tax year in which the income was realized. Self-employed individuals must submit by the same date an annual tax return specifically designed for income realized from self-employment activities.

An individual is not required to file an annual tax return if, during the year, he or she realizes only salary or pension income.

By 15 February of the year following the tax year, companies and other entities must file an annual report containing the following information for the tax year:
• Gross salary paid
• Tax and contributions withheld from employees' salaries
• Net income for the individuals
• Amount of gross income, net income and taxes withheld with respect to income paid to individuals who are not employees

Companies and other institutions are required to issue reports to individuals that contain specified information, including the amount of tax withheld and the net income to the recipient by 15 February of the year following the tax year.

Tax at a rate of 10% is withheld from the following types of income:
• Personal earnings
• Income from copyrights and industrial property rights
• Investment income
• Income from property and property rights if the income payer maintains business records
• Gains from games of chance and other prize games
• Other income for which the income tax is not determined by a decision from the Public Revenue Office

Advance payment of income tax is required for the following types of income:
• Self-employment income: monthly payments that are due by the 15th day of the month for income earned in the preceding month.
• Income from property and property rights: monthly payments that are due by the 15th day of the month for income earned in the preceding month.
• Capital gains and other income realized periodically: reported on a special form to the tax authorities within 15 days after deriving the income. The tax on the gains is determined through the issuance of a decision by the tax authorities, and the tax is payable within 30 days from the date of the issuance of such decision.

Individuals must pay the difference between the annual tax amount and the advance payments within 30 days after receiving the decision on tax liability based on the submitted annual tax return (PDD-GDP form).

E. Double tax relief and tax treaties

The RM has entered into double tax treaties with the following countries.

Albania	Germany	Russian Federation
Austria	Hungary	Serbia
Belarus	Ireland	Slovak Republic
Belgium*	Italy	Slovenia
Bulgaria	Latvia	Spain
China	Lithuania	Sweden
Croatia	Moldova	Switzerland
Czech Republic	Montenegro	Turkey
Denmark	Netherlands	Ukraine
Estonia	Poland	United Kingdom
Finland	Qatar	
France	Romania	

* The RM is applying this treaty, which was entered into by the former Yugoslavia.

F. Temporary visas

Under Macedonian law, foreign nationals may request a temporary visa for touristic, business, personal and other purposes. The duration of the temporary visa is usually up to one year.

G. Work visas and permits

The reciprocity principle in international relations is considered in evaluating applications for work and residence permits. Apart from reciprocity criteria, only domestic economic problems may cause difficulties in the obtaining of work and residence permits.

Macedonian law provides for the following types of working visas:

- Self-employment visas, which are issued for a period of one year or three years or as permanent visas. Permanent visas may be issued to members of families in the RM, foreign citizens from humanitarian programs or foreign individuals granted asylum.
- Employment visas, which are issued for up to one year.
- Work permits, which have a duration that depends on the nature of the work.

H. Residence visas and permits

The Macedonian law provides for the following three types of residence visas and permits:

- Residence permits, which are issued for up to three months.
- Temporary visas, which are issued to foreign citizens who intend to stay longer than three months. They are usually issued for a duration of up to one year, depending on the reason for the visit (for example, employment, self-employment, study, scientific research or visiting family members). Temporary visas are renewable.
- Permanent visas, which are issued to foreign nationals who have been residing in the RM with a temporary visa for 5 years or more and, during this period, the individual has not left the

country for a continuous period of 6 months or for a discontinuous period of 10 months.

I. Family and personal considerations

Family members. After a foreign national obtains a residence permit or visa, the spouse and children may apply for their own residence permits.

Family members of foreign nationals holding residence permits or visas receive priority in the RM for the obtaining of work permits.

Marital property regime. The ordinary marital property regime in the RM is participation in jointly acquired properties.

Drivers' permits. Foreign or international driving licenses may be used in the RM.

Appendix 1: Taxability of income items

	Taxable	Not Taxable	Comments
Compensation			
Base salary	X	—	—
Pensions	X	—	—
Bonus (cash or in kind)	X	—	—
Income of members of management and supervisory boards	X	—	—
Home-leave allowance	X	—	—
Income realized by officials, members of parliament, advisers, similar high-ranking persons	X	—	—
Meals	X	—	—
Transport allowance	X	—	—
Mass transportation from or to workplace	—	X	—
Other items			
Personal ordinary income (dividends)	X	—	—
Capital gain from sale of personal residence in home country	X	—	—
Capital gain from sale of securities in host country	X	—	—

Appendix 2: Sample tax calculation

The following is a sample monthly tax calculation for an employee in the RM.

	MKD	MKD
Calculation of tax base		
Gross salary		100,000
Pension at 18%	(18,000)	
Health insurance at 7.3%	(7,300)	
Unemployment insurance at 1.2%	(1,200)	
Additional health insurance at 0.5%	(500)	
Total contributions		(27,000)
Personal exemption		(7,316)
Tax base		65,684

	MKD	MKD
Calculation of tax		
Personal income tax (10% of MKD 65,684)		6,568.40
Net salary (MKD 100,000 – MKD 27,000 – MKD 6,568.40)		66,431.60

Madagascar

(Country code 261)

Antananarivo **GMT +3**

Ernst & Young
Bâtiment C1 - Explorer Business Park
BP 3914 Akorondrano
Antananarivo
Madagascar

Executive and immigration contact

Yann Rasamoely 20-22-217-96
Fax: 20-22-216-48
Email: yann.rasamoely@mu.ey.com

A. Income tax

Who is liable. Resident and nonresident individuals are subject to tax on their Malagasy-source income, including employment income.

Resident individuals are individuals who are present in Madagascar for at least 183 days in a tax year (calendar year).

Nonresident individuals are also subject to tax on certain specified types of income, such as income allocated to Madagascar by a multilateral or bilateral tax treaty.

Income subject to tax. Income subject to income tax includes the following:

- All types of remuneration received for public or private employment, including fringe benefits (telephone communications, cars and accommodation)
- Allowances received by employees that are intended to supplement wages, regardless of the name of the allowances
- Indemnities and allowances paid to leaders of companies
- Mandatory alimony, except for amounts allocated to dependent children
- Life annuities

Employers must withhold tax from their employees' wages.

Certain types of income are exempt from income tax, including family allowances, military and civil disability pensions and military retirement pensions.

Deductions. Certain expenses are deductible, including the following:

- Payments to the Caisse Nationale de Prévoyance Sociale (CNAPS), the government fund for social security, and for government or private medical insurance (see Section C)
- Compulsory alimony payments

Rates. The first MGA 250,000 of monthly income is not taxable. Monthly income exceeding MGA 250,000 is subject to tax at a rate of 22%.

B. Estate tax

A lump-sum tax ranging from MGA 10,000 to MGA 40,000 is imposed on inheritances.

C. Social security

Employers and employees must make contributions to the CNAPS, which uses the contributions to make payments for various items including pensions and compensation for industrial accidents and occupational diseases. The contribution rates are 13% for employers and 1% for employees. The rates are applied to the gross monthly remuneration of each employee up to MGA 721,885. Employers withhold the employees' contributions from the employees' wages.

Employers and employees must also make monthly contributions to either an Organisation Socio-sanitaire Inter Entreprise (OSIE) or to AMIE. These entities provide medical insurance. The contribution rates are 5% for employers and 1% for employees. The rates are applied to the gross monthly remuneration (no remuneration limit is imposed). Employers may purchase medical insurance from private companies instead of OSIE or AMIE, but these private companies must have special authorization from the Malagasy administration. Employers may also purchase supplemental medical insurance from private companies in addition to insurance from OSIE and AMIE.

D. Tax filing and payment procedures

Employers must remit withholding tax on wages monthly between the 1st and 15th days of the month following the month in which the wages were paid.

E. Double tax relief and tax treaties

Madagascar has entered into tax treaties with France and Mauritius.

F. Entry visas

If a foreigner wants to enter Madagascar, he or she must obtain a tourism or business visa for a stay of up to three months. This visa can be obtained at a Malagasy embassy or consulate in the foreigner's home country or at the airport on arrival in Madagascar.

G. Work permits

To work in Madagascar, foreign nationals must satisfy the following requirements:

- They must obtain a work permit.
- They must provide a certificate of incorporation and a board of directors' resolution for the Malagasy company for which they intend to work.

H. Residence permits

A foreigner that wants to stay in Madagascar for a period of more than three months must obtain a Stay Card (Carte de Séjour), also known as a residence permit, from the Ministry of the Interior (Home Office). To obtain a Stay Card, the foreigner must submit the following documents:

- A work permit delivered in Madagascar by the Department of Labour
- An employment certificate from the employer in Madagascar
- Tax Identification Number Card (Carte de Numéro d'Identification Fiscale, or CNIF) of the employer
- A copy of National Identity Card or Foreigner Identity Card (CIE) (for renewal of Stay Cards)
- Tax payment certificate of the employer (for renewal of Stay Cards)

Malawi

(Country code 265)

Blantyre **GMT +2**

Ernst & Young
Mail address:
P.O. Box 530
Blantyre
Malawi

Street address:
Apex House
Kidney Crescent
Blantyre
Malawi

Executive and immigration contacts

Shiraz Yusuf	(1) 876-476 Fax: (1) 870-605 Email: shiraz.yusuf@mw.ey.com
Konda Mtawali	(1) 876-476 Fax: (1) 870-605 Email: konda.mtawali@mw.ey.com
Dyson Samuel	(1) 876-476 Fax: (1) 870-607 Email: dyson.samuel@mw.ey.com

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.

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 of 10% 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 in 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
• 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)
• War disability or war widows pensions

Capital gains and losses. Capital gains derived by individuals are 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
• 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 taxpayer. Otherwise, they cease to exist. 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 annual cost or costs adjusted by applying the consumer price index published by the National Statistics Office on the date of disposal of the asset. For purposes of determining capital gains or losses, costs incurred in or before 1980 are aggregated. If an asset value was determined as of 1 April 1992 and was accepted by the Commissioner General by September 1995, that value may be used instead of the earlier indexed costs.

Deductions. Expenditure and losses are allowable as deductions in determining the assessable income of an individual if they are not of a capital nature and if they are wholly, exclusively and necessarily incurred for the purposes of the trade or in the production of income. 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
- 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.

In determining the taxable income derived from farming, expenses with respect to the following are allowed as deductions:

- The stumping, leveling and clearing of land
- Works for the prevention of soil erosion
- Boreholes
- Wells
- Aerial and geophysical surveys
- 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	120,000	0
120,000	156,000	15
156,000	—	30

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 Taxation Act, exemption from withholding tax is not granted for bank interest, rent, royalties, fees, commission, payments for casual labor, payments to contractors and subcontractors, and payments to suppliers of foodstuffs and other goods.

The Commissioner General may exempt from withholding tax the receipts of certain persons or organizations that are exempt from tax under the Taxation Act.

The following table provides withholding tax rates.

Payment	Rate (%)
Bank interest exceeding K 10,000	20
Royalties	20
Rents	10
Payments for supplies to traders and institutions	3
Fees	10
Commission	20
Payments for carriage and haulage	10
Payments for sales of tobacco and other products	3
Payments to contractors and subcontractors in the building and construction industries	4
Payments for public entertainment	20
Payments of over K 500 for casual labor or services	20*

* 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 in the following six years. Losses incurred in manufacturing, agricultural and mining operations may be carried forward indefinitely. Loss carrybacks are not allowed.

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 120,000 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 business taxpayer must estimate the tax payable in that year. This estimated tax, which is known as provisional tax, must be paid quarterly within 30 days after 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 following assessment may be levied at a rate of 0.75% for the first month and at a rate of 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 may be available to reduce the tax payable in Malawi. To qualify for this relief, the income must be derived from a foreign government, state corporation or local authority. An individual must prove to the Commissioner General that he or she 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

F. Entry into Malawi

Foreigners traveling to Malawi require a valid passport from their countries of origin.

Nationals of certain countries need a visa to enter Malawi. They must pay the following fees for their visas.

Type of visa	Fee (US$)
Single entry and valid for three months	70
Multiple entry and valid for six months	150
Multiple entry and valid for one year	250

Foreigners wanting to work, stay or engage in business in Malawi are required to obtain the relevant permits.

G. Work and business permits

Temporary employment permits. The employer must apply for a temporary employment permit before the employee begins employment. The employer must submit the following documents to the Immigration Office:
- A covering letter
- Educational and professional certificates certified as true copies of the originals
- For a new applicant, evidence that the position was advertised in the local press and the *curriculum vitae* (CV) of each local Malawian who applied for the post
- Two passport-size photographs

The employer must pay a processing fee of K 10,000 and, on approval, a fee of K 120,000.

The temporary employment permit is valid for a period of two years and can be renewed for a further two years.

Business residence permits. Persons who want to engage in business must obtain a business residence permit. An applicant for this permit must submit the following documents to the Immigration Office:
- Two passport-size photographs
- Business Registration Certificate

- Business plan for the business intended to be established
- Police clearance letter from the country of origin
- A bank statement showing that the applicant has brought into the country at least US$50,000 (K 7 million)

The applicant must pay a processing fee of K 10,000, and, on approval, a fee of K 500,000.

The business residence permit is valid for five years and is renewable.

Permanent residence permits. Residents who hold a temporary employment permit or business residence permit and have stayed in Malawi for at least five years can apply for a permanent residence permit. The applicant must submit the following documents to the Immigration Office:
- Two passport-size photographs
- Police certificate
- Medical certificate
- Malawi Revenue certificate to confirm that applicant is paying tax
- Bank statement showing that the applicant is financially stable
- Documents evidencing ownership of assets in Malawi

The applicant must pay a processing fee of K 10,000 and, on approval, a fee of K 300,000.

Malaysia

(Country code 60)

Kuala Lumpur **GMT +8**

Ernst & Young
Mail address:
P.O. Box 11040
50734 Kuala Lumpur
Malaysia

Street address:
Level 23A, Menara Milenium
Pusat Bandar Damansara
50450 Kuala Lumpur
Malaysia

Executive and immigration contact

Lay Keng Tan
(3) 7495-8283
Fax: (3) 2095-7043
Email: lay-keng.tan@my.ey.com

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 second half of the immediate preceding calendar year or in the first half of the immediate 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
- One leave passage in a calendar year from Malaysia to any place outside Malaysia, up to a maximum of RM 3,000

Certain allowances, perquisites and benefits-in-kind are exempt from tax, including, among others, the following:
- Petrol/traveling allowances with respect to travel for official duties, up to RM 6,000 a year
- Meal allowances
- Parking
- Telephone, including mobile phone

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

- A continuous period spanning two calendar years, plus other periods in either of the calendar years, totaling 60 days

Noncitizen individuals working in Operational Headquarters (OHQs), Regional Offices, International Procurement Centres (IPCs) and Regional Distribution Centres (RDCs) 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 income received by individuals from monies deposited in approved institutions is exempt from tax.

Other interest, dividends, royalties and rental income are aggregated with other income and taxed at the rates set forth in *Rates*. As a result of the introduction of the single-tier tax system, dividends received by individuals are exempt from tax, effective from the 2008 year of assessment. Dividends distributed under the imputation system continue to be taxable.

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. Remittances of foreign-source income into Malaysia by tax residents of Malaysia are not subject to Malaysian income tax.

Employer-provided stock options. Tax legislation governs the taxation of employer-provided stock options. Under the 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).

Capital gains. In general, capital gains are not taxable. However, gains derived from the disposal of real property located in Malaysia and gains derived from the sale of shares in closely controlled companies with substantial real property interests are subject to real property gains tax (RPGT). RPGT is not imposed on the disposal of chargeable assets between 1 April 2007 and 31 December 2009.

Disposals made within five years after the acquisition date are taxed at an effective rate of 5%. All disposals made after such five-year period are exempt from RPGT.

The rules described below apply to disposals of chargeable assets on or after 1 January 2010 and to all resident and nonresident persons, effective from 1 January 2010.

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 tax deduction of up to RM 10,000 per year is allowed for housing loan interest for house purchases from developers or third parties, subject to the following conditions:
• The individual must be a Malaysian citizen and tax resident.
• The sale and purchase agreement must be executed during the period of 10 March 2009 through 31 December 2010.
• The house purchased must not be used as a rental property.

The deduction is limited to one residential house including a flat, apartment or condominium. It is granted for three consecutive years beginning with the first year in which the housing loan is paid.

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	9,000
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 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 of study (including post-graduate studies) at recognized institutions or professional bodies in Malaysia for the purpose of acquiring any skill or qualification	Up to 5,000
Purchase of books, journals or other publications to enhance knowledge of self, spouse or child	Up to 1,000
Life insurance premiums/provident fund contributions	Up to 6,000
Deferred annuity scheme premium	Up to 1,000
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
Purchase of computer	Up to 3,000 (granted once every three years)
Child saving deposits, which are deposits paid into Skim Simpanan Pendidikan Nasional for children's education	Up to 3,000
Purchase of sports and exercise equipment	Up to 300
Broadband subscription fees	Up to 500 (2010 to 2012 years of assessment)

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		Tax on lower	Rate on
Exceeding RM	Not exceeding RM	amount RM	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	12
50,000	70,000	3,325	19
70,000	100,000	7,125	24
100,000	—	14,325	26

Nonresidents are subject to withholding taxes on certain types of income. Other income is taxed at a rate of 26%.

For a sample tax calculation, see Appendix 2.

If a Malaysian or foreign national "knowledge worker" resides in the Iskandar Development Region and is employed in certain qualifying activities by a designated company and if his or her employment commences on or after 24 October 2009 but not later than 31 December 2015, the worker may apply to be subject to tax at a reduced rate of 15%. The individual must not have derived any employment income in Malaysia for at least three years before the date of the application.

Under a proposal, effective from the 2012 year of assessment, Malaysian professionals returning from abroad to work in Malaysia would be taxed at a rate of 15% for the first five consecutive years following the professional's return to Malaysia under the Returning Expert Programme (REP). However, the relevant legislation for this proposal has not yet been gazetted.

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. An individual carrying on a business in Malaysia is assessed 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 in effect in Malaysia. 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 26% 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	Japan	San Marino
Argentina (a)	Jordan	Saudi Arabia
Australia	Kazakhstan	Senegal
Austria	Korea (South)	Seychelles

Bahrain
Bangladesh
Belgium
Bosnia-Herzegovina (b)
Brunei Darussalam (c)
Canada
Chile
Croatia
Czech Republic
Denmark
Egypt
Fiji
Finland
France
Germany
Hungary
India
Indonesia
Iran
Ireland
Italy
Kuwait
Kyrgyzstan
Lebanon
Luxembourg
Malta
Mauritius
Mongolia
Morocco
Myanmar
Namibia
Netherlands
New Zealand
Norway
Oman (c)
Pakistan
Papua New Guinea
Philippines
Poland
Qatar
Romania
Russian Federation
Singapore
Slovak Republic (c)
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Syria
Thailand
Turkey
Turkmenistan (b)
United Arab Emirates
United Kingdom
United States (a)
Uzbekistan
Venezuela (b)
Vietnam
Yemen (c)
Zimbabwe (b)

(a) This is a limited agreement.
(b) The treaty has been gazetted, but it is not yet in force.
(c) 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 passes

Malaysia issues the following temporary passes:
- Social visit passes, which are for visitors to Malaysia. These may be obtained at the port of entry.
- Transit visas, which are valid for one month.
- Student passes for students attending approved educational institutions.

The nationality of the passport holder is considered in determining whether to issue these passes.

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 have the following:
• Relevant qualifications and work experience
• A valid passport from their home country
• A contract from their employer (with a minimum monthly salary of RM 5,000)
• A cover letter
• 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 500,000 for wholly foreign-owned companies and RM 350,000 for foreign companies in a joint venture with locals. For 100% Malaysian-owned companies, the paid-up share capital must be at least RM 250,000. Licensed manufacturing companies that wish to hire expatriates must present copies of their manufacturing licenses. 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 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 contract terms but wish to take up employment with other companies must shorten their employment pass and obtain a release letter from the current employer.

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.

Professional Visit Pass. A person who intends to enter Malaysia to conduct training or install machinery purchased from an overseas company may apply for a Professional Visit Pass (PVP). A PVP is valid for three to six months and is renewable for a maximum additional period of six months. To qualify for a PVP, the individual's salary must be paid by an overseas company. Benefits-in-kind (for example, allowances, for accommodation and travel to and from Malaysia) may be paid by the Malaysian-sponsoring company.

H. Residence permits

Residence Pass. Effective from 1 April 2011, the Residence Pass (RP) will be offered to highly qualified expatriates seeking to continue living and working in Malaysia on a long-term basis. Holders of the RP will be eligible for many benefits, including the ability to live and work in Malaysia for up to 10 years. RP holders will be allowed to change employers without having to renew the pass. The spouse and children (under 18 years old) of the recipient will also be awarded the same benefits. In general, a foreign individual who has been living and working in Malaysia for at least three years on a continuous basis may apply for the RP if the requirements are met. Applicants will need to be approved by the RP panel before they are recommended for the granting of the pass. Preference will be given to applicants who qualify as experts who are able to contribute to key Malaysian industries in a significant way.

Malaysia, My Second Home Program. The Malaysia, My Second Home Program (MM2H Program) allows people from all over the world who fulfill certain criteria to reside in Malaysia as long as possible on a social visit pass with a multiple-entry visa. The social visit pass is granted for an initial period of 10 years (subject to the validity of the applicant's passport) and is renewable. The program is open to all citizens of countries recognized by Malaysia, regardless of race, religion, gender or age. Applicants may bring along their spouse and their unmarried children below 21 years old. Applicants may not work in Malaysia under this program.

To qualify for the MM2H Program, individuals who are younger than 50 years of age must open a fixed-deposit account with at least RM 300,000. After a period of one year, the participant can withdraw up to RM 150,000 for approved expenses relating to house purchase, education for children in Malaysia and medical purposes. A letter from the participant to the Malaysia, My Second Home Centre (MM2H Centre), Ministry of Tourism Malaysia is required before any withdrawal from the fixed-deposit account. Beginning with the second year, the individual must maintain a minimum balance of RM 150,000 throughout his or her stay in Malaysia under this program.

To qualify for the program, individuals who are aged 50 years or older must satisfy either of the following conditions:

- They must open a fixed-deposit account of RM 150,000. After a period of one year, the participant can withdraw up to RM 50,000 for approved expenses relating to house purchase, education for children in Malaysia and medical purposes. A letter from the participant to the MM2H Centre, Ministry of Tourism Malaysia is required before any withdrawal from the fixed-deposit account. Beginning with the second year, the participant must maintain a minimum balance of RM 100,000 throughout his or her stay in Malaysia under the program.

- They must show proof of monthly offshore income, such as pension income, of RM 10,000 or more. Only applicants who are drawing from government-approved funds may satisfy this condition.

All participants in the MM2H Program and their dependants (spouse and children) must submit a medical report from a private hospital or registered clinic in Malaysia. Approved participants and dependants (spouse and children) must possess a valid medical insurance policy that applies in Malaysia.

Foreign citizens may apply for participation in the MM2H Program directly, without going through a third party, or they may use the services of MM2H agents licensed by the Ministry of Tourism, Malaysia.

The social visit passes described above are not permanent residence permits.

I. Family and personal considerations

Family members. The spouse of an expatriate is allowed to work without having to change his or her dependant pass to an employment pass if he or she obtains the necessary working approval from the Immigration Department.

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	Hong Kong	New Zealand
Belgium	Iran	Nigeria
Brunei Darussalam	Iraq	Papua New Guinea
China	Italy	Philippines
Denmark	Japan	Poland
Egypt	Korea (South)	Russian Federation
Fiji	Laos	Singapore
Finland	Libya	Spain
France	Mauritius	Switzerland
Germany	Myanmar	Thailand
	Netherlands	Turkey

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
- 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	—	—
Petrol/traveling	—	X	(d)
Childcare	—	X	(e)
Meal	—	X	(f)
Parking	—	X	—
Other allowances	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.
(d) The petrol/traveling allowance is exempt from tax up to RM 6,000 with respect to travel for official duties.
(e) The childcare allowance is exempt from tax up to RM 2,400 a year if the child is age 12 or below.
(f) Meal allowances to cover meal expenses resulting from overtime or outstation/overseas trips are taxable.

Appendix 2: Sample tax calculation

A sample tax calculation for the 2011 year of assessment is provided below for an expatriate, who is a resident in Malaysia for all of 2011 and is married with two dependent children under 18 years old. During 2011, 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	(9,000)	
Wife	(3,000)	
Children	(2,000)	
Total deductions		(14,000)
Taxable income		181,000
Calculation of tax		
Tax on first RM 100,000		14,325
Tax on next RM 81,000 at 26%		21,060
Income tax payable		35,385

Maldives

(Country code 960)

Male **GMT +5**

Ernst & Young
Asrafee Building
Third Floor
1/44 Chandhanee Magu
Male 20-03
Maldives

Executive and immigration contact

Ahmed Hisham Fawzy	332-0742 Fax: 332-0748 Mobile: 7771297 Email: hisham.fawzy@lk.ey.com

A. Business profits tax

Under the Business Profits Tax Act of 2011, a business profits tax at a rate of 15% is effective from 18 July 2011. All persons, including individuals accruing profits from businesses, will be subject to the tax on their taxable profits. The first MVR 500,000 will be exempt from tax. Further information is not available because the regulations pertaining to the Business Profits Tax Act of 2011 have not yet been released.

B. Goods and services tax

Under the Tourism Goods and Services Tax Act of 2010, a goods and services tax (GST) at a rate of 3.5% is imposed on goods and services supplied by the tourism industry (except for tariffs on rooms), effective from 1 January 2011. Room revenue will continue to be subject to a tax of US$8 per occupied bed per night.

Malta

(Country code 356)

Msida **GMT +1**

Ernst & Young
Fourth Floor
Regional Business Centre
Achille Ferris Street
Msida MSD1751
Malta

Executive, immigration and International High Net Worth Group contacts

Christopher J. Naudi	2134-2134, 2347-1440 Fax: 2133-0280 Email: chris.naudi@mt.ey.com
Robert Attard	2134-2134, 2347-1458 Fax: 2133-0280 Email: robert.attard@mt.ey.com

A. Income tax

Who is liable. Persons who are both ordinarily resident and domiciled in Malta are subject to tax on their worldwide income and chargeable capital gains. Persons who are either 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.

Under Act I of 2010, income derived by an owner, lessor or operator of an aircraft or aircraft engine engaged in the international transport of passengers or goods is deemed to arise outside Malta, regardless of the fact that the aircraft may have called at or operated from an airport in Malta.

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
- Other benefits granted as a result of the nature of the employment or office

Article 56 (17) of the Income Tax Act (ITA) provides for favorable tax treatment of employment income derived from activities carried on outside Malta. At the taxpayer's option, income arising from employment exercised outside Malta is taxable at 15%. The scheme is available to any individual. Specific conditions must be satisfied for the system to apply.

The beneficial tax treatment described above does not apply to income derived from services rendered on ships and aircraft owned by Maltese companies and to government services, excluding services on ships, aircraft or road vehicles owned, chartered or leased by Maltese companies and to services for the government of Malta.

Income taxed under Article 56 (17) of the ITA is deemed to constitute "the first part of that individual's total income for that year" for computational purposes. Under this measure, if the individual derives income from other sources, the income is taxed at the progressive rates applicable to the portion of the income in excess of the income taxed at 15% (that is, any surplus income is not taxed at the progressive rates beginning at 0%; instead, it is taxed at the higher progressive rates applicable to the subsequent tax brackets).

Article 56 (21) of the ITA creates a beneficial tax system for persons who receive emoluments payable under a qualifying employment contract. This measure provides for a potentially favorable tax rate of 15%, which can be applied at the option of the taxpayer. The 15% rate may be used both with respect to work duties carried out in Malta and work duties performed outside Malta in connection with work duties in Malta. Persons who may benefit from these rules are highly qualified individuals who receive employment income of a minimum of €75,000 (exclusive of the annual value of any fringe benefits) from an eligible office.

The tax benefit consists in the right to elect to pay tax at a rate of 15% on income from a qualifying employment contract. Income from a qualifying contract exceeding the sum of €5 million is exempt from tax. The rate of 15% applies without the possibility to claim any relief, deduction, reduction, credit or set off.

To benefit from the tax system described above, an individual must meet all of the following conditions:
- He or she must derive income subject to tax under Article 4(1)(b) of the Income Tax Act, which are emoluments payable under a qualifying employment contract.

- He or she is protected as an employee under Maltese law and has the required adequate and specific competence, as proven to the satisfaction of the competent authority.
- He or she proves to the satisfaction of the competent authority that he or she possesses professional qualifications.
- He or she has not benefitted under Article 6 of the Income Tax Act, which provides for certain fringe benefit exemptions.
- He or she fully discloses for tax purposes and declares emoluments received with respect to income from a qualifying employment contract.
- He or she proves to the satisfaction of the competent authority the following:
  - He or she performs activities of an eligible office (see below).
  - He or she receives stable and regular resources that are sufficient to maintain himself or herself and the members of his or her family without recourse to the social assistance system in Malta.
  - He or she resides in an accommodation that is regarded as normal for a comparable family in Malta and that meets the general health and safety standards in force in Malta.
  - He or she possesses a valid travel document.
  - He or she possesses sickness insurance with respect to all risks normally covered for Maltese nationals for himself or herself and the members of his or her family.
  - He or she is not domiciled in Malta.

For the purposes of the above beneficial tax system, the following offices with companies licensed and/or recognized by the Malta Financial Services Authority are considered eligible offices:
- Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Operations Officer and Chief Technology Officer
- Portfolio Manager, Chief Investment Officer, Senior Trader/Trader, Senior Analyst (including Structuring Professional), Actuarial Professional, Chief Underwriting Officer and Chief Insurance Technical Officer
- Head of Marketing and Head of Investor Relations

The benefit applies for a specific number of years from the date of first election and it may be clawed back retrospectively if the expatriate's stay in Malta is not in the public interest.

Persons wishing to benefit from the scheme must file an application with the Malta Financial Services Authority.

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 are not taxable in the hands of the shareholders.

Resident individuals may choose to pay a 15% withholding tax on bank interest. This tax is treated as a final tax and need not be disclosed in the income tax return. Interest, royalties, premiums and discounts 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.

In general, rental income is taxed with other income at the rates set forth in *Rates*. A special withholding tax rate of 5% applies if an individual rents immovable property to the Housing Authority for a period of not less than 10 years. The 5% tax is applied to the gross rental income received. It is considered a final tax and is not available for credit or set-off. The tax is withheld by the Housing Authority from payments made and remitted to the Commissioner of Inland Revenue by the 14th day following the end of the month in which the rent is paid.

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. When an employee exercises the option to acquire shares in a company in which the employee is employed, the taxable value of the fringe benefit equals 42.851% of the excess, if any, of the market value of the shares on the date of the exercise of the option over the option price of such shares.

Capital gains. Capital gains derived from the transfer of the following capital assets are taxable:
- Immovable property
- Securities
- Business
- Goodwill
- Business permits
- Copyrights
- Patents
- Trademarks and trade names
- Beneficial interests in trusts
- A full or partial interest in a partnership

In certain cases, share dilutions and degroupings result in deemed transfers of securities in a company and are subject to tax.

In addition, if a person acquires or increases a partnership share, a transfer of an interest in the partnership to that partner from the other partners is deemed to occur and accordingly is subject to tax.

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.

In the course of a winding up or distribution of assets of a company, the transfer of property by a company to a shareholder who owns all of the share capital of the company, or to an individual related to the shareholder, is exempt from tax, provided certain conditions are satisfied.

Property transfers tax. In general, the transfer of immovable property in Malta is taxed at a rate of 12% on the higher of the consideration or market value of the immovable property at the date of the transfer. No deductions may reduce the tax base, except for agency fees subject to value-added tax (VAT). If the immovable property is transferred within a period of seven years from the date of its acquisition, the seller may choose to be taxed on either of the following: 12% of the transfer price or market value of the immovable property at the time of the transfer; or 35% of the difference between the transfer price and the acquisition cost (capital gains in terms of the regime discussed above).

For the purpose of computing capital gains, the acquisition cost of immovable property includes the following:

- The purchase price of the property at the time of acquisition
- Duty on documents paid on acquisition
- Notarial fees on acquisition
- Agency fees paid when the property was acquired
- Cost of any improvements
- An allowance for inflation calculated in accordance with the index of inflation
- A maintenance allowance of 0.4% per annum
- Any expenses that have increased the value of the property since its acquisition
- Selling expenses up to 5% of the sales price

Nonresidents may opt out of the 12% regime if they produce a statement signed by the tax authorities of the country of residence confirming that they are resident in that country and that any gains or profits derived in Malta are being taxed in their country of residence. In such circumstances, the tax on the capital gain derived from the sale of immovable property in Malta is calculated by reference to the difference between the consideration and the cost of the property. Tax is calculated at the nonresident rates.

Deductions

Deductions from employment income. The following deductions from employment income are expressly allowed:

- Individuals may deduct certain alimony payments including alimony payments ordered by foreign courts.
- Women who have not yet attained the statutory retirement age and who return to employment on or after 1 January 2005 after

having been absent from any gainful occupation for at least five years immediately preceding the date of the income tax return (30 June) benefit from a tax credit of €1,630.56. This tax credit is set off against the tax on gains or profits from the employment and may be claimed for two consecutive years beginning in the year of assessment in which the employment begins.

- School fees paid to schools specified by the Minister of Finance and fees with respect to a registered private kindergarten are deductible to persons paying such fees on behalf of their children. The maximum amounts deductible are €1,600 for each child attending secondary school and €1,200 for each child attending primary school. Fees paid to one of the specified schools for a facilitator with respect to a child with special needs (handicapped child) may be deducted up to an amount of €9,320 if a board established by the Minister of Finance for this purpose determines that a facilitator is necessary.
- Individuals who prove to the satisfaction of the Commissioner of Inland Revenue that they have paid fees for childcare services for their children who were below the age of 12 to bona fide childcare centers may claim a deduction for such payments confirmed by official receipts, up to a maximum deduction of €935.
- Individuals who prove to the satisfaction of the Commissioner of Inland Revenue that in the year preceding a year of assessment they have paid fees on their own behalf or on behalf of family members with respect to a residence in a private home for the elderly may deduct such fees up to a maximum amount of €2,000. The proof must consist of information provided by the operator of the private home for the elderly.
- Individuals may claim a deduction for fees paid on behalf of their children younger than age 16 for attendance at sports activities approved by the Kunsill Malti ta' l-Isport, up to a maximum deduction of €100 for each child.
- Individuals who prove to the satisfaction of the Commissioner of Inland Revenue that they have paid fees with respect to their studies at recognized tertiary education institutions, located in Malta or abroad, may claim a deduction against their income with respect to such fees in such manner and subject to such conditions as may be prescribed.
- Under the Donations (National Heritage) Rules, 2006, individuals may claim deductions for donations of not less than €2,329.37 to Heritage Organisations. The donations may be made in cash or in the form of any other asset, excluding immovable property, to the Superintendent of Cultural Heritage, Heritage Malta, Fondazzjoni Patrimonju Malti or a nongovernment cultural heritage organization. Deductions for such donations are subject to the following conditions:
  - — A signed certificate for such donation must be issued by one of the above organizations and attached to the donor's income tax return for the relevant year.
  - — The donation must be made for the purpose of research, conservation or restoration, education or exhibition of the cultural heritage, and such purpose must be indicated in the certificate mentioned above.
  - — For a donation made to a nongovernmental cultural heritage organization, the organization must not be related to the donor.
- Individuals who prove to the satisfaction of the Commissioner of Inland Revenue that they have paid fees with respect to their

studies at recognized tertiary education institutions, whether locally or abroad, may claim a deduction against their income for such fees in such manner and subject to such conditions as may be prescribed.

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. In addition, a deduction of up to €931.75 per child may be claimed for payments by an employer to a licensed or registered childcare center with respect to childcare services rendered to children of employees.

Electrical vehicle deduction. If a qualifying person incurs qualifying expenditure on an electrical vehicle in the year preceding the year of assessment, a deduction equal to 125% of the cost incurred may be claimed as a deduction in such year of assessment. The total deduction claimed may not exceed €25,000 with respect to each electrical vehicle. If a deduction is claimed, no deduction with respect to wear and tear may be claimed for the same electrical vehicle.

Rates

Residents. The following tables present the progressive tax rates for the 2011 year of assessment for married persons filing jointly and single persons and married persons filing separately.

Married persons filing jointly

Taxable income		
Exceeding €	**Not exceeding €**	**Rate %**
0	11,900	0
11,900	21,200	15
21,200	28,700	25
28,700	—	35

Single persons and married persons filing separately

Taxable income		
Exceeding €	**Not exceeding €**	**Rate %**
0	8,500	0
8,500	14,500	15
14,500	19,500	25
19,500	—	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 €4,192.87 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 €6,988.12.

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 €	Not exceeding €	Rate %
0	700	0
700	3,100	20
3,100	7,800	30
7,800	—	35

In general, if taxable income is paid to a nonresident (other than a company), 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 taxes. 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 through gifts. 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 €15.35 and a maximum amount of €33.03 for persons born up to 31 December 1961 or €35.39 for persons born from 1 January 1962 onwards, per week per employee. Employees make a 10% contribution, subject to the same minimum. Employees aged 18 years and older earning less than €153.45 per week may elect to pay 10% of their weekly gross wage. However, if the employee makes such election, he or she is entitled to pro rata contributory benefits.

Employers deduct the social security contributions before paying the net salary to the employee. The minimum amount for persons under 18 years old is €6.62 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 2011 are calculated in the following manner. If the self-employed person's income during the calendar year immediately preceding the contribution year was less than €7,743, a weekly contribution of €22.34 applies. If the income in the preceding year exceeded €7,743, but did not exceed €9,203, the weekly contribution is €26.55, or 15% of the annual net earnings if the person is a part-time self-employed woman whose annual net earnings do not exceed €9,203. For persons born up to 31 December 1961, if the income in the preceding year exceeded €9,204, but did not exceed €17,175, an annual contribution rate of 15% of annual income applies. If the income in the preceding year exceeded €17,176, a weekly contribution of €49.54 applies. For persons born from 1 January 1962 onwards, if the income in the preceding year exceeded €9,204, but did not exceed €18,400, an annual contribution rate of 15% of annual income applies. If the income in the preceding year exceeded €18,400, a weekly contribution of €53.08 applies. The above contributions are calculated weekly, but paid monthly.

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, the Netherlands and the United Kingdom.

As a member of the European Union (EU), Malta is governed by EU Regulations 883/04 and 987/09 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 specified types of income are not required to file regular tax returns, but they receive a tax statement with respect to the basis year in question. The taxpayer needs to review the tax statement. If the taxpayer does not agree with the amount, a form attached to the tax statement must be completed and sent to the Commissioner of Inland Revenue. Subsequently, the taxpayer may be asked to file a special tax return by 30 June of the year following the basis year. The following are the specified types of income subject to the above rule:

- 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%
- Income of up to €6,988.12 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.

In addition, if a person has received a tax refund that is not wholly or partly due to him or her, repayment must be made to the Commissioner of Inland Revenue within 30 days from the date of the receipt of the refund. Interest is charged if such payment is not made within the stipulated time.

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 three installments must equal specified percentages of the total tax liability shown on the last return submitted to the Commissioner of Inland Revenue. The following are the percentages:
- First installment, 20%
- Second installment, 30%
- Third installment, 50%

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 Organization for Economic Cooperation and Development (OECD) model convention. Recent treaties with Qatar and the United Arab Emirates incorporate elements of the United Nations' model. Malta's double tax treaties eliminate double taxation through the credit method.

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

Albania
Australia
Austria
Barbados
Belgium
Bulgaria
Canada
China
Croatia
Cyprus
Czech Republic
Denmark
Egypt
Estonia
Finland
France
Georgia
Germany
Greece
Hungary
Iceland
India
Ireland
Isle of Man
Italy
Jordan
Korea (South)
Kuwait
Latvia
Lebanon
Libya
Lithuania
Luxembourg
Malaysia
Montenegro
Morocco
Netherlands
Norway
Pakistan
Poland
Portugal
Qatar
Romania
San Marino
Serbia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sweden
Switzerland*
Syria
Tunisia
United Arab Emirates
United Kingdom
United States

* This treaty is limited to ships and aircraft.

Malta has signed treaties with Bahrain, Belgium, Switzerland and Uruguay, but these treaties have not yet entered into force.

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
- Countries with which Malta has bilateral agreements or arrangements, including Andorra, Argentina, Bolivia, Brazil, Chile, Costa Rica, Croatia, the Czech Republic, Egypt, El Salvador, Estonia, Guatemala, Honduras, Hungary, Indonesia, Israel, Japan, Korea (South), Kuwait, Liechtenstein, Lithuania, Mexico, Monaco, Morocco, Nicaragua, Panama, Paraguay, Poland, San Marino, Saudi Arabia, Slovak Republic, Slovenia, South Africa, Tunisia, the United States, Uruguay, Vatican City and Venezuela

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
- 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. The Department of Citizenship and Expatriate Affairs issues work permits in Malta. Effective from 30 April 2011, European Economic Area (EEA) and Swiss nationals and their family members or dependants are not required to obtain an employment license to work in Malta. This rule does not apply until the end of 2011 to Bulgarian and Romanian nationals and their family members or dependants. 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 to six 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.

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 a member of the EU or the 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.
- 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.

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 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 €27,952.48, 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 €27,952.48. 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 €20,946.36, 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 2011 year of assessment is provided below for an expatriate, who is a resident in Malta for the full 2010 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 2010, the expatriate received compensation of €116,468.67, of which €104,821.80 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 a third party) of €27,952.48. The expatriate earned dividends from home-country investments of €3,494, of which €2,329.37 were remitted to Malta. The expatriate was also granted the use of a car valued at €30,281.85, and expenses relating to such car were fully borne by the employer. The following is the tax calculation.

	€	€
Calculation of taxable income		
Income:		
Salary	116,468.67	
Taxable value of housing	27,952.48	
Taxable value of car	4,076.40	
Investment income received in Malta	2,329.37	
Taxable income		150,826.92

Calculation of tax

Tax on €11,900	at 0%	0
Tax on €9,300	at 15%	1,395.00
Tax on €7,500	at 25%	1,875.00
Tax on €122,126.92	at 35%	42,744.42
€150,826.92		
Income tax payable		46,014.42

Mauritania

Please direct all inquiries regarding Mauritania to Raky Gueye of the Dakar, Senegal office (telephone: +221 33 849 2219; fax: +221 33 823 8032; email: raky.gueye@sn.ey.com).

A. Income tax

Who is liable. Residents of Mauritania are taxed on worldwide income. Nonresidents are taxed on their Mauritanian-source income only.

Mauritanian and foreign individuals are considered to be residents for tax purposes if they meet any of following criteria:
- They maintain a home in Mauritania as owner or renter.
- They reside primarily in Mauritania.
- They perform a professional activity in Mauritania, unless such activity is accessory (not the principal source of income).

Foreign-source income is not taxable in Mauritania if the recipient can prove that such income has been taxed in the source country.

Income subject to tax. Resident individuals are subject to general income tax on their worldwide general income, including the following income:
- Self-employment or business income derived from commercial, noncommercial, or agricultural activities
- Rental income
- Investment income
- Capital gains that are not taxable as self-employment or business income
- Salaries and wages that have not been subject to the tax on salaries

For a table outlining the taxability of income items, see Appendix 1.

Employment income. Gross employment income includes public and private wages, salaries, perquisites, bonuses, fringe benefits and supplement salaries (payments made in addition to salary, such as rental subsidies and overtime pay).

The following types of income are exempt from tax:
- Compensation and allowances relating to governmental or local representative duties.
- A fixed amount of MRO 30,000.
- Up to MRO 10,000 per month for all compensation and allowances except those relating to housing, transportation, liability and office (allowances relating to liability or office are allowances paid to employees with administrative or financial responsibilities, such as those who are on call or must remain late at the office).
- Family or state allowances.
- Legal payments for war disability.
- Allowances for professional accidents (allowances for accidents caused by working tools or the handling of products in the work place).
- Legal retirement benefits.
- Fringe benefits not exceeding 20% of remuneration. However, only 40% of fringe benefits exceeding the exempt amount is included in taxable income.

A nonresident individual is taxable on income derived from services performed in Mauritania.

Employers withhold tax from salaries monthly. Salaries that are subject to withholding tax are not included in the tax base for general income tax purposes.

Self-employment and business income. Self-employment activities are divided into commercial and industrial activities, noncommercial activities, and taxable activities that are not subject to a special tax. Income from each category is subject to proportional tax and general income tax (see *Rates*). The taxation of these types of income is summarized below.

Individuals are taxed on commercial and industrial income if they derive profits from activities with respect to industry, skilled trade, commerce, agriculture, fishing and forestry. If agricultural products are sold, agricultural production is considered a commercial activity. If agricultural production is used as food for the farmer only, it is not taxed. Taxable income equals the net profit derived from all such activities carried on by the taxpayer, including capital gains on transfer of business assets. Taxable income is computed on an accrual basis and taxed at a rate of 25%.

Individuals are taxed at a rate of 30% on professional income from noncommercial activities and from other occupations and business activities not subject to a special tax. Taxable professional income equals the difference between income received, including capital gains on transfer of assets, and expenses incurred with respect to the performance of the relevant activities. Taxable professional income is computed on a cash basis.

Investment income. Investment income, which includes dividends, directors' fees and interest on bonds, debentures and bank deposits is subject to proportional tax at a rate of 10%. However, interest on banking deposits up to MRO 1 million paid to Mauritanians performing activities abroad are exempt from tax.

Rental income. Rental income includes rentals of houses, office buildings, factories and real estate without buildings. Rental income is subjected to proportional tax at a rate of 10%.

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 located in Mauritania that is owned by the taxpayer.

Capital gains on the transfer of shares and real property that were not realized in the performance of self-employment activities are not subject to tax.

Deductions

General. Expenses are deductible for general income tax purposes if they satisfy the following conditions:

- They have not been taken into account in the calculation of the categories of income described above.
- They were effectively incurred during the tax year.
- They are evidenced by documents.

Personal deductions. Under the tax law, the following personal expenses may be deducted:

- Interest paid on loans to acquire or build the taxpayer's principal residence in Mauritania
- Pensions and allowances that were fixed by court decision
- Proportional taxes paid on income
- Voluntary premiums for retirement pensions, up to 6% of net professional income (for this purpose, net professional income equals general income minus proportional taxes paid)
- Life insurance premiums, up to 6% of net professional income
- Pensions paid to the taxpayer's parents and other close relatives, up to a maximum of MRO 48,000 (approximately US$200)
- *Zakat*, up to 2.5% of income
- Patronage and sponsorship expenses, up to 1% of income

Business deductions. For the self-employment and business income, the following expenses are deductible:

- General expenses incurred for business purposes, which 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. In Mauritania, the following two levels of income taxation exist:

- Proportional tax on each particular type of income (employment income, self-employment and business income, investment income and rental income).
- Annual general income tax, which is a tax on total or global income, including the specific types of income subject to proportional tax. If an individual has several sources of income, he or she is taxed annually on global income, and he or she may claim deductions for taxes that have been paid on the specific types of income.

The rates of the proportional taxes are described in *Income subject to tax* above. The calculation of the general tax is summarized below.

General income tax is levied at rates ranging from 5% to 33%. Family-coefficient rules reduce the progressive general income tax rates for taxpayers. Under the family-coefficient system, the applicable progressive tax rates are determined by dividing taxable income by the number of family allowances of 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, divorced or widowed without children	1
Married without children	2
Single or divorced with one child	2
Married or widowed with one child	2.5
Single or divorced with two children	2.5
Married or widowed with two children	3
Single or divorced with three children	3
Married or widowed with three children	3.5
Single or divorced with four children	3.5

A one-half allowance is added for each additional dependent child. A disabled child is counted as one allowance. For taxpayers who have several wives, each wife counts for one allowance. However, the total number of allowances that may be taken into account may not exceed five.

The following table presents the progressive rates of general income tax.

Taxable income per allowance		
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.

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 Mauritanian tax law does not contain an inheritance tax. However, donations and inter vivos gifts are subject to registration fees at various rates that vary according to the type of assets transferred. For example, donations and inter vivos gifts of real estate and goods are subject to a registration fee at a rate of 2%.

C. Social security

Social security contributions are withheld monthly by employers. They are computed on the basis of gross remuneration paid up to MRO 70,000. The rates of social security contributions are 15% for employers and 1% for employees.

Social security benefits relate to sickness, maternity, retirement, disability, or invalidity. The amount of benefits depends on the total amount of contributions made on behalf of the employee.

D. Tax filing and payment procedures

Employers must withhold individual income tax from wages and pay the withholding tax to the tax authorities by the 15th day of the following month.

Taxpayers must file a general income tax return by 1 March. However, for individuals performing commercial and noncommercial activities, the deadline is 1 April.

Individuals performing commercial, agricultural or professional activities must pay the tax due by 30 April.

E. Double tax relief and tax treaties

Foreign taxes paid may be deducted as an expense from taxable income.

Mauritania has entered into double tax treaties with France and Senegal. In addition, Mauritania is a signatory of the West African Economic Community (Communauté Economique de L'Afrique de L'Ouest, or CEAO) tax treaty. Other signatories include Burkina Faso, Côte d'Ivoire, Mali, Niger and Senegal. Under the CEAO treaty, dividends are taxed in the state of source.

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 allowed by the domestic law of such state.
- Employment income is taxed in the treaty country where the activity is performed, except in the case of a short assignment.

The treaties with France and Senegal provide that royalties and remuneration paid to a nonresident for services rendered in Mauritania are taxable in the state of residence of the beneficiary, but the state of source may withhold tax at source if allowed by the domestic law of such state.

Appendix 1: Taxability of income items

	Taxable	Not taxable	Comments
Compensation			
Base salary	X	—	(a)
Employee contributions to home-country benefit plan	—	X	—
Bonus	X	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(b)
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	(c)
Capital gain from sale of personal residence in home country	—	X	(d)
Capital gains from sale of stock in home country	—	X	(e)

(a) The salary is not subject to general income tax if it is withheld monthly.
(b) The legal scale provided by the tax authorities determines the taxable amount.
(c) Dividends and interest are subject to a proportional withholding tax.
(d) A capital gain derived from the sale of a personal residence is exempt from income tax if the person is not taxed on commercial, industrial or noncommercial activities.
(e) Capital gains derived from sales of shares are exempt from the income tax if the person is not taxed on commercial, industrial or noncommercial activities.

Appendix 2: Sample tax calculation

A sample tax calculation is provided below for a taxpayer who works for a private company. He is married with two dependent children under 18 years old. During the year, he received a gross salary of MRO 1,200,000. His wife is engaged in the private practice of medicine that generates an annual profit of MRO 2 million. In addition, they earn the following additional income:

- Annual gross income of MRO 2 million from treasury bonds
- Annual gross income of MRO 400,000 from an apartment rental

They provide annual financial assistance to their parents in the 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	
Annual profit of the spouse	2,000,000	
Gross rental income	400,000	
Gross bond interest received	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 30%	(600,000)	
Rental tax paid at a rate of 10%	(40,000)	
Tax on bond interest at a rate of 10%	(8,000)	
Pension paid to parents	(48,000)	
Total exclusions and deductions		(1,896,000)
Net assessable income		1,784,000
Calculation of general income tax		
Progressive tax per one allowance		29,733 (b)
Total amount of income tax (3 x MRO 29,733)		89,199

(a) The salary is not included for general income tax purposes because tax on salaries is withheld monthly.

(b) For details regarding the dividing of income to calculate the general income tax, see Section A.

Mauritius

(Country code 230)

Ebene **GMT +4**

Ernst & Young
Level 9
Tower 1
NeXTeracom
Cybercity
Ebene
Mauritius

Executive and immigration contact

Ryaad Owodally	403-4717 Fax: 403-4700 Email: ryaad.owodally@mu.ey.com

A. Income tax

Who is liable. In general, individuals resident in Mauritius are taxed on their worldwide income. Income derived from outside Mauritius is taxed on a remittance basis. 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 January to 31 December.
- 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.
- 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.

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 an employment contract are not taxable to the extent that they do not exceed 6% of the basic salary of the individual. Exempt emoluments on termination payments received are restricted to an aggregate amount of Rs. 1,500,000 with respect to the following:

- Severance allowances determined in accordance with the Labor Act
- A lump-sum payment that results from the commutation of a pension or from a death gratuity or that represents consolidated compensation for death or injury, paid as a result of any Mauritian laws
- Payments from superannuation funds or personal pension schemes approved by the Director-General of the Mauritius Revenue Authority
- Lump-sum payments under the National Savings Fund Act
- Retirement allowances

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. Interest income is taxable at a rate of 15%. Interest derived by nonresidents on deposits held with Mauritian banks is exempt from tax. Residents and nonresidents are exempt from tax on the following types of interest:

- Interest on savings or fixed deposit accounts with Mauritian registered banks or nonbanking institutions authorized to accept deposits
- Interest on government securities and Bank of Mauritius Bills

Dividends paid by resident companies are exempt from tax.

Directors' fees. Directors' fees paid to residents are taxed in the same manner as employment income, regardless of whether the services are rendered in or outside Mauritius. Excessive remuneration is considered a distribution, which is fully taxable in the hands of the individual.

Capital gains. Capital gains are not generally taxable, except for gains on immovable properties located in Mauritius. The yearly gains of an individual are reduced by Rs. 2 million. The rate of capital gains tax is 10%.

The following gains on immovable properties are exempt from tax:
- Gains derived by the heirs of a deceased person on the transfer between heirs of immovable property acquired by inheritance or from other heirs, or undivided rights of such immovable property, provided that the transfer is made within five years of the date of death of the person
- Gains derived from the transfer of immovable property from an ascendant to a descendant
- Gains derived from the sale or transfer of immovable property by an heir of a deceased person if the sale is the first sale made after 31 December 2010 and if the proceeds of the sale or transfer do not exceed Rs. 5 million.

Deductions. Resident individuals can benefit from an Income Exemption Threshold (IET). The IET is deductible in determining chargeable income. The IET depends on the number of the individual's dependants. The following table shows the IET for the income year ending 31 December 2011.

Category	Number of dependants	Amount of IET Rs.
A	0	255,000
B	1	365,000
C	2	425,000
D	3	465,000

A retired individual who has attained the age of 60 before 1 January 2010 is eligible for an increased IET of Rs. 305,000 if he or she does not derive any taxable income from emoluments or business. The amount of Rs. 305,000 is further increased to Rs. 415,000 if the retired individual has one dependant.

If the total of the taxable and exempt income of an individual's dependant exceeds the IET, the individual may not claim the IET. Any taxable income derived by the individual's dependant must be added to the taxable income of the individual.

Interest relief is available with respect to housing loans that are contracted on or after 1 July 2006 and that are secured by a fixed charge on the immovable property of the taxpayer, effective from the year ending 31 December 2011. The interest can be claimed for five consecutive years and is restricted to Rs. 120,000 per year.

Like the IET, only resident individuals can claim the interest relief. Interest relief cannot be claimed in the following cases:
- The taxpayer is the owner of a residential building at the time the loan is obtained.
- The taxpayer is liable to the Solidarity Income Tax (see *Rates*).
- The taxpayer benefits from the new housing scheme, which is to be set up on or after 1 January 2011. At the time of writing, the housing scheme had not yet been set up.

Rates. An individual's income tax liability is determined using a tax rate of 15%. A Solidarity Income Tax (SIT) applies to resident individuals if the sum of net income, exempt interest income and exempt dividend income is more than Rs. 2 million. The rate of the SIT is 10%. The tax base for SIT is the sum of exempt interest income and exempt dividend income.

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 to the following five income years. Losses that arise as a result of annual allowances for capital expenditure incurred on or after 1 July 2006 can 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 must contribute to the National Pension Fund, which provides for employees' old-age retirement. For the year ending 31 December 2011, the contribution rate for employees is 3% of gross salary, up to a maximum monthly contribution of Rs. 345. For employers, the rate is 6% of gross salary, up to a maximum monthly contribution of Rs. 688 per employee. The contribution rate to the National Solidarity Fund is 2.5% for the employer, with a maximum of Rs. 288, and 1% for the employee, with a maximum of Rs. 115. The contribution rate for the National Solidarity Fund is applied to the basic salary of the employee. The employer must contribute to a levy computed at 1.5% of the total salary of the employee.

D. Tax filing and payment procedures

Employers must withhold taxes on employees' emoluments. Individuals with self-employment or business income must make quarterly tax payments based on their income for the preceding quarter.

Every taxpayer must file a return by 31 March, stating the amount of all income received during the preceding year ending 31 December. Taxpayers must pay any tax due when they file the return. They may claim a refund on the annual return for any overpayment of tax. Regardless of their level of taxable income, the following individuals should submit an annual tax return:
- An individual who derives emoluments that have been subject to tax under the Pay-As-You-Earn (PAYE) system
- An individual who derives business and rental income
- An individual who derives a yearly net income of more than Rs. 365,000

- An individual who derives Mauritian-source interest income that has been taxed at source
- An individual who has aggregate net income, exempt interest and dividend income of more than Rs. 2 million
- An individual who has capital gains of more than Rs. 2 million
- An individual who has more than one residence
- An individual who has acquired one or more immovable properties and the aggregate price exceeds Rs. 2 million
- An individual who has incurred expenditure for the construction of a building or a structure for an aggregate amount exceeding Rs. 2 million
- An individual who owns a car with an engine capacity exceeding 2,000 cc
- An individual who owns a pleasure craft
- An individual who claims an additional income exemption threshold as a result of his or her child pursuing a nonsponsored full-time undergraduate course
- An individual who claims interest relief
- An individual who has chargeable income

Married persons are taxed separately. Joint taxable income can be shared in any manner chosen by the couple.

E. Double tax relief and tax treaties

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

Bangladesh
Barbados
Belgium
Botswana
China
Croatia
Cyprus
France
Germany
India
Italy
Kuwait
Lesotho
Luxembourg
Madagascar
Malaysia
Mozambique
Namibia
Nepal
Oman
Pakistan
Qatar
Rwanda
Senegal
Seychelles
Singapore
South Africa
Sri Lanka
Swaziland
Sweden
Thailand
Tunisia
Uganda
United Arab Emirates
United Kingdom
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.
- 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 Algeria, Burkina Faso, Canada, the Czech Republic, Ghana, Greece, Iran, Portugal, Saudi Arabia and Yemen.

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 (GBL1) to nonresidents are exempt from tax in Mauritius and are not subject to withholding tax in Mauritius if the payments are made out of the foreign-source income of the GBL1. This 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
- 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.

Any noncitizen investor, self-employed person or employer of a professional may, through the Board of Investment, apply for an occupation permit so that such person or professional may engage in business or take up employment in Mauritius. To obtain the occupation permit from the Board of Investment, the following conditions must be satisfied:

- An investor must have annual turnover exceeding Rs. 4 million, and the initial investment must be at least US$ 100,000 or its equivalent in freely convertible foreign currency.
- A self-employed person must have annual income exceeding Rs. 600,000.
- A professional must have monthly salary exceeding Rs. 30,000.

The following table provides the fees for an occupation permit.

Category	Rs.
Investor	10,000
Self-employed person	10,000
Employer of a professional	
Contract of employment is for a period of less than two years	6,000
Contract of employment is for a period of more than two years but less than three years	10,000

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.

At the end of three years of a retired noncitizen's residence permit, the person may be granted the status of permanent resident if he or she has transferred at least US$40,000 or its equivalent in convertible foreign currency to Mauritius in each of the three years. The permanent residence permit is valid for a period of 10 years beginning with the expiration of the person's residence permit.

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	—	—

	Taxable*	Not taxable	Comments
Bonus	X	—	—
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(a)
Education reimbursement	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Moving expense reimbursement	—	X	(b)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Passage benefits	—	X	(c)
Other items			
Foreign-source income (earned and unearned)	—	X	(d)
Capital gains	—	X	—

* The bracketed amount reduces taxable income.

(a) The taxable amount of free accommodation provided by an employer to an employee is computed according to the following rules:
- If the property is owned by the employer and if the accommodation is unfurnished, the taxable amount equals 10% of the total emoluments of the employee. If the accommodation is furnished, the taxable amount equals 15% of the total emoluments of the employee.
- If the property is rented by the employer and if the property is unfurnished, the taxable amount is computed at 15% of the total emoluments of the employee. If the accommodation is furnished, the taxable amount is computed at 20% of the total emoluments of the employee. If the rent paid by the employer is lower than the taxable amount computed above, the amount of rent paid is the taxable amount.

(b) Documentary evidence to substantiate the relocation expenses must be available.

(c) This is limited to 6% of the basic salary of the individual.

(d) All foreign-source income is taxable on a remittance basis.

Appendix 2: Sample tax calculation

A sample tax calculation for the 2012 year of assessment (based on the income year ending 31 December 2011) is provided below for an expatriate who is resident in Mauritius for the year ending 31 December 2011 and is married with two dependent children. During the year ending 31 December 2011, 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 furnished accommodation and pays a total amount of Rs. 250,000 to the landlord for the year ending 31 December 2011. The individual is also provided with a company car with a cylinder capacity of 1,800 cc during the year ending 31 December 2011. The individual earned Rs. 400,000 for duties performed wholly outside Mauritius for an employer resident in the expatriate's home country. This amount is not remitted to Mauritius. The individual also receives interest on a savings account with a Mauritian bank totaling Rs. 250,000. The following is the tax calculation.

	Rs.	Rs.
Calculation of taxable income		
Income:		
Salary	1,500,000	
Car benefit	54,000	
Accommodation benefit	250,000	
Total taxable income		1,804,000
Income exemption threshold		(465,000)
Chargeable income		1,339,000
Calculation of tax		
Tax on Rs. 1,339,000 at 15%		200,850
Solidarity income tax (10% of Rs. 250,000)		(25,000)
Total tax		225,850

Mexico

(Country code 52)

Mexico City GMT -6

Ernst & Young Mancera
Antara Polanco
Av Ejercito Nacional No. 843-B
5th Floor
Colonia Granada
11520 Mexico City
Mexico

Executive contacts

Paulo Espindula		(55) 5283-1487
	Miami:	+1 305 415 1311
		Fax: (55) 1101-8451
	Miami	Fax: +1 866 506 7676
		Email: paulo.espindula@ey.com
German Vega		(55) 5283-8636
		Fax: (55) 1101-8451
		Email: german.vega@mx.ey.com
Fabiola Diaz		(55) 5283-1478
		Fax: (55) 1101-8451
		Email: fabiola.diaz@mx.ey.com
Elizabeth Mondragon		(55) 5283-1321
		Fax: (55) 1101-8451
		Email: elizabeth.chavez@mx.ey.com
Alejandro Banderas *(resident in Monterrey, Nuevo Léon)*		(81) 8152-1806
		Email: alejandro.banderas@mx.ey.com

Immigration contacts

Paulo Espindula		(55) 5283-1487
	Miami:	+1 305 415 1311
		Fax: (55) 5283-8674
	Miami	Fax: +1 866 506 7676
		Email: paulo.espindula@ey.com
Oscar Santos		(55) 1101-6455
		Fax: (55) 1101-8450
		Email: oscar.santos@mx.ey.com
Marcela Lozano Ojeda		(55) 1101-8682
		Email: marcela.lozano@mx.ey.com

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.
- The center of the individual's professional activities is located in Mexico.

Individuals who break residency ties with Mexico must notify the tax authorities within 15 business 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 statutory 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 for fringe benefits.

Nonresidents who receive salaries paid by resident employers or by employers with permanent establishments in Mexico are subject to withholding tax at source as described in *Rates*. Salary income and income for personal services paid by a nonresident individual or company are exempt from 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, individual tax calculated using nonresident tax rates must be paid from the first day the individual begins to work in Mexico.

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 applicable rates established in the law and published by the tax 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 flat 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 resident in Mexico that distributes dividends to its resident and nonresident shareholders is subject to a 30% tax to the extent that such company has not already paid the 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 resident entities to Mexican resident individuals are included in the individuals' taxable income and taxed at the rates set forth in *Rates*.

For 2011, interest on time deposits with Mexican banks and on publicly issued debentures is subject to a provisional 0.6% 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 adjustment effects of the tax year. For 2011, 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 final withholding tax at a rate of 25%, with no deductions allowed. For the taxation of real estate rental income derived by a resident, see *Self-employment and business income*. Resident taxpayers are subject to tax on their rental income from real estate located in foreign countries. They may elect to deduct actual expenses incurred to determine the income or claim a flat 35% deduction from rental income. Individuals should consult tax professionals to determine the applicable tax base for rental income, because the flat rate business tax may also apply to such income (see Section B).

Royalties received by nonresidents for the use of trade names, trademarks, patents or certificates of invention are subject to a 30% withholding tax. Fees received by nonresidents for technical assistance and royalties for know-how are subject to a 25% withholding tax. Lower rates may apply under certain tax treaties.

Directors' fees. Directors' fees received by residents in Mexico from Mexican or foreign resident companies are subject to income tax at the rates set forth in *Rates*. The paying companies may deduct these fees if certain requirements are met.

Exempt income. The following items, among others, are excluded from taxable income:
- Indemnities for accidents and illnesses.
- Retirement benefits and pensions provided by public institutions. Mexican private retirement plans are partially exempt.

- Reimbursement of medical, dental, hospital and funeral expenses incurred in Mexico.
- Social security benefits granted by Mexican public institutions.
- Savings funds (Mexican funds only).
- Travel expenses properly reported by the employee.
- Social welfare and fringe benefits received from Mexican government institutions.

Certain exemptions are subject to limitations and specific requirements.

Taxation of employer-provided stock options. Employer-provided stock options are taxed as salary income for the employee. They 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, the difference between the fair market value of such shares at 31 December 2004 and the strike price (exercise price) agreed at grant is considered to be acquisition of assets income if such difference is greater than 10% of the strike price. If the difference is not greater than 10% of the strike price, the difference is taxed as salary income. The difference between the fair market value of such shares at 31 December 2004 and the fair market value at exercise is considered salary income.

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 the cost for inflation. Gains derived from shares sold on the Mexican stock exchange are exempt from tax if the taxpayer does not trade more than 10% of the paid-in stock of the listed company within a period of 24 months. A gain derived from the sale of a personal residence is exempt from tax if the amount of the proceeds does not exceed 1,500 Investment Units (Ps 6,511,200). As of 31 December 2010, an Investment Unit equals Ps 3,408.55. Banking and credit institutions use Investment Units to grant loans at a fixed rate. Gains derived from the sale of a primary residence are exempt from tax if the taxpayer demonstrates that he or she had been living in the residence during the five years preceding the date of the sale.

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 the total income, 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 ordinary taxable business income.

Although computed the same way, capital losses are treated differently. The tax benefit for the year in which a loss is incurred is limited to the tax attributable to the loss, divided by the number of years the underlying asset was held, up to a maximum of 10 years. The amount of the loss equivalent to one year is deductible from the individual's gain on the sale of other assets or from other income derived in that year, except salary, self-employment and business income. The remaining loss in the relevant calendar year may be carried forward three years and can be used only to offset the tax on 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
- Fees and other payments for medical, dental and hospitalization services for the taxpayer and his or her dependants
- Payments for the school bus transportation of dependent children if required by the school
- Funeral expenses limited to annual minimum salary
- Certain donations to public works or utilities, charitable or welfare institutions, and promoters of the arts or culture, capped to 7% of taxable income
- Real interest paid on mortgage loans with respect to the principal residence
- Voluntary contributions made to the individual retirement account, limited to five times the annual minimum salary
- School fees paid with checks or electronic transfers, except materials and registration fees, up to the following amounts:
  - Preschool: Ps 14,200
  - Elementary school: Ps 12,900
  - Junior high school: Ps 19,900
  - Technician school: Ps 17,100
  - High school: Ps 24,500

Business expenses. Ordinary expenses, including salaries, fees, rent, depreciation, interests and other general items, may be deducted from the amount of gross revenue to compute taxable net income. Instead of deducting actual expenses incurred, individuals with rental income may elect to deduct an amount equal to 35% of rental income.

Employment subsidy. The employment subsidy is calculated on a monthly basis. It is a tax credit that is subtracted from the monthly tax due. No employment subsidy applies when calculating tax in the annual tax return. The following table provides the resident individual monthly employment subsidy for 2011.

Monthly income		Employment
Exceeding Ps	Not exceeding Ps	subsidy Ps
0	1,768.96	407.02
1,768.96	2,653.38	406.83
2,653.38	3,472.84	406.62
3,472.84	3,537.87	392.77
3,537.87	4,446.15	382.46
4,446.15	4,717.18	354.23

Monthly income		Employment
Exceeding	Not exceeding	subsidy
Ps	Ps	Ps
4,717.18	5,335.42	324.87
5,335.42	6,224.67	294.63
6,224.67	7,113.90	253.54
7,113.90	7,382.33	217.61
7,382.33	—	0.00

Rates

Residents. The monthly income tax rates in the table below are effective from 1 January 2011 and are adjusted when the inflation rate exceeds 10%. For 2011, the maximum income tax rate for a resident individual is 30%. The maximum income tax rate for residents is scheduled to be reduced to 29% in 2013 and to 28% in 2014. The following are the monthly income tax rates.

Monthly taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
Ps	Ps	Ps	%
0.00	496.07	0.00	1.92
496.07	4,210.41	9.52	6.40
4,210.41	7,399.42	247.23	10.88
7,399.42	8,601.50	594.24	16.00
8,601.50	10,298.35	786.55	17.92
10,298.35	20,770.29	1,090.62	21.36
20,770.29	32,736.83	3,327.42	23.52
32,736.84	—	6,141.95	30.00

The following table sets forth the 2011 annual tax rates for resident individuals.

Annual taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
Ps	Ps	Ps	%
0.00	5,952.84	0.00	1.92
5,952.84	50,524.92	114.24	6.40
50,524.92	88,793.04	2,966.76	10.88
88,793.04	103,218.00	7,130.88	16.00
103,218.00	123,580.20	9,438.60	17.92
123,580.20	249,243.48	13,087.44	21.36
249,243.48	392,841.96	39,929.04	23.52
392,841.96	—	73,703.40	30.00

For a sample tax calculation, see Appendix 2.

Nonresidents. The following withholding tax rates apply to income from salaries paid in a calendar year to nonresident employees by Mexican resident employers or by employers with a permanent establishment in Mexico.

Annual taxable income		Rate on
Exceeding	Not exceeding	excess
Ps	Ps	%
0	125,900	0
125,900	1,000,000	15
1,000,000	—	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, restated by inflation.

B. Other taxes

Flat-rate business tax. The flat-rate business tax (*impuesto empresarial a tasa única*, or IETU) is a minimum alternative tax. For 2011, the IETU tax rate is 17.5% on income from self-employment, and rental of properties. Income and deductions for IETU purposes are determined on a cash basis.

The tax base for IETU purposes is calculated by subtracting certain deductions (in general, payments effectively made in cash that are attributable to purchases of goods and services and payments of rent) from taxable income from the sale of assets, rendering of services and rental of property. Dividends, interest, royalties received from unrelated parties and income from financial derivative transactions are generally not included in the IETU base. As a result, these items are neither taxable nor deductible.

Deductions are allowed if an item is used to carry out activities subject to IETU or to manage such activities or if an item is used in the production, sale or distribution of goods and services and such activities result in income subject to IETU.

The IETU rate is applied to the tax base described above. The resulting amount is then reduced by certain tax credits. If allowable deductions in a year are greater than income for IETU purposes, the taxpayer is granted a tax credit that may be carried forward for 10 years and applied against future IETU tax liabilities. The amount of the tax credit equals the excess of allowable deductions over income received, multiplied by the IETU tax rate for the year. An excess amount could occur in years in which the taxpayer makes a high level of capital expenditure because capital expenditure effectively paid is deductible for IETU purposes, as opposed to depreciation for income tax purposes.

The IETU Law provides for a tax credit equal to the amount calculated by applying the IETU rate to the amount of taxable salaries paid, including social security contributions. If not fully used, this credit may not be carried forward.

A tax credit is also granted for the income tax paid by the taxpayer during the fiscal year. Monthly estimated payments of IETU must be made during the fiscal year, and tax credits for these payments are allowed when calculating the annual amount of IETU.

Estate and gift taxes. No estate or inheritance tax is levied except for a local real estate property tax.

Gifts or donations from direct line family members (ascendants or descendants) are exempt from income tax if certain requirements are met.

C. Social security

Contributions

Social security. The maximum rate of the social security contribution payable by employees is approximately 2.775% of the integrated salary. The contribution is withheld by the employer from wages. The maximum rate of the social security contribution payable by employers can reach 36.15% (including the percentage for job hazard). The maximum amount of salary that may be used to compute the social security contribution equals 25 times the minimum wage. These contributions are all subject to caps that are determined based on a multiple of the minimum daily wage in the area in which the work is performed. For 2011, the maximum annual social contributions per employee are approximately Ps 103,890 for the employer portion and Ps 14,886 for the individual employee portion.

Housing Fund. Employers must contribute 5% of salaries (limited to 25 times the minimum wage) to the Housing Fund which provides funds for the construction of housing for workers.

Mandatory pension plan. Employers' contributions to a pension plan that is managed by a bank in the employee's name equal 2% of an employee's compensation. The maximum amount of salary that may be used to compute the pension plan contribution equals 25 times the minimum wage.

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
- 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.

Totalization agreements. Mexico has entered into totalization agreements for social security purposes with Canada and Spain. Under such agreements, employees from these countries may generally work in Mexico without having to pay social security taxes. Restrictions apply and certain requirements must be observed.

D. Tax filing and payment procedures

For individuals, the fiscal year in Mexico is the calendar year. Annual tax returns must be filed during April, but no later than 30 April of the following year. Filing extensions are not granted. Taxpayers who receive income from salaries and interest not exceeding Ps 400,000 are not required to file annual tax returns. However, if real interest exceeded Ps 100,000 and if taxes were withheld on such interest, the individual must file an annual return.

Personal income taxes of employed residents and nonresidents are withheld at source. 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 loans obtained and charitable contributions during the calendar year if such items exceed Ps 600,000, in aggregate or separately.

Exempt income and nontaxable items must be reported (such as employer reimbursed travel expenses, income derived from the sale of a principal residence, inheritance or legacy income and revenue from prizes), regardless of their amounts. This rule also applies to Mexican resident individuals earning taxable income who are not required to file an annual tax return.

Self-employed individuals must make monthly tax payments on account of their annual tax. Individuals filing monthly tax returns must open a Mexican bank account and make their advance tax payments through electronic transfers via the Internet.

Resident employees of foreign resident companies who work in Mexico must make monthly estimated payments on account of their annual tax if their companies do not have permanent establishments in Mexico. For such purpose, they must open a Mexican bank account and make their advance income tax payments through electronic transfers via the Internet.

Married persons are taxed separately, not jointly, on all types of income. Under the income tax regulations, it may be possible to include a spouse's income in the tax return of the resident spouse with the greater amount of income. However, this does not provide any tax advantage.

E. Double tax relief and tax treaties

An individual resident in Mexico 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	Greece	Poland
Austria	Iceland	Portugal
Barbados	India	Romania
Belgium	Indonesia	Russian Federation
Brazil	Ireland	Singapore
Canada	Israel	Slovak Republic
Chile	Italy	South Africa
China	Japan	Spain
Colombia	Korea (South)	Sweden
Czech Republic	Luxembourg	Switzerland
Denmark	Netherlands	United Kingdom
Ecuador	New Zealand	United States
Finland	Norway	Uruguay
France	Panama	
Germany		

In addition, Mexico has signed double tax treaties with Bahrain and Venezuela, which either await ratification or are not yet in force.

Mexico is currently negotiating double tax treaties with various countries including, among others, Aruba, Bermuda, Costa Rica, Hungary, Kuwait, Latvia, Lebanon, Lithuania, Malaysia, Morocco, Nicaragua, Pakistan, Slovenia, Thailand and Ukraine.

F. Entry into Mexico

Foreign nationals entering Mexico must have either an entry permit (FM2 or FM3) or visa (FMM), depending on the specific circumstances of their stay.

Foreign nationals in Mexico are legally classified as the following:

- Nonresidents: individuals who enter Mexico temporarily under an FM3 permit or an FMM visa
- Residents: individuals who have been granted an FM2 permit

- Permanent immigrants: individuals who have permanent immigrant status as substantiated by a photo identification card issued by the Mexican immigration authorities

Nonresident permits and visas. In general, foreigners can apply for a nonresident tourist or business visitor entry FMM visa on arrival at their port of entry into Mexico. Nationals of certain restricted countries must apply for and obtain these visas at a Mexican consulate or embassy or from the National Immigration Institute before entry into Mexico. Effective from 1 May 2010, citizens of the restricted countries may apply for a tourist or business visitor FMM visa at the port of entry into Mexico if they are holders of a valid U.S. visa.

Nonresident foreigners entering Mexico as visitors must apply to the National Immigration Institute for an FM3 permit before arrival in the country.

The following categories of nonresident permits and visas are available:

- Tourists: FMM visas are issued to tourists for a maximum of six months (at the discretion of the immigration officials) and may not be renewed or extended in Mexico.
- Individuals in transit: At the discretion of the immigration officials at the port of entry, the FMM transit visa is issued for a maximum of 30 days.
- Business visitors: Single-entry FMM visas for business visitors are usually issued at the port of entry for a maximum of six months (at the discretion of the immigration officials). The FMM visa for business visitors cannot be extended or renewed in Mexico. Foreigners entering the country qualify for FMM visas for business visitors if their activities relate strictly to investigation of investment opportunities, training activities or attendance at business meetings. This visa does not allow foreigners to work in Mexico.
- Visitors: Visitors may or may not be employed in Mexico and are issued an FM3 visitor permit, which is valid for 12 months. The FM3 visitor permit must be renewed annually. A maximum of four extensions is allowed. FM3 visitor permits allow foreigners to work in Mexico.
- Ministers or other religious associates: FM3 permits.
- Individuals granted political asylum: FM3 permits.
- Refugees: FM3 permits.
- Students: FM3 permits.
- Distinguished visitors (government officials): FM3 permits.
- Economic dependants, spouse and relatives of first degree: individual FM3 permits.

Foreigners entering Mexico under a tourist, transit or business visitor FMM visa, must surrender their FMM visa on departure from Mexico because these visas are valid exclusively for a single entry into Mexico.

FM3 permit holders are required to report to the departure immigration booths at the ports of exit each time they leave Mexico.

G. Work permits and self-employment

FM3 work permits are generally granted for a one-year period. They may be extended an additional four years. Accordingly, foreigners may hold an FM3 permit for up to a total period of five years. In general, it takes 45 to 60 business days to obtain a work permit in Mexico. This consists of the 15 to 30 business days needed to gather the information required to file the work permit request and the 30 business days to obtain the final approval from the National Immigration Institute.

In general, a prospective employee must provide documentation (usually an employment contract or job offer letter) substantiating that he or she has a job offer in Mexico and has sufficient resources to live in Mexico while working there.

The prospective employee must also provide a copy of his or her passport, diploma or degree *apostilled* (for countries signatory to the Hague convention) or legalized following specific criteria established by the immigration authorities. Additional information and documents may also be required. All information must be submitted to the immigration department in the state where the prospective employee will live.

H. Family and personal considerations

Family members. Each family member is issued a separate permit. However, the application forms are frequently included with those of the employee for simultaneous processing.

If a family member wishes to work, he or she must apply for a work permit separately.

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 Mexico 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
- Valid work permit (FM2 or FM3)
- Passport
- 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 or fringe 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	(d)
Capital gain from other assets in home country	X	—	—

* Bracketed amounts reduce taxable income.

(a) The retirement and pension payments are taxed to the extent that the amount of these payments exceeds nine times the minimum wage.

(b) 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.

(d) A gain derived from the sale of a personal residence is exempt from tax if the amount of the compensation obtained does not exceed 1,500 Investment Units (Ps 6,500,000). This limit does not apply if the taxpayers demonstrate that they have been living in the residence for at least the last five years preceding the date of the sale. As of 31 December 2009, an Investment Unit equals Ps 4,333.33. Banking and credit institutions use Investment Units to grant loans at a fixed rate.

Appendix 2: Sample tax calculation

An individual who is resident in Mexico for all of 2011 receives compensation of Ps 70,000 per month and an annual bonus of Ps 190,000. During the year, the individual incurs medical expenses of Ps 15,000. The following is the annual tax computation for the individual.

	Ps	Ps
Calculation of taxable income		
Compensation other than bonus (12 x Ps 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		260,351
Withholding:		
Normal (12 x Ps 16,239)	(207,851)	
Bonus	(57,000)	
Total withholding		(264,851)
Tax refund		(4,500)

Moldova

(Country code 373)

Chisinau	GMT +2

Ernst & Young
Str. Alexandru cel Bun, 51
MD 2012 Chisinau
Moldova

Executive contact

Alexander Milcev	+40 21 402 4000
(resident in Bucharest, Romania)	Fax: +40 21 410 7052
	Email: alexander.milcev@ro.ey.com

Immigration contact

Natalia Malaci	(22) 214-040
	Fax: (22) 214-044
	Email: natalia.malaci@md.ey.com

A. Income tax

Who is liable. The following individuals are subject to income tax in Moldova:

- Moldovan residents 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
- Nonresidents on income earned in Moldova and on income earned overseas for their work in Moldova except for financial and investment income from sources outside 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).
- They stay 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 except for income obtained as a result of the disposal of agricultural land by Moldovan citizens
- Royalties and annuities
- Dividends
- Rental income

- Revenue earned by lawyers and other professionals, including commissions and other revenues

Gross income does not include the following items:
- Amounts received as compensation from the budget 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
- Per diem allowances up to the limit set by the government
- Scholarships
- Welfare received from the government or charitable organizations
- Winnings from promotional gifts that do not exceed MDL 810 per unit
- 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)
- Compensation for moral damages

Employment income. Taxable compensation includes salaries, cash or in-kind compensation, bonuses, rewards, 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 resident individuals on deposits with Moldovan banks is not subject to income tax until 1 January 2015. Interest earned by individuals on government securities is also 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 titles of ownership in entrepreneurial activities
- Bonds
- Private property not used for business purposes
- Land
- 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)
- 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 8,100 per year against taxable income. Certain listed individuals are entitled to a personal deduction amounting to MDL 12,000 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 8,100 or MDL 12,000 per year if the individual's spouse does not benefit from the individual's personal deduction. A deduction of MDL 1,800 per year is granted for each dependant, and a deduction of MDL 8,100 per year is granted 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 Exceeding MDL	Taxable income Not exceeding MDL	Rate on excess %
0	25,200	7
25,200	—	18

For sole proprietorships and farms, the income tax rate is 0%.

Relief for losses. Forced losses (for example, *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 0.02% to 0.25% of the tax base, depending on the type and location of the real estate.

Inheritance and gift taxes. Moldova does not impose taxes on gifts or inheritances.

C. Social security

The rate of social contributions payable by employers is 23% of the gross payroll of individuals domiciled in Moldova. Employers are not required to pay social contributions with respect to expatriate employees who do not have a permanent domicile in Moldova. Employees domiciled in Moldova must make a pension fund contribution of 6% of their remuneration. Expatriate employees who do not have a permanent domicile in Moldova are not required to make such contribution.

For employers whose principal activity is software development and fulfill certain requirements stated in the Moldovan Tax Code, the social contribution is 23% of two average monthly salaries per employee (for 2011, the average monthly salary per employee is MDL 3,300).

In addition, both employers and employees must pay mandatory medical insurance contributions on salary and other labor remuneration at a rate of 3.5% (that is, a total of 7%).

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 reporting year. 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	Portugal
Austria	Greece	Romania
Azerbaijan	Hungary	Russian Federation
Belarus	Ireland	Serbia
Belgium	Israel	Slovak Republic
Bosnia-Herzegovina	Italy*	Slovenia
Bulgaria	Japan	Spain
Canada	Kazakhstan	Switzerland
China	Kyrgyzstan	Tajikistan
Croatia	Latvia	Turkey
Cyprus	Lithuania	Turkmenistan*
Czech Republic	Luxembourg	Ukraine
Estonia	Macedonia	United Kingdom
Finland	Montenegro	Uzbekistan
France*	Netherlands	
	Oman	

* This treaty has been signed, but it is not yet in force.

F. Temporary visas

Moldovan embassies and consulates issue visas. Nationals of Andorra, Canada, the Commonwealth of Independent States (CIS), the European Union (EU), Iceland, Israel, Japan, Liechtenstein, Monaco, Norway, Switzerland, the United States and Vatican City do not require visas to visit Moldova.

Nationals of other countries with an invitation from a Moldovan company, organization or individual must either obtain a visa from a Moldovan Consulate or Embassy before their departure for Moldova, or obtain a visa on arrival at Chisinau International Airport.

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 local competent authorities at least 1 month before the expiration of the 90-day period.

G. Work permits

Foreign nationals may work in Moldova based on a special decision issued by the National Employment Agency with respect to such matter.

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.

A residence permit may be permanent or temporary. The temporary residence permit is issued for a one-year period and can be extended for consecutive one-year periods.

Notwithstanding the above, a residence permit may be issued for a longer period if the foreign citizen is holding a managerial position within a Moldovan company and if the foreign citizen has made any of the following investments in the company.
- An investment exceeding US$250,000 for a period of up to five years, with the possibility of extending it for a new period not longer than the validity term of the national identification card
- An investment exceeding US$100,000, but not more than US$250,000, for a period of up to three years with the possibility of extending it for a new period
- An investment exceeding US$10,000, but not more than US$100,000, for a period of up to two years with the possibility of extending it for a new period

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, which include 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, which include brothers, sisters and both grandmothers and grandfathers of the deceased

• Third degree heirs, which include 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 United Nations (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. In such circumstances, the drivers are exempt from statutory exams. Drivers' licenses issued by other countries may be exchanged for a Moldovan license after passing the required exams.

Montenegro, Republic of

Please direct all inquiries regarding the Republic of Montenegro to Ivan Rakic (telephone: +381 11 209 5804; email: ivan.rakic@yu.ey.com; fax: +381 11 209 5891) of the Belgrade, Serbia office.

A. Income tax

Who is liable. Residents are subject to tax in Montenegro on their worldwide income. Nonresidents are subject to tax on Montenegrin-source income that is realized through a permanent establishment in Montenegro. The income of a nonresident without a permanent establishment in Montenegro is subject to tax on interest, royalties and rental fees realized from the renting of real estate located in Montenegro.

Individuals are considered to be resident for tax purposes if they have a domicile, residence or center of business and life interests in Montenegro or if they spend more than 183 days in Montenegro within a tax year, which is the calendar year. In addition, Montenegrin individuals seconded abroad by a resident employer to operate in the name of the employer or an international organization 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 9% 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 9%. 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 not to maintain books; lump-sum tax is levied in such cases. In cases in which an individual realizes income from self-employment that is not his or her principal business activity, a standard deduction in the amount of 30% of realized income is claimed.

Investment income. Tax is imposed at a rate of 9% on investment income derived by residents and nonresidents in the following cases:

- Dividends (subject to Corporate Profit Tax Law rules)
- Participation in profits
- Use of a company's property or services by its owner for personal purposes

Interest paid to nonresidents is taxed at a rate of 5%.

Income from property leasing derived by residents and nonresidents is taxed at a rate of 9%. A standard deduction of 30% may be claimed with respect to this income. Under an exception, a 50% deduction is allowed for income received from leasing apartments, rooms and beds in the tourist industry.

The above taxes on investment income are withheld at source by the payer of the income.

Capital gains. Capital gains derived by individuals are taxed at a rate of 9%.

Rates. For Montenegrin tax resident individuals, a 9% rate applies to annual worldwide income from sources specified in the tax law. This rate also applies to income realized in Montenegro by nonresident individuals.

Surtax. Municipalities are entitled to impose a surtax on personal income tax paid by legal entities and individuals in their territory. The surtax is imposed at a rate of 15% in Cetinje and Podgorica, and at a rate of 13% in other municipalities.

Relief for losses. Losses incurred in self-employment activities may be carried forward for up to five years.

B. Other taxes

Real estate tax. Each legal entity or individual owning real estate in Montenegro on 1 January is considered to be a taxpayer for that calendar year with respect to the real estate located in Montenegro. Real estate tax rates range from 0.1% to 1% and are determined at the municipality level.

Transfer tax. Transfers of ownership of land and buildings located in Montenegro are subject to a 3% transfer tax, which is payable by the acquirer. This tax rate also applies to inheritances and gifts of real estate.

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 and organizations at the rates indicated.

Fund or organization	Employer %	Employee %
Pension and Disability Fund	5.5	15
Health Care Fund	3.8	8.5
Unemployment Fund	0.5	0.5
Work Fund	0.2	—
Montenegrin Chamber of Commerce	0.27	—
Labor union	0.2	—

Contributions to the Pension and Disability Fund at a rate of 20.5% 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.

The maximum annual social security contribution base is set at €43,000.

Expatriate employees must pay social security contributions if they are not insured in their home countries or if provided in totalization agreements applied by Montenegro.

Coverage. An employee who pays Montenegrin social security contributions is entitled to various benefits, including health insurance for the employee and dependent family members, disability and professional illness insurance, unemployment allowances, pension payments and other benefits.

Totalization agreements. To prevent double taxation and to assure benefit coverage, the Republic of Montenegro currently applies social security totalization agreements with the countries listed below. All of these agreements were signed by the former Republic of Yugoslavia, except for the agreement with the Republic of Serbia, and are applied by Montenegro unilaterally. The following is a list of the signatories of the totalization agreements that Montenegro currently applies.

Austria	France	Norway
Belgium	Germany	Poland
Bosnia-Herzegovina	Hungary	Romania
Bulgaria	Italy	Serbia
Croatia	Libya	Slovak Republic
Czech Republic	Luxembourg	Sweden
Denmark	Macedonia	Switzerland
Egypt	Netherlands	United Kingdom

D. Tax filing and payment procedures

The tax year is the calendar year.

Annual tax returns must be filed by the end of the April of the year following the tax year. Withholding tax is levied on most types of income, including salaries. Individuals who receive income from abroad must submit specific tax forms and pay tax within five days after the date on which such income is received. Under an exception to the above rule, an individual who generates all of his or her income from work for the same employer is not required to submit an annual tax return, and the advance payments are considered to be the final tax liability for the relevant year.

E. Double tax relief and tax treaties

Montenegro became an independent state in June 2006. The only double tax treaty that Montenegro has signed as an independent state is a treaty with Malta. The Montenegrin government has rendered a decision that it recognizes tax treaties signed by the former Republic of Yugoslavia until new tax treaties are signed. Although Montenegro professes to honor the tax treaties entered into by the former Yugoslavia, the full applicability of these treaties must be confirmed by the other contractual state because Montenegro applies these treaties unilaterally. The following is a list of these countries.

Albania	Finland	Poland
Belarus	France	Romania
Belgium	Germany	Russian Federation
Bosnia-Herzegovina	Hungary	Slovak Republic
Bulgaria	Italy	Slovenia
China	Korea (North)	Sri Lanka
Croatia	Kuwait	Sweden
Cyprus	Latvia	Switzerland
Czech Republic	Macedonia	Turkey
Denmark	Moldova	Ukraine
Egypt	Netherlands	United Kingdom
	Norway	

F. Temporary visas

Valid passports and visas are required to enter Montenegro for foreign nationals of many countries. Transit visas allow foreign nationals in transit to stay in Montenegro for up to five days.

Foreign nationals may stay in Montenegro for 90 days in a 6-month period if they obtain a short-stay visa.

G. Residence permits

Temporary residence permit. A temporary residence permit can be issued to a foreign national who intends to stay in Montenegro longer than 90 days if the foreign national satisfies all of the following conditions:
- He or she has sufficient funds to support himself or herself.
- He or she has health insurance.
- He or she holds a work permit.

The issuance of a temporary residence permit is subject to the approval of the Ministry of Internal Affairs. The permit is granted for a duration of one year, and it may be extended up to a maximum of two years.

Permanent residence permit. A permanent residence permit can be granted to a foreign national who satisfies any of the following conditions:

- He or she has spent at least five years continuously in Montenegro on the basis of a temporary residence permit.
- He or she has been married for at least three years to a Montenegrin citizen, or to a foreign national with a permanent residence permit.
- He or she is a minor with a temporary residence permit, has one parent who is a Montenegrin citizen or who is a foreign national with a permanent residence permit, and has the consent of another parent.
- He or she is of Montenegrin origin.
- He or she is a member of the family of a Montenegrin citizen or foreign national who has permanent residence in Montenegro or has refugee status.

H. Work permits

Work permits can be issued as personal work permits, employment permits and permits for work.

Permits for work can be issued for one of the following purposes:

- Seasonal work of the foreign nationals
- Expatriate work (work of foreign nationals seconded to work in Montenegro)
- Training and work improvement of the foreign nationals
- Provision of services

I. Family and personal considerations

Work permits are not automatically granted to the family members of a foreign national who receives a work permit. However, family members have priority in the process of the issuance of new work permits.

Morocco

(Country code 212)

Casablanca **GMT**

Ernst & Young
37, Boulevard Abdellatif Benkaddour
Casablanca 20050
Morocco

Executive and immigration contact

Abdelmejid Faiz (22) 957-900
Fax: (22) 390-226
Email: abdelmejid.faiz@ma.ey.com

A. Income tax

Who is liable. Residents of Morocco are subject to tax on their worldwide income. Individuals resident in Morocco must pay tax on their employment income, regardless of where the services are performed or the employer is located. Nonresidents are subject to tax on their Morocco-source income only.

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.
- They are present in Morocco for at least 183 days during a period of 365 days.
- They are deemed to be resident in Morocco under the terms of applicable tax treaty provisions.

Income subject to tax

Employment income. Taxable employment income includes total compensation after deductions for employees' 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 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 within the limits provided by the Labour Law
- Alimony payments received
- Supplementary pension received if the contributions are not deductible in determining taxable income
- 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.

The tax base for self-employed individuals engaged in commercial or professional activities is computed in the same manner as the tax base for corporations. Taxable income equals 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:

- MAD 1 million for food, handicraft products, fishing activities and commercial and manufacturing activities
- MAD 250,000 for service activities

Income derived from agricultural farms is exempt from income tax until the 2013 fiscal year.

Investment income. Dividends paid by Moroccan companies are subject to a 10% withholding tax. Dividends received from nonresident companies are subject to the provisions of applicable double tax treaties. Otherwise, they are subject to income tax in Morocco at a rate of 15%.

Interest paid by banks or companies to Moroccan resident individuals is subject to a 30% final withholding tax. The interest is not subject to any further income tax.

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, subject to the provisions of applicable double tax treaties. Dividends paid to nonresidents are subject to a 10% final withholding tax.

Directors' fees. If a director has managerial powers, directors' fees are considered to be 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 transfer 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 three-year non-availability period measured from the exercise date.

Stock options, free shares or any other process to buy shares granted by Moroccan companies to their managers and employees, or granted by companies not resident in Morocco to managers and employees employed by Moroccan companies or branches of the nonresident companies, must be declared by the Moroccan entity in its annual salary return filed by 28 February of the year following the acquisition or distribution of the shares.

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.

Capital gains derived by resident individuals from the sale of shares of resident companies are taxed at a rate of 15% for listed shares and 20% for unlisted shares. Capital gains derived from the sale of shares of nonresident companies are taxed at a rate of 20%. Capital gains derived from the transfer of an individual's business assets, including real property, are taxed at the same rates as ordinary income.

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 20% of gross remuneration up to MAD 30,000. 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 the acquisition or construction of a building or the renovation of a taxpayer's principal residence,

if the employer withholds the payments directly from gross remuneration.

Personal deductions and allowances. The following tax credits are granted:

- MAD 360 for each dependant, up to a maximum of six
- 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 principal home
- Gifts to charitable organizations known as public utility associations
- Contributions to a long-term retirement pension (more than 8 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		
Exceeding MAD	Not exceeding MAD	Rate %
0	30,000	0
30,000	50,000	10
50,000	60,000	20
60,000	80,000	30
80,000	180,000	34
180,000	—	38

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 1% to 6%, 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 6.4% 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 MAD 6,000. In addition, the employer must pay 1.6% of gross monthly compensation as a contribution to the Moroccan office of staff training. Contributions on gross remuneration are payable for mandatory medical insurance. The contribution rates are 3.5% for employers and 2% for employees.

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 the following dates:

- 1 March following the end of the tax year for individuals who have professional income taxed under the fixed taxation system (see Section A), and/or income other than professional income
- 1 April following the close of the tax year for individuals who have professional income taxed under the real or simplified regimes

The tax return indicates 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, the 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 and if a double tax treaty is in force between Morocco and the country in which such foreign income tax was paid. However, this tax credit 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.

Austria	Italy	Romania
Bahrain	Jordan	Russian Federation
Belgium	Korea (South)	Senegal
Bulgaria	Kuwait	Singapore*
Canada	Latvia	Spain
China	Lebanon	Sweden
Croatia*	Luxembourg	Switzerland
Czech Republic	Malaysia	Tunisia
Denmark	Malta	Turkey
Egypt	Netherlands	Ukraine
Finland*	Norway	United Arab Emirates
France	Oman	United Kingdom
Germany	Pakistan	United States
Greece	Poland	
Hungary	Portugal	
India	Qatar	

* This treaty is pending.

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.

Morocco has also signed tax treaties that are not yet in force with Côte d'Ivoire, Iran, Ireland, Macedonia, Syria, Vietnam and Yemen.

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 the following conditions:
- Expatriated to Morocco: They must enter into a work contract signed by an entity established in Morocco (either a Moroccan company or a fixed place of business of a foreign company). They must obtain the approval of the Anapec (a government agency) and the Ministry of Work in Morocco.
- Seconded by the foreign parent company to its Moroccan subsidiary or branch: They are still employees of the foreign company and require only the approval of the Moroccan Labor Ministry.

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 MAD 10,000 as a minimum share capital.

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. A working expatriate's spouse or dependants 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.

Mozambique

(Country code 258)

Maputo	**GMT +2**

Ernst & Young	Street address:
Mail address:	Rua Belmiro Obadias Muianga, No. 179
P.O. Box 366	Maputo
Maputo	Mozambique
Mozambique	

Executive contact

Ismael Faquir	2135-0200 Fax: (1) 2132-1984 Email: ismael.faquir@mz.ey.com

Immigration contact

Albena Todorova	2135-0204 Fax: (1) 2132-1984 Email: albena.todorova@mz.ey.com

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.
- 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%. Resident taxpayers include investment income in their annual taxable income, which is 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. Resident taxpayers include other income in their annual taxable income, which is 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 on exercise of the options.

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.

The tax base for capital gains derived from the transfer of shares decreases according to the length of the holding period for the shares. It is taxed in the annual income tax return.

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
- Compensation received within the scope of a dismissal process

Deductions

Deductible expenses. Expenses that may be deducted include union contributions and compensation paid by the employee to the employer.

Personal deductions and credits. Each individual may deduct 36 minimum salaries (the highest minimum salary in force on 31 December of the relevant tax year) in computing taxable income. Currently the highest minimum monthly salary is MT 5,320 (approximately US$190).

The following amounts may be claimed as tax credits:
- MT 1,500 for each married taxpayer
- MT 1,800 for each single and judicially separated taxpayer
- MT 600, MT 900, MT 1,200 and MT 1,800, for one, two, three or four or more dependent children, 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	42,000	10	—
42,000	168,000	15	2,100
168,000	504,000	20	10,500
504,000	1,512,000	25	35,700
1,512,000	—	32	141,540

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. Capital gains derived by nonresidents are subject to tax at a rate of 32%. The tax base for capital gains derived from the sale of shares decreases according to the length of the holding period for the shares.

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 (donations) tax. Inheritance and gift tax is payable at rates varying from 2% to 10%, depending on the relationship of the heirs or beneficiaries to the deceased or donor.

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, Macau, Mauritius, Portugal, South Africa, the United Arab Emirates and Vietnam.

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 multiple-entry visas valid for three or six months. These visas are renewable for an equal period. Each entry may be for up tp 30 days.
- Residence/work visas, which are single-entry visas valid for 30 days. These visas are provided outside Mozambique if the individual wants to enter Mozambique with the intention of residing or working.

A fee is payable for the issuance of each type of visa.

Tourist visas may be obtained at the point of entry.

G. Work permits and self-employment

Foreign nationals must obtain a work permit to work in Mozambique, which is valid for up to two years. Companies may employ foreign nationals who do not have a work permit for the same period, up to a certain percentage of the total work force.

Foreign nationals who are self-employed individuals, shareholders or representatives of shareholders in Mozambique must also obtain a work authorization.

After the period of validity for a work authorization or work permit expires, an individual may reapply for such items.

H. Residence permits

Precarious Residence Permit authorization is granted to foreigners who are not tourists, visitors or businesspersons and wish to remain in Mozambique for a period exceeding 90 days. This authorization is renewable annually.

Temporary residence permits are valid for a maximum period of one year and renewable for one-year periods. They are granted to foreigners who have had precarious residence for at least five years and to foreigners who enter the country for residence purposes.

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:
- Passport and a copy of the passport
- Copy of the work visa
- Work authorization issued by the Ministry of Labor
- Applicant's criminal record issued within the preceding three months
- Three 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 spouse who is an employee must file an application for a residence permit through his or her 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, except for drivers' licenses from Southern African Development Community (SADC) member states. Holders of residence permits must apply for local temporary driving 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	—	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	(a)
Premium allowance	X	—	—
Home-leave allowance	X	—	—
Other compensation income	X	—	(b)
Moving expense reimbursement	X	—	—
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of meals provided	X	—	(c)

	Taxable	Not taxable	Comments
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) Cash shortage allowances are only taxable on the value that exceeds 5% of the employees' monthly remuneration.
(b) Compensation received as a result of a dismissal process is exempt from tax.
(c) Only the value that exceeds the national minimum salary of MT 5,320 (approximately US$190) is taxable.

Appendix 2: Sample tax calculation

A sample tax calculation 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.

The following is the tax calculation.

	MT
Calculation of taxable income	
Salary and bonus	1,980,000
Nontaxable income (36 minimum salaries)	(191,520)
Taxable income	1,788,480
Calculation of tax	
Tax calculated on MT 1,788,480 at 32%	572,314
Rebate	(141,540)
Tax due	430,774
Personal credit	(1,800)
Tax withheld	(512,820)*
Tax recoverable	(83,846)

* In the example, it is assumed that the company withheld and paid to the tax authorities the amount of MT 42,735 per month.

Namibia

(Country code 264)

Windhoek **GMT +2**

Ernst & Young
Mail address:
P.O. Box 1857
Windhoek
Namibia

Street address:
Cnr Otto Nitzsche and Maritz Streets
Klein Windhoek
Windhoek
Namibia

Executive and immigration contact

F. Cameron Kotzé
(61) 289-1112
Fax: (61) 23-4991
Email: cameron.kotze@za.ey.com

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.

Interest earned by individuals from local commercial banks is subject to a 10% withholding tax. Interest income that is subject to this withholding tax is exempt from normal income tax.

The following income is exempt from tax:
- 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

The interest portion of distributions received from unit trusts is specifically excluded from the definition of "dividend." As a result, such portion is taxable in the hands of unit holders. Individuals are subject to tax on such portion at the marginal tax rate.

Namibian unit trusts must withhold tax on the interest portion of distributions to any persons other than Namibian companies. Unit trusts must withhold tax at a rate of 10% on the interest portion of distributions to individuals and non-Namibian companies.

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 vesting 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$40,000 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 is levied at the following rates.

Taxable income		Tax on lower	Rate on
Exceeding N$	Not exceeding N$	amount N$	excess %
0	40,000	0	0
40,000	80,000	0	27
80,000	200,000	10,800	32
200,000	750,000	49,200	34
750,000	—	236,200	37

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 year, effective from 1 April 2009, 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 the following countries.

Botswana	Malaysia	South Africa
France	Mauritius	Sweden
Germany	Romania	United Kingdom
India	Russian Federation	

The treaties follow the model treaties of the Organization for Economic Cooperation and Development (OECD).

Namibia is negotiating double tax treaties with Canada, Liberia, Seychelles, Singapore, Spain, Tunisia, Zambia 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 jurisdictions.

Angola	Ireland	Portugal
Australia	Italy	Russian Federation*
Austria	Japan	Singapore
Belgium	Kenya	South Africa
Botswana	Lesotho	Spain
Brazil	Liechtenstein	Swaziland
Canada	Luxembourg	Sweden
Cuba	Macau	Switzerland
Denmark	Malawi	Tanzania
Finland	Malaysia	United Kingdom
France	Mozambique	United States
Germany	Netherlands	Zambia
Hong Kong	New Zealand	Zimbabwe
Iceland	Norway	

* Including the Commonwealth of Independent States.

Persons from the United Nations and the World Service Authority do not require valid entry visas to enter Namibia.

The government of Namibia issues visitors' visas, business visas, work permits and temporary or permanent residence permits.

Visitors' visas. 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$390 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. Business visas are required for individuals who enter Namibia for business purposes. The business visa in Namibia is required for persons performing the following activities in Namibia:

- Looking for prospects to set up formal businesses in Namibia
- Exploring business opportunities
- Businesspersons attending meetings at subsidiaries of their parent companies
- Official government visits
- Attending conferences
- Attending corporate events (non-work) and meetings for which no remuneration is received
- Attending short training courses (not more than 90 days)
- Participating in sports events, expositions and trade fairs

All of the persons performing the activities listed above must apply for a business visa unless they are from countries that have entered into a visa abolition agreement with Namibia.

Traders and street vendors, voluntary workers, and persons hired and remunerated in their countries but performing work in Namibia must obtain work visas.

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.

The documentation required for a business visa consists of a copy of the passport (showing date of issuance, date of expiration and passport number), a completed visa form and a motivation letter (references from the employer) on a company's letterhead.

The cost of a business visa is N$390 plus a handling charge of N$40.

Work visas. Work visas are issued to persons who intend to work for up to six months in Namibia. Work visas can be issued for a three-month period and can be renewed for an additional three months.

The cost of a work visa is N$390 plus a handling charge of N$40.

The documentation required for a work visa is the same as the documentation required for a business visa (see above).

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$1,395. In addition, a handling fee of N$80 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 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 Change of Conditions permit must be obtained in these circumstances.

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)
- Motivation letter on the company's letterhead that indicates why the applicant's skills are required
- Work references from previous employers
- A copy of a marriage or divorce certificate, if applicable
- A copy of the applicant's passport (showing date of issue, date of expiration and passport number) 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
- Police clearance certificates from the country of origin and most recent countries where the applicant was previously employed

- 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
- Proof of advertisement of the position in two local newspapers for two weeks
- Trade union letter (if applicable)
- A minimum of three CVs from applicants for the position

A foreign national may establish a business in Namibia, but must possess a work permit 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 if the investment will create employment (minimum five persons) that is sustainable. Houses are not considered an investment.

G. Residence permits

Temporary residence permits are issued together with work permits and are renewable on the same basis as work permits.

Subject to government approval, permanent residence permits are issued to foreign nationals after they have held a work permit or temporary residence permit for 10 years. The cost of the permanent residence permit is N$12,130. In addition, a handling fee of N$80 is charged for all applications.

An applicant for a permanent residence permit must complete a standard permanent residence application, which must be accompanied by the following items:

- A photograph of the applicant
- Police clearances from Namibia, the country of origin and all foreign countries where the applicant previously worked
- 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
- Proof of financial resources if applicants are self-employed or entering into business partnerships

H. Family and personal considerations

Family members. The spouse of a work permit holder must file an independent application for a work permit if he or she will be employed in Namibia or for a temporary resident permit, which does not allow a person to work, if he or she does not intend to work in Namibia.

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.

Netherlands

(Country code 31)

Rotterdam **GMT +1**

Ernst & Young
Mail address:
P.O. Box 2295
3000 CG Rotterdam
Netherlands

Street address:
Boompjes 258
3011 XZ Rotterdam
Netherlands

Executive contacts

Bea Haring (88) 407-3776
(resident in The Hague) Fax: (88) 407-4192
Email: bea.haring@nl.ey.com

Harry Hofman (88) 407-1586
(resident in Amsterdam) Fax: (88) 407-0987
Email: harry.hofman@nl.ey.com

Saskia van der Zande (88) 407-1648
(resident in Amsterdam) Fax: (88) 407-1005
Email: saskia.van.der.zande@nl.ey.com

Robert Rouwers (88) 407-8342
(resident in Rotterdam) Email: robert.rouwers@nl.ey.com

Jan-Bertram Rietveld (88) 407-8322
(resident in Rotterdam) Fax: (88) 407-8976
Email: jan-bertram.rietveld@nl.ey.com

Joost Smits (88) 407-4558
(resident in Eindhoven) Fax: (88) 407-4805
Email: joost.c.smits@nl.ey.com

Immigration contacts

Edith de Bourgraaf (88) 407-8312
(resident in Rotterdam) Fax: (88) 407-8977
Email: edith.de.bourgraaf@nl.ey.com

Anne Kwint-Bijleveld (88) 407-1254
(resident in Amsterdam) Fax: (88) 407-0987
Email: anne.bijleveld@nl.ey.com

Linda Rulander-Waalewijn (88) 407-8308
(resident in Rotterdam) Fax: (88) 407-8977
Email: linda.waalewijn@nl.ey.com

International social security contacts

Huib van Rumpt (88) 407-8331
(resident in Rotterdam) Email: huib.van.rumpt@nl.ey.com

Suzanne Coppens (88) 407-4507
(resident in Eindhoven) Fax: (88) 407-4805
Email: suzanne.coppens@nl.ey.com

International High Net Worth Group contact

Marnix van Rij (88) 407-3857
(resident in The Hague) Fax: (88) 407-4197
Email: marnix.van.rij@nl.ey.com

Contact for Dutch Caribbean (Bonaire, Sint Eustatius and Saba)

Suzanne Coppens (88) 407-4507
(resident in Eindhoven) Fax: (88) 407-4805
Email: suzanne.coppens@nl.ey.com

At the time of writing, a "Modern Migratory Policy" bill is expected to enter into effect. The initial implementation date of 1 January 2011 has been postponed. However, at the time of writing, a new date had not yet been announced. This bill is designed to make the immigration procedures quicker *and more flexible in the Netherlands. The bill has been approved by the Dutch parliament. Because the bill will significantly affect immigration procedures in the Netherlands, readers should obtain updated information before engaging in transactions.*

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 circumstances. For Dutch residency, it is essential to determine whether the individual has permanent personal ties with the Netherlands. For this purpose, specific circumstances (social, economic and legal) are not decisive; all personal ties are relevant.

Nonresident taxpayers may elect to be taxed as a resident taxpayer of the Netherlands. Furthermore, the 30% facility (see *30% facility*) provides the option for residents of the Netherlands 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 €55,694 (see *Rates*). 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. Effective from 1 January 2011, the system of tax-free employment benefits and allowances is replaced by the work-related costs scheme (*werkkostenregeling*; see *New Dutch wage tax regulation*). This new scheme will have a major impact on employment conditions policy as a whole in 2011 and future years. Transition arrangements are in place.

Income and gains derived by private equity managers and other individuals from investments in which they are deemed to have a so-called "lucrative interest" is subject to the progressive income tax rates up to a maximum of 52% in a manner similar to entrepreneur income (the 30% facility is not applicable).

A nonresident individual receiving income from employment actually carried on in the Netherlands is subject to Dutch income tax. In certain situations the so-called 60-days rule applies. Under this rule, the Netherlands gives up its right to levy tax on employment income if the employee works in the Netherlands less than 60 days in any 12-month period. 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.

An employee who is a 5% or greater shareholder is deemed to earn a salary of at least €41,000 a year. A lower amount may be taken into account for shareholders who can prove that their actual salaries at arm's length are less than €41,000. However, if the tax authorities can prove that a salary at arm's length would be higher than €41,000, the director's salary must equal at least 70% of the salary at arm's length and at least as much as the salaries of other nonshareholder employees. These rules do not apply if the salary at arm's length of the employee/shareholder does not exceed the amount of €5,000 a year.

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. Exemptions are made, among others, in the tax treaty with Switzerland and in the new tax treaty between the Netherlands and the United Kingdom.

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, in general, a rate of 0.55% applies to calculate the deemed rental value. For dwellings with a value exceeding €1,020,000, a rate of 1.05% applies on the excess.

This rate will increase gradually to 2.35% in 2016. The deemed rental value reflects the net income from real property, which is the deemed rental income less certain deductible expenses. For a period of up to 30 years, 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 taxpayer's net value of savings and investments, including shares and bank accounts (excluding the value of loans with respect to a primary residence), on 1 January of the calendar year, 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 €20,785 applies for each resident taxpayer.

Dutch resident taxpayers are taxed on their worldwide income, including income from savings accounts maintained outside the Netherlands. European Union (EU) member states in which savings accounts are maintained must inform the EU member state where the beneficial owner of the savings account resides about the existence of this savings account. This notification is made annually. Consequently, the Dutch tax authorities are aware of savings accounts maintained outside the Netherlands, but within the EU.

For Austria, Belgium and Luxembourg, a transitional rule applies. These three countries are not required to exchange information on savings accounts if they apply a withholding tax to savings income. For 2011, the rate of this withholding tax is 35%.

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 15%, 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 15% 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. In general, 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 2011 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*.

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

New Dutch wage tax regulation. Effective from 1 January 2011, a new Dutch wage tax regulation concerning allowances (*werkkostenregeling*) is introduced. Until 1 January 2014, the employer may apply the old regulation for one or more whole calendar years. The new wage tax regulation will be mandatory, effective from 1 January 2014. The principle underlying this new system is that fewer rules apply with respect to tax-free allowances and employment benefits and that all allowances and benefits granted to employees by employers essentially constitute taxable wages. Specific exemptions are provided. The employer is entitled to a tax-free work-related costs budget of 1.4% of the total taxable wage bill. If the actual work-related costs exceed this budget, an employer's final levy of 80% on the excess is due. For more information about the new regulation, please contact Ernst & Young in the Netherlands.

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 €7,750, 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.
- An allowance for business travel, including commuting expenses, may be granted for private transportation, subject to certain limitations. Commuting expenses for public transportation may be reimbursed in full. Business travel and commuting expenses may not be deducted.

The deductions listed above for certain life insurance premiums, 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.
- 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 all "extraterritorial costs." As a result, no additional tax-exempt reimbursements of costs are allowed on top of the 30% tax-free allowance.

Instead of applying the 30% facility, reimbursement of the actual extraterritorial costs free of tax is allowed even if this amount is higher than 30% of the present employment income. Consequently, the employer must maintain records of all actual extraterritorial costs reimbursed free of tax.

Rates. The rates applicable to income from Box 1, effective from 1 January 2011, 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	18,628	1.85	31.15	13.25	33.00	15.10
18,628	33,436	10.80	31.15	13.25	41.95	24.05
33,436	55,694	42.00	0	0	42.00	42.00
55,694	—	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 (€1,574), an employment credit for recipients of income from profits and employment (up to €1,489) 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 following national insurance schemes:
• General Old Age Pension Act (AOW)
• Survivor Benefits Act (ANW)
• 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 nine 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 Netherlands does not impose net worth tax.

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 10% to 40% 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 taxation, the Netherlands has entered into inheritance tax treaties with the following countries.

Austria	Sweden	United Kingdom (including Northern Ireland)
Finland	Switzerland	United States
Israel		

A treaty with France has been signed, but it has not yet been ratified. Relief may also be available if no treaty applies.

Effective from 1 January 2010, the Dutch Succession Code is amended. Under the amended code, if the conditions with respect to the business succession facility (*bedrijfsopvolgingsfaciliteit*, or BOF) are satisfied, 83% to 100% of the value of the business assets or the substantial interest shares may be exempted from gift and inheritance tax.

For segregated private assets (*afgezonderd particulier vermogen*, or APV) such as a trust, a family foundation or a Netherlands Antilles private foundation, entirely new rules have been introduced. Effective from 2010, such assets are allocated to the contributor or his or her heirs for income tax purposes. When the person to whom the assets are allocated dies, his or her heirs are taxed on the assets as if they were part of the inheritance.

C. Social security

Contributions. The Social Security Acts can be classified into two categories, which are National Insurance Acts and Employee Insurance Acts (excluding health insurance). National Insurance Acts provide benefits to all Dutch residents. National Insurance contributions are payable on taxable income of up to €33,436 and are not deductible for tax purposes. The maximum annual National Insurance contribution payable by an employee is €7,126 (after taking into account the social security credit). Employee Insurance Acts provide additional benefits for wage earners. Employee Insurance contributions (excluding health insurance) are €0 for the employee and approximately €5,300 for the employer.

The following National Insurance Acts contribution rates (total of 31.15%) apply in 2011:
- 17.9% for the General Old Age Pension Act (AOW)
- 1.1% for the Survivor Benefits Act (ANW)
- 12.15% for the Exceptional Medical Expenses Act (AWBZ)

The following table presents the contribution rates for employers and employees under the 2011 Employee Insurance Acts.

Benefit	Employer %	Employee %
Disablement Insurance Act*	5.65	0
Unemployment Insurance Act	6.44	0

* These figures reflect average percentages. The actual percentage can differ slightly depending on the respective industry (sector) with which the employer is registered. These contributions are capped at a wage of €49,298 a year.

As a result of the privatization of the Sickness Benefits Act, an employer must pay 70% of an employee's salary for a two-year period if the employee cannot perform his or her duties because of illness. For this purpose, the maximum salary considered is €49,298 per year. To cover its obligations under the act, an employer may obtain private insurance or establish a reserve.

Every individual who is socially insured in the Netherlands must take out an individual health insurance policy. Every individual aged 18 and older pays a standard contribution averaging €1,374 for health insurance. In addition to the standard contribution, an income-related contribution is payable at a rate of 7.75% (for self-employed persons, a 5.65% rate applies), with a maximum contribution of €2,590. Employers are required to reimburse employees 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 entered into agreements with several countries. As an EU member state, the Netherlands applies EU Regulation 883/04, which entered into force on 1 May 2010 and replaced EU Regulation 1408/71. Regulation 1408/71 continues to apply for a maximum of 10 years to all cross-border situations existing before 1 May 2010 in which Regulation 883 alters the relevant state if the individual does not opt into coverage of the new regulation and if a material change in circumstances does not occur.

The Netherlands has also entered into social security agreements with the following non-EU member states:

European Economic Area	Chile	Montenegro
Australia	Croatia	Morocco
Bosnia-Herzegovina	Egypt	New Zealand
Canada	Isle of Man	Serbia
Cape Verde	Israel	Tunisia
Channel Islands	Japan	Turkey
	Korea (South)	United States
	Macedonia	Uruguay

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.

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
- 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. Effective from 1 January 2011, unmarried individuals may no longer elect annually to be treated as partners for tax purposes. Effective from that date, unmarried individuals who live together for more than six months in a calendar year and are registered at the same address with the municipal authorities are treated as partners for tax purposes if one of the following circumstances exists:
- A child was born from their relationship.
- A child of one of the individuals was officially acknowledged by the other individual.
- The individuals are stated as partners in a pension plan.
- The individuals own a primary residence together.

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 to both partners at their discretion the yield assessment base for capital yield tax (Box 3), except for the year of immigration or emigration, and the joint elements of income. 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, and (supplementary) 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
Argentina
Armenia
Aruba
Australia
Austria
Azerbaijan
Bahrain
Bangladesh
Barbados
Belarus
Belgium
Bermuda
Brazil
Bulgaria
Canada
China
Croatia
Czech Republic
Denmark
Egypt
Estonia
Finland
France
Georgia
Germany
Ghana
Greece
Hong Kong
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Japan
Jordan
Kazakhstan
Korea (South)
Kuwait
Kyrgyzstan
Latvia
Lithuania
Luxembourg
Macedonia
Malawi
Malaysia
Malta
Mexico
Moldova
Mongolia
Morocco
Netherlands Antilles
New Zealand
Nigeria
Norway
Oman
Pakistan
Panama
Philippines
Poland
Portugal
Qatar
Romania
Russian Federation
Saudi Arabia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Suriname
Sweden
Switzerland
Taiwan
Thailand
Tunisia
Turkey
Uganda
Ukraine
USSR (a)
United Arab Emirates
United Kingdom
United States
Uzbekistan
Venezuela
Vietnam
Yugoslavia (b)
Zambia
Zimbabwe

(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 former Yugoslavia treaty with respect to the republics of Bosnia-Herzegovina, Montenegro and Serbia.

The Netherlands has signed double tax treaties with Hong Kong, Oman and Panama, but these treaties have not yet entered into force.

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 in a 6-month period 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 met, 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 the permitting of entry, for example, to nationals of EU countries and to nationals of countries participating in the European Economic Area (EEA; the EEA countries are Iceland, Liechtenstein and Norway) and nationals of Switzerland.
- The presence of the foreign national is in the national interest.
- 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 permanently resides before coming to the Netherlands. Before submitting an application for a temporary residence permit, the Dutch authorities may need to legalize the birth certificates of the children and the marriage certificate, if applicable. The legalization procedure depends on the country where the event took place. This procedure 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 MVV application process.

Nationals of the following countries do not need temporary residence permits.

EU member countries	Canada	New Zealand
EEA countries	Japan	Switzerland
Australia	Korea (South)	Vatican City
	Monaco	United States

A foreign national admitted to the Netherlands for longer than three months must register with the immigration authorities (IND) within three days after his or her arrival in the Netherlands to apply for a residence permit. To register, he or she must bring the following items:

- His or her valid passport
- One color passport photograph that meets the Dutch passport photo requirements
- A copy of the work permit (if applicable)
- His or her official legalized birth certificate and marriage certificate
- If applicable, an employment contract

If the employee already has a temporary residence permit, a copy of the temporary residence permit must be submitted. A fee 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 Bulgaria and Romania (see Section H).

European nationals do not need residence permits to stay in the Netherlands. Instead they must obtain an EU sticker from the immigration authorities confirming they are staying in the Netherlands legally.

In general, a residence permit granted to a non-European must be renewed every year.

If a foreign national has held a residence permit for five consecutive years, he or she may apply for a permanent residence permit. For permanent residence permit applications, integration courses must be completed.

H. Work permits and self-employment

In principle, all non-European nationals (nationals from countries other than EU countries, EEA countries and Switzerland) who wish to be employed in the Netherlands need Dutch work permits. The existing law in the Netherlands seeks to limit the possibilities of Dutch employers' hiring non-European personnel.

Employers who want to hire foreign nationals must request work permits from the UWV WERKbedrijf (public employment service). If a work permit is not requested, the employer is subject to a fine of €8,000 per illegal foreign national.

Effective from 1 January 2007, transitional rules apply to employees from Bulgaria and Romania. During this transitional period, employees from Bulgaria and Romania continue to need a work permit.

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 UWV WERKbedrijf for at least five weeks before the work permit request (unless it either qualifies as a transfer within an international group of companies 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 to the above compulsory grounds can be made for specific situations, for example, in the case of a transfer of an employee within an international group of companies. 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 transfer to the Netherlands.
- The employee must earn an annual gross salary of at least €50,619 (for 2011). This figure is linked to the minimum salary requirement for a knowledge migrant (see *Knowledge migrants*).
- The employee must be appointed to a key position in a Dutch company.
- The worldwide turnover of the group must be at least €50 million per year.

The work permit application may also 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 employees 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.
- No suitable accommodation is available for the employee.
- Labor to fill the vacancy will be available in the European labor market within a reasonable time because education programs will be completed.

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 4 subsequent weeks in a period of 13 weeks in the Netherlands for the purpose of attending business meetings or entering into agreements.

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.

Population Registrar. In addition to registration with the IND, 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, a marriage certificate (if applicable) and a rental contract for accommodation are required.

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 IND asks the Ministry of Economic Affairs whether the self-employed person is allowed to work in the Netherlands.

Knowledge migrants. To attract highly skilled foreign employees to the Netherlands, a special procedure exists for so-called "knowledge migrants."

An employer is not required to apply for a work permit on behalf of the knowledge migrants. The employer only needs to apply for a residence permit on behalf of the employee at the IND. For 2011, an employee must earn an annual gross salary of €50,619 or more to apply for the procedure. Employees aged under 30 years must earn an annual gross salary of €37,121 or more to apply. The salary levels are adjusted annually. Before the employee can apply for a residence permit, the employer must sign an agreement with the IND in which it commits itself to take full responsibility for the employee. 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."

A special salary requirement applies to students who graduated in the Netherlands. They may find a job as a knowledge migrant in the Netherlands. The employment must begin within one year of the date of graduation, and the graduate must earn a salary of at least €26,605. For the search period, a separate residence permit restriction applies. The student may work during this year because he or she must be self-supporting and cannot make use of any governmental payments.

Football players, spiritual leaders, clerics and individuals performing activities in a sexually-related business are excluded from the knowledge migrants' category.

Highly educated persons. An admission scheme exists for "highly educated persons." "Highly educated persons" who have attained at least a Master's Degree can obtain a residence permit with a maximum term of one year in the Netherlands for the purposes of finding a job. The scheme is available to foreign nationals who are entering the Netherlands from abroad and who have completed a course at a university listed in the top 150 of two internationally recognized rankings, which are rankings published in the *Times Higher Education Supplement* and by Jiao Tong Shanghai University in 2007. In addition, foreign nationals who have completed a Master's Degree at a recognized institution for higher education or who have received their Ph.D from a Dutch institution for higher education also qualify as highly educated persons. All the above-mentioned highly educated persons may benefit from the scheme for three years after the date of their graduation. A foreign national who has a residence permit indicating "highly educated person" is allowed to work as an employee for the duration of his or her work permit if his or her employer has obtained a work permit.

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. In general, residents of the Netherlands who want to drive a motor vehicle must hold a valid Dutch driving license and be at least 18 years old. However, certain exceptions, which are described below, exist.

Exceptions. A holder of a valid driver's license, issued by an EU or EEA country or Switzerland, who becomes a Dutch resident may drive with this foreign license for a period of 10 consecutive years after the date of issuance of this foreign driver's license, provided that the driver's license is still valid. If the foreign driver's license is already more than nine years old, the individual may continue to drive with it in the Netherlands for one year calculated from the date of registering with the Dutch municipality, provided that the driving license is still valid.

If an individual has a valid driver's license that was issued in a country other than the countries mentioned above or in Aruba or the Netherlands Antilles, the license may be used for 185 days after becoming a resident of the Netherlands. During this period, the individual must obtain a Dutch driving license.

Obtaining a Dutch driver's license. In certain cases, a driver's license obtained outside the Netherlands can be exchanged for a Dutch driver's license. However, this is possible only if all of the following conditions are satisfied:
- The individual is a Dutch resident.
- The foreign driver's license remains valid.
- The individual has a valid Dutch residence status or permit.

Drivers' licenses issued by EU or EEA countries, Aruba, the Isle of Man, Jersey, Monaco, the Netherlands Antilles and Switzerland can be exchanged.

In the case of a non-EU/EEA driver's license, the driver's license must have been issued in a year in which the individual was resident in the issuing country for at least 185 days.

It is not possible to exchange an international or European driving license for a Dutch driver's license. Only the original driver's license issued by the proper authorities of the country of origin can be exchanged.

Each driver's license is checked for validity and authenticity. As a result, an individual may need to prove the soundness of the license by asking the embassy or the consulate of the issuing country to provide a confirmation for the Dutch authorities. An individual may also be required to have an attested translator provide a translation of the driver's license.

Special rule for individuals benefiting from the 30% facility. An individual benefiting from the 30% facility (see Section A), including family members, may directly apply for a Dutch driver's license at the local Dutch municipality.

To exchange the foreign driver's license for a Dutch driver's license, individuals benefiting from the 30% facility must pay a fee (the amount varies) and submit the following documents to the local Dutch municipality:
- A copy of the statement issued by the international tax office in Heerlen proving that the expatriate and his or her family members are entitled to benefit from the 30% facility
- The original, valid foreign driver's license, which must be issued in a country where the expatriate has been a resident for a period of longer than 185 days
- An extract from the municipal register, proving that the expatriate is registered and stating the address in the Netherlands
- A Certificate of Capability
- Two identical, recent passport photographs (taken from the front)

J. Taxation in the Dutch Caribbean (Bonaire, Sint Eustatius and Saba)

On 10 October 2010, the country Netherlands Antilles, which consisted of five island territories in the Caribbean Sea (Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten), was dissolved. On the dissolution of the Netherlands Antilles, Bonaire, Saba and Sint Eustatius (the BES Islands) became part of the Netherlands as extraordinary overseas municipalities. Curaçao and Sint Maarten have both become autonomous countries within the Kingdom of the Netherlands. (For information on the tax law in Curaçao and Sint Maarten, see pages 285 and 1069, respectively.) Effective from 10 October 2010, the BES Islands are part of the Netherlands. However, in tax matters they have a special position. In general, effective from 1 January 2011, the BES' own tax laws apply rather than the Dutch tax legislation. Significant aspects of the tax law in the BES Islands are summarized below.

Income tax. BES residents are subject to income tax on their worldwide income. Nonresidents are subject to tax on specific BES-source income only. The following are the income tax rates in the BES Islands.

Taxable income Exceeding US$	Taxable income Not exceeding US$	Rate %
0	250,000	30.4
250,000	—	35.4

The above tax rates apply to all taxpayers, regardless of their age. Income tax is due if taxable income exceeds the tax-free amount of US$9,750. In addition, the following tax-free allowances are available:
- Child allowance: US$1,250 per child (maximum of US$2,500)
- Old-age allowance: US$200

Deductions. Under certain conditions the following items are deductible for tax purposes:
- Premiums for certain life insurance, annuities and pensions
- Certain gifts and donations
- Mortgage interest paid for the acquisition, maintenance or improvement of the primary residence (the deduction can only be claimed against the tax rate of 30.4%)
- Costs for education and specific medical expenses not covered by insurance
- Cost of living for disabled children

Social security. Social security contributions are levied in the following amounts:
- Old age insurance: 25% on a maximum taxable income of US$26,396
- Unemployment insurance: 1.3% on a maximum taxable income of US$26,396
- Health insurance: 0.5% on a maximum taxable income of US$26,396

A taxpayer who pays contributions for the above-mentioned insurances is entitled to an income tax credit equal to the amount of the contributions.

Pensioners and retirees. The Netherlands Antilles had a special tax regime for pensioners, called the *penshonado* status. Certain conditions had to be met to obtain this status. The *penshonado* status provided for a beneficial tax rate of 10% on all foreign-source income. The *penshonado* status is abolished for BES residents. However, individuals who had the status on 31 December 2010 can continue benefiting from such status during a transition period until 1 January 2016. The 10% tax rate applies only to foreign-source income that exceeds US$26,396.

Double tax relief and tax treaties. The tax treaties of the Netherlands do not apply to the BES Islands. The tax treaties and the tax information exchange agreements of the Netherlands Antilles continue to apply to the BES Islands. The tax regulation Belastingregeling voor het land Nederland (BRN) provides for the avoidance of double taxation and double tax exemption in relations between the Netherlands and the BES Islands. The Decree for the Avoidance of Double Taxation BES provides proportional relief from BES income tax for BES residents on foreign-source income taxed in countries other than the Netherlands.

Other taxes. The BES Islands levy the following other taxes:
- Vastgoedbelasting: This is a tax on real estate in the BES Islands, which is imposed at a rate of 1% of the value of the real estate. The primary residence and real estate belonging to the capital of a company is exempted from this tax to the extent that the income from these sources is subject to BES income tax.
- Opbrengstbelasting: This is a tax comparable to a dividend tax. The Opbrengstbelasting of 5% is withheld and paid on benefits provided by companies and foundations.

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	—	—
Other items			
Worldwide personal income (interest and dividends)	X	—	(e)

	Taxable*	Not taxable	Comments
Capital gain from sale of personal residence	—	X	—
Capital gain from sale of stock	—	X	(f)

Note: In certain cases, exceptions may exist. Also, see *New Dutch wage tax regulation* in Section A for details regarding the new wage tax regulation, which contains a new work-related costs scheme, effective from 1 January 2011.

* 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 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 actual transportation costs is not taxable. In addition, a general moving allowance up to a maximum amount of €7,750 is not taxable.
(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 2011. 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 2011 tax computation for the expatriate.

	€
Taxable income from employment	90,000
Contribution for health insurance (ZVW)	2,590
Employee Insurance contributions	(0)
Fiscal wages	92,590
Deemed rental value	1,100
Interest paid on mortgage loan	(10,000)
Taxable income (Box 1)	83,690
National Insurance contributions and income tax	36,263
Tax credit	(3,561)
National Insurance contributions and income tax due	32,702

With 30% facility

A single expatriate is assigned to the Netherlands and benefits from the 30% facility. For 2011, 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)	2,590
Employment Insurance contributions	(0)
Net employment income	92,590
30% facility	(27,777)
Fiscal wages after application of 30% facility	64,813
Deemed rental value	1,100
Interest paid on mortgage loan	(10,000)
Taxable income	55,913
National Insurance contributions and income tax	21,819
Tax credit	(3,561)
National Insurance contributions and income tax due	18,258

New Zealand

(Country code 64)

Auckland **GMT +12**

Ernst & Young
Mail address:
P.O. Box 2146
Auckland 1140
New Zealand

Street address:
2 Takutai Square
Britomart
Auckland
New Zealand

Executive contacts

Rohini Ram
(9) 300-7058
Fax: (9) 309-8137
Email: rohini.ram@nz.ey.com

Belinda Anderson
(9) 300-8121
Fax: (9) 309-8137
Email: belinda.anderson@nz.ey.com

James Barlow
(9) 300-8122
Fax: (9) 309-8137
Email: james.barlow@nz.ey.com

Wellington **GMT +12**

Ernst & Young
Mail address:
P.O. Box 490
Wellington 6140
New Zealand

Street address:
Majestic Centre
100 Willis Street
Wellington
New Zealand

Executive contacts

Graeme Knapp
(4) 470-8609
Fax: (4) 495-7400
Email: graeme.knapp@nz.ey.com

Kate Beeby
(27) 489-9751
Fax: (4) 495-7400
Email: kate.beeby@nz.ey.com

Immigration contact

Jennifer De Wald-Harrison (27) 489-9456
Fax: (4) 495-7400
Email: jennifer.dewald-harrison@nz.ey.com

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.
- They are physically present in New Zealand for more than 183 days in any 12-month period.

Transitional Residents' exemption. Resident individuals arriving for the first time in New Zealand after 1 April 2006, or who have been absent for at least 10 years before returning to New Zealand, are considered to be Transitional Residents and are eligible for an exemption on certain income arising from sources outside New Zealand for the first 48 months of their stay. However, Transitional Residents can elect to waive the exemption.

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, meals, permanent housing and tuition for dependent children, are generally included in gross income. Payments or reimbursements by employers of some relocation expenses may be excluded from gross income. Employer-provided accommodation for up to three months after arrival as a result of a work-related relocation is specifically exempt from income tax and fringe benefit tax.

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 that are not KiwiSaver contributions (see below) and to fringe benefit tax on the other items. Reimbursements for business expenses are not taxable to the employee.

The government has introduced a work-based savings initiative called KiwiSaver. Most employers must make compulsory contributions to a KiwiSaver fund or a complying superannuation fund for all eligible employees who have elected to participate. To be eligible, employees must satisfy the following conditions:
- They must be New Zealand citizens or entitled to live permanently in New Zealand.
- They must normally live in New Zealand.
- They are under 65 years old.

Employers are subject to withholding tax on all KiwiSaver contributions exceeding the compulsory employer contribution amount.

Income from personal services (salary and wages) rendered by a nonresident in New Zealand is generally not taxable if the nonresident is physically present in New Zealand for less than 92 days and if the income is taxable in the nonresident individual's country of tax residence. 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 unless they have obtained exemption or nil rate certificates. Nonresident contractors may be exempt from withholding tax without obtaining exemption certificates 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.
- 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%. This tax may be treated as a final tax. Nonresident contractors are generally subject to withholding tax at a rate of 15% for income from contract services. This tax is neither a minimum nor a final tax and is paid on account of any annual income tax liability.

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%.

Attributed 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.

Income earned on investments in certain unlisted portfolio investment entities (PIEs) may be allocated and taxed at the fund level at individual investor rates, with a maximum rate of 28% (from 1 October 2010; previously 30%) and no further tax on distribution. Listed PIE distributions may also be excluded from gross income.

Dividends (other than PIE distributions) and interest paid by New Zealand resident companies to New Zealand resident individuals are generally subject to an interim tax through a resident withholding tax (RWT) deduction.

The RWT rate on dividends is 33%, reduced by any imputation credits attached to the dividends.

Certain types of interest are exempt from RWT, including interest payable on trade debts or interest received under a hire-purchase agreement. Other items that are exempt are payments made to entities or persons holding valid certificates of exemption. These may include banks, building societies, money lenders, and local or public authorities, and persons whose total gross income is expected to exceed NZ$2 million in the next accounting year.

The rates of RWT on interest from 1 April 2010 to 30 September 2010 were elective rates of 12.5% (for individuals who expected their annual gross income would not exceed NZ$14,000 and for trustees of deceased estates), 21%, 33% or 38%, if the interest recipients supplied their tax identification numbers. Companies could elect an RWT rate of 33% or 38%, but interest payers could choose to deduct RWT at 30% instead of 33% on interest payments to companies. In all cases, the RWT rate on interest was 38% of gross interest if the recipient did not provide a tax identification number. Effective from 1 October 2010, the rates of RWT on interest are elective rates of 10.5% (instead of the 12.5% rate), 17.5%, 30% and 33% for individuals who supply their tax identification numbers, and 33% for companies (unless payers chose to deduct at the lower 30% rate). Effective from 1 April 2011, the RWT rate on interest paid to companies is reduced to 28% if the recipients supply their tax identification numbers. The default RWT rate if interest recipients did not supply their tax identification numbers was 33% for all recipients between 1 October 2010 and 31 March 2011. Effective from 1 April 2011, the default RWT rate is reduced to 30% for company recipients of interest but remains at 33% if other interest recipients do not supply their tax identification numbers. The recipients include the gross interest and dividends in their gross income and receive a credit for RWT.

Nonresidents are subject to withholding tax at a rate of 30% on 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.

Effective from 1 February 2010, a 0% rate also applies to fully imputed cash dividends paid to nonresidents if the nonresidents have a direct voting interest of at least 10% or if a tax treaty would reduce the New Zealand tax rate below 15%.

Nonresidents are subject to withholding tax at a rate of 15% for interest and royalties. Certain tax treaties may reduce this rate.

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 (FITC) 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 that 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 supplementary dividends. The effective rate of tax on fully imputed dividends received by nonresident investors with supplementary dividends under the FITC provisions is 30% (28% from the 2011–12 income year), which effectively equates the company tax rate on the company's underlying profits and the extent of the credits passed to resident investors. However, the residents may need to pay further tax, depending on their individual marginal tax rates. Although the same result could be achieved for nonresident investors through a 0% rate of withholding on imputed dividends, the rather complicated FITC mechanism is intended to allow nonresident investors to claim a full tax credit in their home countries for New Zealand nonresident withholding tax.

Effective from 1 February 2010, the FITC provisions generally apply for dividends paid to nonresidents only if they hold less than 10% direct voting interests and if the New Zealand tax rate, after any tax treaty relief, is at least 15%.

Attributed income from controlled foreign investments. Under the controlled foreign company (CFC) regime, New Zealand residents may be taxed on income attributed to them that is derived by foreign entities in which they hold an interest if either of the following circumstances exists:

- Five or fewer New Zealand residents own over 50% of the foreign entity.
- New Zealand residents have de facto control of the company.

In general, an exemption from the CFC regime had previously been allowed for investments in companies and unit trusts in "grey list" countries (Australia, Canada, Germany, Japan, Norway, Spain, the United Kingdom and the United States). For taxpayers' income years that begin on or after 1 July 2009 (for example, the year ending 31 March 2011 for taxpayers with the standard March balance date, or the year ending 31 December 2010 for taxpayers with December balance dates), the "grey list" exemption is abolished (apart from Australia) and an active income exemption is introduced, which may apply to companies and unit trusts in any foreign countries.

Under the foreign investment fund (FIF) regime, New Zealand residents may be taxed on income attributed to them that is derived by foreign entities in which they hold an interest not meeting the conditions for the applicability of the CFC regime. The FIF regime may apply to interests in the following:
- Companies and unit trusts
- Foreign superannuation schemes
- Foreign life insurance policies that have an investment component

Several exceptions apply, including exemptions for the following:
- Shares held in certain Australian companies listed on the Australian Stock Exchange.
- Certain Australian unit trusts or superannuation schemes.
- 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.
- An exemption period for foreign superannuation and life insurance interests held before the individual becomes a New Zealand resident. The exemption period is 48 months, beginning after the month in which the person first became a tax resident.

Effective from 1 April 2007, investors who own interests of less than 10% in foreign companies, unit trusts, superannuation funds and life insurance policies can calculate their FIF income under the fair dividend rate method (FDR). Under the FDR method investors are taxed on 5% of the market value of investments held at the beginning of the year. Dividends and capital gains are not separately taxed under this method.

Under legislation that is in the process of being enacted, an active income exemption and approach (similar in some respects to that applying for interests in CFCs) will be provided with respect to direct income interests of at least 10% in FIF companies and unit trusts for income years beginning on or after 1 July 2011.

Transitional Residents (see *Transitional Residents' exemption*) are exempt from the attribution of CFC or FIF income.

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%. If the income of a trust has not been fully liable to New Zealand income tax, certain distributions 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.

If the employee is a Transitional Resident (see *Transitional Residents' exemption*) at the time the options are exercised, the value of the benefit is apportioned based on the ratio of the time employed in New Zealand to the total employment period.

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 in certain circumstances, including the following:

- The taxpayer's business consists of dealing in that real or personal property.
- 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 taxpayers deriving income and incurring expenditure of less than NZ$100,000 from financial arrangements in an income year and by taxpayers with financial arrangement assets and liabilities with a total absolute value of 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, or to Transitional Residents if the other parties to an arrangement are nonresidents and if the arrangement is not for the purposes of a business carried on in New Zealand by any of the parties.

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 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.

A 6% tax credit applies to certain redundancy payments (up to a maximum credit of NZ$3,600 on payments of at least NZ$60,000), made on or before 31 March 2011 (proposed to be further extended to 30 September 2011).

An independent earner tax credit (IETC) may apply to taxpayers who have annual income between NZ$24,000 and NZ$48,000 and who do not directly or indirectly receive family support, income-tested benefits, New Zealand superannuation, certain pensions or other amounts. The IETC is a maximum of NZ$520 and abates at 13 cents per dollar earned over NZ$44,000.

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 tables.

For the year ending 31 March 2011

Taxable income		Tax on lower	Rate on
Exceeding NZ$	Not exceeding NZ$	amount NZ$	excess %
0	14,000	0	11.5
14,000	48,000	1,610	19.25
48,000	70,000	8,155	31.5
70,000	—	15,085	35.5

For the year ending 31 March 2012

Taxable income		Tax on lower	Rate on
Exceeding NZ$	Not exceeding NZ$	amount NZ$	excess %
0	14,000	0	10.5
14,000	48,000	1,470	17.5
48,000	70,000	7,420	30
70,000	—	14,020	33

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 currently imposed on every dutiable gift but legislation that will abolish gift duty for gifts made on or after 1 October 2011 is in the process of being enacted. Dutiable gifts consist of property in New Zealand and all property wherever located, 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 amount	Rate on excess
Exceeding NZ$	Not exceeding NZ$	NZ$	%
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 Accident Compensation Act 2001 (previously called 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 employment income of up to NZ$110,018 for the year ending 31 March 2011, and up to NZ$111,669 for the year ending 31 March 2012. For employers and self-employed persons, the rate of the levy depends on the relevant industry classification. For employees, the rate of the levy is 2.04%, effective from 1 October 2010.

New Zealand has entered into reciprocal social security agreements with Australia, Canada, Denmark, Greece, Guernsey, Ireland, Jersey, 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, generally in the 5th, 9th and 13th months following the beginning of their income years. These taxpayers are generally persons whose preceding year's tax liability on income from which no tax was withheld was 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
Austria
Belgium
Canada
Chile
China
Czech Republic
Denmark
Fiji
Finland
France
Germany
Hong Kong*
India
Indonesia
Ireland
Italy
Japan
Korea (South)
Malaysia
Mexico
Netherlands
Norway
Philippines
Poland
Russian Federation
Singapore
South Africa
Spain
Sweden
Switzerland
Taiwan
Thailand
Turkey*
United Arab Emirates
United Kingdom
United States

* This treaty is not yet in force.

F. Temporary visas

In general, all visitors to New Zealand must obtain a visa to enter the country. Australian citizens and individuals who hold a current Australian permanent residence visa or a returning residence visa do not need a New Zealand visa to enter New Zealand. British citizens and other British passport holders who produce evidence of the right to reside permanently in the United Kingdom can visit for up to six months without a visa. People from certain countries who will be in New Zealand for less than three months do not need to obtain a visa. However, all visitors must provide travel tickets or evidence of onward travel arrangements and evidence of funds to support themselves while in New Zealand. The following is the list of these "visa-free" countries.

Andorra
Argentina
Austria
Bahrain
Belgium
Brazil
Brunei Darussalam
Bulgaria
Canada
Chile
Cyprus
Czech Republic
Denmark
Estonia (a)
Finland
France
Germany
Greece (b)
Hong Kong (c)
Hungary
Iceland
Ireland
Israel
Italy
Japan
Korea (South)
Kuwait
Latvia (a)
Liechtenstein
Lithuania (a)
Luxembourg
Malaysia
Malta
Mexico
Monaco
Netherlands
Norway
Oman
Poland
Portugal (d)
Qatar
Romania
San Marino
Saudi Arabia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sweden
Switzerland
Taiwan
United Arab Emirates
United States (e)
Uruguay
Vatican City

(a) The visa waiver does not apply to persons traveling on an alien's (non-citizen's) passport issued by the respective countries.

(b) The visa waiver applies to Greek passport holders whose passports were issued on or after 1 January 2006. Greek passports issued before 1 January 2006 are not acceptable for travel after 1 January 2007.
(c) The visa waiver applies to residents of Hong Kong traveling on Hong Kong Special Administrative Region or British National (Overseas) passports.
(d) Portuguese passport holders must also have the right to live permanently in Portugal.
(e) The visa waiver covers nationals of the United States.

Student visas. 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. Some students are allowed to do some paid work while studying in New Zealand.

Business visitors' visas. Business visitors may be issued a visa for no longer than three months in any one year. A business visitor is not considered to be undertaking employment (and consequently does not require a work visa) if he or she is a representative on an official trade mission, a sales representative from an overseas company, an overseas buyer of New Zealand goods or services, or a person undertaking business negotiations in New Zealand with respect to the establishment, expansion or winding up of a business enterprise in New Zealand. If a period of longer than three months in any one year is required, the individual must apply for a work visa.

Working holiday visas. Working holiday schemes are open to citizens from the following countries who satisfy certain conditions.

Argentina	Hong Kong	Peru
Belgium	Ireland	Poland
Brazil	Italy	Singapore
Canada	Japan	Slovenia
Chile	Korea (South)	Spain
China	Latvia	Sweden
Czech Republic	Malaysia	Taiwan
Denmark	Malta	Thailand
Estonia	Mexico	United Kingdom
Finland	Netherlands	United States
France	Norway	Uruguay
Germany		

To qualify for a visa under a working holiday scheme, the foreign citizen must satisfy the following conditions:

- He or she must be at least 18 years old and not more than 30 years old.
- He or she may not bring children.
- He or she must hold a return ticket, or sufficient funds to purchase such a ticket.
- He or she must have a minimum of NZ$4,200 in available funds to meet living costs while in New Zealand.
- He or she must meet health and character requirements.
- He or she must hold medical and comprehensive hospitalization insurance for the length of the stay.
- He or she must be coming to New Zealand to holiday, with work or study being secondary intentions for the visit.
- He or she must not have been previously approved for a visa or permit under a working holiday scheme.

Work visas. Under the Essential Skills instructions, work visas are generally issued to individuals who have an offer of employment from a New Zealand employer for which they are qualified and for which no qualified New Zealander is available.

Under the Essential Skills instructions, work visas are generally valid for three years but may be granted for up to five years if the job requires a high skill level and if the annual salary is above NZ$55,000.

Under the Work to Residence instructions, if an applicant has a job offer from an accredited employer he or she may apply for permanent residency after working for that employer or another accredited employer for two years. The job offer must be for two years or longer, the annual salary must be at least NZ$55,000, and the employee must be under the age of 55.

Employees on short-term intercompany secondments can apply for a work visa under the Specific Purposes or Event instructions, which apply in limited circumstances. Under these instructions, a labor market test is not required but the employer must provide a support letter.

Special rules exist for certain categories of people, including partners of New Zealand citizens and residents, partners of work permit holders, entertainers, athletes and professional coaches.

In certain cases, applicants may not be granted a visa until they have had their qualifications assessed 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.

The time required for processing a work visa varies with each application, but the process takes generally two to six weeks from the date of filing if no medical or character issues that may cause a delay exist.

General requirements for all temporary visitors (work and holiday) to New Zealand. All temporary visitors for work and holiday must meet applicable good health and character requirements. If an applicant intends to be in New Zealand for longer than 12 months, he or she must obtain a medical and chest x-ray certificate. If an applicant intends to be in New Zealand for longer than 24 months, he or she must also obtain a police clearance certificate. An applicant coming to New Zealand to work must provide evidence of qualifications and a job offer. Applicants coming for a visit must provide evidence that they plan on leaving New Zealand and that they have funds to support themselves while in New Zealand. All applicants must possess a passport that is valid for at least three months beyond the intended departure date.

G. Long-term business (self-employment) visas

Self-employed or business persons may apply for a long-term business visa to establish a business in New Zealand. Applicants must have business experience relevant to the business that they wish to buy or establish.

For an application to be approved, everyone included in the application must meet health, character, and English language requirements. The applicant must submit a sound business plan, show relevant knowledge about the New Zealand business environment, show the benefits to New Zealand from the intended business venture and provide evidence about relevant business experience.

Applicants must also have enough funds (apart from the funds to invest in the business) to support themselves and (if applicable) their partners and any children for the duration of the long-term business visa.

If the application is approved, Immigration New Zealand grants a work visa that expires after nine months. This allows the applicant time to take steps to establish the business. Before the nine months expire, the applicant must provide evidence to show the applicant is making reasonable progress in setting up the business. If approved, the applicant is granted a further work visa to extend the period for the visit to a total of three years.

Immigration New Zealand also has policies for investors that do not require the applicant to work full time in the business but require the applicant to invest funds in New Zealand for particular periods of time.

H. Residence visas

Residence visas and permanent residence visas are issued to foreign nationals who intend to establish permanent residence in New Zealand. Various paths and policies to gain residency are available. Some of the most common paths are through skilled employment, the investors' categories or working for an accredited employer for at least two years. Residence visas are subject to "travel conditions" on their visas that allow the holder to travel to New Zealand, stay in New Zealand indefinitely, and reenter New Zealand before the expiration date of the "travel condition," while permanent residence visas have no such conditions and are granted for an indefinite time period. Those who are eligible for residence are initially granted a residence visa and then progress to a permanent residence visa by making another application after they satisfy the New Zealand criteria.

I. Family and personal considerations

Family members. The spouse of a work permit holder must apply for a visa to enter New Zealand and is usually granted an open visa for the same time period as the primary applicant. This allows the spouse to work for any employer in New Zealand if they choose to work. Children under the age of 17 of a work visa holder are granted either a student or visitor visa, depending on their age.

Drivers' permits. Foreign nationals may drive legally using their home country drivers' licenses for up to 12 months. Visitors whose licenses or permits are not in English must carry an accurate translation. 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 certain European Union (EU) countries, Australia, Canada, Norway, South Africa, Switzerland or the United States may be exempt from the theoretical and the practical test. In general, a physical examination is not required, but eyesight is checked.

J. Other matters

Licensed immigration advisers. Effective from 4 May 2010, anyone who provides immigration advice, both onshore and offshore, must be licensed or exempt from licensing. The Immigration Advisers Authority regulates the provision of immigration advice. Immigration New Zealand no longer accepts applications from advisers unless they are licensed or exempt.

Immigration Act 2009. On 16 November 2009, the Immigration Act 2009 received Royal Assent. The act took effect on 29 November 2010.

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	—	—
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 temporary accommodation	—	X	(c)
Provision of motor vehicle	—	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	—
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) This item is not taxable to the employee, but the employer is subject to Fringe Benefit Tax on the item.

(c) Temporary accommodation for the settling-in period is not taxable.
(d) This item is not taxable for Transitional Residents (see Section A).
(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 or were acquired with the dominant purpose of resale or other disposal.

Appendix 2: Sample tax calculation

A sample tax calculation is provided below for the 2010–11 income year for an expatriate who is married with two dependent children and is resident in New Zealand. During the 2010–11 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 interest 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
Interest from foreign investments	3,000 (b)
Total income	183,000
Deductions	(0)
Taxable income	183,000
Calculation of income tax	
Tax on NZ$14,000 at 11.50%	1,610
Tax on NZ$34,000 at 19.25%	6,545
Tax on NZ$22,000 at 31.50%	6,930
Tax on NZ$113,000 at 35.50%	40,115
NZ$183,000	
Income tax payable	55,200

(a) If the expatriate was a nonresident, 20/365 of his or her earnings would not be taxable in New Zealand, and the foreign interest would also not be taxable. Otherwise, everything else in the calculation would remain the same.
(b) The foreign interest is taxable, regardless of whether it is remitted to New Zealand, unless the Transitional Residents' exemption applies (see Section A). Withholding tax deducted at source from foreign interest may be credited against the New Zealand tax if the interest is treated as taxable in New Zealand.

Nicaragua

(Country code 505)

Managua **GMT -6**

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.

Ernst & Young
Building BAC, 3rd Floor
4½ km on the way to Masaya
Managua
Nicaragua

Executive and immigration contacts

Lisa María Gattulli *(resident in San José, Costa Rica)*	+506 2208 9861 Fax: +506 2208 9999 Email: lisa.gattulli@cr.ey.com
Rafael Sayagués *(resident in San José, Costa Rica)*	+506 2208 9880 Fax: +506 2208 9999 Email: rafael.sayagues@cr.ey.com

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$75,000 is taxable, including salary, pensions, bonuses, premiums, commissions and allowances (for example, housing and educational allowances). However, the 13th month payment (Aguinaldo) and labor indemnification payments are not taxable.

Self-employment and business income. Income in excess of C$50,000 derived from self-employment or from a trade or business is taxable. However, professional services rendered by self-employed resident individuals to Nicaraguan entities are subject to a 10% flat withholding tax.

Investment income. Dividends paid or credited by local companies to resident or nonresident individuals are subject to a 10% withholding tax. Payments to nonresidents for royalties from franchises are subject to a 21% withholding tax. Payments to nonresident individuals for professional technical advice and similar payments are subject to a 20% 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 by employees.

Business deductions. All costs and expenses that are necessary to generate taxable income and protect investments are deductible.

Rates. Employment income earned by resident individuals is taxable at the following rates for the period of 1 July 2010 through 30 June 2011.

Annual taxable income		Tax on lower amount	Rate on excess
Exceeding C$	Not exceeding C$	C$	%
0	75,000	0	0
75,000	100,000	0	10
100,000	200,000	2,500	15
200,000	300,000	17,500	20
300,000	500,000	37,500	25
500,000	—	87,500	30

Self-employment and business income earned by resident individuals is taxable at the following rates for the period of 1 July 2010 through 30 June 2011.

Annual taxable income		Tax on lower amount	Rate on excess
Exceeding C$	Not exceeding C$	C$	%
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 16% for employers and 6.25% for employees. The maximum monthly salary subject to employer and employee social security contributions is C$37,518 (approximately, US$1,663.77) of employees' total compensation.

C. Tax filing and payment procedures

The ordinary fiscal year runs from 1 July through 30 June. However, in certain specified circumstances, taxpayers may elect to file using a calendar tax year (1 January to 31 December).

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 within three months after the end of the tax year. Self-employed individuals and individuals with a trade or business must 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

	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	—	—
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	—

	Taxable*	Not taxable	Comments
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.

	C$
Calculation of net income	
Cash salary	45,000.00
Housing	10,200.00
Car allowance	10,000.00
Home maintenance allowance	2,000.00
Other allowance	5,000.00
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	87,500.00
Tax on C$338,261.44 at 30%	101,478.43
Annual income tax	188,978.43
Monthly income tax (C$188,978.43 ÷ 12 months)	15,748.20

Nigeria

(Country code 234)

Lagos GMT +1

Ernst & Young
2A, Bayo Kuku Street
Ikoyi
P.O. Box 2442
Marina
Lagos
Nigeria

Executive contacts

Abass Adeniji — (1) 463-0479
802-301-3597
Email: abass.adeniji@ng.ey.com

Michael Aluko — (1) 463-0479, 463-0480
802-343-4033
Email: michael.aluko@ng.ey.com

Immigration contacts

Michael Aluko — (1) 463-0479, 463-0480
802-343-4033
Email: michael.aluko@ng.ey.com

Okon Umoh (1) 463-0480
Email: okon.umoh@ng.ey.com
Fax: (1) 269-5517

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
- 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 up to ₦150,000 paid by an employer directly to an employee's landlord for housing is exempt from tax.

Gratuities paid to an employee are fully exempt from tax. Compensation for loss of office is also fully exempt from tax.

Self-employment and business income. Resident individuals who carry on a trade, business, profession or vocation are 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. However, only the gains or profits attributable to the part of the operations carried on in Nigeria are taxable.

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, payments with respect to 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, reliefs and losses from gross income. Resident and nonresident self-employed individuals are taxed at the rates set forth in *Rates*.

Investment income. Withholding tax at a rate 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, interest and royalties are final taxes, but the withholding tax on rent is treated as an advance tax payment.

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 capital assets are taxable. These assets include the following:
- 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
- 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 183 days within a 12-month period. 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 by nonresidents. 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
- Approved pension funds
- 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 earned income
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
- 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		Tax on lower amount	Rate on excess
Exceeding ₦	Not exceeding ₦	₦	%
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. The mandatory minimum contribution to the Nigerian Pension Scheme is 15% of an employee's total income. Employers and employees each make contributions equaling 7.5% of total income, resulting in a total contribution of 15% of total income. Total income is defined as the sum of basic salary, housing allowance and transport allowance.

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, External Affairs Officers and residents of the Federal Capital Territory, 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 90 days after the beginning of each year of assessment. 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 the following countries.

Belgium	Netherlands	South Africa
Canada	Pakistan	United Kingdom
France	Romania	

F. Temporary visas

Business and visiting visas are issued to bona fide businesspersons and tourists by Nigerian missions abroad. They entitle any businessperson or tourist to stay in Nigeria usually for one month, but this period may be as long as three months. The period may be extended for one month, 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 Interior 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
- 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
- *Curriculum vitae* of the expatriate
- Photocopy of the first page of the expatriate's international passport
- Documentary evidence showing the nature of the job to be performed by the expatriate
- Company's profile
- Copy of certificate of incorporation
- Copy of business permit

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
- 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
- A copy of the company's letter to the Nigerian embassy in the applicant's country of residence 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). Following the submission of all necessary documents to the Nigeria Immigration Service, a temporary residence permit is issued within five days to cover the stay of the expatriate until the permanent card is ready.

Multiple-entry visas may be issued to businesspersons after their arrival in Nigeria. Companies or organizations in Nigeria must apply for multiple re-entry visas on behalf of their expatriate employees and accept immigration responsibility for them. To receive multiple re-entry visas, expatriate employees must already possess residence permits allowing them to reside and work in

Nigeria. Possession of a residence permit is not a guarantee for re-entering Nigeria. Consequently, it is necessary for expatriate residents of Nigeria to obtain re-entry permits before 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 driver's license:
• A copy of the residence permit
• A copy of the foreign driving license
• Two passport-size photographs
• The applicant's blood group
• 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.

Northern Mariana Islands, Commonwealth of the

(Country code 1)

Saipan	**GMT +10**

Ernst & Young
Oleai Business Center
Suite 209
P.O. Box 503198
Saipan, MP 96950

Executive contacts

Nhing Reyes	(670) 234-8300 Fax: (670) 234-8302 Email: nhing.reyes@gu.ey.com
Lance K. Kamigaki *(resident in Tamuning, Guam)*	(671) 649-3700 Fax: (671) 649-3920 Email: lance.kamigaki@gu.ey.com
Marlyn B. Oberiano *(resident in Tamuning, Guam)*	(671) 649-3700 Fax: (671) 649-3920 Email: marlyn.oberiano@gu.ey.com
Edmund E. Brobesong *(resident in Tamuning, Guam)*	(671) 649-3700 Fax: (671) 649-3920 Email: edmund.brobesong@gu.ey.com

Immigration contact

Nhing Reyes	(670) 234-8300 Fax: (670) 234-8302 Email: nhing.reyes@gu.ey.com

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 in the CNMI for at least 183 days during a test period of three consecutive years, including the current year, using a formula weighted with the following percentages:
  - Current year: 100%.
  - 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.

Citizens and permanent residents of the United States are generally 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.
- They do not have a tax home outside the CNMI during any part of the tax year and do not have a closer connection to the United States or a foreign country during any part of the tax year.

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 the following:
• 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
• 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 rate of 15% (0% 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
- 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 and earnings tax, and business gross revenue tax (see *Credit and rebate*)

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		Rate on total taxable income
Exceeding US$	Not exceeding US$	%
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 2011, the graduated tax rates listed below apply in the CNMI.

Married filing joint return

Taxable income		Tax on lower amount	Rate on excess
Exceeding US$	Not exceeding US$	US$	%
0	17,000	0.00	10
17,000	69,000	1,700.00	15
69,000	139,350	9,500.00	25
139,350	212,300	27,087.50	28
212,300	379,150	47,513.50	33
379,150	—	102,574.00	35

Single individual

Taxable income		Tax on lower amount	Rate on excess
Exceeding US$	Not exceeding US$	US$	%
0	8,500	0.00	10
8,500	34,500	850.00	15
34,500	83,600	4,750.00	25
83,600	174,400	17,025.00	28
174,400	379,150	42,449.00	33
379,150	—	110,016.50	35

Head of household

Taxable income Exceeding US$	Taxable income Not exceeding US$	Tax on lower amount US$	Rate on excess %
0	12,150	0.00	10
12,150	46,250	1,215.00	15
46,250	119,400	6,330.00	25
119,400	193,350	24,617.50	28
193,350	379,150	45,323.50	33
379,150	—	106,637.50	35

Married filing separate return

Taxable income Exceeding US$	Taxable income Not exceeding US$	Tax on lower amount US$	Rate on excess %
0	8,500	0.00	10
8,500	34,500	850.00	15
34,500	69,675	4,750.00	25
69,675	106,150	13,543.75	28
106,150	189,575	23,756.75	33
189,575	—	51,287.00	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.

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 Exceeding US$	Gross revenue Not exceeding US$	Rate on total 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 under the U.S. social security system. For 2011, the old-age, survivor and disability insurance component (6.2%) of the social security tax applies to only the first US$106,800 of an employee's wages. The health insurance component (1.45%) applies to all wages. For 2011, the employee's portion of the old-age, survivor and disability insurance component of the social security tax is reduced by two percentage points (from 6.2% to 4.2%). The employer's portion of the old-age, survivor and disability insurance component is not changed (remains at 6.2%). 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. Nonimmigrant and immigrant visas

On 28 November 2009, the CNMI transitioned from the CNMI immigration laws to the immigration laws of the United States. The transition period to the U.S. immigration laws will end on 31 December 2014. For details regarding the U.S. immigration laws, see the chapter on the United States in this book.

Norway

(Country code 47)

Oslo **GMT +1**

Ernst & Young
Mail address:
Oslo Atrium
P.O. Box 20
N-0051 Oslo
Norway

Street address:
Oslo Atrium
Dronning Eufemias gate 6
0109 Oslo
Norway

Executive contacts

Johan A. Killengreen	24-00-25-64 Email: johan.killengreen@no.ey.com
Helen Christensen *(resident in Stavanger)*	51-70-66-52 Email: helen.christensen@no.ey.com
Espen Ommedal *(resident in Bergen)*	55-21-34-70 Email: espen.ommedal@no.ey.com

Immigration contact

Pål André Johansen	24-00-29-82 Email: pal.a.johansen@no.ey.com

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 or 270 days in any 36-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 was 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 2011, the rate is 1.3%. 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 than 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 11%. 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
- 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 in 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*).

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.

Exit tax. Norway imposes an exit tax on unrealized profits on shares or share units in Norwegian or foreign companies including units in securities funds and stock options. The exit tax applies only to profit exceeding NOK 500,000.

Individuals who have been resident in Norway for tax purposes are taxed on profits as if the shares, units, options and similar instruments were realized on the last day the individual was considered a tax resident of Norway for either domestic or tax treaty purposes. The deemed gain is subject to capital gains tax at the normal rate of 28%. As an exception, the deemed gain on employee share options is treated as normal compensation income, which is taxable at the individual's marginal rate.

For individuals who have resided in Norway for more than 10 years and were born in Norway, the profit is calculated as the spread between the original cost price of the asset and the market value at the time of emigration. However, individuals who have resided in Norway for less than 10 years may choose to use the market price at the time he or she became tax resident in Norway instead of the actual cost basis. However, this rule applies only to shares and share units owned by the individual when he or she took up residence in Norway.

The exit tax ceases to apply if the gain on the assets is not actually realized within five years after the emigration (or in the case of stock options, if the options are not exercised in the five-year period). The taxable profit can also be reduced if the actual sales price was lower than the value of the shares at the date of emigration.

It is possible to defer the payment of the exit tax until actual realization of gain takes place. To achieve this deferral, the taxpayer needs to furnish adequate security for the payment obligation or move to a state within the EEA with which Norway has entered into an agreement for the exchange of information and assistance with recovery of taxes.

Deemed losses on emigration are also calculated using the same rules (that is, on shares sold within five years of emigration), and any loss is offset against gains chargeable at the capital gains rate of 28%. However, the loss may be excluded on emigration outside the EEA, and no loss is granted as a result of step-up of the historic cost price.

In general, strict documentation requirements apply at the time of emigration and for the following five years. If the deemed profit is less than NOK 500,000 and, consequently, no exit tax applies, the taxpayer is still required to report the unrealized profit to the Norwegian tax authorities.

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

- 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 2011, individuals are allowed a standard minimum allowance of 36% of gross compensation, up to a maximum of NOK 75,150 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 2010 are set forth in the following table.

Taxable income		
Exceeding NOK	Not exceeding NOK	Rate %
0	471,200	0
471,200	765,800	9
765,800	—	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 43,600 for individuals without dependants, and by NOK 87,200 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 700,000. In addition, a national wealth tax is levied on taxable net assets at the following rates for 2011.

Taxable net assets		
Exceeding NOK	Not exceeding NOK	Rate %
0	700,000	0
700,000	—	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 470,000 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 2011.

Amount of inheritance or gift		From	From
Exceeding NOK	Not exceeding NOK	parents %	others %
0	470,000	0	0
470,000	800,000	6	8
800,000	—	10	15

Each year, a recipient can receive a gift that is exempt from inheritance tax if the amount of the gift does not exceed a specified amount. For 2010, this amount is NOK 37,821 (this amount will be changed, effective from 1 May 2011).

To prevent double taxation, Norway has entered into inheritance tax treaties with Denmark, Finland, Iceland, 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 2011 contribution rates are 7.8% of salary for employees and 11% for self-employed persons. For 2011, 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.

Australia	France (a)	Portugal (a)
Austria (a)	Germany (a)	Romania (a)

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

(a) EEA countries' agreement.
(b) Separate agreement with Quebec.
(c) The situation is uncertain with respect to Montenegro. The authorities in Montenegro have stated that the former agreement between Norway and Yugoslavia is applicable. However, this has not yet been confirmed by the Norwegian authorities.

On 29 October 2010, Norway and India signed a totalization agreement, but this agreement has not yet been notified.

D. Tax filing and payment procedures

Income tax and 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 may normally be obtained. For self-employed individuals, annual tax returns filed on paper must be submitted by 30 April. For self-employed individuals, annual tax returns filed electronically must be submitted by 31 May.

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 tax authorities 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 have normally been made in the third quarter of the year following the income year. Beginning with 2011, the Norwegian authorities announce the assessments in four different months. An individual may receive an assessment in June, August, September or October. 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. 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	Portugal
Argentina	Hungary	Qatar
Australia	Iceland	Romania
Austria	India	Russian Federation
Azerbaijan	Indonesia	Senegal
Bangladesh	Ireland	Serbia
Barbados	Israel	Sierra Leone
Belgium	Italy	Singapore
Benin	Jamaica	Slovak Republic
Bosnia-Herzegovina	Japan	Slovenia
Brazil	Kazakhstan	South Africa
Bulgaria	Kenya	Spain
Canada	Korea (South)	Sri Lanka
Chile	Latvia	Sweden
China	Lithuania	Switzerland
Côte d'Ivoire	Luxembourg	Tanzania
Croatia	Malawi	Thailand
Cyprus	Malaysia	Trinidad and Tobago
Czech Republic	Malta	Tunisia
Denmark	Mexico	Turkey
Egypt	Morocco	Uganda
Estonia	Nepal	Ukraine
Faroe Islands	Netherlands	United Kingdom
Finland	Netherlands Antilles	United States
France	New Zealand	Venezuela
Gambia	Pakistan	Vietnam
Germany	Philippines	Zambia
Greece	Poland	Zimbabwe

F. Temporary visas

Norway has a closed-border policy with strict immigration controls that are highly regulated. In general, 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 in accordance with the applicable 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. 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 before entering Norway.

Residence permits are granted only if a particular reason for living or working in Norway exists, such as 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.

Nordic citizens do not need a residence permit to reside or work in Norway.

Effective from 1 October 2009, EEA nationals no longer need to apply for residence permits in Norway. It is sufficient that they register on arrival or make a preliminary registration online. EEA nationals need to register in Norway only if they intend to work and stay in Norway for more than three months. Separate transitional rules may apply to nationals of the new EU member states.

Application process. The residence permit application must generally be submitted from abroad before an individual enters Norway. A first-time work permit or residence permit must be granted before an applicant may enter Norway. However, skilled workers may apply for a first-time residence permit after entry provided that they hold a valid visa (if required). If they apply in Norway, they can submit the application either to the police district where they live or at a service center for foreign workers.

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 granted a 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 foreign nationals are exempt from the residence 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.
- Personnel of 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.

Permanent residence permit. A permanent residence permit entitles the holder to permanently reside and work in Norway. This permit is granted to persons who have had permits for at least three consecutive years that form the basis for a permanent residence permit in Norway.

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.

- 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)(b)
Housing contribution	(X)	—	(a)
Education reimbursement	—	X	(c)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(a)
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)
Other items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(e)
Capital gain from sale of personal residence in home country	X	—	(f)
Other capital gains in home country	X	—	(g)

* 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 10% 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) Norwegian residents staying abroad are taxable on employer-provided housing. However, if beneficial, fixed rates based on the number of rooms available may be used. If a Norwegian resident staying abroad is considered to be a commuter within the EU/EEA, employer-provided housing is not taxable.
(c) 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.
(d) If an 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 if the employer reimburses the cost of the meals based on the receipt for the meals.
(e) Foreign-source personal ordinary income is taxable if the expatriate is resident in Norway under Norwegian tax law and relevant tax treaties.
(f) 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.
(g) Certain capital gains, such as those derived from sales of foreign shares, are taxable in Norway if the individual is resident in Norway at the time of sale.

Appendix 2: Sample tax calculation

The example below shows the approximate 2011 tax liability for a taxpayer who has annual gross earnings in 2011 of NOK 300,000, NOK 500,000 or NOK 1 million. 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	(75,150)	(75,150)	(75,150)
Personal exemption	(87,200)	(87,200)	(87,200)
Net taxable income	107,650	267,650	797,650
Total local net tax (28%)	30,142	74,942	223,342
Top tax			
Gross income	300,000	500,000	1,000,000
Total top tax	0	2,592	54,618
Total tax			
Total local and top tax	30,142	77,534	277,960

Oman

(Country code 968)

Muscat **GMT +4**

Ernst & Young
Mail address:
P.O. Box 1750
Ruwi, Postal Code 112
Oman

Street address:
Ernst & Young Building
Qurum
Muscat
Oman

Executive contacts

Ramesh Lakshminarayanan 2455-9559
Email: ramesh.lakshminarayanan@om.ey.com

Morris Rozario	2455-9559 Email: morris.rozario@om.ey.com
Manjot Singh	2455-9559 Email: manjot.singh@om.ey.com
Ahmed Al-Esry	2455-9559 Email: ahmed.amor@om.ey.com

Immigration contact

Sridhar Sridharan	2455-9559 Fax: 2456-6043 Email: sridhar.sridharan@om.ey.com

A new tax law, which is effective from the tax year beginning 1 January 2010, was published in the Official Gazette on 1 June 2009. At the time of writing, executive regulations had not yet been published. Because of the expected issuance of these regulations, readers should obtain updated information before engaging in transactions.

A. Income tax

Oman does not levy personal income taxes. However, tax is imposed on the income derived by sole proprietors. 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.

Individual persons carrying on professional business in their individual capacities are taxable at a rate of 12% on income in excess of RO 30,000.

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. Partnerships established by agreements entered into outside Oman that carry on profitable activity in Oman are taxed in Oman at a rate of 12% on income in excess of RO 30,000.

No special rules apply to capital gains. Capital gains are taxed as part of the regular income of sole proprietors and partnerships.

Profits derived from the sale of investments and securities listed on the Muscat Securities Market (MSM) are exempt from tax.

B. Other taxes

Oman does not levy value-added tax, net worth tax, estate tax or gift tax.

C. Social security and vocational training levy

Under the social security law, employers and employees must make contributions to a pension fund. The rates, based on each employee's basic salary, are 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.

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 the following countries.

Algeria
Belarus
Brunei Darussalam
Canada
China
France
India
Italy
Korea (South)
Lebanon
Mauritius
Moldova
Pakistan
Seychelles
Singapore
South Africa
Sudan
Syria
Thailand
Tunisia
Turkey
United Kingdom
Uzbekistan
Vietnam
Yemen

Oman has signed double tax treaties with Belgium, Croatia, Egypt, Iran, Libya, Morocco, the Netherlands and the Russian Federation 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 Germany, Kazakhstan and Malta, 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 are residents of any GCC country 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 purpose of the visit, including visas for businesspersons, tourists, family members of resident permit holders and those making official or personal visits to Oman. All 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.

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. 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 the Ministry of Commerce and Industry. The package must include accommodation and an air ticket for Oman 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 not possible to extend the length of the visa. A holder of this visa must enter Oman within three months after the date of its issuance (see *Multiple-entry visas*).

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 six months from the date of issuance, and stays are limited to three weeks. The duration of a stay cannot be extended beyond three weeks. The fee for express visas is RO 7.

Multiple-entry visas. Multiple entry visas can be granted for entry into Oman more than once. In general, these visas are valid for six months to one year. Visa holders can enter the country during the validity period of the visa and stay in Oman for a maximum of three weeks at a time. These visas can be issued without a local sponsor.

Alternatively, local sponsors can request multiple-entry visas for business purposes.

Foreign investors in land or buildings in integrated tourism complexes can apply for multiple-entry visas. These visas can also be granted to investors' family members and legal representatives. Multiple-entry visas are valid for six months to one year, and can be renewed for a similar period. During the validity period of the visas, visa holders can stay in Oman for a maximum of three weeks at a time. These visas can be issued without a local sponsor. The fee for the visa is RO 50.

Scientific-research visas. Scientific-research visas are issued to foreigners coming to Oman for scientific research. These visas are issued at the request of the local specialized authorities. The visas must be used within three months after the date of issuance and is valid for two months. The visa holder can stay in Oman for a month, which may be extended to a maximum of two months. The fee for the visa is RO 50.

F. Employment visas and self-employment

Employment visas. Employers must obtain employment visas for their expatriate employees aged 21 or older to enter Oman. The application process requires a labor clearance from the Ministry of Manpower. The ministry reviews the labor clearance request from the employer and considers whether the position meets with approval criteria, which includes the level of Omanization achieved or planned.

The duration of employment visas is limited to two years from the date of entry. Applicants may not work in Oman until all papers are completely processed. The employment visa must be used within three months after the date of its issuance.

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 employment visa holders.

Resident cards. Expatriates on work visas 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.

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. Otherwise, the expatriate must leave the country after canceling his or her previous employment visa.

Investors' visas. Foreign nationals may obtain investors' visas under certain circumstances. The investor or the investor's partner must obtain the approval of the investment from the Ministry of Commerce and Industry. Investors' visas are valid for a period of two years.

Owners' visas. Owners' visas are granted to foreigners who own a unit built in an integrated tourism complex in Oman. These visas are issued to two natural persons representing the owner if the owner is a juristic person. Owners' visas must be used within six months after the date of their issuance. They can be issued without a sponsor. A joint owner's visa is also issued to the spouse of the holder of an owner's visa. The fee for an owner's visa is RO 50.

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 a national of one of the GCC-member countries may own land or buildings in Oman. Foreigners may own property only within designated integrated tourism complexes.

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 every 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, a child below the age of 18 or close dependant of the holder of a valid resident card and residence permit.

Drivers' permits. Western 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.

Local drivers' licenses are valid for 10 years.

Pakistan

(Country code 92)

Karachi **GMT +5**

Ernst & Young
Ford Rhodes Sidat Hyder & Co.
Mail address:
P.O. Box 15541
Karachi 75530
Pakistan

Street address:
601–603 Progressive Plaza
Beaumont Road
Karachi 75530
Pakistan

Executive and immigration contact

Nasim Hyder
(21) 3565-0007-11
Fax: (21) 3568-1965
Email: nasim.hyder@pk.ey.com

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 183 days or more in a tax year (1 July to 30 June) are considered to be 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 or unless the income is derived from a business of the person established in Pakistan. 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.

For employees, the entire salary amount, including allowances and benefits, is subject to tax, with the following exceptions:

- Free provision of medical treatment and/or hospitalization by the employer to the employee or the 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.
- For employer-provided automobiles that are partly for business and partly for personal use, the amount included in salary is 5% of either of the following:
  - The cost of acquisition of the automobile to the employer.
  - If the automobile is leased by the employer, the fair market value of the automobile at the beginning of the lease.
- For employer-provided automobiles that are solely for personal use, the amount included in salary is 10% of either of the following:
  - The cost of acquisition of the automobile to the employer.
  - If the automobile is leased by the employer, the fair market value of the automobile at the beginning of the lease.
- For employer-provided rent-free accommodation, the notional value of the benefit of accommodation provided by an employer is the amount that would have been paid by the employer if such accommodation was not provided. However, such amount may not be less than 45% of the basic salary of 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. In general, dividends are subject to a final tax of 10%, which is withheld at source. Dividends paid by power generation companies are taxed at a rate of 7.5%.

Interest and profit/loss sharing income from investments and deposits, unless otherwise exempt from tax, is subject to a 10% withholding tax, which is treated as a final tax. Interest on government securities is taxed at normal rates and is also subject to a 10% withholding tax.

Income from prize bonds is subject to a final withholding tax at a rate of 10%. Income from raffles, lotteries, winnings from quizzes, sales promotions offered by companies or 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. If the shares acquired by the employee are subject to a transfer restriction, the employee is subject to tax at the earlier of the time the employee has a free right to transfer the shares or the time the employee disposes of the shares.

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, only 75% of the capital gain is 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 derived from the disposal of shares of a public company listed on a stock exchange in Pakistan, vouchers of the Pakistan Telecommunication Corporation, *modaraba* certificates, instruments of redeemable capital and derivative products are taxable at the following rates.

Tax year	Holding period of less than 6 months %	Holding period between 6 months and 12 months %	Holding period of more than 12 months %
2011	10	7.5	0
2012	10	8	0
2013	12.5	8.5	0
2014	15	9	0
2015	17.5	9.5	0
2016	—*	10	0

* The tax code does not prescribe a rate.

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 be set off against capital gains only.

Deductions

Deductible expenses. 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 government
- 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 including the fair market value of any property donated
- 30% of the taxable income of the individual donor

An individual is entitled to an allowance for investments made in the following shares:

- New shares offered to the public by a public company listed on a stock exchange in Pakistan
- Shares acquired from 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. 300,000 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 or a National Identity Card 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
- PKR 500,000
- 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 by a scheduled bank or by a nonbanking finance institution regulated by the Securities and Exchange Commission of Pakistan.
- 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.
- 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, PKR 750,000 or 50% 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		Rate of
Exceeding PKR	Not exceeding PKR	tax %
0	300,000	0
300,000	350,000	0.75
350,000	400,000	1.5
400,000	450,000	2.5

Total income		Rate of
Exceeding PKR	Not exceeding PKR	tax %
450,000	550,000	3.5
550,000	650,000	4.5
650,000	750,000	6
750,000	900,000	7.5
900,000	1,050,000	9
1,050,000	1,200,000	10
1,200,000	1,450,000	11
1,450,000	1,700,000	12.5
1,700,000	1,950,000	14
1,950,000	2,250,000	15
2,250,000	2,850,000	16
2,850,000	3,550,000	17.5
3,550,000	4,550,000	18.5
4,550,000	—	20

If a taxpayer's total income marginally exceeds the maximum limit of a tax slab, the taxpayer must pay the lower of the tax payable according to the above rates, or the tax payable on the maximum of that slab plus an amount equal to the following:
- 20% of the amount by which total income exceeds such limit if total income does not exceed PKR 550,000
- 30% of the amount by which total income exceeds such limit if total income does not exceed PKR 1,050,000
- 40% of the amount by which total income exceeds such limit if total income does not exceed PKR 2,250,000
- 50% of the amount by which total income exceeds such limit if the total income does not exceed PKR 4,550,000
- 60% of the amount by which the total income exceeds such limit if the total income exceeds PKR 4,550,000

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		Rate of
Exceeding PKR	Not exceeding PKR	tax %
0	300,000	0
300,000	500,000	7.5
500,000	750,000	10
750,000	1,000,000	15
1,000,000	1,500,000	20
1,500,000	—	25

A rebate of 50% of the tax payable is available to taxpayers 60 years of age or older whose total income is PKR 1 million 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	
General rate	10
Dividends from companies engaged in power generation projects	7.5
Interest on deposits maintained with banking companies, finance societies or corporate bodies (excluding trusts) in Pakistan, on bonds, certificate debentures and instruments issued by banking companies, finance societies, local authorities or corporate bodies (excluding trusts) formed in Pakistan, on securities of the federal or provincial governments, and on securities other than debentures of local authorities, Pakistani corporate bodies (including trusts) or companies formed outside Pakistan	10
Fees for technical services and royalties	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	6
Execution of other contracts	6
Brokerage fee or commission	10
Export sales proceeds, on receipt	1
Imported goods	5

Interest income 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 PKR 7,000 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	PKR 350 per month
Provincial Employees' Social Security	6% of monthly salary of up to PKR 10,000
Workers' Children (Education)	PKR 100 annually

Employees are also required to contribute PKR 70 per month for Employees' Old Age Benefits.

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 Federal Board of Revenue in Pakistan to select a different accounting year-end. All individuals must file tax returns by 31 August following the tax year-end.

Employers must withhold taxes from the salaries of their employees.

Individuals other than employees having taxable income of PKR 500,000 or more must pay advance tax in four equal installments on 15 September, 15 December, 15 March and 15 June. 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	Jordan	Saudi Arabia
Azerbaijan	Kazakhstan	Singapore
Bahrain	Kenya	South Africa
Bangladesh	Korea (South)	Sri Lanka
Belarus	Kuwait	Sweden
Belgium	Lebanon	Switzerland
Bosnia-Herzegovina	Libya	Syria
Canada	Malaysia	Tajikistan
China	Malta	Thailand
Denmark	Mauritius	Tunisia
Egypt	Morocco	Turkey
Finland	Netherlands	Turkmenistan
France	Nigeria	United Arab Emirates
Germany	Norway	United Kingdom
Hungary	Oman	United States
Indonesia	Philippines	Uzbekistan
Iran	Poland	Vietnam
Ireland	Portugal	Yemen
Italy	Qatar	
Japan	Romania	

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.
- The remuneration is not borne by a permanent establishment or a fixed base maintained by the employer in Pakistan.

F. Visas

To promote domestic and foreign investment, enhance Pakistan's international competitiveness and contribute to economic and social development, Pakistan has introduced a new liberal visa policy. The following are significant aspects of the new visa policy:
- The granting of visas on arrival to nationals of 66 countries.
- The granting of business visas for a period up to 5 years to the investors and businesspersons of 120 countries.
- The granting of work visas and the conversion of business visas into work visas (a fee of US$100 is charged for the conversion of a business visa to a work visa within Pakistan, in addition to the normal multiple-entry visa fee) and family visas without a requirement for registration with the police to nationals of countries other than those on the negative list. The countries currently included on the negative list are Algeria, Bangladesh, Bhutan, India, Iraq, Israel, Libya, Nigeria, Serbia, Somalia, Sri Lanka, Sudan, Tanzania, Uganda and Yemen. The negative list also includes foreigners of Indian origin and members of the Palestinian Liberation Organization.

Pakistan missions abroad have the authority to restrict the grant of visas to nationals of the country where the mission is located. The granting of Pakistan visas to third-country citizens residing in a country and holding a valid residence permit for that country can only be decided by the Ambassador, High Commissioner or the Head of Mission or Consulate.

Details regarding the various types of visas issued by Pakistan are provided below.

Business visas on arrival. Pakistan recently introduced a policy of granting visas on arrival (nonreporting) at the airports in Pakistan to foreign investors or businesspersons from 66 countries. Single-entry visas are granted for 30 days (extendable) on production of any of the following documents:
- Recommendation letter from the Chamber of Commerce and Industry of the respective country of the visitor
- Invitation letter from a business organization recommended by the concerned trade organization or association in Pakistan

- Recommendation letter by an Honorary Investment Counselor of the Board of Investment posted at Pakistan Missions abroad
- Recommendation letter from a Pakistani Commercial Officer posted in Pakistan High Commissions, Embassies and Consulates-General abroad

The following documents must be submitted for a business visa on arrival:
- Invitation letter from the sponsor
- Two latest passport-size photographs
- Photocopy of passport of visitor or employee, including pages with picture and particulars of passport holder
- Certificate of registration of the employer with the Chamber of Commerce and Industry, if any
- Copy of NTN certificate of sponsor
- Copy of registration certificate of company or firm registered in Pakistan
- Exact travel plan of the visitor, including flight details

Although the visa on arrival is granted based on production of the required documents, it is suggested that the required documents be filed in advance with the immigration authorities at the airport. Individuals should retain the invitation letter from the sponsor and a copy of the certificate from the Chamber of Commerce and Industry, because the immigration authorities may ask for these documents at the time of arrival.

Currently, the following countries are approved for the purpose of visas on arrival.

Argentina
Australia
Austria
Azerbaijan
Bahrain
Belgium
Bosnia-Herzegovina
Brazil
Brunei Darussalam
Canada
Chile
China
Cyprus
Czech Republic
Denmark
Egypt
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Indonesia
Iran
Ireland
Italy
Japan
Jordan
Kazakhstan
Korea (South)
Kuwait
Latvia
Lithuania
Luxembourg
Malaysia
Malta
Mauritius
Mexico
Morocco
Netherlands
New Zealand
Norway
Oman
Philippines
Poland
Portugal
Qatar
Romania
Russian Federation
Saudi Arabia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sweden
Switzerland
Thailand
Turkey
Turkmenistan
Ukraine
United Arab Emirates
United Kingdom
United States
Vietnam

Visas are not granted to nationals of countries not recognized by Pakistan. Pakistan does not recognize Israel.

Tourist visas. Tourist visas are issued to foreign nationals of 175 countries (List A) who intend to visit Pakistan for recreational purposes but who intend neither to immigrate to Pakistan nor engage in 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 this period, to obtain an extension of the visa, he or she must apply to the relevant regional passport office located in their city or the visa desk of the Ministry of Interior (MOI).

Tourist visas generally are not granted to nationals of Algeria, Bangladesh, Bhutan, India, Iraq, Israel, Libya, Nigeria, Serbia, Somalia, Sri Lanka, Sudan, Tanzania, Uganda and Yemen. They are also not granted to members of the Palestinian Liberation Organization. However, temporary visas may be issued to these nationals for certain specific reasons, including visiting relatives or attending weddings or funerals.

Work visas

Permissible activities. A work visa allows the foreign national to exercise employment in Pakistan in the entity for which the visa is granted. Such employment can be exercised for the period for which the visa is valid. A renewal of the visa allows the foreign national to remain employed. The work visa does not entitle the foreign national to work for another employer without submitting a new application and obtaining permission for employment with the other employer. The visa of a foreign national found to be engaged in activities other than employment with the approved employer is cancelled and the foreign national is deported.

No written policy allows a foreign national to begin work in Pakistan while his or her application for a work visa is in process. However, as a result of the liberal policy followed by Pakistan, no serious exception is taken for beginning work before the issuance of a work visa if the foreign national has a valid business visa and if his or her application for a work visa is ultimately approved and business visa conversion instructions are issued by the MOI.

Documents required. Five sets of the following documents must be submitted for employees with respect to applications for work visas and work visa extensions:

- Properly completed application signed by the person authorized by the employer.
- Employment contract signed by both parties or job letter stating the term, designation and salary.
- Latest passport-size photographs of employee.
- Photocopy of passport of employee, including pages with the picture and particulars of the passport holder. A copy of the visa page is also required if the person is already in Pakistan. The visa page is not required if the person is not in Pakistan.
- Resume and biography of employee, which must provide the address in country of origin, address in Pakistan (if already in Pakistan), expected address in Pakistan (if not in Pakistan), qualifications and work experience.
- Certificate of incorporation or certificate of registration, if the entity is a local company or a subsidiary of a nonresident company in Pakistan, or a permission letter issued by the Board of Investment (BOI) to a foreign company for opening the branch office where the applicant will be employed.
- National tax number of entity for which the employment will be exercised.

- Power of attorney in favor of the person or firm authorized to represent the entity with respect to the handling of the visa applications.
- Company's profile.

The following documents must be submitted for an accompanying spouse and children with respect to applications for work visas and work visa extensions:

- Five latest passport-size photographs.
- Five sets of photocopies of passports of spouse and children, including pages with the picture and particulars of the passport holder. Copies of the visa page are also required if the person is already in Pakistan. If the person is outside Pakistan, copies of the visa page are not required.
- Power of attorney in favor of the person authorized to represent the entity with respect to the handling of the visa applications.

Applications. Applications for work visas and family visas are initially filed with the BOI in Pakistan by the person authorized by the employer, who could be the principal officer or the head of Human Resources of the employer in Pakistan. After the work visa and family visa are approved by the BOI, if the foreign national is already in Pakistan on a business visa and his family is also already in Pakistan on any visa, a further application is filed with the MOI by the employee and his or her family for the issue of instructions to the concerned Passport Office for endorsement of the visas on the passports. If the foreign national is not in Pakistan, the work visa approval is sent to the concerned Pakistan Embassy, Mission or Consulate Office located in the country of the foreign national.

Although no requirement exists for the presence of a registered entity in Pakistan for the issuance of a business visa, the presence of a registered entity in Pakistan where the employment will be exercised is essential for the issuance of a work visa.

The BOI takes about six weeks to issue approvals for work visas and work visa extensions. In case of an emergency, the employer may file a request for a provisional work or family visa with the BOI. Such visa may be issued for a term of up to three months with multiple entries.

The MOI takes about two to five days to issue instructions to the Passport Office for endorsement of the visa on the passport if the applicant is already in Pakistan, or to the concerned Pakistan Mission or Embassy abroad if the applicant is not in Pakistan.

The Passport Office normally takes two to five days to complete the stamping of a visa. The Pakistan Mission abroad should stamp the visa as soon as the passport is presented for stamping on receipt of visa approval instructions from the MOI.

Business visas

Permissible activities. An approved list of activities that could be carried out by a foreign national visiting Pakistan on a business visa has not been issued. However, the following are permissible activities:

- Attend business meetings
- Negotiate and sign contracts
- Attend exhibitions, displays, conferences, symposiums, workshops and similar events

- Conduct training of short duration
- Deliver lectures, make presentations and engage in similar activities
- Provide technical services of short duration, including removal of faults during the warranty period of equipment supplied by foreign suppliers, installation of software, troubleshooting to correct faults in software, software training and transfer of technical know-how
- Visiting project sites to obtain information, technical specifications or material required for executing a contract for the supply of goods or providing of technical or consultancy services to an entity in Pakistan
- Setting up of a branch office or a local company for doing business in Pakistan
- Hiring of local personnel for utilizing their services in a Pakistan project or a Pakistan entity
- Inspection of the goods that the entity intends to purchase from Pakistan

Category A countries. Business visas may be issued to nationals of the 69 countries that currently appear on the Category A list for business visas (nonreporting).

Pakistan Missions abroad may issue up to 5-year multiple business visas within 24 hours to businesspersons of 69 countries on production of any of the following documents:

- Recommendation letter from Chamber of Commerce and Industry of the respective country of the visitor
- Invitation letter from a business organization recommended by the concerned trade organization or association in Pakistan
- Recommendation letter by an Honorary Investment Counselor of the BOI posted at a Pakistan Mission abroad
- Recommendation letter from a Pakistani Commercial Officer posted in Pakistan High Commissions, Embassies or Consulates-General abroad

Other countries. Ambassadors, High Commissioners or Heads of Missions from Pakistan Missions abroad may issue one-month entry visas to nationals or legal residents of the 120 countries where the missions are located if either of the following conditions is satisfied:

- The applicant belongs to a company of international repute.
- The requirement described above for Category A countries with respect to valid sponsorship from Pakistan is satisfied.

Nationals from a third country of origin. Visa applications of persons belonging to a third country of origin are subject to greater scrutiny and may be granted only by the Ambassador, High Commissioner or the Head of Mission or Consulate.

Extensions. The following documents must be submitted for a business visa extension:

- Two sets of the properly completed application signed by the applicant
- Two latest passport-size photographs
- Two sets of photocopies of the visitor's passport, including pages with the picture and particulars of the passport holder, and the visa page
- Invitation letter from the employer

- Recommendation letter from Chamber of Commerce and Industry

Applications. The application for a business visa must be filed by the applicant with the Pakistan Mission or Visa Consulate in the country of the applicant.

Time frame. The MOI takes about two to five days to issue visa extension approval and instructions to the Passport Office for stamping of a visa extension.

The Passport Office stamps the visas on a case-by-case basis.

Family visas. A family visa entitles the spouse and children to stay with the foreign national who is entitled to exercise employment in Pakistan based on a work visa. A spouse who wants to exercise employment for remuneration needs the approval of the Board of Investment.

G. 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.

H. 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.

I. 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	50
More than 1 month and up to 3 months	200
More than 3 months and up to 1 year	400

In addition to imposing the above surcharge, the Ministry of Interior (MOI) 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	40
More than 6 months and up to 1 year	80
More than 1 year	200 per year

Overstay charges are not condoned.

In addition to imposing the above surcharge, the MOI 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, a surcharge of PKR 40 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).

Palestinian Authority

(Country code 972)
(Country code 970 within Middle East only)

Ramallah	**GMT +2**

Ernst & Young
Mail address:
Trust Building
P.O. Box 1373
Ramallah
Palestine

Street address:
Jerusalem Street
Ramallah
Palestine

Executive and immigration contact

Sa'ed Abdallah	(2) 242-1011 Fax: (2) 242-2324 Email: saed.abdallah@ps.ey.com

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 Palestinian national is considered resident for tax purposes if he or she resides in Palestine for a total period of at least 120 days in a calendar year.

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 is subject to tax unless otherwise provided in the law.

Investment income. Cash dividends paid to residents and nonresidents from companies resident in Palestine are exempt from income tax.

Interest income is taxable.

Rental income is treated as ordinary income and is taxed at the rates set forth in *Rates*.

Exempt income. The following types of income are exempt from income tax:
- Pension payments or lump-sum amounts paid in accordance with Labor Law
- Salaries and allowances paid by the United Nations to its staff
- Income from retirement, saving, security and health insurance funds approved by the Minister of Finance
- Individual farmers' income
- Cash and stock dividends distributed by companies resident in Palestine
- Compensation paid for work injuries or death and employees' medical expenses

Capital gains and losses. Capital gains, which are gains resulting from irregular sales of real estate, are exempt from income tax. In addition, gains derived by banks and financial institutions from sales of securities from investment portfolios 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 allowances that are deductible.

- Residency allowance in the amount of US$7,200
- A one-time allowance in the amount of US$5,000 for the building or purchase of a house, or an allowance for actual interest paid on a housing loan, up to a maximum of US$2,000 per year
- The lesser of actual transportation expenses or 10% of gross salary
- An employee's contributions to retirement plans, provident funds, medical insurance or other funds approved by the Minister of Finance

Business deductions. All business expenses incurred in generating income are deductible. However, certain limitations apply to donations, and hospitality and training expenses.

Rates. Personal income, net of deductions, is subject to income tax at the following rates.

Annual taxable income Exceeding US$	Not exceeding US$	Rate %
0	10,000	5
10,000	20,000	10
20,000	—	15

For a sample tax calculation, see Appendix 1.

Withholding tax. Payments for services to nonresident individuals or companies are subject to withholding tax at a rate of 10% of the gross amount paid.

All governmental agencies and shareholding companies that pay rent to local persons and make payments to local providers of services and suppliers of goods should request a Deduction at Source Certificate. Payments exceeding US$350 are subject to withholding tax at the rate stated in the certificate. If the beneficiary does not provide a Deduction at Source Certificate, payments are subject to withholding tax at a rate of 16%.

Relief for losses. Losses may be carried forward and deducted from future profits in equal amounts for five years if the individual maintains proper accounting records. Losses cannot be carried back.

B. Property tax

Property tax is levied on the assessed rental value of real property at a rate of 17%. Twenty percent of the assessed rental value is exempt from tax.

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 four 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 can be taxed jointly or separately on all types of income. However, if they decide to be taxed separately, the housing allowance (see Section A) is granted to only one of them.

The tax regulations provide incentives to taxpayers who make advance tax payments. These taxpayers are entitled to the following credits:

- 8% on payments made in the first and second month of the fiscal year.
- 6% on payments made in the third month of the fiscal year.

In addition, the following special incentives are granted to taxpayers who pay the tax due and file their tax returns within the filing period.

Month of payment	Incentive (%)
First month	6
Second month	4
Third month	2

D. Foreign tax relief

The Palestinian Authority has entered into double tax treaties with Sudan, the United Arab Emirates and Vietnam.

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 fee may be required, depending 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 Interior.

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. The Palestinian Authority does not limit foreigners' investments, except for certain sectors, including energy, manufacturing of firearms, oil and gas, which require prior approval. In addition, foreign ownership of a public shareholding company may not exceed 49%.

Foreign investment for the establishment of a new company requires prior registration and authorization from the Palestinian Ministry of National Economy. To register and obtain authorization, the articles of incorporation, bylaws and board of directors authorization must be filed and a resident representative must be appointed.

G. 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 exchange their home countries drivers' licenses for a Palestinian license after passing a simple driving test.

Appendix 1: Sample tax calculation

A sample tax calculation for 2011 is provided below for an expatriate who is a resident of Palestine for all of 2011. During 2011, the employee receives an annual salary of US$36,000 and a bonus of US$3,000. The following is the tax calculation.

	US$	US$
Calculation of taxable income		
Income:		
Salary	36,000	
Bonus	3,000	
Total income		39,000
Residency allowance		(7,200)
Taxable income		31,800
Calculation of tax		
Tax on US$10,000 at 5%		500
Tax on US$10,000 at 10%		1,000
Tax on US$11,800 at 15%		1,770
US$31,800		
Income tax payable		3,270

Panama

(Country code 507)

Panama **GMT -5**

Please direct all inquiries regarding Panama 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.

Ernst & Young
Mail address:
P.O. Box 0832-1575
World Trade Center
Panama

Street address:
Calle 50 (Avenida Nicanor de Obarrio) y Calle 58
Piso Penthouse
Office One Building
City, Panama

Executive and immigration contacts

Lisa María Gattulli *(resident in San José, Costa Rica)*
+506 2208 9861
Fax: +506 2208 9999
Email: lisa.gattulli@cr.ey.com

Rafael Sayagués *(resident in San José, Costa Rica)*
+506 2208 9880
Fax: +506 2208 9999
Email: rafael.sayagues@cr.ey.com

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 individual is irrelevant. Individuals are considered resident for tax purposes if they reside or work in Panama for more than 183 days in a 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. 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 with children under the age of 18.

Amounts received by the taxpayer for representation expenses are subject to a flat 10% withholding tax rate on amounts up to B/. 25,000. Representation expenses in excess of B/. 25,000 are subject to withholding tax at a rate of 10% on the first B/. 25,000 and 15% on the excess. Effective from 1 July 2010, 100% of representation expenses is subject to social security contributions.

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/. 250,000.

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. A final 5% withholding tax applies to dividends distributed by companies operating in free-trade zones in Panama and to foreign-source dividends distributed by companies with local operations. Foreign-source dividends distributed by Panamanian companies that do not require a Notice of Operations and that do not produce any taxable income in Panama are exempt from dividend tax.

Dividends distributed from interest and gains on the sale of government securities and other interest from deposits with Panamanian banks are subject to a final 5% withholding tax. Other interest income and royalties derived from Panamanian sources are subject to withholding tax at a rate of 12.5%. 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
- Loans granted to finance the construction of "socially-required housing," as certified by the Ministry of Housing

Foreign-source 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 treated as dividends and are subject to a final withholding tax of 5%.

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 and negotiated through the stock exchange are exempt from tax.

Capital gains and losses. Net capital gains derived from the sale of bonds, shares, quotas and other securities issued by legal entities are subject to income tax at a rate of 10%.

Capital gains derived from the sale of shares (or other forms of equity participation) of a Panamanian company are considered Panamanian-source income, regardless of where the transaction takes place, if the company has operations in Panama or has assets located in Panama.

The buyer must withhold and deposit 5% of the gross purchase price paid to the seller with the tax authorities. The 5% withholding tax must be remitted to the tax authorities within 10 days after the date on which the withholding obligation arose. The 5% withholding tax may be considered the final capital gain tax due.

If the 5% withholding tax is greater than 10% of the net capital gain, the taxpayer may credit the 5% withholding tax against the 10% capital gain tax that is finally determined. The excess amount may be refunded, credited against other tax liabilities or transferred to other taxpayers.

In addition, gains derived from the sale of real estate are subject to tax at a rate of 10%. The tax base equals the sales price minus the sum of the original cost of the property and expenses incurred on the sale. However, if the sale is made in the ordinary course of trade or business of the taxpayer, the general income tax rates apply.

For purposes of capital gains on real estate taxed at the 10% rate, the seller must pay 3% of the sales price or the recorded value of the property, whichever is greater, as a capital gains tax advance. The 3% tax may be considered the final capital gain tax due. If the 3% tax is greater than 10% of the net capital gain, the taxpayer may credit the 3% tax against the 10% capital gain tax that is finally determined. The excess amount may be refunded, credited against other tax liabilities or transferred to other taxpayers.

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 or up to B/. 15,000 to pension plans

Personal deductions and allowances. Individuals are entitled to a B/. 800 deduction when filing jointly with the spouse.

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. Employment income and self-employment income are taxable at the following rates.

Taxable income		Tax on lower	Rate on
Exceeding B/.	Not exceeding B/.	amount B/.	excess %
0	11,000	0	0
11,000	50,000	0	15
50,000	—	5,850	25

Withholding tax is levied on the income of nonresidents at a rate of 15% plus the educational tax at a rate of 2.75%.

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$	Not exceeding US$	Rate %
0	30,000	0
30,000	50,000	1.75
50,000	75,000	1.95
75,000	—	2.10

In addition, a reduced alternative progressive property tax rate tax applies if the taxpayer requests a reappraisal of the property by 30 June 2010 and is up to date in his or her property tax obligations. After 30 June 2010, taxpayers may request reappraisals and qualify for the reduced property tax rate only if the value resulting from the reappraisal is greater than the cadastral value already recorded. The following are the alternative progressive rates.

Tax base		
Exceeding US$	Not exceeding US$	Rate %
0	30,000	0
30,000	100,000	0.75
100,000	—	1

Properties under the Horizontal Property Regime are not entitled to the exemption corresponding to the first US$30,000 during the time period in which the improvements on such properties are exempt from property tax. During that time, a 1% rate applies to the value of the land. After the exemption for improvements ends, the regular progressive rates or alternative progressive rates apply.

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 2011, social security contributions are levied on salaries, at a rate of 12% for the employer and 9% 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 an annual income tax return if their income tax liability has been satisfied through withholding at source.

By 31 May 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 an 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 approximately 0.86%. 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.

E. Double tax relief and tax treaties

Panama has signed double tax treaties with Barbados, Belgium, Italy, Korea (South), Luxembourg, Mexico, the Netherlands, Portugal, Qatar, Singapore and Spain. At the time of writing, only the treaty with Mexico had taken effect. Panama has concluded tax treaty negotiations with the Czech Republic, France and Ireland.

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.

Argentina	El Salvador	Luxembourg
Austria	Finland	Netherlands
Belgium	France	Nicaragua
Bolivia	Germany	Paraguay
Brazil	Greece	Portugal
Chile	Guatemala	Spain
Colombia	Honduras	Switzerland
Costa Rica	Hungary	United Kingdom
Czech Republic	Italy	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.

International executives with a special temporary visitor visa who receive income from abroad or from an office established in Panama for transactions or services executed or having effects abroad are not subject to income or social tax in Panama.

Under the Multinational Company Headquarters Law (Law No. 41 of 27 August 2007; known as SEM for its acronym in Spanish), foreign personnel and their dependants may obtain a Multinational Company Headquarters Permanent Personnel Visa or a Dependent of Multinational Company Headquarters Permanent Personnel Visa. Foreign personnel granted these types of visas are granted the same tax treatment as the bearer of a special temporary visitor visa. Accordingly, they are exempt from tax in Panama to the extent that the foreigner receives payments directly from the company's headquarters located abroad. SEM visas also provide for an exemption from social contributions in Panama.

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
- 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	—	—

	Taxable	Not taxable	Comments
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.

	B/.	B/.
Calculation of taxable income		
Salary		100,000
Deductions:		
Joint filing	(800)	
Medical insurance premiums	(2,000)	
Medical and dental expenses not covered by insurance	(1,000)	
Total deductions		(3,800)
Taxable income		96,200
Calculation of tax		
Tax on B/. 50,000		5,850
Tax on B/. 46,200 at 25%		11,550
B/. 96,200		17,400

Papua New Guinea

Please direct all requests regarding Papua New Guinea to the following persons in the Brisbane, Australia office:

- *Brent Ducker (office telephone: +61 7 3243 3723; email: brent.ducker@au.ey.com)*
- *Michael Hennessey (office telephone: +61 7 3243 3691; email: michael.hennessey@au.ey.com)*
- *Esther Kendino (office telephone: +61 7 3011 3534; email: esther.kendino@au.ey.com)*

The fax number is +61 7 3011 3190.

A. Income tax

Who is liable. Residents of Papua New Guinea (PNG) are subject to PNG tax on worldwide income. Nonresidents are subject to tax on PNG-source income only.

PNG's domestic law contains the following definition of a "resident" or "resident of Papua New Guinea:"

"(a) in relation to a person, other than a company, means a person who resides in Papua New Guinea, and includes a person

(i) whose domicile is in Papua New Guinea, unless the Chief Collector is satisfied that his permanent place of abode is outside Papua New Guinea;

(ii) who has actually been in Papua New Guinea, continuously or intermittently more than one half of the year of income, unless the Chief Collector is satisfied that his usual place of abode is outside Papua New Guinea, and that he does not intend to take up residence in Papua New Guinea; or

(iii) who is a contributor to a prescribed superannuation fund or is the spouse, or a child under 16 years of age, or such a contributor…"

If an individual does not satisfy the above definition, he or she is considered a nonresident of PNG. The residency of an individual may be affected if PNG has entered into a double tax treaty with another relevant country.

The residence tests, and in particular, the overriding "resides" test (see paragraph [a] of the definition above) can be met relatively easily. The PNG Internal Revenue Commission (IRC) typically considers a person who is in PNG for employment purposes for as little as six months to be a resident of PNG for domestic tax purposes. Because PNG has a relatively limited treaty network, the residency test under PNG domestic law can be very important.

Income subject to tax. Taxable income is calculated by subtracting deductible expenses and losses from the assessable income of the taxpayer. 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, wages, allowances and most cash compensation is included in the employee's assessable income in the year of receipt. Noncash benefits are either taxed in the employee's hands (often at concessional rates) or are exempt from tax. No specific PNG tax is imposed on employers with respect to the provision of noncash benefits. However, Salary or Wages Tax (SWT) withholding obligations may exist for employers to the extent that employees are taxed on such benefits.

Self-employment and business income. Taxable income from self-employment or from a business is subject to PNG tax. Each partner in a partnership is taxed on his or her share of the partnership's taxable income.

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

Dividends. Dividends paid to both residents and nonresidents by a PNG company are subject to a 17% dividend withholding tax. For nonresidents, the rate may be reduced by a treaty.

PNG resident individual taxpayers are not entitled to any credit for underlying corporate taxes paid by resident PNG companies to offset taxes payable on dividends.

Dividends paid, whether directly or indirectly, out of the assessable income of petroleum or gas operations are exempt from dividend withholding tax.

For dividends derived from nonresident sources, a foreign tax credit (FTC) may be allowed for foreign taxes paid. The FTC allowed is equal to the lesser of the foreign tax paid or the amount of PNG tax payable on that income.

Interest, royalties and rental income. Interest, royalties and rental income derived by residents are included in assessable income with a deduction allowed for applicable expenses.

If tax is paid in the foreign country on foreign income, the resident may be able to claim an FTC. If the foreign investment results in a tax loss (that is, deductible expenses exceed assessable income), the tax loss is quarantined and can only be offset against other foreign-source investment income.

Interest paid by residents to nonresident lenders is subject to a final withholding tax of 15% (subject to any reductions available under an applicable double tax treaty).

Accrued foreign company income. The PNG tax law does not currently contain controlled foreign company rules or any similar measures. Accordingly, income or gains accumulating in foreign companies or foreign trusts are typically only taxed on a receipts basis.

Converting transactions denominated in foreign currency into Papua New Guinea kina amounts. Taxpayers are generally required to convert income amounts denominated in foreign currency into Papua New Guinea kina (K) amounts at the time of derivation of the income. Likewise, taxpayers must convert expense amounts into kina amounts at the time of payment.

Realized foreign-exchange gains are assessable and realized foreign-exchange losses are allowable deductions, to the extent they relate to the derivation of income assessable in PNG.

Concessions for individuals on short-term assignments. PNG tax legislation does not contain concessions with respect to living away from home allowances. Any such allowances paid in cash are fully taxable to employees.

Taxation of employer-provided stock and stock options. The PNG tax law does not contain any specific rules that deal with the taxation of employer-provided stock options. However, discounts provided to employees on stock or options acquired under an employee stock scheme are generally taxed as ordinary income in the employees' hands.

Capital gains and losses. Capital gains are generally not subject to tax in PNG. However, the disposal of a capital asset may be subject to tax to the extent the disposal takes place as part of a profit-making scheme or is part of the ordinary business of the taxpayer.

Deductions

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

Some employment-related expenses may be deductible. To claim a deduction, an individual must file an income tax return (see Section C).

Dependent rebates and personal tax offsets. If a dependant's declaration has been furnished, an individual taxpayer is allowed a rebate for a maximum of three "dependants." A dependant is a person who is related to the taxpayer, whose separate net income during the year does not exceed K 1,040, and who is one of the following:

- A spouse
- An unmarried child who is less than 16 years old
- A full-time student child over 16 years old but under 25 years old
- An invalid relative
- A parent of the taxpayer or of his or her spouse, if the parent is a resident of PNG

For an individual earning salary or wage income, the rebates are built into the SWT tax rate schedule published each year by the IRC. The following are the fixed amounts of the fortnightly rebates:

- One dependant: K 17.31
- Two dependants: K 28.85
- Three or more dependants: K 40.38

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.

Deductions are allowed for salaries and wages paid to employees, as well as for interest, rent, repairs, commissions and similar expenses incurred in carrying on a business.

Specific records must be kept for all business expenses incurred.

Expenditure for the acquisition or improvement of assets is not deductible, but depreciation deductions may be claimed.

Rates. The income tax rates for the 2011 tax year (1 January 2011 to 31 December 2011) are shown below.

The following are the 2011 rates for tax residents.

Taxable income		Tax on lower amount	Rate on excess
Exceeding K	Not exceeding K	K	%
0	7,000	0	0
7,000	18,000	0	22
18,000	33,000	2,420	30
33,000	70,000	6,920	35
70,000	250,000	19,870	40
250,000	—	91,870	42

The following are the 2011 rates for tax nonresidents.

Taxable income		Tax on lower amount	Rate on excess
Exceeding K	Not exceeding K	K	%
0	18,000	0	22
18,000	33,000	3,960	30
33,000	70,000	8,460	35
70,000	250,000	21,410	40
250,000	—	93,410	42

For a sample tax calculation, see Appendix 2.

B. Social security taxes

Superannuation/pension contributions. Under the Superannuation (General Provision) Act 2000 (PNG Superannuation Act), a PNG employer with 20 or more employees that has employed an employee for 3 months or more must make a minimum contribution to an Authorised Superannuation Fund (AFS). An AFS is a PNG resident superannuation fund that has been authorized to operate by the Bank of PNG.

Currently, the requirement to make superannuation contributions into an AFS exists only with respect to PNG-citizen employees. Contributions are currently optional for noncitizen employees. Under certain proposals, contributions would be required with respect to noncitizens.

The compulsory employer contribution is 8.4% of an employee's annual taxable salary. It is also compulsory for PNG-citizen employees to contribute 6% of their annual taxable salary into an AFS from their post-tax salary. This is in addition to the compulsory employer contribution of 8.4%.

A deduction is not available for employers who make contributions to nonresident superannuation funds with respect to noncitizen employees.

Training levy. All businesses that have an annual payroll exceeding K 200,000 are subject to a 2% training levy. The amount payable is reduced by training expenses incurred by the employer for the benefit of PNG-citizen employees. Expenses incurred to train noncitizens are not qualifying training expenses for the purpose of the training levy.

C. Tax filing and payment procedures

The PNG tax year is the calendar year (1 January to 31 December).

Returns for the year must be filed by 28 February of the following year. Extensions are available if the return is filed by a registered tax agent and if a request for extension of time is made. Nonresidents are subject to the same filing requirements as residents. No specific additional filing requirements are imposed on persons arriving in, or persons preparing to depart from, PNG.

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

Individuals who derive employment income only are not required to file an income tax return in PNG. SWT withheld by an employer is a final tax. PNG national or expatriate employees who derive income other than employment income must file an income tax return in PNG. No return is required for dividend income that has been subject to PNG dividend withholding tax. An income tax return is required if any of the following circumstances exist:

- The individual has income of more than K 100 from other sources.
- The individual received a housing allowance, and a variation was granted by the Commissioner General of Internal Revenue for the individual to receive the housing allowance before tax.
- The individual received a motor vehicle allowance, and a Section 299E variation has been granted. A Section 299E variation refers to an application to the Commissioner General of Internal

Revenue to allow payment of a cash allowance to an employee without deducting SWT.
- A school fee rebate is claimable. A school fee rebate refers to an amount paid by the government through the tax system to taxpayers who have paid school fees for dependent children. The rebate is granted per child and is limited to 25% of the net education expenses incurred or K 750, whichever is less.
- The individual was incorrectly taxed during the income year.

The IRC issues a tax assessment after a tax return is filed. After an assessment is issued and served on the taxpayer, the taxpayer must pay the amount of tax due within 30 days. If the taxpayer files an objection, the IRC requires that the amount of tax assessed be paid pending the review of the objection. A taxpayer may request the Commissioner General of Internal Revenue to grant an extension to pay the tax or allow the taxpayer to make the payment in installments.

D. Double tax relief and tax treaties

Foreign tax credit. A foreign tax credit (FTC) may be allowed for foreign taxes paid. The FTC equals the lesser of the foreign tax paid and the amount of PNG tax payable on the relevant income.

For FTC purposes, income derived from treaty and nontreaty countries are treated the same.

Double tax treaties. PNG has entered into double tax treaties with the following countries.

Australia	Fiji	Malaysia
Canada	Germany*	Singapore
China	Korea (South)	United Kingdom

* This treaty has been signed, but it has not yet been ratified.

E. Temporary visas

Noncitizens cannot be gainfully employed in PNG without a work permit issued by the Department of Labour and Industrial Relations (DLI). A properly completed Application for Foreigner Work Permit and the applicable government fee needs to be submitted to the DLI for the approval and issuance of work permits.

In addition to work permits, an application for entry permits or visas for the employee and dependants (if applicable) must be filed with the Department of Foreign Affairs and Immigration. Certain government fees must accompany the application.

The following are the categories of temporary visas:
- Visitor category
- Business category
- Employment category
- Student category
- Entertainer category
- Special exemption category

Holders of employment visas can work in PNG. Employment is prohibited for visa holders in all other categories, but some employment may be allowed for holders of business visas in limited circumstances.

F. Permanent residence

Permanent residence visas may be granted to the following categories:

- Majority owner of a business
- Skilled professional
- Nationals from Melanesian Spearhead Group countries (Fiji, Vanuatu and the Solomon Islands)
- Retired persons
- Spouses and children of PNG citizen aged 19 years or more

G. Family and personal considerations

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 are granted visas of the same subclass. Family members who are not included in a temporary resident's initial visa application may generally apply for a visa at a later date.

Appendix 1: Taxability of income items

	Subject to income tax*	Subject to tax on a notional value	Comments
Compensation			
Base salary	X	—	(a)
Employee contributions to home-country benefit plan	X	—	(b)
Employer contributions to home-country benefit plan	—	—	(c)
Bonus	X	—	(a)
Retained hypothetical tax	(X)	—	(a)
Cost-of-living allowance	X	—	(d)
Housing allowance (not exceeding actual cost)	—	X	(e)
Employer-provided housing	—	X	(f)
Education reimbursement	—	—	(g)
Hardship allowance	X	—	(a)
Other allowance	X	—	(a)
Foreign-service premium	X	—	(a)
Home leave	—	—	(h)
Other compensation income	X	—	(a)
Moving expense reimbursement	X	—	(i)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(i)
Value of meals provided	X	—	(j)
Other item			
Foreign-source income (for example, dividends and interest)	X	—	(k)

* The bracketed amount reduces taxable income.

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

(b) Contributions made by employees from their after-tax income are not deductible to the employee.
(c) Employer contributions are not assessable to the employee. They are not deductible to the employer if the contributions are made to nonresident superannuation funds.
(d) The amount may be exempt from income tax if paid directly to a vendor by the employer. All allowances paid in cash are subject to tax.
(e) The amount of the housing allowance equal to the actual cost of housing is subject to tax on a notional value (a value assigned by the Commissioner General of Internal Revenue). Any excess is subject to tax at the employee's marginal tax rate.
(f) Employer-provided accommodation is subject to tax at a notional value (a value assigned by the Commissioner General of Internal Revenue).
(g) If the amount is a reimbursement for self-education expenses incurred by the employee, the amount is fully deductible to the employee. Under specific rules, for a reimbursement of education expenses for dependent children, the amount is exempt if qualifying criteria are met.
(h) One set of annual-leave fares is exempt from income tax. Salary paid while an employee is on annual leave is fully taxable.
(i) It may be contended that the amount is not taxable if it is a direct-cost reimbursement, on the basis that the amount is paid for the benefit of the employer and the employee receives no benefit.
(j) Sustenance meals are subject to tax in the employees' hands.
(k) The amount is taxable to PNG residents, but a foreign tax credit may be able to be claimed to offset any tax liability.

Appendix 2: Sample tax calculation

A sample tax calculation for the 2011 tax year is set out below. The tax calculation is based on the following factual assumptions:

- The taxpayer is married with two children under age 12. The spouse of the taxpayer does not have separate net income and the spouse and children are wholly dependent on the taxpayer.
- The taxpayer is a full-year tax resident of PNG.
- All workdays are spent in PNG.
- The taxpayer receives interest income from PNG sources.
- All other income and deductions are listed in the tax calculation below.
- All amounts are in kina.
- The assignment is for a two-year period.
- The taxpayer is taxed on the notional value of the accommodation and car provided by the employer instead of on the full value.
- Moving expenses are assumed to be a reimbursement of actual costs and are assumed to be provided by the employer for the employer's own benefit and not the employee's benefit. Accordingly, they are not subject to income tax.
- All other allowances paid in cash are subject to income tax.

The following is the tax calculation.

	K	K
Calculation of taxable income		
Base salary		150,000.00
Bonus (current year)		30,000.00
Housing paid by company (notional value)		5,850.00
Car with fuel (paid by company) (notional value)		3,250.00
Relocation allowance		6,000.00
Moving expenses		0.00
Total compensation		195,100.00

	K	K
Interest (gross amount including interest withholding tax)		1,000.00
Total taxable income		196,100.00

Calculation of tax liability

Tax on first K 70,000	19,870.00	
Tax on K 126,100 at 40%	50,440.00	70,310.00
Less dependent rebate (highest value)		(1,049.88)
Less: Interest withholding tax credit (15% domestic rate)		(150.00)
Net tax		69,110.12

Calculation of net cash after income tax

Total taxable income (including notional values)	196,100.00
Less net tax	(69,110.12)
Less notional values of accommodation and car	(9,100.00)
Net cash income after tax	117,889.88

Paraguay

(Country code 595)

Asuncion	**GMT -3**

Ernst & Young
Edificio Citicenter
Av. Mariscal López 3794 esq. Cruz del Chaco
Piso 6
1174 Asuncion
Paraguay

Executive and immigration contact

Pablo Di Iorio — (21) 664-308
Fax: (21) 608-985
Email: pablo.di-iorio@py.ey.com

On 5 July 2004, Congress approved Law No. 2421/04, which introduced a new personal income tax, effective from 1 January 2006. Law No. 3307, which was enacted on 25 October 2007, postponed the effective date of the personal income tax until 1 January 2009. Law No. 3712, dated 23 June 2009, further postponed the effective date until 1 January 2010. Law No. 4064, dated 22 November 2010, further postponed the effective date of the personal income tax until 1 January 2013. This chapter discusses personal income tax measures contained in Law No. 2421/04, modifications of the law 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. Law No. 3307, which was enacted on 25 October 2007, postponed the effective date of the personal income tax until 1 January 2009. Law No. 3712, dated 23 June 2009, further postponed the effective date until 1 January 2010. Law No. 4064, dated

22 November 2010, further postponed the effective date of the personal income tax until 1 January 2013.

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 locally 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 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 deposit in local financial entities governed by Law No. 861, as well as from cooperatives
- 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 capital gains derived from the sale of real estate is subject to personal income tax. If more than two real estate properties are sold in a year, the sales are subject to corporate 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
- 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 will be 10% (currently postponed until 1 January 2013) for individuals earning more than 10 minimum salaries per month (approximately US$4,000 in 2010). For individuals earning less than 10 minimum salaries per month, the tax rate will be 8%.

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, Germany and Uruguay. These treaties do not apply to personal income tax.

Paraguay has entered into a double tax treaty with Chile to avoid double taxation on income tax, including 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
- 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 for 10 years. 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.

Peru

(Country code 51)

Lima **GMT -5**

Ernst & Young
Av. Víctor A. Belaúnde 171, 6th Floor
San Isidro
Lima 27
Peru

Executive and immigration contacts

Maria Julia Saenz	(1) 411-4480 Fax: (1) 411-4445 Email: maria-julia.saenz@pe.ey.com
Carlos Cardenas	(1) 411-4444 Fax: (1) 411-4445 Email: carlos.cardenas@pe.ey.com
Italo Mortola	(1) 411-4444 Fax: (1) 411-4445 Email: italo.mortola@pe.ey.com

Cynthia Cuba (1) 411-4444
Fax: (1) 411-4445
Email: cynthia.cuba@pe.ey.com

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 more than 183 days in any 12-month period. 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 no more than 183 days in any 12-month period.

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 equals their gross income minus a deduction of 20%. Such deduction is allowed up to a maximum of PEN 86,400, which equals 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 and interest from bonds issued by the government are exempt from income tax. Other interest and royalties must be included in taxable income.

For nonresidents, interest is subject to withholding tax at a rate of 4.99%. Royalties are subject to withholding tax at a rate of 30%.

Income from the rental of real estate received by residents is taxed as a capital gain at a rate of 6.25%. A deduction of 20% of gross rental income is allowed. As a result, the effective rate is 5%.

Income from the rental of real estate received by nonresidents is subject to an effective final withholding tax at a rate of 5%.

Taxation of employer-provided stock options. The Peruvian Income Tax Law has not established specific rules regarding taxation of equity awards. Under the general taxation rules, the benefit obtained from a stock option plan equals the spread between the purchase price and the fair market value of the shares. Such spread must be recognized as compensation income because it is provided as part of an employment relationship. However, on the sale of the shares, the individual derives a capital gain equal to the difference between the sale price and the purchase price. Because no specific rule allows the purchase price to include the spread previously taxed as compensation income, a double taxation issue may arise.

Capital gains. For residents, capital gains derived from the sale of real estate (except for real estate occupied as dwellings) are subject to a definitive payment, which equals 5% of the sale value. For nonresidents, the tax rate is 30%.

Taxable capital gains include profits derived from the sale of shares issued by Peruvian entities and gains derived from an indirect sale of shares (including, among others, the sale of more than 10% of the shares of a nonresident company in any 12-month period, provided the total share value of the nonresident company included 50% or more of a Peruvian company's shares in any month in the 12-month period before the sale). For resident individuals, this rule is effective from 1 January 2012. For nonresident individuals, the rule took effect on 16 February 2011.

For the sale of shares by resident individuals, the first 5 ATUs, which equal PEN 18,000, are exempt from tax.

Net taxable income for resident individuals derived from capital gains on shares equals their gross income minus a deduction equal to 20%. Withholding tax is imposed on this amount at a rate of 6.25%. As a result, such income is subject to an effective withholding tax rate of 5%.

Nonresidents are taxed at a rate of 5% if the shares are listed and traded in the Chilean, Colombian or Peruvian Stock Exchange Market. Otherwise, they are subject to tax at a rate of 30% on their gross income.

Capital gains also include profits derived through investment funds, trust funds or pension funds established in Peru. These profits are taxed at an effective rate of 5% for residents and 30% for nonresident individuals.

Gains derived from sales of personal property are not considered 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 PEN 25,200 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 2011, one ATU equals PEN 3,600 (approximately US$1,285). The following are the tax rates.

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 either of the following two systems to carry forward losses related to business income:
- Carrying forward losses to the following four consecutive years
- Carrying forward losses indefinitely, subject to an annual limit equal to 50% of the taxpayer's taxable income in each year

Business 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 government of the locality where the property is located. The property tax base equals the total value of the taxpayer's property in every 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 up to 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. Effective from 1 April 2011, the rate of the tax on financial transactions is reduced from 0.05% to 0.005%. This 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 government-sponsored pension fund (Oficina de Normalizacion Previsional, or ONP). Under an alternative system, employees must contribute an average of 13.175% of their salaries and wages to the Private Pension Funds Trustee (Administradora de Fondo de Pensiones, or AFP). These amounts must be withheld by employers under both the ONP and AFP systems. 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. Such professionals may avoid withholding up to PEN 31,500 if they foresee that their incomes will not be higher than this amount.

The tax year is the calendar year. Individual tax returns must be filed with the tax office usually in late March or by early April, and any balance due must be paid at that time. Only tax residents are subject to tax return filing obligations.

Married persons are taxed separately. However, for 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 and Ecuador (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 Brazil, Canada and Chile. Peru has signed a double tax treaty with Spain, but this treaty is not yet in force.

F. Temporary visas

In general, all foreign nationals must obtain visas to enter Peru. However, citizens of the following countries may enter the country for tourist, cultural or sporting purposes without visas for 183-day periods.

Andorra
Antigua and Barbuda
Argentina
Australia
Austria
Bahamas
Barbados
Belarus
Belgium
Belize
Bolivia
Brazil
Hong Kong
Hungary
Iceland
Indonesia
Ireland
Israel
Italy
Jamaica
Japan
Kiribati
Korea (South)
Latvia
Liechtenstein
Portugal
Romania
Russian Federation
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Samoa
San Marino
Serbia
Singapore

Brunei Darussalam
Bulgaria
Canada
Chile
Colombia
Cook Islands
Croatia
Cyprus
Czech Republic
Denmark
Dominica
Ecuador
Estonia
Fiji
Finland
France
Germany
Greece
Grenada
Guyana
Haiti
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Marshall Islands
Mexico
Micronesia
Moldova
Monaco
Nauru
Netherlands
New Zealand
Niue
Norway
Palau
Panama
Papua New Guinea
Paraguay
Philippines
Poland
Slovak Republic
Slovenia
Solomon Islands
South Africa
Spain
Suriname
Sweden
Switzerland
Taiwan
Thailand
Tonga
Trinidad and Tobago
Tuvalu
Ukraine
United Kingdom
United States
Uruguay
Vanuatu
Vatican City
Venezuela

Foreign nationals may enter Peru with temporary visas, which allow entry and stays for up to 183 days and are not renewable. Temporary visas are issued to individuals with tourist, business, official, artistic, religious, student, independent employee, designated employee 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.

Foreign nationals holding the following visa statuses receive temporary visas:

- 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 can be granted for up to 183 days, and is not renewable.
- Work visas for designated employees, granted to foreign nationals who are sent to work in Peru by their foreign company employers to perform agreed services. This visa can be granted 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 can be granted 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 can be granted for up to 90 days and is renewable.
- Diplomatic and consular visas, which can be granted 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 can be granted for

up to 183 days and may not be extended. A foreign national who is in Peru on a tourist visa can change his or her migratory status while in Peru.
- 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 approved by a corresponding policy-making body. This visa can be granted 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 can be granted 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, among others.

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 labor reciprocity or 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 PEN 18,000 (approximately US$6,428) is maintained throughout the term of their contracts
- Artists, athletes and, in general, those who work in public events in the country for a maximum of three months during a calendar year

Documents that must be submitted to obtain a work visa include the following:
- 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 (other documents may apply with respect to employees exempt from these limits)
- Employment agreement with all the mandatory clauses
- Professional degree, technical study or work certificates, legalized or *apostilled* by the corresponding authority
- Copy of the passport or the foreign card
- Copy of the company's tax registration
- Receipt for payment

Employment agreements are approved by the Ministry of Labor within five days after the documents are submitted. The hired person may begin to render services after the work visa is obtained.

This visa can be granted as a temporary or residence visa, depending on the term of the work contract with the Peruvian company.

A foreign national with a valid work visa may change employers after notifying the Ministry of Labor.

For a work visa for designated employees, the following documents must be filed with the immigration authorities:
- A service agreement between the foreign company and the local company
- A letter of assignment from the foreign company, legalized or *apostilled* by the corresponding authority abroad

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.
- Religious, student, work and independent visa holders may obtain residence visas valid for up to one year, which are renewable.

Immigrants may obtain residence visas with an undetermined period of time.

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. Foreign nationals can also drive legally in Peru with the license provided by the automobile club of their countries of origin (international drivers' licenses).

To obtain a Peruvian driver's license, a resident applicant must take a written test, a physical test and a practical driving exam. This driver's license is granted for up to eight years depending on the category of the license.

Philippines

(Country code 63)

Manila **GMT +8**

SyCip Gorres Velayo & Co.

Mail address:
P.O. Box 7658
Domestic Airport
Post Office 1300 Metro Manila
Philippines

Street address:
SGV Building
6760 Ayala Avenue
1226 Makati City
Philippines

Executive and immigration contact

Ruben R. Rubio
(2) 894-8141
Fax: (2) 891-0872
Email: ruben.r.rubio@ph.ey.com

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.

In a ruling issued by the Bureau of Internal Revenue (BIR), the BIR stated that in applying the above rules, all the months in a calendar year covered by the period of assignment of the nonresident alien individual must be considered in evaluating if he or she exceeded the 180-day period. If an expatriate's stay in the Philippines exceeds the 180-day period during any calendar year, he or she becomes a nonresident alien doing business in the Philippines for the entire duration of his or her Philippine assignment. As a result, if an expatriate stays in the Philippines for more than 180 days in any calendar year, he or she is considered a nonresident alien engaged in business and taxed at the graduated rates of 5% to 32%, not only during the year that his or her stay in the Philippines exceeds the 180-day period, but also during the other years of assignment, even if such stay did not exceed 180 days (BIR Ruling DA-056-05).

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 (the Tax Code refers to these items as "exclusions") and are, consequently, 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
- 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 exclusions, 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
- 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
- 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. *De minimis* benefits are expressly exempt from income tax as well as from fringe benefits tax (FBT).

The following are *de minimis* benefits:
- 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
- Daily meal allowance for overtime work not exceeding 25% of the basic minimum wage
- Rice subsidy of P 1,500 or 1 sack of 50 kilograms of rice per month amounting to not more than P 1,500
- Uniform and clothing allowance not exceeding P 4,000 per year

The above list is exclusive. All other benefits granted by employers that are not included in the above list are not considered *de minimis* benefits, and accordingly are subject to income tax, withholding tax on compensation, and FBT (Revenue Regulations 5-2011).

Fringe benefits are subject to 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. As mentioned above, *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, if the payer is among the top 20,000 private corporations as classified by the BIR. 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 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 residents on foreign-currency deposits is subject to a final 7.5% withholding tax. Interest received by nonresident individuals 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.

However, a BIR ruling classified the spread as a taxable fringe benefit subject to FBT (BIR Ruling DA-255-05). This 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 the 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.

BIR Ruling No. DA-152-2007 is almost of the same tenor. In this ruling, the BIR held that income from a Restricted Stock Unit Plan, under which plan, shares or the cash equivalent is transferred to selected executives, is considered to be a fringe benefit subject to FBT.

However, the BIR also issued BIR Ruling No. DA-353-2007, which relates to stock purchase plans and share schemes. In summary, this ruling declares that for the purchase of the shares under a stock purchase plan offered to all employees, the discount in the purchase price of the shares is considered to be compensation income to the individual and is subject to income tax. According to the BIR, the discount is a realized benefit actually received by the employee-participant on the purchase of the shares. If the employee-participant purchased the shares in the market, he or she would have been required to pay the prevailing market price for the shares. Consequently, the discount is considered to be compensation subject to income tax.

The BIR arrived at the same ruling in BIR Ruling No. DA-402-2007. It stated that because the fair market value of shares delivered at the end of the vesting period for a restricted stock award was linked to services rendered by the senior employees during the vesting period, the value of such shares is considered compensation.

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 unlisted domestic corporations are taxed at a rate of 5% on the first P 100,000 of the gain 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.

Gains derived from the sale of listed shares are exempt from capital gains tax. However, a percentage tax (stock transaction 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 foreign corporations are taxed as capital gains, subject to the regular income tax rates.

Deductions

Personal exemption. Citizens and resident aliens are allowed a basic personal exemption amounting to P 50,000 for each individual taxpayer.

For married individuals, if only one of the spouses is deriving gross income, only such spouse is allowed the personal exemption.

Additional exemption. An additional exemption of P 25,000 is allowed for each "dependent" up to a maximum of 4. For this purpose, a "dependent" is the following:

- A legitimate, illegitimate or legally adopted child who is not more than 21 years of age, unmarried and not gainfully employed and is chiefly dependent on and living with the taxpayer
- Regardless of age, a legitimate, illegitimate or legally adopted child who is incapable of self-support because of a mental or physical defect

For married individuals, the additional exemption for dependants may be claimed by only one of the spouses. For legally separated spouses, additional exemptions may be claimed only by the spouse who has custody of the child or children, provided that the total amount of additional exemptions that may be claimed by both spouses may not exceed the maximum additional exemptions mentioned above.

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. He or she may not claim additional exemptions.

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, such taxable individual (except a nonresident alien not engaged in trade or business) may elect a standard deduction of 40% of gross income instead 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.)

Under Revenue Regulations 11-2010, Filipinos exercising the option to be taxed at a 15% preferential rate for occupying the same managerial or technical position as that of an alien employed in an ROHQ or RHQ must meet all the following requirements:

- Position and Function Test: The employee must occupy a managerial position or technical position and must actually be exercising such managerial or technical functions pertaining to such position.
- Compensation Threshold Test: To be considered a managerial or technical employee for income tax purposes, the employee must have received, or is due to receive under a contract of employment, gross annual taxable compensation of at least P 975,000 (regardless of whether this is actually received). However, if a change in compensation occurs and, as a result, such employee subsequently receives less than the compensation threshold stated above for the calendar year when the change becomes effective, the employee becomes subject to the regular income tax rate.
- Exclusivity Test: The Filipino managerial or technical employee must be exclusively working for the RHQ or ROHQ as a regular employee and not as a consultant or contractual person. Exclusivity means having one employer at a time.

The compensation threshold was adjusted on 31 December 2010 and will be adjusted every three years thereafter.

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 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 nonresident 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
- 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	Not exceeding	lower amount	excess
P	P	P	%
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	Not exceeding	lower amount	excess
P	P	P	%
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 7.39% 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 1,090 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 the following jurisdictions.

Austria	Korea (South)*	Spain
Belgium	Netherlands	Switzerland
Canada	Quebec	United Kingdom
France		

* This agreement has not yet been ratified.

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 relevant tax year.

Minimum wage earners (MWEs) who work in the private sector and are paid the Statutory Minimum Wage (SMW), as fixed by Regional Tripartite Wage and Productivity Board (RTWPB)/ National Wages and Productivity Commission (NWPC), applicable to the locations where they are assigned, are not subject to withholding tax on compensation. Likewise, employees in the public sector with compensation income of not more than the SMW in the nonagricultural sector, as fixed by RTWPB/NWPC, applicable to the locations where they are assigned, are also exempt from withholding tax on compensation.

Holiday pay, overtime pay, night shift differential pay and hazard pay earned by the MWEs mentioned above are also covered by the above exemption.

Employees do not qualify as MWEs if they earn additional compensation such as commissions, honoraria, fringe benefits, benefits in excess of the allowable statutory amount of P 30,000, taxable allowances and other taxable compensation. Such additional compensation does not include the SMW, holiday pay, overtime pay, hazard pay and night shift differential pay. Consequently, such employees' entire earnings are subject to income tax and, accordingly, withholding tax.

MWEs receiving other income, such as income from the conduct of trade, business, or practice of profession, except income subject to final tax, in addition to compensation income are not exempt from income tax on their entire income earned during the tax year. Notwithstanding this rule, such MWEs are exempt from withholding tax on the SMW, holiday pay, overtime pay, night shift differential pay and hazard pay.

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. However, spouses (both husband and wife) that would qualify under the "substituted filing" of income tax returns (see below) may not be required to file income tax returns.

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 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 (taxable and nontaxable income, personal and additional exemptions, and taxes withheld) 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.

Nonresident aliens engaged in trade or business are required to file income tax returns.

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
Austria
Bahrain
Bangladesh
Belgium
Brazil
Canada
Chile (c)(d)
China
Czech Republic
Denmark
Finland (c)(f)
France
Germany (e)
Hungary
India
Indonesia (c)(g)
Israel
Italy
Japan (i)
Korea (South)
Kuwait (b)
Malaysia
Netherlands
New Zealand (k)
Nigeria (c)
Norway
Pakistan
Poland (a)
Qatar (c)
Romania
Russian Federation
Singapore
Spain
Sri Lanka (c)
Sweden
Switzerland
Thailand (b)(h)
Turkey (b)
United Arab Emirates (j)
United Kingdom
United States
Vietnam
Yugoslavia (c)

(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.
(i) A protocol amending the tax treaty entered into force on 5 December 2008 and is effective from 1 January 2009.
(j) The treaty entered into force on 2 October 2008 is effective from 1 January 2009.
(k) A protocol amending the tax treaty has been ratified, but it has not yet entered into force.

The Philippines is negotiating tax treaties with Brunei Darussalam, Iran, 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 before departure if they have valid passports and onward tickets or confirmed travel tickets for a return journey. Restricted or high-risk nationals must secure an entry visa from Philippines embassies or consulates to enter the Philippines.

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. Unrestricted nationals are not required to obtain entry visas. In general, both are allowed an initial period of stay of up to 21 days. 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.

Under the existing immigration rules, foreigners holding temporary visitor visas may extend their stay in the country every 2 months for a total stay of 16 months. Extensions of stay beyond 16 months up to 24 months need the approval of the Chief of the Immigration Regulation Division (IRD) of the Bureau of Immigration (BI). Extensions of stay beyond 24 months need the approval of the Commissioner of the BI. Some persons take the view that this privilege applies only to unrestricted nationals, and that individuals on the restricted list are allowed a maximum stay of six months only. As a result of this possible uncertainty, coordination with the officers of the BI is recommended.

Although Chinese and Indian nationals have been removed from the list of restricted nationals, entry visas continue to be required for such individuals. However, as a result of their removal from the list, they are granted the privilege of applying for and being granted permanent resident visas. Because the guidelines implementing these changes may be revised from time to time, coordination with the BI is recommended.

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.
- 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 BI 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 employee visas under Section 9(g) (9(g)visas) 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 9(g) visa depends on the grant of an Alien Employment Permit (AEP; see Section G) by the Department of Labor and Employment (DOLE). It takes approximately two to four months to process the 9(g) visa. An application for a Provisional Permit to Work is no longer required to allow an individual to perform services while his or her application for the issuance of the 9(g) visa is pending. The application for an AEP serves as a provisional work permit.

A 9(g) visa may be renewed annually for a total period not exceeding five years. It appears that this is the maximum period for holding a 9(g) visa, because labor rules state that the validity of an AEP may not exceed five years. However, if it is reasonably expected that a foreign national's employment in the Philippines will extend beyond five years, coordination with the DOLE is advisable before a petition for an AEP extension is filed.

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 BI.

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
- 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 visa for employment generation. The special visa for employment generation (SVEG) under EO No. 758 is a special visa issued to a qualified nonimmigrant foreigner who will employ at least 10 Filipinos in a lawful and sustainable enterprise, trade or industry. Qualified foreigners who are granted the SVEG are considered special nonimmigrants with multiple-entry privileges and conditional extended stay, without need of prior 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, Korea (North) 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 BI 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. If the foreign applicant is between 35 and 49 years old, an inward remittance of US$50,000 is required. If the foreign applicant is 50 years or older, the required inward remittance is reduced to US$20,000.

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.

For former Filipino citizens, an inward remittance of US$1,500 is required. The former Filipino citizen must be at least 35 years old. Ambassadors of foreign countries who served and retired in the Philippines and current and former staff members of international organizations, including the Asian Development Bank, are also eligible for this program. They must make an inward remittance of US$1,500 and be at least 50 years old.

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 of admission status before the BI. 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

- 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 BI.

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)
- Holders of special resident retirees' visas (SRRVs)

The privileges of SVEGs (see Section F) may extend to SVEG holders' spouses and dependent unmarried children under 18 years of age, regardless of whether the children are legitimate, illegitimate or adopted.

Marital property regime. Before 3 August 1988, property relations between a future husband and wife were governed by any of the following:
- Marriage settlement
- Provisions of the Philippine Civil Code
- 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.

After 3 August 1988, 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. 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 following table 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)
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	(o)
Stock purchases under stock purchase and share save plans	—	X	(p)
Other items			
Sale of property located outside the Philippines	X	—	(a)(q)
Sale of shares	—	—	(a)(r)

(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. Contributions to the social security system (SSS), Philhealth and the Home Development Mutual Fund by Filipino citizens are not taxable.

(d) The first P 30,000 is exempt from tax.

(e) Allowances are not taxable if they are properly liquidated. This means that it must be shown that the allowances were used for ordinary and necessary business or professional expenses, and are fully substantiated by proper documentation, such as official receipts in the name of the company or other adequate records.

(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 professional expenses, and are fully substantiated by proper documentation, such as official receipts in the name of the company or other adequate records.

(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). If the housing unit is not for temporary use or is not adjacent to the business premises, and if the housing unit is leased, the monetary value of the fringe benefit is 50% of the rental amount.

(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. It is suggested that a confirmatory tax ruling be secured from the tax authorities in the Philippines.

(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) Tax is not imposed until the sale or transfer of the shares.

(q) A sale of property outside the Philippines by a resident or nonresident alien is not taxable in the Philippines.

(r) 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 2011 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; see Section A) children. For 2011, 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 11,700 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	11,700
Gross income	6,881,700
Less:	
Employer-borne contributions	(11,700)
Nontaxable bonus	(30,000)
Gross taxable income	6,840,000
Less:	
Personal exemption	(50,000)
Additional deduction (for children)	(50,000)
Net taxable income	6,740,000
Calculation of tax	
Tax on P 500,000	125,000
Tax on P 6,240,000 at 32%	1,996,800
P 6,740,000	
Total tax due	2,121,800

Poland

(Country code 48)

Warsaw	GMT +1

Ernst & Young
Rondo ONZ 1
00-124 Warsaw
Poland

Executive contact

Michal Grzybowski — (22) 557-7559
Fax: (22) 557-7001
Email: michal.grzybowski@pl.ey.com

A. Income tax

Who is liable. Residents are taxed on worldwide income. Nonresidents are taxed on Polish-source income only.

Under domestic law measures, individuals who have their center of personal or economic interests (a center of vital interests) in Poland or stay in Poland for a period exceeding 183 days in a given tax year are generally considered Polish tax residents. Individuals who do not have their center of personal or economic interests in Poland and stay in Poland for a period shorter than 183 days in a given tax year 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, as well as the cost of additional (not provided for by the labor law) medical packages provided to employees, 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%. In general, 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 at the progressive rates set forth in *Rates*. Rental income may also be taxed at a flat rate of 8.5%. For the taxation of real estate sales, see *Capital gains*.

Taxation of employer-provided stock options. In general, employer-provided stock options are taxed at the time of exercise on the difference between the fair market value at the date of exercise and the exercise price. This amount is generally taxed at the standard progressive tax rates. However, this amount may be exempt from tax for individuals granted the right to obtain shares of a company seated in a European Union (EU)/European Economic Area (EEA) country, based on 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 acquired or built before 1 January 2007 are taxed at a flat rate of 10% on the sales price.

In general, real estate income is taxed at a flat rate of 19%. Real estate income equals the difference between the sales price and respective expenses, which include the purchase price.

However, in both cases, 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 derived from the sale of shares is subject to tax at a rate of 19%.

Deductions

Personal deductions and allowances. Small personal deductions or allowances may be claimed in calculating income tax.

Deductible expenses. A limited number of deductions and credits are allowed, and only a few apply to nonresidents.

Donations to public benefit organizations and religious institutions are deductible from income, up to 6% of the annual taxable income. Expenses up to PLN 760 incurred with respect to Internet access in the place of residence are deductible from income. In addition, a credit of PLN 1,112.04, which is subtracted from the tax liability, may be claimed for each child for tax purposes.

Business deductions. Self-employed individuals may deduct most costs related to generating business income, unless they are subject to lump-sum taxation (see *Rates*).

Rates. Income tax for 2011 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	85,528*	0	18
85,528	—	14,839.02	32

* Tax on this bracket is calculated at 18% and then reduced by PLN 556.02.

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 PLN 598,050 (the equivalent of €150,000) in the preceding year, lump-sum taxation at rates ranging from 3% to 20% may apply.

Nonresidents are subject to a final withholding tax of 20% on fees received for membership on management boards granted under a specific resolution and on income derived from commission, 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

In general, inheritance tax and a tax on gifts apply to assets that are located in Poland or property rights executed in Poland. In certain cases, the acquisition through inheritance or gift of immovable property and other assets located abroad is taxable if at the time of inheritance or execution of a donation contract, the acquirer is a Polish citizen or has permanent residence in Poland.

Tax rates are progressive and range from 3% to 20% for 2011, depending on the recipient's relationship to the donor or the deceased. The recipient of the property is required to pay the tax due. Under specific conditions, the closest relatives of the donor or the deceased are exempt from inheritance and gift tax.

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	6.00
Sickness insurance	2.45
Industrial injuries insurance	0.67 to 3.33*

* The rate depends on the employer's type of business activity.

Contributions for retirement insurance are paid half by the employer and half by the employee. For disability insurance, the employer covers 4.5% and the employee covers 1.5%. 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 100,770 for 2011).

As a result of Poland's accession to the EU, it is covered by the EU social security regime, which is principally provided in European Community (EC) Regulations 1408/71 and 883/2004.

Health care system. Contributions to the health care system are levied at a rate of 9% on the employee's assessment base, which is gross remuneration after deduction of the employee's contributions to retirement, disability and sickness insurance. In general, 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. Under additional conditions, joint filing may be available to Polish tax nonresidents who are tax resident elsewhere in the EU.

Income tax may be 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 generally make advance tax payments 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	Ireland	Romania
Algeria (a)	Isle of Man (a)	Russian Federation
Armenia	Israel	Saudi Arabia (a)
Australia	Italy	Singapore
Austria	Japan	Slovak Republic
Azerbaijan	Jordan	Slovenia
Bangladesh	Kazakhstan	South Africa
Belarus	Korea (South)	Spain
Belgium	Kuwait	Sri Lanka
Bulgaria	Kyrgyzstan	Sweden
Canada	Latvia	Switzerland
Chile	Lebanon	Syria
China	Lithuania	Tajikistan
Croatia	Luxembourg	Thailand
Cyprus	Macedonia	Tunisia
Czech Republic	Malaysia	Turkey
Denmark	Malta	Ukraine
Egypt	Mexico	USSR (b)
Estonia	Moldova	United Arab Emirates
Finland	Mongolia	United Kingdom
France	Morocco	United States
Georgia	Netherlands	Uruguay (a)
Germany	New Zealand	Uzbekistan
Greece	Nigeria (a)	Vietnam
Hungary	Norway	Yugoslavia
Iceland	Pakistan	Zambia (a)
India	Philippines	Zimbabwe
Indonesia	Portugal	
Iran	Qatar	

(a) The treaties have been signed or initialed, but they 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

An individual who is not a Polish citizen 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. In addition, he or she must have financial resources to live in Poland and must be covered by health insurance valid 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 made by the hotel where the person is staying.

For EU citizens, in general, registration of their stay is required for stays longer than three months. In addition, an EU citizen must meet one of the following conditions:
• He or she works or performs a business activity in Poland.
• He or she is covered by health insurance and has sufficient financial resources to live in Poland.
• He or she is pursuing studies and is covered by health insurance.
• He or she is a spouse of a Polish citizen.

After a five-year period, EU citizens acquire the status of permanent resident if he or she continues to fulfill the respective conditions.

G. Permanent residence cards or EC long-term residence permit

Foreign individuals intending to stay in Poland permanently may obtain permanent residence cards or EC long-term residence permits, which entitle them to permanent domicile in Poland. In general, a foreign individual may obtain a permanent residence card or EC long-term residence permit if he or she satisfies the following conditions:
• He or she has financial resources to live in Poland.
• He or she is covered by health insurance.
• He or she has resided in Poland at least 5 years (for an EC long-term residence permit) or 10 years (for a permanent residence card).

Permanent residence cards or EC long-term residence permits 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 or EC long-term residence permit 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 or EC long-term residence permit 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. In general, foreign nationals wishing to take up employment with a Polish company must obtain a work permit. However, citizens of the EU and European Free Trade Association (EFTA) states are exempt from the requirement of obtaining a work permit in Poland.

Effective from February 2011, work permits for foreigners are required for the following types of employment:

- Type A: A foreigner works in Poland under an employment contract with an entity whose headquarters, place of residence, branch, permanent establishment, or other form of activity is located in Poland.
- Type B: A foreigner performing a function in the management board of a legal person entered into the Register of Entrepreneurs or of a company under organization remains in Poland for more than a total of 6 months in any 12-month period.
- Type C: A foreigner is employed by a foreign employer and is delegated to Poland for a period longer than 30 days in a calendar year to a branch or a permanent establishment of the foreign entity, or its related entity, as defined in the Act of 26 July 1991 on income tax from individuals.
- Type D: A foreigner employed by a foreign employer that has no branch, permanent establishment or other form of an organized business activity in Poland is delegated to Poland for the purpose of performing temporary and occasional services.
- Type E: A foreigner is employed by a foreign employer and is delegated to Poland for a period longer than three months in any six-month period for purposes other than those listed for Types B, C and D.

A foreigner may obtain a work permit in a single-stage procedure. The employer applies for the work permit for a foreigner. After the work permit is granted, the foreigner must obtain a visa with the right to work in the Polish Consulate of his or her country of origin. After receiving the visa and arriving in Poland, a foreigner may legally work in Poland.

An entity planning to employ a foreigner must apply for the issuance or extension of a work permit at least 30 days before the planned employment date or expiration date of the preceding work permit.

A work permit is issued for an individual foreigner. The work permit includes details regarding the employer, the position or type of work to be performed by the foreigner and the expiration date of the permit.

The 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).

• 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 is PLN 100.

Self-employment. Self-employed foreign nationals may obtain visas or temporary residence permits.

I. Family and personal considerations

Family members. Family members of expatriate applicants who obtain work or business visas may receive visas as accompanying persons. These visas may be issued for a period no longer than the period of validity of the primary applicant's visa. EU citizens' family members may obtain EU citizens' family member cards. After five years, they acquire the status of permanent resident if they fulfill the respective conditions.

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 proceeds received as an equivalent for the property acquired before the marriage remains separate. Couples may amend or opt out of the regime by a notarized agreement.

Forced heirship. Under Polish inheritance law, specified legal heirs, including descendants, surviving spouse and parents, are entitled to a legal portion of an estate if certain conditions are met.

Drivers' license. In general, 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. A driver's license issued by another EU member state does not have to be changed after six months.

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)

	Taxable*	Not taxable	Comments
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 and under specific circumstances.
(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 tax nonresident expatriate who worked the entire year in Poland. For purposes of this calculation, social security and health care contributions, as well as tax-deductible costs, are not taken into account.

	PLN
Gross employment income earned	175,000.00
Income tax:	
On first PLN 85,528	14,839.02
On PLN 89,472 at 32%	28,631.04
Total tax liability (rounded)	43,470.00

Portugal

(Country code 351)

Lisbon	GMT

Ernst & Young
Edifício República
Avenida da República, 90
3rd Floor
1649-024 Lisbon
Portugal

Executive contacts

António Neves	217-912-249 Fax: 217-957-592 Email: antonio.neves@pt.ey.com
Anabela Silva	226-079-620 Fax: 226-066-398 Email: anabela.silva@pt.ey.com
Nuno Alves	217-912-049 Fax: 217-957-592 Email: nuno.alves@pt.ey.com
Teresina Rego	217-912-208 Fax: 217-957-592 Email: teresina.rego@pt.ey.com
Susana Constantino	217-912-185 Fax: 217-957-592 Email: susana.constantino@pt.ey.com

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 stays 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.
- The individual's spouse is resident in Portugal.

If a spouse does not meet the first two conditions 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 21.5% 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 21.5% 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 with respect to the following:
- Dividends
- Bank interest

- Interest on shareholders' loans
- Interest from public company bonds, bills or other paper
- Interest on 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.

In general, other investment income is taxed at the personal income tax rates described in *Rates*.

Rental income and royalties are subject to a 16.5% 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
- 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:
- Securities acquired before 1 January 1989
- Shares of stock companies, bonds and debentures, up to an annual positive balance (between gains and losses) of €500
- Real estate, except land for construction, owned prior to 1 January 1989
- A personal residence if the proceeds are reinvested in another personal residence in Portugal within 36 months after the sale or 24 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 derivative financial products are subject to tax at a rate of 20% (a 50% exclusion from tax applies to gains from shares in unlisted micro and small companies) if an exemption does not apply. An exemption may apply to nonresidents 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*).

Taxation of residents in EU member states and European Economic Area countries that have entered into an exchange-of-information agreement with Portugal concerning tax matters. Residents of EU member states and European Economic Area (EEA) countries that have entered into an exchange-of-information agreement with Portugal concerning tax matters may opt to be taxed as if they were tax residents of Portugal. This option is available for certain capital gains, rental income and business and professional income attributable to a permanent establishment. It may also apply to employment, business and professional (not attributable to a local permanent establishment) and pension income, if the individual's Portuguese-source income is at least 90% of his or her worldwide income derived during the relevant tax year. In determining the tax rate applicable to the income mentioned above, worldwide income must be considered and reported.

Taxation of nonhabitual residents. A special regime applies to individuals who become tax residents of Portugal and have not been taxed as such in the previous five years. Nonhabitual resident status applies for up to 10 years, and requires the taxpayer to be registered as nonhabitual resident with the tax authorities. Principal aspects of this regime are summarized below.

Employment income and business or professional income derived from high value-added activities of a scientific, artistic or technical nature (including activities of architects and engineers, artists, auditors and tax advisors, physicians, teachers, other professionals, board members on companies with approved investment projects and senior employees), are taxed at a flat rate of 20% on net income.

Foreign-source income, such as employment income, income from certain business or professional activities (as listed above), income from copyrights, industrial property rights or transfer of know-how, investment income, rental income and capital gains, is exempt from tax in Portugal if such income is taxed (for employment income) or may be taxed (for other types of income) in either of the following countries:
- A tax treaty country.
- A non-tax treaty country in accordance with the Organization for Economic Cooperation and Development (OECD) Model Tax Convention rules, provided that the country is not a territory considered a tax haven (not applicable to employment income) and that the income cannot be deemed sourced in Portugal under domestic tax law.

Foreign-source pension income not resulting from contributions that have been claimed as a tax deduction in Portugal is exempt from tax in Portugal if such income is taxed in a tax treaty country or is not deemed sourced in Portugal under domestic tax law.

Income benefiting from the exemption method is considered to determine the tax rate applicable to the remaining income (except capital gains from securities, dividends, interest and other investment income sourced abroad, as well as employment and business or professional income subject to the 20% rate mentioned above, which are taxed at special flat rates). Taxpayers may opt to apply the credit method (rather than the exemption method) to this income. In such case, such income is aggregated with the remaining income and taxed at the normal IRS rates.

Deductions

Personal deductions and allowances. For 2011, employees may deduct 72% of 12 times the notional salary (€4,104). Compulsory social security contributions in excess of 72% of 12 times the notional salary are deductible without limitation. Union contributions and indemnities paid to the employer may also be deducted, subject to applicable limits.

Business and professional deductions. Professionals and individuals carrying on a business may be taxed under one of the following two regimes:
- Simplified regime
- Organized bookkeeping 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 bookkeeping and if the annual turnover does not exceed €150,000.

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 have not yet been defined; currently, taxable income is determined by applying 0.2 to the amount of sales, and 0.7 to other income. 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 bookkeeping regime. The simplified regime ceases to apply if the qualifying limit is exceeded for two consecutive years or by more than 25% during a single year.

The organized bookkeeping 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.
- 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, electricity, 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:
- Undocumented expenses are not tax-deductible and are subject to a surcharge of 50%.
- Entertainment expenses that are deductible from gross business or professional income are subject to a 10% surcharge.

- Expenses deductible from gross business or professional income that are related to cars, recreational boats, aircrafts and motorcycles are subject to a 0%, 5% or 10% surcharge, depending on the nature of the vehicle.
- Per diems and expenses related to the use of a personal car by the employee for the company's business are taxed at a rate of 5% if such expenses were not charged to clients or taxed as employment income.
- Payments to nonresident entities that are subject to a favorable tax regime are not tax-deductible and are subject to a 35% surcharge 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.

Rates. The following personal income tax rates apply for 2011.

Taxable income		Tax on	Rate on
Exceeding €	Not exceeding €	lower amount €	excess %
0	4,898	0	11.50
4,898	7,410	563.27	14.00
7,410	18,375	914.95	24.50
18,375	42,259	3,601.38	35.50
42,259	61,244	12,080.20	38.00
61,244	66,045	19,294.50	41.50
66,045	153,300	21,286.91	43.50
153,300	—	59,242.84	46.50

The top rate is expected to apply for 2010 through 2013, inclusive.

For sample tax calculations, see Appendix 2.

Credits. For 2011, individuals may credit the following against their tax liability:
- €261.25 for each individual.
- €190 for each child (€380 for each child who is younger than 3 years old).
- €261.25 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 €403.75 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 6%, the credit is limited to the higher of 2.5% of the expenses or €65 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, EU or EEA country (with which Portugal has entered into an exchange-of-information agreement concerning tax matters) residence or the rental payments made to the owner of the Portuguese or EU or EEA country (with which Portugal has entered into an exchange-of-information agreement concerning tax matters) residence, limited to €591. This limit may be increased for taxpayers with lower levels of income. It may also be increased depending on the energy certificate associated with the property.

- 30% of expenses incurred on the acquisition of renewable energy equipment, equipment and works that positively contribute to the improvement of the thermic behavior (energy efficiency) of buildings, electric cars and cars using nonfuel renewable energy, limited to €803. This deduction can be claimed only once every four years.
- 30% of education expenses of the taxpayer and the taxpayer's dependent children, limited to €760 (for single or married taxpayers). The limit is increased by €142.50 for each dependant if education expenses are incurred for a total of 3 or more dependants.
- 25% of expenses incurred on retirement homes and similar homes, limited to €403.75.
- 30% of medical insurance premiums, limited to €85 for single taxpayers and to €170 for married taxpayers, increased by €43 for each child.
- 20% of pension fund contributions that meet certain conditions, limited to between €300 and €400 per taxpayer depending on the taxpayer's age.
- 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.
- 20% of alimony payments, up to a limit of €1,048.05 per month.
- 20% of investments made by business angels (individual venture capital investors), provided certain conditions are satisfied, limited to 15% of the total tax liability.
- Advance personal income tax payments and taxes previously withheld at source.

The tax credits concerning medical expenses, education expenses, retirement homes and expenses related to residential property are also capped as a whole in accordance with the taxpayer's level of income; that is, they are uncapped for the first six income brackets and capped by €1,100 for the higher two income brackets. Certain other tax benefits, such as renewable energy equipment, medical insurance premiums and pension plan contributions, are capped as a whole, up to €100 (except for the first two income brackets).

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 four 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 up to 1.5% in the case of residents or permanent establishments, and a state surcharge of 2.5% on taxable income exceeding €2 million) 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, 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 governing 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 by the 20th 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 and 12 times the monthly notional salary. Currently, the monthly notional salary is €419.22. The following are the contribution rates for self-employed individuals:
• 29.6%, in general
• 28.3% for specific situations

Entities contracting service providers may be subject to a 5% social security contribution rate levied on the amount of services paid.

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 notional salary and may not exceed 12 times the monthly notional salary. However, in certain circumstances, no maximum is imposed. The rates are 9.3% for individuals and 20.3% 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 may not be subject to Portuguese social security contributions. To provide relief from double social security contributions and to assure benefit coverage, Portugal has entered into totalization agreements, which generally apply for a period of 12 months (some agreements state a longer period, up to 60 months), with the following jurisdictions.

Andorra
Angola*
Argentina
Australia
Austria
Belgium
Brazil
Bulgaria
Canada
Cape Verde
Channel Islands (Guernsey, Herm, Isle of Man, Jersey and Jethou)
Chile
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Guinea*
Hungary
Iceland
Ireland
Italy
Latvia
Liechtenstein
Lithuania
Luxembourg
Malta
Moldova
Morocco
Mozambique
Netherlands
Norway
Poland
Quebec
Sao Tome and Principe*
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Tunisia
Ukraine*
United Kingdom
United States
Uruguay
Venezuela

* This agreement is not yet in force.

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 the withholding taxes on dividends and on interest derived from specified sources (see footnotes).

Type of taxable income	Withholding tax rates Residents %	Nonresidents %
Employment income	(a)	21.5 (b)
Directors' fees and similar fees	(a)	21.5 (b)
Business and professional services income	11.5/21.5	21.5 (b)
Royalties and copyright income	16.5	21.5 (b)
Commissions	21.5	21.5 (b)
Bank deposit interest	21.5 (c)	21.5 (b)
Income from life insurance policies	21.5 (c)	21.5 (b)
Interest from state bonds	21.5 (c)	21.5 (b)
Dividends	21.5 (c)	21.5 (b)
Gains arising on "swaps," other credit operations and other financial instruments	21.5 (c)	21.5 (b)
Income from the use or concession of equipment	16.5	21.5 (b)
Rentals	16.5	16.5
Pension	(a)	21.5 (b)
Other investment income (including other interest)	16.5	21.5 (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 March (April if filed electronically) 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 (May if filed electronically). 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 (May if filed electronically) 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 applies to income derived from treaty and nontreaty 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.

Compulsory 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.

Algeria	Iceland	Pakistan
Austria	India	Poland
Belgium	Indonesia	Romania
Brazil	Ireland	Russian Federation
Bulgaria	Israel	Singapore
Canada	Italy	Slovak Republic
Cape Verde	Korea (South)	Slovenia
Chile	Kuwait*	South Africa
China	Latvia	Spain
Cuba	Lithuania	Sweden
Czech Republic	Luxembourg	Switzerland
Denmark	Macau	Tunisia
Estonia	Malta	Turkey
Finland	Mexico	Ukraine
France	Moldova	United Kingdom
Germany	Morocco	United States
Greece	Mozambique	Uruguay*
Guinea*	Netherlands	Venezuela
Hungary	Norway	

* This tax treaty is not yet in force.

Appendix 1: Taxability of income items

	Taxable*	Not taxable	Comments
Compensation			
Base salary	X	—	—
Employer 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	—	—
Home-leave allowance	X	—	(e)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—

	Taxable*	Not taxable	Comments
Tax reimbursement (current and/or prior, including interest, if any)	X	—	(f)
Value of meals provided	—	X	(g)
Company car	X	—	(h)
Per diem reimbursements	—	X	(i)
Interest-free loans	—	X	(j)
Other items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(k)
Capital gain from sale of personal residence in home country	X	—	(l)
Capital gain from the sale of stock in home country	X	—	(m)

* The bracketed amount 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:

$$\frac{\text{Last 12 months regular taxable compensation}}{12} \times 1.5 \times \text{number of years of employment}$$

The exemption does not apply to board members or directors. If, within 24 months, the employee begins new employment or a business or professional relationship, directly or indirectly, with his or her former employer or with another 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) Meals subsidy up to €6.41 per day is not taxed.

(h) 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 the 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.

(i) 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 €62.75 or €148.91 (for traveling within Portugal or abroad, respectively).

(j) 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.

(k) Foreign dividends, interest and other similar investment income are taxed at a flat rate of 21.5%.
(l) The capital gain is not taxable if, within a 36-month period following the sale, or during the 24-month period preceding the sale, the sale proceeds are reinvested in another personal or family residence (purchase, improvement or construction) located in Portugal, another EU member state or EEC country that has entered into an exchange-of-information agreement concerning tax matters.
(m) Capital gains from shares are generally taxed at a 20% rate.

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 2011 for a temporary assignment that is expected to last three years. It is assumed that the expatriate makes compulsory 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 2011, 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 2010, and were sold on 1 February 2011 for a price of €75,000. The commission paid to the broker on the sale was €1,500.

It is assumed that the expatriate is not taxed under the special tax regime available for nonhabitual residents.

The following is the tax calculation.

	€
Calculation of tax on earned income	
Gross earned income	27,000.00
Maximum earned income allowance	(4,104.00)*
Taxable earned income	22,896.00
Tax on the following:	
Lower amount of €18,375	3,601.38
Excess of €4,521 at 35.50%	1,604.96
Tax due	5,206.34
Less: tax credit (includes mortgage payments and housing rent)	(852.25)
Tax on earned income	4,354.09
Calculation of tax on capital gains	
Sales proceeds	75,000
Less:	
Cost	(50,000)
Commission	(1,500)
Taxable profit	23,500
Tax on €23,500 at 20%	4,700

	€
Calculation of total tax liability	
Tax on earned income	4,354.09
Tax on capital gains	4,700.00
Total tax liability	9,054.09

* This deduction is replaced by the actual social security payments if higher.

Married and no children

An expatriate and his wife arrive in Portugal on 1 January 2011 for a temporary assignment expected to last three years. It is assumed that only one spouse earns income. It is further assumed that the expatriate's home country has entered into a totalization agreement with Portugal or that the relevant EU directive applies to the social security contributions. As a result, such contributions are exempt in Portugal. It is also assumed that the expatriate is not taxed under the special tax regime available for nonhabitual residents. 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	(4,104.00)*
Taxable earned income	48,896.00
Income splitting (€48,896 ÷ 2)	24,448.00
Tax on the following:	
Lower amount of €18,375	3,601.38
Excess of €6,073 at 35.50%	2,155.92
Tax due for one person	5,757.30
Tax due for both persons (€5,757.30 x 2)	11,514.60
Less:	
Tax credit (includes mortgage payments and housing rent)	(1,113.50)
Tax on earned income	10,401.10
Calculation of total tax liability	
Tax on earned income	10,401.10
Tax on capital gains (same as in first example)	4,700.00
	15,101.10

* 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 2011 for a temporary assignment expected to last three years. It is assumed that only one spouse earns income. It is further assumed that the expatriate's home country has entered into a totalization agreement with Portugal or that the relevant EU directive applies to the social security contributions. As a result, such contributions are exempt in Portugal. It is also assumed that the expatriate is not taxed under the special tax regime available for nonhabitual residents. 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	(4,104.00)*
Taxable earned income	100,896.00
Income splitting (€100,896 ÷ 2)	50,448.00
Tax on the following:	
Lower amount of €42,259	12,080.20
Excess of €8,189 at 38%	3,111.82
Tax due for one person	15,192.02
Tax due for both persons (€15,192.02 x 2)	30,384.04
Less:	
Tax credit (includes mortgage payments and housing rent)	(1,493.50)
Tax on earned income	28,890.54
Calculation of total tax liability	
Tax on earned income	28,890.54
Tax on capital gains (same as in first example)	4,700.00
	33,590.54

* This deduction is replaced by the actual social security payments if higher.

Puerto Rico

(Country code 1)

San Juan **GMT -5**

Ernst & Young
1000 Scotiabank Plaza
273 Ponce de León Avenue
Hato Rey
Puerto Rico 00917-1989

Executive and immigration contact

Teresita Fuentes (787) 772-7066
Fax: (787) 753-0813
Email: teresita.fuentes@ey.com

A. Income tax

Who is liable. Act 1 of 31 January 2011 contained a tax reform that introduced a new tax code known as the Internal Revenue Code for a New Puerto Rico (IRCPR). The IRCPR is effective for tax years beginning after 31 December 2010. Act 1 of 31 January 2011 is part of a complete overhaul of Puerto Rico's system of taxation, which is intended to reduce the tax burden of individual taxpayers and businesses.

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. In general, 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.
- Compensation for the services performed in Puerto Rico does not exceed US$3,000.

If these conditions are not met, all income, including the first US$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%, but the effective tax rate could be higher as a result of recent amendments to the alternate basic tax system. The first US$2,000 of annual interest income paid on a deposit with a financial institution doing business in Puerto Rico is tax-free for single taxpayers, head of household taxpayers or married taxpayers filing jointly (for married taxpayers filing separately, the exclusion is US$2,000 each). Interest in excess of the US$2,000 amount is taxed at a maximum rate of 10% if a taxpayer complies with certain conditions concerning withholding tax, but the effective tax rate could be higher as a result of recent amendments to the alternate basic tax system.

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.
- 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 10%, but the effective tax rate could be higher as a result of recent amendments to the alternate basic tax system.

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 US$1,000) of the excess of capital losses over capital gains
- Alimony payments
- Distributive shares in special partnership losses

Allowable deductions reduce adjusted gross income. These include mortgage interest on both a principal residence and a second home located in Puerto Rico, charitable contributions (subject to limitations), certain disaster losses, and medical expenses over specified amounts. Nonresident aliens may deduct certain charitable contributions made to various Puerto Rican charitable organizations.

Deductions for part-year residents and nonresident individuals must be apportioned on the basis of income sources.

The standard deduction was eliminated for 2011 and subsequent years.

In addition, deductions are allowed for contributions to individual retirement accounts (IRAs; subject to limitations) and for contributions by government employees to certain retirement plans. A deduction of up to US$500 is available for 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.

The IRCPR reduced the number of categories of filing status to the following three categories:

- Married filing jointly
- Married filing separately
- Individual taxpayer (which includes single, head of household and married not living with spouse)

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	(US$)
Married, living with spouse and filing a joint return	7,000
Married filing separate returns	3,500
Individual taxpayer	3,500
Additional personal exemption for veterans	1,500

Personal exemptions and credits for dependants 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 US$30,000 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.

Optional tax computation for married individuals who both work and file a joint return. If a married couple lives together and if both spouses work and file a joint return, an option exists to pay tax in an amount equal to the sum of the tax determined individually for the spouses. The rules applicable to this optional tax computation are summarized below.

Gross income. The gross income of each spouse consists of salaries, wages, professional fees, commissions, income from annuities and pensions, gains attributable to trade or business and distributive shares in the income of special partnerships and corporations of individuals, and other income derived from services rendered by each spouse in his or her individual capacity. All other income is equally divided between husband and wife, regardless of who derived the income.

Exemptions and deductions. The personal exemption of a married couple filing jointly and the dependent exemption are divided equally between the spouses. Deductions for contributions to IRAs, Educational Contributions Account or Health Savings Accounts are allowed to the spouse to whom they individually correspond, subject to the limitations that apply to each particular deduction. All other deductions are divided equally between the spouses.

Tax calculation. The regular tax is determined separately for each spouse in accordance with the tax rate schedule applicable to individual taxpayers and then aggregated.

Rates. The 2011 income tax rates applicable 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. The following are the income tax rates.

Net taxable income		Tax on lower	Rate on
Exceeding US$	Not exceeding US$	amount US$	excess %
0	5,000	0	0
5,000	22,000	0	7
22,000	40,000	1,190	14
40,000	60,000	3,710	25
60,000	—	8,710	33

For taxable income exceeding US$100,000, 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 US$150,000 or more. Many types of revenue, such as certain dividends, interest and long-term capital gains, are preference items. The tax applies only if it is larger than the regular tax. Since 2010, the alternate basic tax is creditable against regular tax subject to limitations. For 2011, the tax is determined in accordance with the following table.

Adjusted gross income		
From US$	To US$	Rate %
150,000	250,000	10
250,001	500,000	15
500,001	—	20

The 5% special additional tax that would otherwise be applicable in 2011 is eliminated.

For a sample tax calculation, see Appendix 2.

Credits. Individuals resident in Puerto Rico who generate earned income of less than US$22,500 and are not claimed as a dependant by another taxpayer for the tax year may claim a tax credit of 3.5% of their earned income, up to $350.

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 US$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 Rico estate and gift taxes are imposed at a fixed rate of 10% 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 tax is imposed on the value of all taxable gifts made during the tax year and in all prior years. The gift tax is computed by applying a fixed 10% rate to taxable gifts made during the calendar year. Donors are entitled to an annual exclusion of US$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 applying a fixed 10% rate to the taxable estate. 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 US$1 million, 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 Rico 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 US$30,000, and a nonresident alien decedent is allowed a US$10,000 exemption.

The Puerto Rico 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 Rico 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. For 2011, FICA tax is imposed on wages at a total rate of 13.3%, which includes a 2.9% Medicare Tax. The combined tax rate for employee's wages is 5.65%, which is composed of a 4.2% component for Old-Age, Survivors and Disability Insurance Tax (OASDI) and a 1.45% component for hospital insurance (Medicare). For 2011, OASDI tax is imposed on wages up to an OASDI wage base of US$106,800. 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 2011 rate is 10.4% on the first US$106,800 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 2011 net available base before determining SE Tax. Therefore, a self-employed individual who also has FICA wages of US$106,800 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. Until 30 June 2011, the tax rate is 6.2% on the first US$7,000 of wages for each employee. After that date, the rate is reduced to 6%. 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 2011 Puerto Rican unemployment tax rate is 5.4% on the first US$7,000 of an employee's wages. 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 US$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 US$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
- 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
• Fee of US$11

Puerto Rico offers driver's license reciprocity with the following states of the United States.

Florida	Maine	Tennessee
Illinois	South Dakota	Wisconsin

Individuals from the above states need fulfill 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	—	—

	Taxable*	Not taxable	Comments
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$10,000 (reduced by any Puerto Rican 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 10% 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 2011 is provided below for expatriates who are bona fide residents of Puerto Rico for the entire 2011 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 first half of 2011, both spouses make the maximum individual contribution to their 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 2011, they sell 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 pay rent of US$800 per month for their apartment, and they incur interest expenses of US$1,400 on a personal loan. Unreimbursed medical expenses amount 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:		
Special deductions:		
Medical (US$4,000) – (US$63,500 x 6%)		(190)
Contributions to IRA:		
Expatriate	(5,000)	
Spouse	(5,000)	
Total contributions to IRA		(10,000)
Personal exemption (married and living with spouse)		(7,000)
Dependants		
University student (1 x US$2,500)		(2,500)
Non-university student (1 x US$2,500)		(2,500)
Taxable income		41,310
Calculation of income tax		
Regular tax liability		4,038
Tax on income excluding capital gains (US$38,810)	3,543	
Tax on capital gains (US$2,500 at 10%)	250	
Alternative tax liability		3,793

Under the optional tax computation method, the following is the calculation of the tax liability.

	Taxpayer US$	Spouse US$
Compensation	50,000	10,000
Interest, net of US$2,000 exclusion	350	350
Dividends	150	150
Capital gain	1,250	1,250
Adjusted gross income	51,750	11,750
IRA contributions	(5,000)	(5,000)
Personal exemption	(3,500)	(3,500)
Special deduction for certain taxpayers*	—	(9,350)
Exemption for dependents	(5,000)	—
Taxable income	38,250	—
Regular tax liability	3,465	—
Alternative tax liability	3,415	—

Total tax liability = US$3,415

* The special deduction applies to individuals with a gross income of less than US$20,000. A 50% phaseout of the deduction applies to individuals whose gross income exceeds US$20,000.

In the above example, the optional tax computation results in a lower tax liability because of the significant difference in the amount of compensation earned by each spouse.

Qatar

(Country code 974)

Doha **GMT +3**

Ernst & Young
Mail address:
P.O. Box 164
Doha
Qatar

Street address:
Al-Abdulghani Tower
3rd Floor
Airport Road
Doha
Qatar

Executive contact
Finbarr Sexton
4457-4200
Fax: 4441-4649
Email: finbarr.sexton@qa.ey.com

Immigration contact
John Bradley
4457-4157
Fax: 4441-4649
Email: john.bradley@qa.ey.com

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 10%.

Individuals are considered resident in Qatar in any of the following circumstances:
- They have a permanent home in Qatar.
- They are physically present in Qatar for 183 days or more during a calendar year.
- Their center of vital interests is in Qatar.

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. Tax treaties

Qatar has entered into double tax treaties with Armenia, Azerbaijan, Belarus, China, Cuba, Cyprus, France, India, Indonesia, Korea (South), Lebanon, Luxembourg, Macedonia, Malaysia, Nepal, the

Netherlands, Norway, Pakistan, Romania, the Russian Federation, Senegal, Seychelles, Singapore, Sri Lanka, Switzerland, Syria, Tunisia, Turkey, the United Kingdom, Venezuela and Yemen.

Qatar has also signed treaties that are not yet effective with Algeria, Bangladesh, Belgium, Italy, Jordan, Malta, Morocco, the Philippines, Poland, and Sudan.

E. 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.

One-month business visas are granted to visitors for business purposes. These visas may be obtained through companies based in Qatar by filing applications at the point of entry. The visas may be renewed for an additional two months. One-month business visas may also be obtained on arrival at Doha International Airport. These visas may be renewed for an additional month.

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 jurisdictions are permitted to travel to Qatar without obtaining an entry visa before traveling and may obtain a tourist visa at any port of entry in Qatar. These specified jurisdictions include the following.

Australia	Iceland	Norway
Brunei Darussalam	Japan	San Marino
European Union countries	Korea (South)	Singapore
Honduras	Liechtenstein	Switzerland
Hong Kong	Malaysia	United States
	Monaco	Vatican City
	New Zealand	

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 one month.

F. 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 one year 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. Senior staff may apply for a multiple-exit visa that is valid for one year.

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 two to four 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
• 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.

G. 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.

H. 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.

Romania

(Country code 40)

Bucharest **GMT + 2**

Ernst & Young
Premium Plaza Building
63-69 Dr Iacob Felix Street
Sector 1
011033 Bucharest
Romania

Executive contact

Claudia Sofianu (21) 402-4000
Fax: (21) 310-7219
Email: claudia.sofianu@ro.ey.com

A. Income tax

Who is liable. Individuals domiciled in Romania are considered to be tax residents and are taxed on their worldwide income (with certain exceptions). During the first three years of meeting certain residency criteria, individuals who are not domiciled in Romania are subject to tax on their Romanian-source income, regardless of where the income is received. An individual who meets the tax residency criteria for three consecutive tax years or who carries out independent activities through a permanent establishment in Romania for a period of three consecutive tax years becomes subject to tax on worldwide income beginning with the fourth tax year.

Individuals in Romania who are also resident in a country that has entered into a double tax treaty with Romania may benefit from a reduced tax rate or a tax exemption under the terms of the relevant treaty. If a foreign individual spends less than 183 days in Romania and if the salary costs for the individual are not recharged to Romania, he or she may be exempt from Romanian tax liabilities, provided that a tax residency certificate is available and the tax exemption procedure is completed within 15 days of the beginning of activities. Individuals in Romania who are tax residents in countries that have not entered into a double tax treaty with Romania are subject to tax in Romania from their first day of presence in the country if the relevant conditions are met.

Income subject to tax. A flat tax rate of 16% applies to salary income, income from freelance activities, rental income, pension income, prizes, investment income, agricultural income and other types of income. Special tax rates apply to income from investments, gambling and transfer of property ownership. The taxation of various types of income is summarized below.

Employment income. Taxable compensation includes the following:
- Salaries
- Benefits in cash or kind (for example, allowances and perquisites)
- Wage premiums
- Rewards
- Temporary disability payments
- Paid holidays
- Other income received by an individual based on an employment agreement
- Fees and compensation paid to directors and managers of private enterprises and to members of the board of directors, general shareholders meeting, administration council and audit committee

The monthly tax on employment income is determined by deducting mandatory social security contributions, personal deductions, trade union contributions and contributions to the voluntary occupational pension scheme (up to the equivalent in Romanian currency of €400 per year per participant) from gross income.

Income from independent activities. Income from independent activities includes income from commercial activities, income from freelance activities and income from intellectual property rights. The net taxable income from freelance activities is computed as gross income less specified deductible expenses. Individuals engaged in freelance activities must make advance tax payments on a quarterly basis by the 15th day of the last month of each quarter. A 10% advance income tax, which is withheld at source, applies to the following types of income:
- Income from sales of goods on consignment
- Income from agent, commission or commercial mandate agreements
- Income from services contracts entered into based on the Civil Code
- Income from accounting, technical, judicial and extrajudicial expertise

Taxpayers who earn income from independent activities as mentioned above, from which a 10% advance income tax is withheld at source, can opt for a final withholding tax at a rate of 16%.

Taxable income from intellectual property rights is computed by deducting from gross income expenses representing 20% of gross income and compulsory social security contributions. A 10% advance income tax must be withheld at source by payers of income from intellectual property rights by the 25th day of the following month. Taxpayers who earn income from intellectual property rights can opt for a final withholding tax at a rate of 16%.

Rental income. Gross rental income consists of amounts in cash or kind that are stipulated in rental agreements, as well as certain expenses borne by the tenant that are the landlord's liability according to the law. The rental income is taxable in the tax year to which the rent relates, regardless of when the rent is effectively received.

Taxable rental income is determined by subtracting from gross rental income a deduction equal to 25% of gross income. Tax on rental income is determined by applying a rate of 16% to the taxable amount. As an exception, taxpayers may opt for the determination of the net rental income based on single-entry accounting.

Investment income. Investment income includes the following:
- Dividend income
- Interest income
- Gains from transfers of securities
- Income from futures and forward transactions with foreign currencies and similar operations
- Income from dissolution of a legal entity

Any amount paid in excess of the market price by a legal entity for goods or services provided by a shareholder is treated as a dividend if the beneficiary of such amount was not subject to income tax or profits tax on the amount. Amounts received from holding participation titles in closed investment funds are treated similarly to dividends. A 16% final withholding tax is imposed on dividends.

Taxable income from interest is considered to be any income in the form of interest other than interest from municipal bonds.

A 16% final withholding tax is imposed on interest income, effective from 1 July 2010. The tax must be remitted by the 25th day of the following month.

Capital gains derived from sales of shares in publicly traded companies and open investment funds are subject to a 16% final tax, regardless of the holding period of the shares.

A 16% advance tax is imposed on gains derived from sale and purchase transactions in foreign currencies with subsequent term settlement, as well as similar operations. The advance tax must be paid by the 25th day of the following month. The final tax of 16% is assessed by the tax authorities based on the annual tax return.

Any loss incurred during the period of 1 January 2010 through 30 June 2010 can offset any gain realized during the period of 1 July 2010 through 31 December 2010. Any further losses can be carried forward to the 2011 fiscal year only.

Any loss incurred during the period of 1 July 2010 through 31 December 2010 must be recovered in the following seven consecutive fiscal years.

Income whose source is not identified. Any income whose source is not identified is subject to 16% income tax applied to the tax base adjusted according to the procedures and indirect methods for the reconstitution of revenues or expenses. The tax authorities compute the income tax and late payment penalties.

Deductions. Individuals domiciled in Romania and individuals meeting the residence criteria for three consecutive years are entitled to personal deductions, which vary according to gross monthly income and number of dependants of the individuals. For gross monthly income up to RON 1,000, the monthly deductions vary between RON 250 for individuals without dependants and RON 650 for individuals with four or more dependants. For gross monthly income between RON 1,000 and RON 3,000, the deductions are set by an order of the Ministry of Economy and Finance. No deduction is allowed for gross monthly income greater than RON 3,000.

Rates. As discussed in *Income subject to tax*, most types of income are subject to tax at a flat rate of 16%.

B. Inheritance and gift taxes

No taxes are levied on inheritances or gifts, except for revenue subsequently derived from these items.

C. Social security and healthcare contributions

Both employers and employees must contribute to the social security system.

Employees are required to make the following monthly contributions.

Type	Amount
Social security contribution	10.5% of monthly gross salary earnings (capped at 5 times the national average gross salary earnings)
Health fund contribution	5.5% of gross monthly salary earnings
Unemployment fund contributions	0.5% of gross monthly salary earnings

Employers are required to make the following monthly contributions.

Type	Amount
Social security contribution	20.8% (for normal work conditions) of the total gross salary earnings (capped at 5 times the national average gross earnings multiplied by the number of employees)
Health fund contribution	5.2% of the total gross salary earnings
Unemployment fund contribution	0.5% of the total gross salary earnings
Contribution to insurance fund against work accidents and professional diseases	0.15% to 0.85% of the total gross salary earnings
Medical leave and health indemnities contribution	0.85% of total salary fund, which is capped at 12 times the national minimum gross salary earnings multiplied by the number of insured persons
Contribution to the Fund for Guarantee of Salary Payment Liabilities	0.25% of the total gross salary earnings

Foreign nationals working in Romania must pay a monthly health fund contribution of 5.5% of their taxable income. If the individual earns nontaxable income, the monthly health fund contribution equals 5.5% of the realized income. Citizens of European Union (EU) countries benefit from the coverage of medical expenses incurred in Romania and may be exempted from social security contributions if relevant European certificates are obtained.

D. Tax filing and payment

Foreign nationals assigned to work in Romania must register for tax purposes within 15 days after beginning their employment and pay income tax on a monthly basis. If the individual is on a local payroll, the local employer must compute, withhold and pay the income tax. However, expatriates employed abroad but working in Romania must file monthly returns and pay monthly tax and, if applicable, social security contributions by the 25th day of the following month.

E. Double tax relief and tax treaties

Romania has entered into double tax treaties with several countries. In addition, the EU Savings Directive provides for citizens of EU member states an exemption from withholding tax on savings income received in Romania if a tax residency certificate is provided. The following countries have entered into double tax treaties with Romania.

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
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Japan
Jordan
Kazakhstan
Korea (North)
Korea (South)
Kuwait
Latvia
Lebanon
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mexico
Moldova
Morocco
Namibia
Netherlands
Nigeria
Norway
Pakistan
Philippines
Poland
Portugal
Qatar
Russian Federation
San Marino
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sudan
Sweden
Switzerland
Syria
Tajikistan
Thailand
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Vietnam
Yugoslavia (Federal Republic of)
Yugoslavia (former)
Zambia

F. Entry visas

Citizens of EU and European Economic Area (EEA) member states may enter Romania without a visa and stay for a period not exceeding 90 consecutive days in a single visit. Citizens of the following jurisdictions may also enter Romania without a visa and stay there for 90 days in a 6-month period calculated from the date of first entry into Romania.

Andorra	El Salvador	New Zealand
Antigua and Barbuda	Guatemala	Nicaragua
Argentina	Honduras	Panama
Australia	Hong Kong (a)	Paraguay
Bahamas	Israel	St. Kitts and Nevis
Barbados	Japan	San Marino
Brazil	Korea (South)	Serbia (c)(d)
Brunei Darussalam	Macau (b)	Seychelles
Canada	Macedonia (c)	Singapore
Chile	Malaysia	United States
Costa Rica	Mauritius	Uruguay
Croatia	Mexico	Vatican City
	Monaco	Venezuela
	Montenegro (c)	

(a) The exemption from the visa obligation applies only to passport holders of the Hong Kong Special Administrative Region (SAR) of China.
(b) The exemption from the visa obligation applies only to passport holders of the Macau SAR of China.
(c) The exemption from the visa requirement applies only to holders of biometric passports.
(d) The exemption does not apply to holders of Serbian passports issued by the Department of Serbian Coordination (Koordinaciona Uprava).

The exemption from the visa requirement applies to British nationals of a territory subordinated to the British government.

Citizens of other countries can obtain short-term or long-term visas, which may be single- or multiple-entry visas. Special conditions apply to foreign nationals planning to set up businesses in Romania. Foreign citizens can obtain special short-term, multiple-entry visas for frequent business trips.

G. Work authorizations

Companies based in EU or EEA member states can second EU and EEA nationals to Romania without obtaining a work authorization. The seconded individuals must apply directly for a registration certificate. The secondment of non-EU nationals is limited to one year. An extension may be granted only if a work authorization for local employment purposes is obtained. Foreigners assigned as heads of foreign company branches and foreign citizens named administrators of Romanian companies need only apply for a residence permit.

H. Residence permits

Both short-term and long-term visas allow foreign nationals to stay for 90 days in a six-month period. Although the short-term visa cannot be extended, the long-term visa can be extended through an application for a residence permit. The following documents are required for a visa extension:
- Work authorization
- Medical insurance for the visa period
- Proof of accommodation and means of support in Romania
- Other documents, depending on the purpose of the stay

Similar residence permits can be issued to immediate family members (that is, spouse, children, parents and parents-in-law, if these family members cannot support themselves and do not benefit from family support in the home country) accompanying an individual during his or her assignment in Romania.

For foreign nationals who are family members of Romanian, EU or EEA individuals, the Romanian Immigration office issues residence cards with a validity of five years.

I. Family and personal considerations

Family members. The spouse of a foreign national holding a local work authorization must apply for a separate work authorization if the spouse wishes to work in Romania. The spouse must also obtain the appropriate visa to stay in the country.

Customs regulations for individuals. Special duty treatment is provided for the personal belongings of individuals establishing domicile or residence in Romania, goods introduced into Romania on marriage, inherited goods and household goods used for furnishing a residence in Romania and personal effects shipped through parcel and postal services. For certain goods, such as tobacco products and alcoholic beverages, duty exemption is granted within prescribed quantities.

Driver's permits. Drivers' licenses issued in another EU member state are recognized in Romania if the license remains valid in the issuing country. Romania also recognizes national or international driving permits issued by the relevant authorities in countries that have signed the International Convention of Traffic (Vienna 1968).

Russian Federation

(Country code 7)

Moscow **GMT +3**

Ernst & Young
Sadovnicheskaya nab. 77
Building 1
115035 Moscow
Russian Federation

Executive and immigration contacts

Peter Reinhardt	(495) 705-9738 Fax: (495) 705-9745 Email: peter.reinhardt@ru.ey.com
Anton Ionov	(495) 755-9747 Fax: (495) 705-9745 Email: anton.ionov@ru.ey.com

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, but is not limited to, 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 a period of 12 consecutive months. At the time of writing, the Ministry of Finance was promulgating a view that an individual must also spend at least 183 days in Russia in a calendar year to be considered tax resident. However, this further requirement is not stated in the Tax Code.

Until recently, the usual position of the tax authorities was that, for purposes of the Russian tax residency test, days of arrival do not count as Russian days and days of departure do count. However, more recent letters from the Russian Ministry of Finance suggest that any day spent in the Russian Federation should count as a Russian day. Because this position is new, it is difficult to predict how the tax authorities will apply it in practice.

Nonresidents are individuals who do not meet the above test.

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 15%.

Interest income on bank deposits held in the Russian Federation that exceeds the Central Bank's refinancing rate on ruble deposits increased by 5 percentage points (or for foreign-currency deposits, interest that exceeds 9%) is subject to tax at a rate of 35%.

Taxation of employer-provided stock options. Historically, based on general tax principles and most common prevailing positions, an employee was required to recognize income equal to the excess of the fair market value of the stock over the exercise price at the time of exercise of an employer-provided stock option. However, a literal reading of a few recent amendments to the Tax Code and securities market regulations suggests that, effective from 1 January 2011, an equity award that at the time of grant is structured as an option contract may potentially trigger taxation of the individuals at the time of receipt of the option. At the moment, uncertainty continues to exist as to the taxability of option grants.

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 1,000 per month for each dependant. However, these deductions are no longer available beginning with the month in which a taxpayer's cumulative annual income exceeds RUR 40,000 (RUR 280,000 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's children, up to RUR 50,000 per child
- Education expenses for the taxpayer
- Medical expenses for the taxpayer (except for certain medical expenses related to expensive medical treatments, as designated by the government)
- Expenses related to the taxpayer's contributions to licensed Russian nonstate pension funds
- Expenses related to the taxpayer's supplemental state pension insurance contributions

The aggregate deduction for medical, nonstate pension fund, state pension insurance and educational expenses (except for the taxpayer's children's educational expenses) may not exceed RUR 120,000 per tax year.

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). 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 (except securities) held fewer than three years, the maximum fixed deduction is RUR 250,000.

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 2 million. Mortgage and certain other interest is deductible in addition to the RUR 2 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. Five flat tax rates of 9%, 13%, 15%, 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 and by foreign individuals who qualify as Highly Qualified Specialists for immigration purposes (see Section I).

A flat rate of 15% applies to dividend income and certain other investment income received by individuals who are not tax residents.

A flat rate of 30% applies to all taxable income (other than dividend income) received by individuals who are not tax residents, except earnings of Highly Qualified Specialists.

A flat rate of 35% applies to interest income on bank deposits exceeding the Central Bank's refinancing rate increased by 5 percentage points (or interest income on nonruble deposits exceeding 9%), certain insurance payouts, certain prizes, and deemed income from certain low- or zero-interest loans.

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 social fund contributions, which are payable at the aggregate flat rate of 34% until the cumulative amount of remuneration of the employee for the year concerned reaches RUR 463,000. Social fund contributions are not due on remuneration of employees who are neither Russian nationals nor Russian residency permit holders.

In addition to the above social fund contributions, an employer must pay separate contributions to the Social Insurance Fund separate contributions insuring against accidents at work and professional diseases on behalf of all of its employees, including all foreign employees. The flat 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 contributions are without a cap. The rate is generally 0.2% for most employers that predominantly or only employ office workers.

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 resident and nonresident individuals who have at least one source of income subject to tax in the Russian Federation on which income tax has not been withheld by a tax agent and was 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 must submit a departure declaration no later than one month before the individual leaves the Russian Federation. Tax due 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.

Albania	Indonesia	Portugal
Algeria	Iran	Qatar
Armenia	Ireland	Romania
Australia	Israel	Saudi Arabia
Austria	Italy	Serbia
Azerbaijan	Kazakhstan	Singapore
Belarus	Korea (North)	Slovak Republic
Belgium	Korea (South)	Slovenia
Botswana	Kuwait	South Africa
Brazil	Kyrgyzstan	Spain
Bulgaria	Lebanon	Sri Lanka
Canada	Lithuania	Sweden
China	Luxembourg	Switzerland
Croatia	Macedonia	Syria
Cuba	Mali	Tajikistan
Cyprus	Mexico	Thailand
Czech Republic	Moldova	Turkey
Denmark	Mongolia	Turkmenistan

Egypt	Montenegro	Ukraine
Finland	Morocco	United Kingdom
France	Namibia	United States
Germany	Netherlands	Uzbekistan
Greece	New Zealand	Venezuela
Hungary	Norway	Vietnam
Iceland	Philippines	Yugoslavia
India	Poland	

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 any 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
- 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 from most Commonwealth of Independent States (CIS) countries and those who are permanent residents of the Russian Federation do not need entry visas; they must present identification documents and/or their permanent residence permit on entry.

The following categories of visas are available in the Russian Federation:
- Diplomatic
- Service
- Ordinary
- Transit
- 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. In general, 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 90 days within each 180-day period. 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 and are valid for a single entry. However, on the individual entering the Russian Federation, the visa may be extended by bodies of the Ministry of Internal Affairs or the foreign citizen's place of stay through the issuance of a multiple-entry visa for the term of the labor agreement, limited to one year for the initial visa and for each subsequent multi-entry visa.

For information on the special work permit regime for Highly Qualified Specialists, see Section I.

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. For a citizen of a CIS country who does not require a visa to enter Russia, only the individual work permit is required; in case of a citizen of Belarus, neither permit is required.

It is never necessary to obtain a work permit and permit for the engagement and use of foreign workers with respect to certain workers, including the following:
- Permanent residents of the Russian Federation
- Employees of diplomatic missions, consulates and international organizations (with respect to their work for such 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

If no exemption applies, by 1 May, the company must submit a forecast to the local Interdepartmental Committee setting out the company's expectations for the number and profile of foreign employees needed in the following year. If the company fails to complete this submission or properly include in it a foreign employee for whom it will apply for a work permit, a refusal to issue a work permit may result.

The following are the steps for obtaining employer and employee permits with respect to citizens of countries requiring visas to enter the Russian Federation:
- 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
- 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.

The process for a citizen of a CIS country (not needing a visa to enter the Russian Federation) to obtain a work permit is simpler and faster.

For information on the special visa regime for Highly Qualified Specialists, see Section I.

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)
- 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 may be issued to a Highly Qualified Specialist (see Section I), or to another foreign individual 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. Special regime for Highly Qualified Specialists

Effective from 1 July 2010, a new beneficial immigration regime has been introduced for highly qualified foreign nationals working in the Russian Federation who are employed by commercial Russian companies or Russian branches of foreign companies. These individuals are referred to as Highly Qualified Specialists (HQSs). For this purpose, an HQS is a person who receives earnings exceeding RUR 2 million per year.

Work permits and work visas for qualifying HQSs are issued under a simplified procedure within 14 work days and are valid for up to three years with the possibility of extension for subsequent three-year periods.

The following are some of the advantages of the simplified procedure for obtaining a work visa and work permit for an HQS:

- The employer need not first obtain quota (this relates to the requirement that an employer anticipating the engagement of foreign citizens must file a quota application [forecast] containing specified information by 1 May of the preceding calendar year).
- The employer need not receive a conclusion on the expediency of engaging foreign labor.
- A corporate permit is not required to employ an HQS.

A work permit for an HQS can be valid for multiple regions of the Russian Federation. Under ordinary procedures, a separate work permit needs be obtained in each region in which the individual would work.

Earnings of HQSs for their work in such capacity are subject to tax at a rate of 13%, which is the rate for Russian tax residents, regardless of the duration of stay of the HQSs in the Russian Federation. In addition, HQSs may apply for a permanent residence permit without first obtaining a temporary residence permit.

J. 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	—	—
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 within certain norms.

(b) Russian law states that a taxpayer must pay his or her tax independently. It appears that the Russian authorities will accept Western tax equalization concepts.

(c) The Russian Federation uses some constructive receipt principles.

(d) Material gain (deemed income) from the savings resulting from the interest differential on loans (with certain exceptions) 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. Material gain (deemed income) may also result from the acquisition of securities. This gain equals the spread between the market price (taking into account the maximum limit on fluctuations in the market price) and the taxpayer's actual expenses. Material benefit (deemed income) may also result from the acquisition of certain other goods, work or services at below market value.

(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 million; for other property (except securities) held for fewer than three years, the maximum fixed deduction is RUR 250,000.

(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 and the tax may also be treated as documented expenses.

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

Rwanda

(Country code 250)

Kigali **GMT +2**

Ernst & Young
Mail address:
BP 3638
Kigali
Rwanda

Street address:
Banque de Kigali Building
Avenue de la Paix
Kigali
Rwanda

Executive and immigration contacts

Herbert Gatsinzi
788-309-977
Fax: 252-571059
Email: herbert.gatsinzi@rw.ey.com

Jeremiah Ngayu
788-386-065
Fax: 252-571059
Email: jeremiah.ngayu@rw.ey.com

Deo Musonera
785-354-961
Fax: 252-571059
Email: deo.musonera@rw.ey.com

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
- 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
- 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
- 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, excluding commercial buildings, are aggregated with other income and are taxed at the rates set forth in *Rates*. Gains derived from the disposal of commercial buildings are subject to a capital gains tax at a rate of 30%.

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 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 million 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 except with respect to construction projects.

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 June, 30 September and 31 December. 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 three 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 Belgium, 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 East African Community (EAC) 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
- The applicant's *curriculum vitae* (CV) and a copy of his or her 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
- 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 Labour 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 50,000 (approximately US$100) per year to the government treasury
- 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 work permit has a dual purpose in Rwanda. It serves as a work permit and resident permit, allowing an expatriate to live in Rwanda during his or her assignment.

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.

Saudi Arabia

(Country code 966)

Al Khobar **GMT +3**

Ernst & Young
Mail address:
P.O. Box 3795
Al Khobar 31952
Saudi Arabia

Street address:
4th Floor, Al Jufali Building
Al Khobar
Saudi Arabia

Executive and immigration contact

Naveed Jeddy
(3) 849-9503
Fax: (3) 882-7224
Email: naveed.jeddy@sa.ey.com

Jeddah **GMT +3**

Ernst & Young
Mail address:
P.O. Box 1994
Jeddah 21441
Saudi Arabia

Street address:
4th Floor, Al-Nakeel Center
Medina Road
Palestine Square
Jeddah
Saudi Arabia

Executive and immigration contact

Mohammed Desin
(2) 667-1040, Ext. 113
Fax: (2) 667-2129
Email: mohammed.desin@sa.ey.com

Riyadh **GMT +3**

Ernst & Young
Mail address:
P.O. Box 2732
Riyadh 11461
Saudi Arabia

Street address:
Al Faisaliah Office Tower – Level 6
King Fahad Road
Riyadh
Saudi Arabia

Executive and immigration contacts

Asim J. Sheikh
(1) 2159-876
Fax: (1) 2159-899
Email: asim.sheikh@sa.ey.com

Ahmed Abdullah	(1) 2159-439 Fax: (1) 2159-899 Email: ahmed.abdullah@sa.ey.com

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 non-residents are subject to withholding tax (for details, see *Rates*).

An individual 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.
- 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, employer-provided stock options are not subject to tax in the hands of the recipient employee.

Capital gains. Capital gains are taxed as ordinary income together with other income earned for the same period. However, capital gains derived from the disposal of financial papers (shares) traded on the Saudi stock market are not subject to tax if the following conditions are satisfied:
- The sales transaction is carried out in accordance with the Stock Exchange Regulations in Saudi Arabia.
- The investment that was sold was not owned before 30 July 2004.

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.

Under the prior rules, nationals of other GCC countries (Bahrain, Kuwait, Oman, Qatar and United Arab Emirates) were not required to register with the annuity branch and settle GOSI contributions. Bahraini and Omani nationals are now subject to GOSI contributions. The total rates of the annuity branch contributions for Bahraini and Omani nationals are 12% and 16%, respectively. Employers must also pay contributions for occupational hazards insurance at a rate of 2% for both Bahraini and Omani nationals.

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
- 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 the first tax payment. The withholder of tax must 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 tax treaties in force with the following countries.

Austria	Italy	Russian Federation
Belarus	Korea (South)	South Africa
China	Malaysia	Spain
France	Netherlands	Turkey
Greece	Pakistan	United Kingdom
India		

Saudi Arabia has signed double tax treaties with Cuba, Germany, Japan, Kazakhstan, the Philippines, Poland, Romania, Singapore, Syria, Tunisia, Uzbekistan and Vietnam, but these treaties are not yet in force.

Saudi Arabia has also entered into limited tax treaties with the United States and certain other countries for the reciprocal exemption from tax on income derived from the international operations of aircraft and ships.

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 180 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. An applicant must submit his or her passport and the approved visit visa document (provided by the Saudi inviter) 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 embassy or 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. On entry into Saudi Arabia, an application is then made by the employer for a residence permit (*iqama*) for the employee (see Section H). An employee may work while a residence permit is being processed or renewed. Residence permits 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.

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 certain 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.

Senegal

(Country code 221)

Dakar	**GMT**

FFA Ernst & Young
22, rue Ramez Bourgi
B.P. 2085
Dakar
Senegal

Executive and immigration contact

Raky Gueye (33) 849-2219
Fax: (33) 823-8032
(Voice request required)
Email: raky.gueye@sn.ey.com

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:
- They maintain a home in Senegal.
- They reside primarily in Senegal.
- They 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 XOF 400,000 if annual turnover does not exceed XOF 2 billion or XOF 800,000 if annual turnover exceeds XOF 2 billion
- Legal severance payments and legal retirement benefits
- Death benefits
- 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 is 10% for dividends, 13% for interest derived from bonds, and 16% for interest on debentures and other payments. 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, descendents 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)
- 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 XOF 300,000 (this limit does not apply to arrears paid under court order)
- Voluntary premiums for retirement pensions, up to 10% of salary, allowances and benefits in kind
- Life insurance premiums of up to 5% of net taxable income, with a maximum of XOF 200,000 plus XOF 20,000 for each dependent child
- 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 taxpayers. 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 granted to the other spouse.

The table below presents the progressive rates of general income tax.

Taxable income per allowance Exceeding XOF	Not exceeding XOF	Tax on lower amount XOF	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. The rate is reduced by half for independent handworkers.

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 XOF 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 XOF 756,000; paid by the employer	
Family allowances	6
Industrial accidents	1/3/5
Pension contributions, based on annual salary of up to XOF 3,072,000; paid by	
Employer	8.4
Employee	5.6

Description	Rate (%)
Special executive contributions, on annual salary of up to XOF 9,216,000; paid by	
Employer	3.6
Employee	2.4

Totalization agreement. To prevent double social security taxes and to assure benefit coverage, Senegal has entered into 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, Mauritania, Morocco, Norway, Qatar and Tunisia.

Senegal is a member of the West African Economic and Monetary Union (WAEMU) together with Benin, Burkina Faso, Bissau Guinea, Côte d'Ivoire, Mali, Niger and Togo. Regulation No. 08/CM/UEMOA provides a tax treaty, which is effective from January 2009. The WAEMU tax treaty has abrogated the West African Economic and Customs Community (CEAO) tax treaty and the Common African and Mauritian Organization (OCAM) tax treaty.

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.
- 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 WAEMU 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	—	—
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 tax calculation is provided below for an expatriate who is a resident in Senegal. He is married with two dependent children under 18 years old. During the year, the expatriate received a gross salary of XOF 100 million. 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.

	XOF	XOF
Calculation of income		
Gross salary		100,000,000
Fringe benefits (a):		
Housing (XOF 30,000 x 4 x 12)	1,440,000	
Water	120,000	

	XOF	XOF
Electricity (XOF 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 XOF 102,556,000)		(13,537,392)
Standard deduction		(700,000)
Proportional tax base		88,318,608
Amount of proportional tax (XOF 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 XOF 102,556,000)		(13,537,392)
Net income		89,018,608
Standard deduction (15% of XOF 89,018,608)		(13,352,791)
Progressive tax base		75,665,817
Taxable income per one allowance (XOF 75,665,817 ÷ 3)		25,221,939 (b)
Application of the progressive rates:		
XOF 600,000	at 0%	0
XOF 290,000	at 18%	52,200
XOF 120,000	at 22%	26,400
XOF 400,000	at 25%	100,000
XOF 1,065,000	at 28%	298,200
XOF 1,065,000	at 30%	319,500
XOF 4,110,000	at 35%	1,438,500
XOF 2,000,000	at 40%	800,000
XOF 3,000,000	at 45%	1,350,000
XOF 12,571,939	at 50%	6,285,969
XOF 25,221,939		
Progressive tax per one allowance		10,670,769
Progressive tax per three allowances (3 x XOF 10,670,769)		32,012,307
Total amount of income tax (XOF 9,715,047 + XOF 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 have taxable income in Senegal.

Serbia, Republic of

(Country code 381)

Belgrade **GMT +1**

Ernst & Young
Bulevar Mihajla Pupina 115d
11 070 Belgrade
Republic of Serbia

Executive and immigration contact

Ivan Rakic	(11) 209-5804 Fax: (11) 209-5891 Email: ivan.rakic@yu.ey.com

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 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 12% 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 for high school or a higher level of education are taxable if the monthly installment exceeds RSD 8,685. 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 10% on investment income, including the following:
- Interest
- Dividends
- Participation in profits
- Use of a company's property or services by its owner for personal purposes

Interest derived from government bonds and deposits and savings in local currency is exempt from tax under the personal income tax law.

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 vary between 34%, 43% and 50% of the total royalty income, depending on the source of income. Actual expenses incurred by 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. Income from insurance, reduced by paid premiums, is taxed at a rate of 10%.

Other types of 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.

Capital gains and losses. Capital gains derived from the sale of real estate, industrial property rights and securities are subject to tax at a rate of 10%. Capital losses incurred in a calendar year may offset capital gains derived in that year or in the following five years.

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 2010 was RSD 227,760). 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 the deduction for 2010 was RSD 85,410) for each dependent family member. The total amount of deductions claimed may not exceed 50% of taxable income.

Rates. Progressive income tax rates of 10% and 15% apply to the income of individuals exceeding certain thresholds.

For Serbian tax resident individuals (both Serbian and foreign nationals), the 10% rate applies to annual worldwide net income from sources specified in the tax law exceeding three 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 2010 was RSD 1,708,200), but not exceeding six times such average annual salary. A 15% rate applies to income exceeding six times the average annual salary.

Individuals who are nonresidents for tax purposes 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 five years.

B. Other taxes

Property tax. Residents and nonresidents are subject to property tax at rates that may not exceed the maximum rates set by the Property Law. Each municipality may determine the rates up to these maximum rates. The maximum rates range from 0.4% to 2% on real estate owned in Serbia. The rates depend on the kind of property (land or building), kind of owner (company/entrepreneur or physical person) and, for physical persons, the value of the property. Shares and stakes in legal entities are not subject to property tax.

Inheritance and gift tax. Inheritance and gift tax is levied on the market value of property at rates ranging from 2% to 2.5% for taxpayers who are second relations to the testator or donor (depending on the value of the tax base) and 2.5% for taxpayers who are third relations or are not related to the testator or donor. Shares and stakes inherited, or received free of charge, are not subject to inheritance and gift tax.

Transfer tax. The rate of the transfer tax is 2.5%. The tax base is the higher of the contract price or market price. Sales of shares and stakes in legal entities are exempt from tax on the transfer of absolute rights.

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%)
- The Unemployment Fund (0.75%)

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.

Rates of contributions to the chambers of commerce of the Republic of Serbia and municipalities range from 0.19% to 0.35%.

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 Republic of Serbia currently applies social security totalization agreements with the following countries.

Austria	France	Norway
Belgium	Germany	Panama
Bosnia-Herzegovina	Hungary	Poland
	Italy	Romania*
Bulgaria	Libya	Slovak Republic
Croatia	Luxembourg	Slovenia
Czech Republic	Macedonia	Sweden
Denmark	Montenegro	Switzerland
Egypt	Netherlands	United Kingdom

* This agreement covers only the avoidance of taxation with respect to health insurance.

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.

A totalization agreement with Turkey has been signed and ratified, but it is not yet effective.

D. Tax filing and payment procedures

The tax year is the calendar year. Annual tax returns must be filed by 15 March of the year following the tax year. 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 (subject to a ruling of the tax authorities).

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 Republic of Serbia, as the legal successor of the Union of Serbia and Montenegro, applies treaties with the following countries that were entered into by the former Yugoslavia and the former Union of Serbia and Montenegro.

Albania	France (a)	Netherlands
Austria (b)	Germany	Norway
Azerbaijan (b)	Greece (b)	Pakistan (a)(b)
Belarus	Hungary	Poland
Belgium	India	Qatar (a)(b)
Bosnia-Herzegovina	Ireland (a)(b)	Romania
	Italy	Russian Federation
Bulgaria	Korea (North)	Slovak Republic
China	Kuwait	Slovenia
Croatia	Latvia	Spain (b)
Cyprus	Libya (a)(b)	Sri Lanka
Czech Republic	Lithuania	Sweden
Denmark	Macedonia	Switzerland
Egypt (a)	Malaysia (a)	Turkey
Estonia (a)	Malta (a)(b)	Ukraine
Finland	Moldova	United Kingdom (a)

(a) These treaties cover the avoidance of double taxation on income only.
(b) This treaty is effective from 1 January 2011.

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 five days if they register with the Republic Police Department. Foreign nationals from certain countries (for example, European Union citizens) 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 than three months must request a residence permit from the local Republic 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 health insurance and 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:

- The applicant has lived for at least five years continuously in Serbia, based on a temporary resident permit.
- The applicant has been married for at least three years to a Serbian citizen or to a foreign national with a permanent residence permit.
- The applicant is a minor with a temporary residence permit, one of his or her parents is a Serbian citizen or a foreign national with a permanent residence permit, and he or she has the consent of the other parent.
- 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' licenses. Foreign nationals may drive in Serbia with their home country drivers' licenses for six months. After this period, they must apply for Serbian drivers' licenses.

Seychelles

Please direct all inquiries regarding Seychelles to Ryaad Owodally (phone: +230 403 4777, Ext. 4717; fax: +230 403 4700; email: ryaad.owodally@mu.ey.com) of the Cybercity, Mauritius office.

Certain amendments to the tax law have been proposed, but not yet enacted. Because of the expected changes to the tax law, readers should obtain updated information before engaging in transactions.

A. Income tax

Who is liable. Individuals employed by a resident of Seychelles or deriving income from sources in Seychelles are taxable on their employment income at a rate of 15%.

Income subject to tax

Employment income. Individuals resident in Seychelles are subject to tax at a rate of 15% on their local employment income. Nonmonetary benefits, such as accommodation, utilities and in-house benefits, provided by employers to employees in the course of an employment contract are subject to tax at a rate of 20% of the value of the nonmonetary benefits. Employers bear this tax.

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 at a rate of 15%. The withholding tax is considered 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 withholding tax applies to interest paid to residents and nonresidents other than banks, finance companies and other enterprises that are principally engaged in the business of lending money. The withholding tax is considered to be a final tax for nonresidents. The withholding tax rate ranges from 5% to 33%. The tax rate of 33% applies only to interest paid on bearer bonds.

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
- 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 all taxes.

Capital gains. Seychelles does not impose a capital gains tax.

Rates. Business tax is imposed at a rate of 25% on the first SR 1 million of taxable income and 33% on the balance.

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 Fund and Seychelles Pension Fund

Employees in Seychelles must contribute monthly to the Social Security Fund and Seychelles Pension Fund, which provide for employees' welfare and retirement. The contributions are imposed on all emoluments provided by employers to employees during a month. The social contribution rates are at 1% for both employees and employers.

D. Tax filing and payment procedures

Employers must withhold social security and pension 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	Malaysia	Thailand
China	Mauritius	Vietnam
Cyprus	Oman	Zambia
Indonesia	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 1,000 (US$67) and the fee for the duration of the permit, which equals SR 10,800 (US$877) per year or part thereof, are payable in advance and 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 SR 1,000 (US$67) is payable for processing of the application. The fee for a residence permit is SR 150,000 (US$10,000) for the principal applicant and SR 75,000 (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

(Country code 65)

Singapore **GMT +8**

Ernst & Young
Mail address:
P.O. Box 384
Singapore 900734

Street address:
One Raffles Quay
North Tower
Level 18
Singapore 048583

Executive contacts

Jeffrey Teong	6309-8610 Fax: 6532-7662 Email: jeffrey.teong@sg.ey.com
Wu Soo Mee	6309-8917 Fax: 6532-7662 Email: soo.mee.wu@sg.ey.com

Immigration contact

Grahame Wright	6309-8701 Fax: 6532-7662 Email: grahame.k.wright@sg.ey.com

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. This exemption does not apply if the foreign-source income is received through a partnership in Singapore. Foreign-source dividend income, foreign branch profits and foreign-source service income received by any individual resident in Singapore through partnerships may be exempted from Singapore tax if certain prescribed conditions are met. 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, in the year preceding the assessment year, they reside in Singapore except for such temporary absences from Singapore as may be reasonable and not inconsistent with a claim by such persons to be resident in Singapore. This also includes persons who are physically present or who exercise employment (other than as a director of a company) in Singapore for at least 183 days during the year preceding the 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." A "two-year administrative concession" is also available for foreign employees whose employment period straddles two calendar years. Under this concession, the individual is considered resident for both years if he or she stays or works in Singapore for a continuous period of at least 183 days straddling the two years. However, this concession applies only to foreign employees who entered Singapore after 1 January 2007.

Under the Not Ordinarily Resident (NOR) scheme, a qualifying individual may enjoy tax concessions for five consecutive assessment years, including time apportionment of Singapore employment income, if certain conditions are satisfied.

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, gains received from employee share plans 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 Central Provident Fund (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 two-year or three-year administrative concessions (see *Who is liable*) may benefit from the following concessions for five consecutive assessment years:

- Time apportionment of employment income
- Tax exemption for the employer's contributions to nonmandatory 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 or she must be a resident for tax purposes in the assessment year in which he or she wishes to apply.
- He or she 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.
- The employment income of the individual must be at least S$160,000.
- The tax on the apportioned income must be at least 10% of the total Singapore employment income.

Effective from the 2009 assessment year, the time apportionment concession applies to both cash compensation and benefits-in-kind, other than directors' fees and Singapore tax paid by employers.

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 one-tier system, dividends paid by Singapore tax-resident companies are exempt from income tax in the hands of shareholders, regardless of whether the dividends are paid out of taxed income or tax-free gains.

Dividends, other than tax-exempt and one-tier dividends, are taxed at the rates set forth in *Rates*.

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 ownership 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 (including being seconded outside Singapore for an assignment or leaving Singapore for a period more than three months) 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. The government has introduced a seller's stamp duty on all residential properties and residential lands that are bought on or after 20 February 2010 and sold within a specified time frame.

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 2011 assessment year (income earned in the 2010 calendar year) are summarized in the following table.

Type of deduction	Amount of deduction
Spouse 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	S$4,000 each
Handicapped child	S$5,500
Dependent parents (maximum of two)	
Living with taxpayer	S$7,000
Not living with taxpayer	S$4,500
Handicapped dependant	
Living with taxpayer	Additional S$4,000
Not living with taxpayer	Additional S$3,500
Grandparent caregiver relief (for working mothers)	S$3,000

* The spouse relief is an expansion of the traditional wife relief, the purpose of which is to provide recognition to both male and female taxpayers supporting their spouses. Under a 2011 budget proposal, spouse relief and handicapped spouse relief will no longer be granted to individuals for maintaining their former spouses.

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$26,393 (increased to S$26,775 for the 2011 assessment year and S$30,600 for the 2012 assessment year).
- 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 accounts, including contributions by taxpayers to nonworking spouses or siblings who earned no more than S$2,000 (increased to S$4,000, effective from the 2011 assessment year) in the preceding year (see below).

Two separate tax reliefs of up to S$7,000 are granted. The first relief is for top-ups by the taxpayer or his or her employer to the employee's own CPF retirement account. The second relief is for top-ups to the taxpayer's family members' CPF retirement account. In addition, tax relief is allowed for voluntary contributions made by the taxpayer specifically to his or her CPF Medisave Account, which is intended for the taxpayer's medical needs. Voluntary contributions made by an employer are taxable income to the employee.

Fees for approved courses may also be deducted, up to a maximum of S$3,500 (increased to S$5,500, effective from the 2011 assessment year).

Business deductions. Amounts incurred are deductible in determining taxable profits if they are expended wholly and exclusively in producing income, are revenue in nature and are not specifically prohibited under the Singapore tax law. 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 according to statutory rates.

Rates. A person who is a tax resident in Singapore is taxed on assessable income, less personal deductions, at the following rates for the 2011 assessment year (income from the 2010 calendar year).

Assessable income		Tax on lower	Rate on
Exceeding S$	Not exceeding S$	amount S$	excess %
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

Under a 2011 budget proposal, individuals who are tax resident in Singapore will be given a personal income tax rebate of 20%, subject to a cap of S$2,000.

In addition, effective from the 2012 assessment year, a more progressive personal income tax schedule will be introduced. Under this schedule, marginal tax rates will be reduced for the first S$120,000 of chargeable income. The following will be the new personal income tax schedule.

Assessable income		Tax on lower	Rate on
Exceeding S$	Not exceeding S$	amount S$	excess %
0	20,000	0	0
20,000	30,000	0	2
30,000	40,000	200	3.5
40,000	80,000	550	7
80,000	120,000	3,350	11.5
120,000	160,000	7,950	15
160,000	200,000	13,950	17
200,000	320,000	20,750	18
320,000	—	42,350	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% (a)
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 of public entertainers	10%, net of expenses (b)
Income derived by an international arbitrator	Exempt
Other sources	20%

(a) 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.
(b) This reduced rate applies only during the period of 22 February 2010 through 31 December 2015. The rate will return to 15% thereafter, subject to future announcements by the government.

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. Relief for a qualifying loss is mandatory and may not be deferred.

Relief is also available for the carryback of current year unused capital allowances and trade losses, subject to the satisfaction of certain conditions.

B. Estate and gift taxes

Estate duty has been eliminated from the Singapore tax regime for deaths occurring on or after 15 February 2008.

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 15.5% (increased from 14.5% to 15% in September 2010 and then to 15.5% in March 2011). Under a 2011 budget proposal, the employer's contribution rate will be increased by a further 0.5% to 16%, effective from September 2011. For individuals aged above 50 and up to 55, the employee's contribution rate is 18%, and the employer's contribution rate is 11.5% (increased from 10.5% to 11% in September 2010 and then to 11.5% in March 2011). The rate will be increased to 12%, effective from September 2011, in line with a 2011 budget proposal to increase the employer's contribution rate by a further 0.5%. Lower contribution rates apply to individuals over 55 years of age. Special transitional contribution rates apply to foreigners who become Singapore permanent residents. For employees older than age 35 and earning total wages of S$1,500 or less per month, graduated rates of up to 15.5% (for the employer) and 20% (for the employee) apply. Under a 2011 budget proposal, the employer's contribution rate will be increased by 0.5% to 16%, effective from September 2011.

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 (to be increased to S$5,000, effective from September 2011, under a 2011 budget proposal).

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 (to be increased to S$85,000, effective from 1 January 2012; a transitional rule applies to individuals employed as of 31 December 2011). In this event, the contributions on the "additional" wages are payable up to a limit of S$76,500 (to be increased to S$85,000 under a 2011 budget proposal), 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. Effective from 1 January 2008, employers may directly contribute to the SRS on behalf of their employees, subject to the current contribution limits. 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 2011 assessment year, tax is levied on income from the 2010 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. However, it is generally more beneficial to be taxed separately.

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	Ireland	Philippines
Austria	Israel	Poland
Bahrain	Italy	Portugal
Bangladesh	Japan	Qatar
Belgium	Kazakhstan	Romania
Brunei Darussalam	Korea (South)	Russian
Bulgaria	Kuwait	Federation
Canada	Latvia	Saudi Arabia
Chile (a)	Libya	Slovak Republic

China	Lithuania	Slovenia
Cyprus	Luxembourg	South Africa
Czech Republic	Malaysia	Sri Lanka
Denmark	Malta	Sweden
Egypt	Mauritius	Switzerland
Estonia	Mexico	Taiwan
Fiji	Mongolia	Thailand
Finland	Myanmar	Turkey
France	Netherlands	Ukraine
Georgia	New Zealand	United Arab Emirates
Germany	Norway	United Kingdom
Hong Kong (b)	Oman	United States (b)
Hungary	Pakistan	Uzbekistan
India	Papua New Guinea	Vietnam
Indonesia		

(a) Applies to income from international sea transport only.
(b) Applies to income from international sea and 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. 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 monthly basic salary is less than S$2,000 and who holds qualifications and experience relevant to the position. WPs are granted for up to two years at a time and are renewable (maximum employment period in Singapore may apply). WPs are subject to sourcing and quota restrictions, 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 fixed monthly salary exceeds S$2,800 and who holds an acceptable degree, professional qualifications or specialist skills. The 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 fixed monthly salary level and other qualitative factors.

The S Pass is a work pass for individuals with a minimum "fixed monthly salary" (see below) of S$2,000 and an acceptable tertiary qualification, which may be less than a university degree (for example, a college diploma). 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.

"Fixed monthly salary" includes basic salary and other fixed monthly payments, such as a cost-of-living adjustment and other cash allowances provided to an employee. Notably, it does not include the provision of benefits-in-kind, such as housing, or variable payments, such as commissions, bonuses, or daily-based allowances.

A foreign national who receives an in-principle approval 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 periods of up to three years per renewal.

Employment pass eligibility certificate. An employment pass eligibility certificate (EPEC) is granted to foreign professionals who hold acceptable degrees, professional qualifications or specialist skills and want to have a longer stay to seek employment in Singapore. The EPEC enables the foreign professional to apply for a social visit pass with a duration of up to one year to allow sufficient time for him or her to seek employment in Singapore. The EPEC is issued on a one-time basis and is nonrenewable. No fee is charged for the application for the EPEC. The EPEC is not a work pass. The appropriate work pass must be obtained on securing employment.

Personalized employment pass. An EP holder who earned a fixed annual salary of at least S$30,000 in the preceding calendar year and has held an EP for the required period (P1, on application; P2, two years; Q1, five years; and P or Q passes held by foreign graduates of Singapore higher learning institutions, two years) may apply for a personalized employment pass (PEP). An overseas foreign professional whose last drawn fixed monthly salary (within six months from the time of application) was at least S$7,000 or a former P1 holder who is residing overseas may also apply. The PEP is issued for a nonrenewable period of five years and may be issued only once. The holder must not be unemployed for a period exceeding six months, and must earn a fixed annual salary of at least S$30,000 in each calendar year in which he or she holds the PEP. Certain requirements for reporting to the Ministry of Manpower are imposed on the PEP holder and his or her employer.

The PEP provides added flexibility for the holder because the pass is not tied to a particular employer. The PEP provides the same dependent privileges as the EP that was held at the time of application for the PEP. If the holder takes a higher-paying job, his or her dependants may apply for the privileges of the higher EP.

EntrePass. 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 EntrePass (employment pass for entrepreneurs). New EntrePass applicants must register their companies as private limited companies with paid-up capital of at least S$50,000 and they must hold a shareholding of at least 30% in the company. The company must be new and cannot be registered in Singapore for more than six months at the time of the EntrePass application. In addition, the proposed business venture must be of an entrepreneurial nature. The applicant is required to submit a comprehensive business plan, which must include certain key indicators such as market/operation plan and growth potential of the business. 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 two years for renewals based on the company's performance. Foreigners who applied for their EntrePasses before 28 September 2009 may renew their passes under the EntrePass criteria in effect before 28 September 2009 or choose to transfer to the new EntrePass criteria.

H. Residence permits

Qualified professionals, technical personnel and skilled workers 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 investors may seek permanent residence in Singapore for themselves and immediate family members by committing to invest at least S$2,500,000 in certain approved categories of business and investment activities. If applicable, 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 legal spouse and legal children under 21 years of age to live in Singapore. An S Pass holder earning a fixed monthly salary of less than S$2,800 per month may not apply for dependent passes. 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, S Pass, EP or letter of consent separately.

If dependants are not eligible to apply for dependent passes, the employment pass holder (P1 or P2) may apply for a Long-Term Visit pass for eligible dependants, which are the following:

- Parents
- Parents-in-law
- Stepchildren who are not legally adopted
- Common-law spouse who is recognized as such by the home-country embassy
- Handicapped children above age 21
- 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
- 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	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(a)
Housing contribution	(X)	—	(b)

	Taxable*	Not taxable	Comments
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 refers to the employee's contributions to housing costs and is limited to the amount of the 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 2011 assessment year. The calculation is for an expatriate resident in Singapore for all of 2010, who is married with two dependent children. The calculation is based on the following assumptions:

- During 2010, the expatriate received a salary of S$500,000, 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 for a business purpose in 2010.
- The individual's employer also provided unfurnished housing at a cost to the company of S$60,000.
- 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			
Apportioned salary		414,383	(a)
Dividends from home country corporations remitted to Singapore		0	(b)
Total income		414,383	

	S$	S$
Deductions:		
Earned income	(1,000)	
Spouse	(2,000)	
Children	(8,000)	
Total deductions		(11,000)
Taxable income		403,383

Calculation of tax

Tax on first S$320,000	42,700	
Tax on next S$83,383 at 20%	16,676	
S$403,383		
Income tax payable		59,376
Less: 20% tax rebate (capped at S$2,000)		(2,000)
Net income tax payable		57,376 (c)

(a) The employee qualifies for time apportionment under the Not Ordinarily Resident (NOR) scheme (see Section A) because the total employment income is S$550,000 (S$500,000 + S$50,000 [10% housing benefit]), which is more than S$160,000, and he spends at least 90 business days outside Singapore. As a result, the salary and the housing benefit are taxed based on a time-spent allocation (275/365 x S$550,000 = S$414,383).

(b) Foreign-source income received in Singapore is not taxable.

(c) The tax on apportioned income is S$57,376. This represents a rate of 10.43% (57,376/550,000) which is above the floor tax rate of 10%.

Sint Maarten

Please direct all inquiries regarding Sint Maarten to the persons listed in the directory for the Curaçao office (see page 286).

On 10 October 2010, the country Netherlands Antilles, which consisted of five island territories in the Caribbean Sea (Bonaire, Curaçao, Saba, Sint Eustatius and Sint Maarten), was dissolved. On the dissolution of the Netherlands Antilles, Bonaire, Saba and Sint Eustatius (the BES Islands) became part of the Netherlands as extraordinary overseas municipalities. Curaçao and Sint Maarten have both become autonomous countries within the Kingdom of the Netherlands. The former Netherlands Antilles tax law remains applicable in Sint Maarten, with "Netherlands Antilles" being read as "Sint Maarten" in the law. The following chapter provides information on taxation in Sint Maarten only. A chapter on Curaçao appears on page 285.

A. Income tax

Who is liable. Residents are taxable on their worldwide income. Nonresidents are taxable only on income derived from certain Sint Maarten sources. A resident individual who receives income, wherever earned, from former or current employment is subject to income tax in Sint Maarten.

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. The following types of income are taxed in Sint Maarten:

- Employment income
- Self-employment and business income

• Income from immovable property (rental income)
• Income from movable assets (dividend and interest income)
• Income from periodical allowances

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.

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*. Directors' fees paid by Sint Maarten companies are subject to withholding for wage tax and for social security insurance contributions.

A nonresident individual receiving income from current or former employment carried on in Sint Maarten is subject to income tax and social security contributions in Sint Maarten. Wage tax 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 a Sint Maarten public entity is subject to tax on income, even if the employment is carried on outside Sint Maarten.

A nonresident individual receiving income as a managing or supervisory director of a company established in Sint Maarten is subject to income tax and social security contributions in Sint Maarten.

Self-employment and business income. Residents are subject to tax on their 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 Sint Maarten. However, if the profession practiced in Sint Maarten does not exceed three months, a full or partial exemption of income tax may be requested. Annual profits derived from a business must be calculated in accordance with sound business practices that are applied consistently. Taxable income is determined by subtracting the deductions and personal allowances specified in *Deductions* from annual profits.

A nonresident individual earning income from activities carried on in Sint Maarten through a permanent establishment or a permanent representative is subject to income tax in Sint Maarten. Profits of a permanent establishment are calculated in the same manner as profits of resident taxpayers.

Income from periodic allowances. Resident individuals are subject to tax on their worldwide periodic allowances, including old-age pensions (not related to previous employment), alimony payments and disability allowances. In general, periodic allowances are taxable if the allowances exceed their purchase price and if the purchase price has not (nor could have) been deducted from Sint Maarten income or was considered a component of Sint Maarten income.

Income from immovable property. Sixty-five percent of the income from real estate (rental income), grounds, mines and waters is taxed at the income tax rates set forth in *Rates*. Income derived from a person's residence is not taxed as income from immovable property. Interest paid on mortgage loans for the acquisition or the restoration of immovable property can be deducted from taxable income.

Nonresident individuals are taxed on rental income derived from real estate located in Sint Maarten or from the rights to such property.

Income from movable assets (dividend and interest income). Dividends and interest income derived from domestic and foreign sources, less deductions, are generally subject to income tax at the rates set forth in *Rates*. For investments in foreign portfolio investment companies and investments in Sint Maarten exempt 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 6.25% (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 Sint Maarten.

No withholding taxes are levied on dividends, interest and royalties earned by nonresidents. In general, a withholding tax applies to interest payments made by paying agents established in Sint Maarten to individuals resident in one of the member states of the European Union (EU). This withholding tax applies for the duration of a transitional period. The withholding tax rate was 15% for the first three years beginning in 2005. Effective from 1 July 2008, the tax rate was increased to 20%. It will be further increased to 35%, effective from 1 July 2011. However, the recipient may request exchange of information instead of the withholding on interest payments.

Income from substantial business interests. On request, resident individuals are taxed on dividend income and capital gains derived from substantial business interests at a fixed rate of 18.75% (including surtaxes). Otherwise, such income is subject to the progressive income tax rates (see *Rates*).

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 Sint Maarten. In the event of emigration to Sint Maarten, a "step-up" facility is available to determine the cost of a substantial business interest. In the event of emigration from Sint Maarten, the tax authorities may issue an income tax assessment on the difference between the fair market value of the shares on emigration and the fair market value on establishing residency. However, this tax need not be paid if certain conditions are met. If the taxpayer emigrates within eight years after establishing residency, this income tax on emigration may not be imposed.

Capital gains. Capital gains are generally exempt from tax. 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 47.5
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 47.5
Capital gains derived from the sale of a substantial interest in a company	18.75

Nonresidents may be subject to income tax on capital gains derived from the disposal of business assets or of shares in Sint Maarten resident corporations if the shares constitute a substantial interest and if certain other conditions exist.

Deductions

Deductible expenses. A resident taxpayer is entitled to more deductible items than a nonresident taxpayer. A fixed deduction of ANG 500 may be deducted from employment income. Instead, actual employment-related expenses incurred may also be fully deducted to the extent that the expenses exceed ANG 1,000 annually.

Deductions that may be claimed by residents include those discussed below.

Personal deductions. Residents may claim the following personal deductions:
- Mortgage interest paid that is related to the taxpayer's dwelling (limited to ANG 27,500 annually)
- Maintenance expenses related to the taxpayer's dwelling (limited to ANG 3,000 annually)
- Premiums paid for fire and natural disaster insurance related to the taxpayer's dwelling
- 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 5% of the income or ANG 1,000, annually)
- Pension premiums paid by an employee
- Social security premiums paid by an employee
- Qualifying donations in excess of certain threshold amounts

Extraordinary expenses. Residents may deduct the following extraordinary expenses:
- Alimony payments
- Medical expenses, educational expenses and support for up to second-degree relatives, if certain threshold amounts are met

Nonresidents. Deductions for nonresidents include the following:
- Employment expenses
- Qualifying donations in excess of certain threshold amounts

Business deductions. In general, business expenses are fully deductible. However, the deduction of certain expenses is limited. The following deductions are available for self-employed persons:

- Accelerated depreciation of fixed assets at a maximum rate of 33⅓%.
- An investment allowance of 8% for acquisitions of or improvements to fixed assets in the year of investment and in the immediately following year. The investment allowance is increased to 12% for acquisitions of new buildings or improvements to existing buildings. This allowance applies only if the investment amounts to more than ANG 5,000 in the year of investment.

Personal tax credits. The following personal tax credits may be subtracted by a resident taxpayer from the income tax due for the 2011 fiscal year:
- Standard tax credit: ANG 1,781 (surtaxes included)
- Sole earner tax credit: ANG 1,190 (surtaxes included)
- Senior tax credit: ANG 897.50 (surtaxes included)
- Child tax credit per child, which varies from ANG 63.75 to ANG 633.75 (surtaxes included), depending on the children's age, residence and education

Nonresidents may claim only the standard tax credit.

Pensioners and retirees. Pensioners who request and obtain the *penshonado* status can opt to be taxed at an income tax rate of 10% (including surtaxes) on all foreign-source income or they can declare a fixed income of ANG 500,000 per year as foreign income. This fixed income is taxed at the progressive income tax rates (see *Rates*). The *penshonado* status can be obtained if certain conditions are met, including the following:
- The applicant must not have been a resident of Sint Maarten for the past 5 years.
- The applicant must at least be 50 years of age.
- The applicant must apply for the *penshonado* status within 2 months of his or her registration in Sint Maarten.
- The applicant must acquire a house for personal use with a value of at least ANG 450,000.

Expatriate facility. Individuals that meet certain criteria can request the application of the expatriate facility. To acquire the expatriate status, an individual must meet the following conditions:
- The applicant must not have been a resident of Sint Maarten for the past five years.
- The applicant must have special skills at the college or university level and at least three years of relevant working experience at the required level.
- If the applicant does not have special skills at the college or university level, the applicant must have at least five years of relevant working experience at the required level and the applicant must receive remuneration from his or her employer of at least ANG 100,000.
- The applicant must possess skills that are scarcely available in Sint Maarten or be employed by the government of Sint Maarten with the salary scale of 11.

The employer must file the application. In principle, the expatriate status applies with retroactive effect to the beginning of the employment if the application is filed within three months after the beginning of the employment.

An employee with the expatriate status can receive limited amounts of fringe benefits tax-free, such as wages in kind, travel expenses, hotel expenses and expenses with respect to means of transportation and relocation. The remainder of the compensation paid to the expatriate by the employer is taxed at the progressive income tax rates (see *Rates*). In addition, a net employment contract can be entered into with the expatriate, and the wage tax should then not be grossed up as an additional benefit received from employment.

Rates

Residents and nonresidents. Resident and nonresident individuals are subject to income tax at the same progressive rates. The following are the individual income tax rates and tax brackets for the 2011 fiscal year.

Taxable income		Tax on lower amount	Tax rate on excess
Exceeding ANG	Not exceeding ANG	ANG	%
0	27,374	0	12.5
27,374	41,062	3,421.80	20
41,062	57,030	6,159.21	26.25
57,030	85,544	10,350.82	33.75
85,544	120,902	19,974.22	40
120,902	—	34,117.41	47.5

The rates mentioned above include a 25% surtax.

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 Sint Maarten 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 Sint Maarten 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

Notwithstanding the above, the tax rate is 25% for a donation from a resident to a private foundation.

C. Social security contributions

All resident individuals must pay social security contributions. The contributions provide benefits under the General Old Age Pension Ordinance (AOV), the General Widows and Orphans Ordinance (AWW) and the General Insurance Extraordinary Sickness Ordinance (AVBZ). Contributions to the health insurance

(ZV) are also due on salaries up to a certain threshold (ANG 4,873.70 per month for 2011). In addition, employers must pay a severance contribution (*cessantia*) fee of ANG 40 (2011) per employee per year.

The total AOV/AWW contributions due annually are 14% of earnings (maximum of ANG 83,228 for 2011). Premiums are paid partly by the employer if an individual is employed. For AOV and AWW, employers contribute 7.5% of salary, up to a certain maximum amount of contributions per year (ANG 6,242.10 for 2011), and employees contribute 6.5%, up to a certain maximum amount of contributions per year (ANG 5,409.82 for 2011). For AOV and AWW, self-employed persons also pay a total of 14% up to a certain maximum amount of contributions per year, but a sliding scale applies.

For AVBZ the following are the contributions:
- Employers: 0.5% of salary
- Employees: 1.5% of salary
- Self-employed persons: 2% of earnings
- Pensioners: 1.5% of pension income
- Individuals with annual taxable income of less than ANG 27,374 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 2011, ANG 428,626). The amendment of the threshold for 2011 has not yet been announced officially.

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%). The rate of required disability insurance (OV) 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. The OV contributions are due on salaries up to a certain threshold (ANG 4,873.70 per month for 2011).

In general, nonresidents earning income from employment in Sint Maarten are subject to social insurance contributions.

D. Tax filing and payment procedures

Filing and payment. Employers must file wage withholding tax returns on a monthly basis. The wage tax return must be filed before the 16th day of the month following the month in which the salaries are paid to employees. For most employees, wage withholding tax is the final tax. Personal 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.

Filing income tax return together with spouse. If both spouses earn income, married persons are taxed separately on the following types of income:
- Employment income
- Self-employment and business income

- 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 must 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 payments. Social security contributions are withheld by the employer and are declared in the wage tax returns. Individuals receiving other types of income must pay social security contributions within two months after the date of an assessment.

Filing inheritance tax return. An inheritance tax return must be filed within six months after the date of death. A gift tax return must be filed within three months after a gift is made. Both inheritance and gift tax must be paid within two months after the date of assessment.

E. Double tax relief and tax treaties

Sint Maarten has a double tax treaty with Norway. Sint Maarten also has the Tax Regulation for the Kingdom of the Netherlands, which provides for double tax relief within the Kingdom of the Netherlands (Aruba, BES Islands, Curaçao the Netherlands and Sint Maarten). 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.

A double tax treaty with Venezuela is in the final stage of conclusion and negotiations for double tax treaties are ongoing with Jamaica, Suriname and the United Arab Emirates.

Sint Maarten entered into bilateral agreements with the EU member states with respect to the application of the EU Council Directive on the taxation of savings income. The Sint Maarten law to implement the directive took effect in July 2006.

Sint Maarten has entered into tax information exchange agreements with the following jurisdictions.

Antigua and Barbuda	Cayman Islands	Iceland
Australia	Denmark	Mexico
Bermuda	Faroe Islands	New Zealand
British Virgin Islands	Finland	St. Lucia
Canada	France	Spain
	Germany	Sweden
	Greenland	United States

Negotiations for tax information exchange agreements with Italy and the United Kingdom are ongoing.

The Organization for Economic Cooperation and Development (OECD) had white-listed the former Netherlands Antilles. Consequently, Sint Maarten should also be white-listed.

F. Residency and working permits

In general, foreign individuals who wish to reside and work in Sint Maarten need residency and working permits. The conditions for obtaining such permits depend on the nationality of the individual. Special provisions apply to individuals holding a Dutch passport.

Wealthy individuals (Investors) who meet certain conditions are granted through a simplified procedure a residency permit known as an Investors Permit. The permit allows an Investor a legal stay in Sint Maarten of, in principle, up to 120 days a year. A stay of the Investor exceeding 120 days a year is not prohibited, but may result in the Investor being considered a resident taxpayer with respect to Sint Maarten.

Slovak Republic

(Country code 421)

Bratislava	**GMT +1**

Ernst & Young
Hodžovo nám. 1A
P.O. Box 19
811 06 Bratislava
Slovak Republic

Executive contacts

Radovan Ihnát	(2) 3333-9114 Fax: (2) 3333-9166 Email: radovan.ihnat@sk.ey.com
Stanislava Bogárová	(2) 3333-9120 Fax: (2) 3333-9166 Email: stanislava.bogarova@sk.ey.com

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:
- Individuals staying in the country to study
- Individuals present in the country for medical treatment
- Individuals who earn Slovak-source income from dependent activities and enter the Slovak Republic daily or at agreed-upon time periods only for the purpose of performing such activities

Individuals assigned by a foreign employer to the Slovak Republic who continue to be employed and paid by the foreign employer and who perform work for and under the instruction of a Slovak resident individual or legal entity are deemed to be employed by the Slovak resident individual or legal entity and 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 regular, irregular or one-off 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.

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 and movable assets representing appurtenances of the real estate is taxed as self-employment and business income. As a result, expenses can be deducted from such income.

Investment income. Investment income from Slovak sources, including interest and other income derived from securities, and payments made from supplementary pension insurance schemes is generally subject to a 19% withholding tax. This withholding tax is considered a final tax, and the income is not included in the tax base. 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 granted after 31 December 2009, the taxable amount equals the higher market price of the stock at the exercise date (that is, on the day on which the option is actually exercised) minus the sum of the following:
- The guaranteed exercise price of the employee's stock
- The price paid by the employee for the option (if any)

The above amount is taxable on the exercise date. Employer-provided stock options are treated as employment income and taxed through payroll withholdings at the regular income tax rate in the month of exercise.

The income from stock options granted by employers before 31 December 2009 is taxed on the vesting date (that is the date on which the option can be exercised) under the rules applicable until 31 December 2009.

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 exercise date (vesting date for options granted before 31 December 2009). 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. Mandatory sickness insurance, health insurance, old-age insurance, disability insurance and unemployment insurance contributions paid by employees (see Section C) are deductible from employment income.

Personal allowances and deductions. All taxpayers, including nonresidents, are entitled to a personal allowance. Taxpayers whose tax base for the calendar year does not exceed 100 times the subsistence minimum (€18,538 for 2011), can deduct a nontaxable amount equal to 19.2 times the subsistence minimum per taxpayer (€3,559.30 for 2011). For taxpayers whose tax base for the calendar year exceeds 100 times the subsistence minimum, the nontaxable portion of the tax base gradually decreases depending on the taxpayer's income. Taxpayers who have a tax base for the calendar year higher than €32,775.18 are not entitled to any general allowance. Slovak tax residents and Slovak tax nonresidents whose Slovak-source income represents more than 90% of their worldwide income may also claim a spousal allowance for a spouse living with them in the same household and having no or limited income of his or her own. The spousal allowance also gradually decreases depending on the taxpayer's and the spouse's income.

In addition, tax residents and Slovak tax nonresidents whose Slovak source income represents more than 90% of their worldwide income are entitled to a tax bonus (credit) in the amount of €20.02 per month per dependent child for 2011.

Taxpayers are entitled to an annual employment tax bonus. The principle of the employment bonus is similar to the tax bonus applicable for a child. To qualify for the employment bonus, several conditions must be satisfied, including, among others, the following:
- The taxpayer must earn income amounting to at least six times the minimum wage (currently, the minimum wage is €317 per month).
- The taxpayer must work for at least six months.

The amount of the employment bonus equals 19% of the part of the personal allowance that exceeds the tax base, but not more than €50.34 per year.

Business deductions. In general, costs and expenses incurred to generate, assure and maintain taxable income are deductible, including mandatory contributions for social and health insurance. Expenses of a capital nature, penalties other than payments of contractual penalties, income tax and expenses incurred to generate tax-exempt income are not deductible.

Instead of deducting actual expenses, individuals other than those who are value-added tax (VAT) payers for the entire tax year, may deduct a percentage of gross revenues. In general, this percentage is 40%.

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. Losses incurred after 31 December 2009 may be carried forward for seven consecutive tax years following the year of the loss. Losses incurred before this date can be carried forward for five years. 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 must pay social security contributions. Slovak social security contributions consist of sickness, old-age, disability, unemployment, guarantee and accident insurance, and contributions to the reserve fund. In general, every person performing an income-generating activity for which he or she is entitled to a regular monthly compensation (and also irregular for the purposes of pension insurance) subject to income tax is deemed to be an employee for Slovak social security purposes. Rental, capital or other income is not subject to social insurance.

Slovak health insurance contributions are for health care. Individuals having income subject to income tax (including dividends paid to employees not participating in the registered capital of a company that are generated from profits for accounting periods beginning after 1 January 2011, and capital and other income) is subject to health insurance. Persons acting as members of statutory or supervisory bodies for employers, with a registered seat in the Slovak Republic, are not subject to Slovak health insurance if they are not permanently resident in the Slovak Republic and are subject to a health insurance system in a non-European Union (EU) state.

The combined rate for the employee's social and health insurance contribution is 13.4% of his or her assessment base, which is, in general, his or her monthly taxable employment income. 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, 3 for health insurance and 4 for the other types of insurance). The minimum monthly assessment base for health insurance is linked to the minimum wage in the Slovak Republic (the minimum assessment base is not set for other types of insurance). The assessment base for accident insurance is not limited.

The following are the social security and health insurance rates for 2011.

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

Benefit	Employer %	Employee %	Self-employed individuals %
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 pension life agencies. The rates shown are the total rates of contributions.
(b) The 0.8% rate applies until 31 December 2011.
(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).

The EU regulations on social and health insurance are binding in the Slovak Republic. Consequently, the respective regulations for European Economic Area (EEA) and Swiss citizens, and the applicable totalization agreements for other foreigners (see *Totalization agreements*) must be taken into account when determining the social and health insurance 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 jurisdictions.

Australia (a)	Germany	Romania
Austria	Hungary	Russian Federation
Bulgaria	Israel (a)	Spain
Canada	Korea (South)	Switzerland
Croatia	Luxembourg	Turkey (a)
Cyprus	Netherlands	Ukraine
Czech Republic	Poland	Yugoslavia (b)
France	Quebec	

(a) This agreement has been signed, but it is not yet in effect.
(b) This agreement was entered into between the former Czechoslovakia and the former Yugoslavia in 1957. The Yugoslavia agreement applies to Bosnia-Herzegovina, Macedonia, Montenegro, Serbia and Slovenia.

Totalization agreements with EU member states continue to be valid. However, effective from 1 May 2004, the EU regulations superseded these agreements.

Under Slovak law, employers from non-EU and non-EEA countries (without a registered seat or a branch in the Slovak Republic) that have employees in the Slovak Republic are required to register for social security purposes in the Slovak Republic, to remit employer and employee contributions to the Slovak social system and to handle the related administration (unless their employees' income is exempt from tax in the Slovak Republic or unless the Slovak Republic has entered into a bilateral agreement with the respective country).

D. Tax filing and payment procedures

In general, individuals who receive income exceeding 50% of the personal allowance (that is, €1,779.65 for 2011; 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 the Slovak tax law
- Foreign-source income (with certain statutory exemptions)
- In-kind compensation, if tax prepayments could not be withheld
- 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 employment 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. This deadline is extended by three months on the filing of an announcement with the respective tax authority. If an individual who is a resident for tax purposes in the Slovak Republic receives foreign-source income, the deadline is extended up to six months (that is, until 30 September) on the filing of the announcement.

Employment income received by 31 January of the following year that relates to the preceding year is regarded as income of the preceding year.

Advance tax payments are withheld monthly by Slovak employers or foreign persons that qualify as foreign payers of tax 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 €1,659.70. However, no advance tax payments from such income are paid if an individual also receives employment income that represents more than 50% of his or her personal income (if employment income represents a smaller share, half of the regular amount of advance tax payments is paid).

Individuals performing dependent activities 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	Israel	Russian Federation
Belarus	Kazakhstan	Singapore
Belgium	Korea (South)	Slovenia
Bulgaria	Latvia	South Africa
Canada	Libya	Switzerland
Croatia	Lithuania	Syria
Czech Republic	Macedonia	Turkey
Egypt (a)	Malta	Turkmenistan
Estonia	Mexico	Ukraine
Finland	Moldova	United States
Hungary	Poland	Uzbekistan
Iceland	Portugal	Vietnam
Indonesia	Romania	Yugoslavia (b)
Ireland		

(a) This treaty has been ratified by Egypt, but it is not yet in effect.
(b) The treaty signed with Yugoslavia applies to Montenegro and Serbia.

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 that was signed in 1981 applies to Bosnia-Herzegovina.

The method of elimination of double taxation is applied based on the tax treaty entered into between the Slovak Republic and the source country. However, for employment income from foreign sources, regardless of the method for the elimination of double taxation provided in the respective tax treaty, Slovak tax residents may apply the exemption method if both of the following conditions are satisfied:

- The income was provably taxed abroad.
- Such treatment is more favorable for the individual.

If the Slovak Republic has not entered into a double tax treaty with the source country, the exemption method can be used for employment income that is shown to have been taxed in the source country.

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	—	—
Housing allowance	X	—	(c)
Housing contribution	(X)	—	(d)

	Taxable*	Not taxable	Comments
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	(h)
Value of lodging provided	X	—	—
Other items			
Foreign-source personal ordinary income (interest and dividends)	X	X	(i)
Capital gain from sale of personal residence in home country	X	X	(j)
Capital gain from sale of stock in home country	X	X	(j)

* Bracketed amounts reduce taxable income.

(a) Employee contributions are deductible from compensation if the plan is in substance similar to Slovak social security and is mandatory under the law of the home country.

(b) The Slovak tax law does not recognize hypothetical withholding tax and, consequently, such tax is not listed as a specific deductible item. For Slovak tax residents, some justifications for tax deductibility exist.

(c) Housing allowances paid by the employer are considered taxable income unless they are regarded as business-related accommodation expense reimbursements under the Slovak law for expenses that were incurred during business trips.

(d) Employees' housing contributions are deductible for tax purposes if they represent contributions to the actual housing costs borne by the employer and if the housing provided by the employer is considered taxable income for the employee.

(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 unless they are regarded as travel expense reimbursement under the Slovak law.

(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) Meals are not taxable only if they are provided at the workplace or during business trips.

(i) The tax treatment depends on the tax residency of the taxpayer who is the beneficial owner of the interest and dividends and the respective double tax treaty, if applicable. Dividends paid from profits derived after 1 January 2004 are exempt from tax.

(j) The tax treatment depends on the tax residency of the taxpayer receiving the income and the respective double tax treaty, if applicable.

Appendix 2: Sample tax calculation

A sample tax calculation for 2011 is 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 expatriate's spouse does not have any income and is living in the same household with the expatriate.

The following is the tax calculation.

	€
Calculation of taxable income	
Gross employment income earned by the expatriate after deduction of the mandatory social and health insurance contributions	35,000.00
Personal allowances	(0)
Spousal allowance	(3,003.09)
Taxable income	31,996.91
Calculation of tax	
Tax at 19%	6,079.41
Child bonus	(240.24)*
Final tax due	5,839.17

* The child bonus is provided only for dependent children living in the same household with the expatriate.

Slovenia

(Country code 386)

Ljubljana	**GMT +1**

Ernst & Young Svetovanje, d.o.o.
Dunajska cesta 111
1000 Ljubljana
Slovenia

Executive and immigration contacts

Denes Szabo	(1) 583-1772 Fax: (1) 583-1710 Email: denes.szabo@hr.ey.com
Matej Kovacic	(1) 583-1762 Fax: (1) 583-1710 Email: matej.kovacic@si.ey.com
Mojca Lukac	(1) 583-1731 Fax: (1) 583-1710 Email: mojca.lukac@si.ey.com

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 or borne by 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.
- 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 family members of employees are considered to be employees' 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 the land determined under the relevant regulations.

Income from property leases and from transfers of property rights. 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.

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
• 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.

Income from capital. Income from capital includes dividends, interest and capital gains.

Income from dividends includes dividends and other income derived from ownership of shares. Tax on dividends is also payable on the following:
• Hidden profit distributions

- Gains that are distributed with respect to debt securities
- Income received on the basis of profit sharing of mutual funds

Income similar to dividends, which is taxed in the same manner as dividends, includes income derived from sales of products and services at lower than market prices to shareholders and their family members and debt cancellations. A flat tax of 20% is imposed on dividends and is treated as final tax.

Interest income includes the following:
- Interest on loans, debt securities, bank deposits, deposits with savings banks and other similar financial claims
- Income from life insurance policies
- Income from financial leases
- Interest income received by unit holders from mutual funds that make payments on the basis of income sharing

Interest on deposits at banks and saving banks established in Slovenia or other European Union (EU) member states of up to €1,000 is not included in the tax base. Interest income is taxed at a flat rate of 20%.

An individual who is resident in a 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.

Capital gains. Capital gains include the following:
- Gains from the disposal of immovable property regardless of whether the condition of the property is changed or unchanged at the time of disposal
- Gains from the disposal of securities and shares issued by companies and other entities
- Gains from investment coupons

The tax base for capital gains is the difference between the value of the capital at the time of disposal and the value of the capital at the time of acquisition. Standard costs are recognized for acquisition and disposal costs and reduce the tax base.

Capital gains are taxed at a flat tax rate of 20% with a reduction of the tax rate for every completed five-year period of ownership of the capital. As a result, the following are the tax rates:
- 15% after 5 years
- 10% after 10 years
- 5% after 15 years
- 0% after 20 years

Other income. Other income includes awards, gifts, prizes from prize drawings, 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.

Deductions. For 2011, residents may claim as deductions the following annual tax reliefs:
- General relief of €3,143.57 if no other residents claim dependent family member relief with respect to the taxpayer. If the annual tax base is lower than €11,965.20, the tax relief is increased to €4,205.74. If the annual tax base is lower than €10,342.80, the tax relief is further increased to €6,205.68.

- Senior citizens relief of €1,352.86 for individuals over the age of 65.
- Dependent family member relief of €2,319.50.
- Relief of €2,319.50 for the first, €2,521.59 for the second, €4,205.64 for the third, €5,889.70 for the fourth and €7,573.75 for the fifth dependent child.
- Relief of €8,404.56 for dependent children in need of special care.
- If certain conditions are met, relief of €16,808 for disabled persons with a severe physical disability.
- Relief of €3,143.57 for a student if no other residents claim dependent family member relief with respect to the taxpayer and if other conditions are met.
- Special relief of €7,211.57 is granted to daily migrants (cross-border workers) if certain conditions are met.
- For self-employed cultural workers or journalists earning annual income up to €25,000, a deduction equal to 15% of their annual income.

Nonresidents of Slovenia who are tax residents of other EU or European Economic Area (EEA) 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 in Slovenia and if they can prove that the income was exempt from tax or not taxed in their country of residence.

Rates. Employees are subject to monthly employer withholding tax on salaries at rates ranging from 16% to 41%. 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 2011.

Taxable income		
Exceeding €	Not exceeding €	Rate %
0	7,634.40	16
7,634.40	15,268.77	27
15,268.77	—	41

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 an unlimited number of years.

B. Other taxes

Inheritance and gift taxes. Resident individuals who inherit, or who receive as a gift, immovable or movable properties in Slovenia are subject to tax. Movable property received is not subject to the tax if it does not exceed the value of €5,000.

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	Beneficiaries
I	Spouses, children and their spouses, and stepchildren
II	Parents and siblings and their descendents
III	Grandparents
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%
- 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.

Taxes on vessels. Taxes are imposed on vessels that are longer than five meters and satisfy one of the following additional conditions:
- It is entered in the boat/ship register for shipping on the sea and continental waters
- The owner of the vessel is a resident of Slovenia and the vessel fulfills the conditions to be registered as mentioned in the first item above, but it is not registered
- The owner is a resident of Slovenia and the vessel fulfills the conditions to be registered, but is not registered because the ship is already registered abroad

The vehicle taxes do not apply to vehicles performing only registered activities.

The following are the rates of the vehicle tax.

Length class of the vessels		General tax	Tax per meter of vessel	Tax per kilowatt of power of vessel
Exceeding meters	Not exceeding meters	€	€	€
5	8	10	2.5	0.5
8	12	15	3.0	1
12	—	20	3.5	2

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 health insurance contribution for contract workers is €4.46 per month, and the contribution for pension and disability equals 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.

The tax authorities prepare a calculation of each individual's personal income tax liability based on the information received from payers of income. Beginning from the date of dispatch of the calculation, the individual has 30 days to object and submit a tax return. If the individual does not object within 30 days, the calculation is deemed to be a tax assessment and the individual is considered to have waived his or her right to appeal.

If a resident individual does not receive the calculation by 31 May of the year following the tax year, he or she must complete and submit the tax return by 31 July of the year following the tax year.

Advance payments are due on the receipt of income (see Section A).

The tax is usually payable within 30 days after receipt of the tax assessment. The tax authorities have until 31 October of the year following the tax year to issue the annual tax assessment.

A rental income tax return must be filed by 15 January of the year following the tax year.

Interest received from abroad must be declared to the tax authorities by the 15th day of the month following the end of the quarter. In addition, individuals must file a tax return reporting all interest received from abroad during a calendar year by 28 February of the year following the calendar year.

Capital gains must be reported in a tax return within 15 days after the date of disposal. In addition, individuals must file a tax return reporting capital gains derived from disposals in a calendar year by 28 February of the year following the calendar year.

A dividend tax return must be filed by the 15th day of the month following the end of the quarter.

E. Tax treaties

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

Albania	Greece	Portugal
Austria	Hungary	Qatar (b)
Belgium	India	Romania
Bosnia-Herzegovina	Ireland	Russian Federation
Bulgaria	Israel	Serbia and Montenegro (a)
Canada	Italy	Singapore
China	Korea (South)	Slovak Republic
Croatia	Kuwait (b)	Spain
Cyprus	Latvia	Sweden
Czech Republic	Lithuania	Switzerland
Denmark	Luxembourg	Thailand
Egypt (b)	Macedonia	Turkey
Estonia	Malta	Ukraine
Finland	Moldova	United Kingdom
France	Netherlands	United States
Germany	Norway	
	Poland	

(a) This treaty is no longer valid for Kosovo.
(b) This treaty has been ratified in Slovenia, but it is not yet effective.

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	El Salvador	New Zealand
Antigua and Barbuda	EU member states	Nicaragua
Argentina	Guatemala	Norway
Aruba	Honduras	Panama
Australia	Iceland	Paraguay
Bahamas	Ireland	Romania
Barbados	Japan	Russian Federation (b)
Brazil	Korea (South)	San Marino
Brunei Darussalam	Macedonia	Serbia
Bulgaria	Malaysia	Seychelles
Canada	Mauritius	Singapore
Chile	Mexico (a)	Switzerland
Costa Rica	Monaco	United States
Croatia	Montenegro	Uruguay
	Netherlands Antilles	Venezuela

(a) Ordinary passport holders may enter for up to three months for tourism, and up to one month for business purposes.
(b) Russian nationals may enter Slovenia without a visa only if they hold a permanent visa for Austria, Belgium, Denmark, France, Finland, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Germany, the 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.

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).

Albania	Ecuador	South Africa
Bolivia	Egypt	Thailand
Bosnia-Herzegovina	Jamaica	Tunisia
China	Maldives	Turkey
Cuba	Peru	Ukraine
	Philippines	

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. Work permits are issued for one year with the possibility of an extension.

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 permits are required for such persons. If a foreigner is not from an EU-member state, he or she must obtain a work permit.

The EU Blue Card is introduced for highly qualified employee migrants and entitles its holder to reside and work in the territory of an EU member state.

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.

In general, work permits are issued for the period of one year with no possibility of extension. However, the work permit can be issued again to the same assignee in the event of a temporary suspension of assignment that has the same period as the work permit.

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 to all types of secondments, such as cross-border services, movement within a group of 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. The exceptions for certain seasonal work in the areas of construction, tourism, accommodation and food services have been abolished.

Citizens of the EU do not need work permits to work in Slovenia. However, the Slovenian company for which they will be working must register at the National Employment Office.

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. For EU citizens whose work need only be registered and no work permit is required, the procedure is shorter and simplified.

H. Residence permits

Temporary residence permits. Temporary residence permits are issued by the Regional Department of Internal Affairs for a 12-month period (or less if the passport or the work permit expires before the 12 months elapse). To apply for a temporary residence permit, the applicant must prove the following:
- The length of his or her intended stay in Slovenia
- Adequate means of support
- Arrangement for health insurance

In addition, a foreign person must indicate one of the prescribed reasons for his or her residence in Slovenia, such as employment, work, family reunion or study.

The application for a first residence permit must be filed with the Slovenian embassy in the country of permanent residence. An 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 with respect to cross-border services.

The residence permit must be obtained before arrival in 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 who have lived in Slovenia for five consecutive years under temporary residence permits if other conditions are met.

Permanent residence permits can be issued before five years have elapsed if certain conditions are met (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 may 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 a prolonged stay in Slovenia (in excess of three months), he or she is required to apply for registration of residence before the expiration of the first three months of his or her residence in Slovenia. Alternatively, he or she may apply for a registration of residence immediately after his or her entry into Slovenia.

A certificate of residence registration may be issued to an EU citizen who intends to or already resides in Slovenia for the purpose of employment or work, self-employment, provisions of services, studying or family reunion, as well as to an EU citizen who wishes to reside in Slovenia for another reason.

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 time period.

A beneficial regime concerning the entry into and residence in Slovenia applies 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	—	—

	Taxable*	Not taxable	Comments
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	—	—
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 €6.12 per day, plus €0.76 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 €0.18 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. A daily allowance that lasts for less than 24 hours is reduced proportionally.

(d) This item is not taxable up to the amount of the cost of public transportation that is actually incurred, or €0.37 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 €334 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 €4,063.
(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 2011 tax calculation is provided below for an expatriate who is a resident of Slovenia for all of 2011. 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 2011 amounts to €100,000. The individual's employer also provided housing at a cost to the company of €20,000.

The following is the tax calculation.

	€	€
Calculation of taxable income		
Income:		
Salary	100,000.00	
Taxable value of housing	20,000.00	
Total income		120,000.00
Personal deductions:		
Taxpayer	(3,143.57)	
Wife	(2,319.50)	
Children	(4,841.09)	
Total personal deductions		(10,304.16)
Taxable income		109,695.84
Calculation of tax		
Tax on €7,634.40 at 16%		1,221.50
Tax on €7,634.40 at 27%		2,061.29
Tax on €94,427.04 at 41%		38,715.09
€109,695.84		
Income tax		41,997.88

South Africa

(Country code 27)

Johannesburg **GMT +2**

Ernst & Young
Mail address:
P.O. Box 2322
Johannesburg 2000
South Africa

Street address:
Wanderers Office Park
52 Corlett Drive
Illovo Johannesburg 2916
South Africa

Executive contacts

Mark Goulding
(11) 772-5010
Fax: (11) 772-5510
Email: mark.goulding@za.ey.com

Naomi Smit	(11) 772-3000 Fax: (11) 772-4000 Email: naomi.smit@za.ey.com
Brigitte Keirby-Smith *(resident in Durban)*	(31) 576-8161 Fax: (31) 576-8361 Email: brigitte.keirbysmith@za.ey.com

Immigration contacts

Connie Perumal	(11) 772-3886 Fax: (11) 772-4000 Email: connie.perumal@za.ey.com
Mandy Pillay *(resident in Durban)*	(31) 576-8224 Fax: (31) 576-8724 Email: ramona.pillay@za.ey.com
Tiziana Ferrari *(resident in Cape Town)*	(21) 443-0389 Fax: (21) 443-1200 Email: tiziana.ferrari@za.ey.com

This chapter reflects revised tax rates and thresholds announced in the budget speech. These revised rates and thresholds are contained in legislation that was in draft format but had not yet been promulgated at the time of writing. It is highly unlikely that the revised amounts will differ from the amounts contained in the final legislation.

This chapter reflects a revision of the immigration legislation that has been approved by parliament and is expected to be gazetted in 2011. 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 three 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 minimis* 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 "tiebreaker" 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 less than 20% 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 22,300 (R 32,000 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 3,500 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 currently imposed on interest. However, effective from 1 January 2013, a withholding tax of 10% will be imposed on interest paid to nonresidents that is not otherwise exempt. Effective from that date, the general exemption for nonresidents will apply only to bank interest and interest on government securities.

Interest paid to all individuals is exempt from tax up to R 22,800 (R 33,000 for individuals older than 65 years of age). Nonresidents who do not qualify for the above exemptions must file a normal tax return.

Taxation of employer-provided stock options and other incentive plans. The difference between the market value of shares and similar rights as of the date of vesting (for tax purposes) and the consideration given by the employee is taxed in South Africa if the incentive is related to services rendered in South Africa.

Residents are taxable on the whole gain, regardless of source, unless they are exempt under the extended absence rule (see *Who is liable*). Any subsequent gain on actual disposal is generally subject to capital gains tax (CGT). However, if the resident is classified as a share dealer, the gain is subject to income tax instead of CGT. Also, see footnote (i) to Appendix 1.

Nonresidents are subject to income tax on the part of the gain that relates to the period of South African service. Nonresidents are generally not subject to CGT on any subsequent gain on actual disposal. However, if a nonresident employee is classified as a share dealer, the gain is subject to income tax.

Deductions

Deductible expenses. Expenses not of a capital nature that are incurred in earning taxable income are generally deductible. Donations to public benefit organizations are deductible, up to 10% of taxable income.

The maximum deduction for current approved South African 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
- 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 720 per month for the individual
- A further R 720 per month for the first dependant, and an additional R 440 per month for each dependant 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 are considered to be taxable fringe benefits. However, an employer may be allowed a deduction of contributions made to medical aid funds subject to the limits discussed above. In addition, an individual may obtain a secondary medical

aid deduction to the extent that the total of the following amounts exceeds 7.5% of taxable income:
- Employee contributions not allowed as deductions
- 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 2011–12 tax year, a primary rebate of R 10,755 is deducted from tax payable on taxable income. The amount of the rebate for individuals 65 years of age and older is R 16,767.

Individuals younger than 65 years of age who have taxable income of less than R 59,750 are not subject to tax. For individuals 65 years of age and older, the threshold is R 93,150.

Rates. All individuals are taxed at the same rates. The rates for the 2011–12 tax year are presented in the following table.

Taxable income		Tax on lower	Rate on
Exceeding R	Not exceeding R	amount R	excess %
0	150,000	0	18
150,000	235,000	27,000	25
235,000	325,000	48,250	30
325,000	455,000	75,250	35
455,000	580,000	120,750	38
580,000	—	168,250	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 or trust (if 80% of the value is attributable to real estate), or the assets of a permanent establishment in South Africa. A deemed capital gain arises on the loss of tax resident status.

For individuals, an R 20,000 annual exemption of capital gains or reduction in capital losses is allowed. Only 25% of capital gains (after the exemption) is taken into account for CGT purposes. Consequently, 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 and a formula calculation or a formal valuation is used to determine the base value at that date. 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 1,500,000. If the proceeds on the disposal of a primary residence are less than R 2 million, any capital gain is excluded.

Capital losses, other than those incurred on the disposal of personal-use assets (assets used primarily for purposes other than the carrying on of a trade), may offset capital gains. However, net capital losses may not be offset against regular taxable income. Excess losses may be carried forward indefinitely to offset future gains (subject to the R 20,000 annual reduction, which is discussed above).

Estate duty and donations tax. Estate duty and donations tax are levied at a flat rate of 20% on net assets at death and all capital transfers concluded for no consideration or for inadequate consideration.

Exemptions from donations tax are granted for donations of up to R 100,000 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 3,500,000 plus the value of bequests to a surviving spouse. If the deceased spouse's estate has not fully used the R 3,500,000 exemption, the balance can be used in the estate of the surviving spouse.

Residents are subject to estate duty and donations 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 donations tax.

To prevent double taxation, South Africa has entered into estate tax treaties with the following countries.

Botswana	Swaziland	United States
Lesotho	United Kingdom	Zimbabwe

Transfer duty. Transfer duty is levied on the acquisition of fixed property with a value exceeding R 600,000. The rate of the duty on property with a value exceeding R 600,000 depends on the purchase price of the property; the maximum rate is 8% which applies to property with a value exceeding R 1,500,000. 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 149,736). 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 261,893. 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. Under the Pay-As-You-Earn (PAYE) system, resident employers or representative employers for nonresident employers must deduct tax monthly from the remuneration of their employees and must pay these amounts to the Inland Revenue. If a nonresident employer does not have a place of business in South Africa or an agent who is authorized to pay wages, no PAYE liability is likely to arise. 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 issuance), unless the taxpayer is subject solely to Standard Income Tax on Employees (SITE), which is a final withholding system for employees earning less than R 60,000. SITE is in the process of being phased out.

Provisional taxpayers. Persons deriving income, excluding exempt income, of R 20,000 or more a year from sources other than remuneration are considered provisional taxpayers and are required to make provisional tax payments each year on 31 August and in the following year on 28 February and 30 September. The second provisional tax estimate must be at least 90% of the taxpayer's actual income for the year to avoid penalties. 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 if their annual taxable income is R 120,000 or less and if their income consists solely of remuneration, interest, dividends or rent from the lease of fixed property.

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	Romania
Australia	Iran	Russian
Austria	Ireland	Federation

Belarus
Belgium
Botswana
Brazil
Bulgaria
Canada
China
Croatia
Cyprus
Czech Republic
Denmark
Egypt
Ethiopia
Finland
France
Germany
Ghana
Greece
Grenada
Hungary
India
Israel
Italy
Japan
Korea (South)
Kuwait
Lesotho
Luxembourg
Malawi
Malaysia
Malta
Mauritius
Mozambique
Namibia
Netherlands
New Zealand
Nigeria
Norway
Oman
Pakistan
Poland
Portugal
Saudi Arabia
Seychelles
Sierra Leone
Singapore
Slovak Republic
Spain
Swaziland
Sweden
Switzerland
Taiwan
Tanzania
Thailand
Tunisia
Turkey
Uganda
Ukraine
United Kingdom
United States
Zambia
Zimbabwe

South Africa is also negotiating tax treaties with the following countries.

Angola (a)
Bangladesh (a)
Cameroon (a)
Chile (a)
Congo (Democratic Republic of) (b)
Cuba (a)
Estonia (a)
Gabon (b)
Germany (c)
Kenya (a)
Latvia (a)
Lesotho (c)
Lithuania (a)
Madagascar (a)
Malawi (c)
Mauritius (c)
Mexico (a)
Morocco (a)
Namibia (c)
Netherlands (c)
Qatar (a)
Rwanda (b)
Senegal (a)
Serbia and Montenegro (a)
Singapore (c)
Sri Lanka (a)
Sudan (b)
Switzerland (c)
Syria (a)
United Arab Emirates (a)
Vietnam (a)
Zambia (c)
Zimbabwe (c)

(a) This treaty is under negotiation, but it is not yet finalized.
(b) This treaty has been ratified by South Africa, but it is not yet effective.
(c) This treaty will replace an existing treaty.

F. Visitors' visas

To obtain a visitor's visa for recreational purposes only, 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, Cayman Islands, Falkland Islands, Gibraltar, Montserrat 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
Luxembourg
Malta
Mexico
Monaco
Netherlands
New Zealand
Norway
Paraguay
Portugal
St. Vincent and 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 departure date. 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. The visitor must also produce a valid return air ticket.

Certain activities need to be approved in advance by applying for the appropriate permission before departure for South Africa. This applies equally to citizens of visa and non-visa exempt countries. Holders of visitor's visas may not change the status or condition of their visas while in South Africa and will be required to return to their country of usual residence and apply for a different type of visa abroad. The activities referred to above include the following:

• Attending business meetings or work-related activities
• Attending short courses at educational institutions

• Performing voluntary or charitable activities
• Conducting research

G. Work visas

Types of work visas. Work visas fall into the following four categories:
• Critical skills work visas
• General work visas
• Intracompany transfer work visas
• Corporate work visas

Critical skills work visas. Critical skills work visas may be issued to individuals possessing skills and qualifications determined to be critical for South Africa as per a notice in the *Government Gazette*.

General work visas. General work visas are issued to individuals who do not fall in a critical skills category. The South African employer needs to prove through advertisements and interviews that a suitably skilled or experienced South African citizen or resident could not be found to fill the position offered. The applicant's qualifications need to be certified by the South African Qualifications Authority.

Intracompany transfer work visas. Intracompany transfer work visas are issued when an employee is seconded from his or her place of employment abroad to an affiliated company or branch in South Africa. These types of visas are nonrenewable. If the employer wishes to extend the expatriate's secondment to South Africa thereafter, a different type of work visa must be obtained.

Corporate work visas. Corporate work visas may be issued to a corporate applicant to employ foreigners to conduct work for the applicant in South Africa. Corporate work visas are issued to the employer, allowing the employer to employ a set number of employees in specified positions in South Africa.

To qualify, the corporate applicant must conduct business in sectors mentioned from time to time in the *Government Gazette*.

The immigration authorities determine, in consultation with prescribed departments, the maximum number of foreigners to be employed under a corporate visa.

The corporate applicant must undertake that it will take prescribed measures to ensure that foreign employees comply with the provisions of immigration legislation and the conditions of the corporate visa. In certain circumstances, the corporate applicant may be required to post financial guarantees to defray deportation or other costs in the event that the corporate visa is withdrawn.

The corporate applicant must make corroborated representations with respect to the need to employ foreigners, the job descriptions, the number of South African citizens and permanent residents employed and other prescribed matters.

A foreigner employed under the terms of a corporate visa must work for the holder of that corporate visa.

Other requirements. Expatriates may not change employers or terms of employment without prior approval from the immigration authorities. If an expatriate does not comply with the conditions of his or her visa or if he or she contravenes the immigration legislation, the expatriate is classified as an illegal foreigner.

Employers must make a good faith effort to ascertain that no illegal foreigner is employed by them and to ascertain the status of the visa or citizenship of individuals employed by them.

Employers must keep prescribed records relating to employment up to two years after the termination of a foreigner's employment. The employer must report to the immigration authorities termination of a foreigner's employment and a breach by a foreigner of his or her status.

If an illegal foreigner is found on any premises where a business is conducted, the legislation presumes that the foreigner was employed by the person who has control over the premises, unless evidence to the contrary is provided. Stiff penalties in the form of fines and imprisonment can be imposed on both the employer and employee.

H. Self-employment

A business visa may be issued to a foreigner who intends to establish or invest in, or who has established or invested in, a business in South Africa in which he or she will be employed.

Appropriate visas are issued to family members accompanying the business owner.

A business visa requires a minimum capital investment of R 2,500,000 derived from abroad that is invested and retained in the book value of the business.

The business must comply with any relevant registration requirements of the South African Revenue Service. The business visa holder must undertake to employ a prescribed percentage or number of South African citizens or permanent residents within a period of 12 months from the date of issuance of the visa.

Confirmation of continued compliance with immigration legislation is required on a biannual basis.

I. Other temporary residence visas

The following temporary residence visas may be issued:
- Study visa for individuals wishing to study in South Africa
- Treaty visa for individuals participating in a program established under a treaty
- Medical visa for individuals wishing to obtain medical treatment in South Africa
- Crew visa for officers or members of the crew of a public conveyance in transit in South Africa
- Relatives' visa for individuals intending to visit relatives within the first step of kinship for up to 24 months (work not permitted)
- Retired persons' visa for individuals intending to spend part or all of their retirement in South Africa
- Exchange visa for individuals who are taking part in an exchange program of a public higher educational institution and for persons under the age of 25 who have completed their studies and intend to spend one year in South Africa to gain work experience in their field of study

- Asylum transit visa for individuals seeking asylum
- Cross-border visa for individuals regularly crossing the border at a port of entry

J. Permanent residence

Permanent residence may be granted to the following individuals:

- Individuals who have been married to, or living with, a South African citizen or resident for a minimum of five years
- Children under the age of 21 of a South African resident
- Children of a South African citizen
- Individuals who have held a South African work visa for five continuous years and have received an offer of permanent employment
- 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 are refugees referred to in Section 27(c) of the Refugees Act
- Individuals who hold a combination of assets realizing an income of R 20,000 per month
- Individuals who are relatives of a South African citizen or resident within the first step of kinship

A permanent residence permit may be withdrawn if the holder is convicted of specified offenses or fails to comply with the requirements of the permanent residence permit. Absence from South Africa of more than three uninterrupted years causes the permanent residence permit to be withdrawn.

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	(a)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Employer-provided housing	—	X	(c)
Education reimbursement	X	—	(d)
Hardship allowance	X	—	—

	Taxable	Not taxable	Comments
Other allowance	X	—	—
Foreign-service premium	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 meals provided	X	—	(f)
Value of lodging provided	X	—	(b)(e)(g)
Subsistence allowance for travel within South Africa	—	X	(g)
Other items			
Foreign-source personal ordinary income (interest)	X	—	(h)
Capital gain from sale of personal residence in home country	—	X	—
Capital gain from sale of stock in home country	—	X	(i)

(a) The item is not taxable depending on the circumstances.
(b) Residential accommodation provided to an employee who is away from his or her usual place of residence for purposes of employment is not taxable for the first two years if the employee was not in South Africa for more than 90 days in the preceding year of assessment or if the cost of the residential accommodation exceeds R 25,000. 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.
(c) Accommodation provided to expatriates is exempt for the first two years if the employee was not in South Africa for more than 90 days in the preceding tax year and if the value of the accommodation does not exceed R 25,000 per month.
(d) 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 100,000 and if the bursary does not exceed R 10,000.
(e) 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.
(f) 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.
- The meals are provided by the employer in conjunction with residential accommodation.

(g) An employee who is away on business in South Africa is entitled to a tax-free subsistence allowance of R 85 per day (R 276 per day if the employer does not provide meals in conjunction with accommodation). For business travel outside South Africa, the amount is US$215 per day, regardless of whether accommodations are supplied by the employer.
(h) Worldwide investment income earned by an ordinary resident is taxable. Local dividends are exempt from South African tax. However, foreign dividends are subject to South African tax.
(i) If shares or other rights are acquired from or by arrangement with an employer, the employee is taxed in South Africa on the difference between the market value of the shares or rights when they vest and the consideration given by the employee. For this purpose, vesting contemplates the removal of all restrictions

on ownership or dealing freely with the share or right. Consequently, employees are subject to income tax on the full appreciation in the value of their stock options and other rights, as of the date on which the restrictions 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. If a gain relates to periods of employment within and outside South Africa, the gain is generally apportioned on a time basis.

Appendix 2: Sample tax calculation

The following sample tax calculation reflects the 2011–12 tax rates.

	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)	
Total deductions		(43,750)
Taxable income		378,250
Calculation of tax		
Income tax on R 325,000	75,250	
Income tax on R 53,250 at 35%	18,638	93,888
R 378,250		
Primary rebate		(10,755)
Tax due		83,133
Employee's tax deducted		(82,504)
Tax payable		629

Spain

(Country code 34)

Madrid **GMT +1**

Ernst & Young
Torre Picasso – 5th Floor
Pza. Pablo Ruiz Picasso, 1
28020 Madrid
Spain

Executive contacts

Bárbara Pardo de Santayana	915-727-410 Fax: 915-727-711 Email: barbara.pardosantayana@es.ey.com
Marta Álvarez-Novoa	915-727-410 Fax: 915-727-711 Email: marta.alvareznovoa@es.ey.com

Judith Sans *(resident in Barcelona)*	933-663-756 Fax: 934-397-891 Email: judith.sansoto@es.ey.com
Fernando Lopez Olcoz	915-727-424 Fax: 915-727-711 Email: fernando.lopezolcoz@es.ey.com
José Maria Leis Mayan	915-727-627 Fax: 915-727-711 Email: josemaria.leismayan@es.ey.com
Oscar Izquierdo Perez	915-725-039 Fax: 915-727-711 Email: oscar.izquierdoperez@es.ey.com
Almudena Ollero Borrero	915-727-569 Fax: 915-727-711 Email: almudena.olleroborrero@es.ey.com
Ana Zarazaga Rodriguez	915-727-455 Fax: 915-727-711 Email: ana.zarazagarodriguez@es.ey.com

Immigration contacts

María Del Mar Morales	915-727-724 Fax: 915-727-711 Email: mariadelmar.moralescarmona@es.ey.com
María Concepcion Sastre *(resident in Barcelona)*	933-663-772 Fax: 934-397-891 Email: mariaconcepcion.sastrepoyo@es.ey.com

A. Income tax

Who is liable. Individuals performing activities in Spain are subject to tax 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 considered residents 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 a 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 modified 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 must not have been a Spanish tax resident in the last 10 years.
- The assignment in Spain must be based on a labor contract (Spanish local contract or letter of assignment).
- The employment must be physically performed in Spain and for the benefit of a Spanish company.
- The individual must apply for this special regime within six months of his or her arrival in Spain in accordance with the

established election procedure. This six-month period cannot be extended.
- The expected employment compensation derived from the labor contract must not exceed €600,000 per year.

If the above election is made, the individual is subject to tax on employment income at a flat rate of 24%, instead of at the progressive resident tax rates of up to 49%, which depend on the autonomous community in which the taxpayer resides (other rates may apply to different types of income). The election is effective for 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 €60,100 if certain conditions are met.

Irregular employment income (earned over a period that is longer than two years) may be eligible for a 40% reduction 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 24% tax on gross self-employment and business income after deducting certain expenses related to the business and the activity performed, such as salaries paid, materials purchased and miscellaneous expenses.

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 24%.

Investment income. Resident individuals are subject to tax on rental income and other consideration derived from the lease of rural or urban real estate at the rates described in *Rates*. Nonresident individuals are subject to tax on such income at a flat rate of 24%. Net income from the rental of property may be reduced by 50% if the property is destined for living. This reduction may be increased to 100% if the tenant meets certain conditions.

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 residence or not leased, the law presumes an income of 2% of the cadastral value (1.1% if the cadastral value of the real estate was increased after 1 January 1994). If the cadastral value is not determined, then presumed income is calculated by applying 1.1% to half of the value assessed in accordance with the principles of valuation for purposes of the net worth tax (see Section B).

Income from movable 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. Dividends are exempt up to a maximum of €1,500 per year.

In determining net income from personal property, limited administration expenses are deductible.

Spanish residents are subject to tax on dividends, interest and capital gains (regardless of the holding period) at the following rates:
• The first €6,000 at a rate of 19%
• Amount exceeding €6,000 at a rate of 21%

Tax nonresidents in Spain are subject to tax on dividends, interest and capital gains at a flat rate of 19%.

Income from public debt or nonresident bank accounts and income derived from the sale of shares or reimbursement of participations in investment funds in official Spanish markets are not taxable if Spain and the country of the taxpayer's residence have entered into a double tax treaty that includes an exchange-of-information clause.

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 attributed to the members who own the property. For spouses under the community property regime, 50% of the income must be attributed 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).

Income derived from employer-provided stock options up to an annual limit of €12,000 may be exempt from tax for active employees if all of the following conditions are met:
• 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%.
• 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 2011, this amount is €22,100.

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 by tax residents are taxed at a rate of 19% on the first €6,000 and at a rate of 21% on the amount exceeding €6,000. For tax nonresidents, the tax rate is 19%.

For Spanish tax residents only, capital losses incurred on sales of assets may be offset against capital gains. Any 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 and allowances

Deductible expenses. Social security contributions may be deducted in computing taxable employment income for tax residents. In addition, the following reductions are allowed:

- A standard reduction of €4,080 if a taxpayer's annual net employment income does not exceed €9,180
- A reduction of €4,080 less 35% of the net employment income exceeding €9,180 for net income between €9,180 and €13,260
- A reduction of €2,652 if net employment income exceeds €13,260

These amounts may be increased for disabled taxpayers and workers over 65 years of age, and in certain other cases.

Contributions to a regulated pension plan reduce the tax base. The annual deduction is limited to the lesser of €10,000 (€12,500 if the individual is more than 50 years old) or 30% of net employment income or business income (50% if the individual is more than 50 years old). In addition to the deduction described in the preceding sentence, individuals 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 expenses that do 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. The allowances listed below reduce an individual's tax liability by an amount resulting from the application of the progressive tax rates to the total allowances. They do not reduce the tax base. The following are the allowances.

Allowance	Amount (€)
Personal allowance	5,151
Allowance for taxpayers over 65 years of age	6,069
Allowance for taxpayers over 75 years of age	7,191
Allowance for handicapped taxpayer for whom the grade of disability equals or exceeds 65%	7,038

Allowance	Amount (€)
Allowance for handicapped taxpayer for whom the grade of disability is less than 65%	2,316
Allowance for handicapped taxpayer needing help with mobility	2,316 (additional)
Each ascendant living with taxpayer whose annual income is less than €8,000	
Over 65 years of age	918
Over 75 years of age	1,122
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%	7,038 (additional)
Other disabled individuals	2,316 (additional)
Each disabled individual needing mobility help	2,316 (additional)
Each dependent child under 25 years of age living with taxpayer whose annual income is less than €8,000	
First child	1,836
Second child	2,040
Third child	3,672
Fourth child and subsequent children	4,182
Child younger than three years of age	2,244 (additional)
Allowance for working mothers with a child up to three years old	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. Consequently, the final maximum marginal rate depends on the marginal tax rate of the autonomous community where the taxpayer resides. For example, the maximum marginal tax rate is 44.9% for an individual resident in Madrid and 49% for a resident of Cataluña.

Income derived by nonresidents is generally subject to a final tax of 24%. However, other rates may apply depending on the type of income. 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 tax rates of 19% and 21% (see *Investment income*).

See *Special expatriate tax regime* 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, such as for gifts to specified entities and for certain double tax relief.

In addition, the following investment tax credits are available.

Investment	Amount of credit
Under certain circumstances, amounts disbursed or deposited in a bank account to acquire taxpayer's place of residence	7.5% on maximum expenditure of €9,040
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 €9,040 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.

Relief for losses. Relief for losses may be available, subject to the limits and conditions established by law.

B. 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 with the deceased or beneficiary and type of asset.

Estate and gift tax rates vary depending on the autonomous region.

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 30.15% of salary. For 2011, the maximum base for employee contributions is €38,761.26. For 2011, the maximum annual contribution is €2,461.34 for employees and €11,686.52 per employee for employers.

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	Japan	Tunisia
Australia	Mexico	Ukraine
Brazil	Morocco	United States
Canada	Paraguay	Uruguay
Chile	Peru	Venezuela
Colombia	Philippines	
Dominican Republic		

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) must 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 excess 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.

Albania	Germany	Panama
Algeria	Greece	Philippines
Argentina	Hungary	Poland
Australia	Iceland	Portugal
Austria	India	Romania
Belgium	Indonesia	Russian Federation
Bolivia	Iran	Saudi Arabia
Bosnia-Herzegovina	Ireland	Serbia
Brazil	Israel	Slovak Republic
Bulgaria	Italy	Slovenia
Canada	Jamaica	South Africa
	Japan	

Chile
China
Colombia
Costa Rica
Croatia
Cuba
Cyprus
Czech Republic
Ecuador
Egypt
El Salvador
Estonia
Finland
France
Georgia
Kazakhstan
Korea (South)
Latvia
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mexico
Moldova
Morocco
Netherlands
New Zealand
Norway
Pakistan
Sweden
Switzerland
Thailand
Trinidad and Tobago
Tunisia
Turkey
USSR*
United Arab Emirates
United Kingdom
United States
Uruguay
Venezuela
Vietnam

* 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.

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.

A new regulation, which entered into force on 16 March 2008, applies to EU nationals and to nationals of the European Economic Area (EEA), which comprises Iceland, Liechtenstein and Norway, as well as to nationals of Switzerland. This regulation continues to provide for the right of freedom of movement, residence and work in Spain for these nationals. The most important change introduced by the regulation is that partners appearing in an official register have the same rights as spouses.

EU nationals, EEA nationals and Swiss nationals, who wish to reside in Spain for more than three months, must go to the police station within the first three months after their entry into Spain and register in the Central Registry for Foreigners (Registro Central de Extranjeros). The police station issues a certificate that includes the name, nationality and domicile of the foreigner, his or her identification number and the date of the registration. This certificate replaces the identification card.

Relatives of EU nationals, EEA nationals and Swiss nationals with a third-country nationality must apply for a special residence card indicating that they are a relative of these nationals. They will have the same rights as other EU nationals, EEA nationals and Swiss nationals. However, for an individual to obtain a residence card, the marriage must be registered in an EU country's registry. These rights also apply to partners of EU nationals, EEA nationals and Swiss nationals with a third-country nationality who are registered as partners in an official registration.

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 EEA nationals and to EU nationals also apply to nationals of Switzerland.

Effective from 1 January 2007, Bulgaria and Romania joined the EU. As a result of their entry into the EU, their citizens enjoy the general right to freedom of movement between EU member states. Effective from 1 January, 2009, Bulgarian and Romanian nationals do not need work permits and have the same administrative obligations as other EU nationals.

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 European, 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 fixed 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 €100,000 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 for 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, 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. 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. If the foreign country and Spain have entered into a social security agreement, the work permit may have a duration equal to the period established in the social security agreement.

To qualify for a cross-border work permit, an individual must have been working for the company that posts him or her at least for nine months. 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.

Special work permits for scientists. Special work permits may be issued to foreigners who are assigned to special research projects in Spain and fulfill certain conditions, such as entering into an agreement (*convenio de acogida*) with respect to the research project.

Students. Students may work in Spain if certain requirements are met.

Blue Card work permit. For some qualified employees (university degree of at least three years or five years of experience in the position), a Blue Card can be issued. The Blue Card allows the foreigner to do the following:

- He or she may work and reside in Spain.
- He or she may move freely for business purposes up to 90 days in EU territory.
- After holding the Blue Card for 18 months, he or she may apply for a new Blue Card in another country of the EU if he or she fulfills the internal immigration requirements for the country.

The members of an employee's family can obtain residence permits at the same time as the employee.

To work in Spain, the following conditions must be satisfied:

- The employee is "high qualified" (see *Special immigration procedure for "high qualified" employees, top executives, scientists and international artists*).
- The salary is at least 1.5 times the gross annual salary. For 2011, the annual gross salary is €21,500.
- Persons in the Spanish labor market cannot fill the position.

This Blue Card has an initial period of two years and it can be renewed for two periods of two years each. Subsequently, the foreigner can apply for an EU permanent residence permit.

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.

Other. With respect to the issuance of work permits, the Spanish unemployment rate is taken into account except in the following cases:

- The employee is posted to a branch of the company.
- The Spanish company has the required attributes for applying for the work permit at the Big Companies Unit (Unidad de Grandes Empresas, or UGE). UGE is the Spanish immigration office for large companies.

Special immigration procedure for "high qualified" employees, top executives, scientists and international artists. Royal Decree 557/2011 now contains the expedited procedure for applying for work permits for the following types of applicants:

- An individual holding a senior executive – or managing director-type position with the Spanish company
- An individual holding a position that is "high qualified"
- Scientists and international artists

The following are the advantages of the special procedure:
- The deadlines for the government bodies are much shorter than the normal procedure. The Immigration Office has only one month to grant or deny the work permit application and the Spanish Consulate only has 10 days to issue the visa.
- The relatives of the applicant can obtain the corresponding residence permits under the same procedure and within the same deadlines.
- It is not necessary to file a certificate issued by the Spanish labor authorities providing the results of the search for a Spaniard to fill this position.

To apply for this procedure, the company or employer must submit information specifying the estimated investment in its project and/or the number of job positions to be created and must provide documentary proof showing that the company fulfills one of the requirements listed below:
- A payroll of more than 500 workers in Spain who are registered with Spanish social security
- Annual report approved at the company's general shareholders' meeting, together with certification by an outside auditor, indicating that the company meets the threshold of net turnover of €200 million or stockholders' equity in Spain of €100 million
- Certification from the Investment Register of the General Subdirectorate for Foreign Investments proving that at least €1 million of the company's capital is fully funded through foreign sources

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 (except for the new immigration procedure applicable to high qualified employees, top executives, scientists and international artists), 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 – Área 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 work contract, signed by the company's representative and the employee, with a special clause stating that the contract will enter into force when the work permit is granted.
- 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, including Form A-6 (Inscripción en la Seguridad Social) and Forms TC-1/TC-2 (Boletines de Cotización) for the last three months paid. The Spanish immigration authorities can check these documents under new rules.
- 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
- A certificate describing the relationship between the executive and the company (for example, member of the board of directors)
- Evidence of the company's inscription in the Mercantile Registry

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 copy of the individual's social security certificate of coverage, if applicable.

The application, together with all of the documents mentioned above, 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 residence 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 Spanish 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 Visa Application 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 with a legal permit 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.
- Four passport-size photographs.
- 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:
  - — It shows the title of "Medical Certificate."
  - — It clearly and fully identifies both the doctor and the applicant.
  - — It certifies that the doctor has examined the applicant and that the examination included a laboratory test.

- It certifies 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.
- It is 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 one week 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. After obtaining the visa, the individual should enter Spain within the following three months (this period should be always checked with the Consulate).

Provincial Directorate of the Police. If labor authorities grant a work permit, they transmit the applicant's materials to the Provincial Directorate of the Police, for the processing of the residence permit. The applicant's employer is also notified of certain administrative costs that must be paid to the Economy and Finance Ministry.

If the work permit is denied, an appeal may be filed with the Ministry of Labor and Social Issues and, if necessary, with the courts. In practice, 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, the company has three months to register the employee at the Social Security office. Within a month after registration at the Social Security office, or the entry of the foreigner in the case of a cross-border work permit, the applicant must 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. The applicant is normally required to bring the following items:

- The original letter from the labor authorities notifying the applicant of the approval of the work permit
- 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
- An invoice establishing that the required fees have been paid to the Economy and Finance Ministry

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 permits are being processed, 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 national 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
- 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.
- He or she is qualified to assemble or repair imported machinery or equipment.
- He or she is a director of the company with a power of attorney to sign on behalf of the company.
- He or she is a "high qualified" employee (see *Special immigration procedure for "high qualified" employees, top executives, scientists and international artists*).
- He or she is a famous artist.

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 four additional years.

It is also possible to apply for a Non-Lucrative Residence Permit if the applicant can prove that he or she has a monthly financial support of at least 400% of the Public Income Indicator of Multiple Effects (Indicador Publico de Renta de Efectos Múltiples, or IPREM). IPREM is a Spanish economic index. For 2011, IPREM equals €532.51 (it may change each year).

Marital property regime. The community property 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, the mandatory marital property regime is the regime 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 six months. 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 10% of the remaining employment income of the employee:

- Value assessed to the house for urban real estate purposes
- Acquisition value
- 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 transfer are not taxable.

(e) Meals and lodging expenses incurred while traveling for business are nontaxable up to certain limits.

(f) Up to €60,100 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 considered 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 and a maximum marginal tax rate of 45% (including both the general and autonomous community tax rates) applies.

	Joint tax return €	Individual spouse A €	Individual spouse B €
Gross employment income earned by one member of the married couple	150,000.00	150,000.00	—
Spanish social security	(2,461.34)	(2,461.34)	—
Employment reduction	(2,652.00)	(2,652.00)	—
Net employment income	144,886.66	144,886.66	—
Gross income from real estate property	56,000.00	28,000.00	28,000.00
Deduction for interest expense	(7,000.00)	(3,500.00)	(3,500.00)
Net income from property	49,000.00	24,500.00	24,500.00
Total taxable income	193,886.66	169,386.66	24,500.00
Personal allowances:*			
Joint tax return	3,400.00	—	—
Personal	5,151.00	5,151.00	5,151.00
First child	1,836.00	918.00	918.00
Second child	2,040.00	1,020.00	1,020.00
Total personal allowances	12,427.00	7,089.00	7,089.00
Tax base	193,886.66	169,386.66	24,500.00
Total tax	73,719.15	64,745.40	4,450.35

* Personal allowances reduce the tax liability (see Section A).

Sri Lanka

(Country code 94)

Colombo	GMT+6

Ernst & Young
Mail address:
P.O. Box 101
Colombo 10
Sri Lanka

Street address:
201 De Saram Place
Colombo 10
Sri Lanka

Executive contacts

Lakmali Chandrika Nanayakkara	(11) 268-6249, 557-8100 Fax: (11) 557-8180 Email: lakmali.nanayakkara@lk.ey.com
Duminda Hulangamuwa	(11) 267-8007, 557-8101 Fax: (11) 557-8180 Email: duminda.hulangamuwa@lk.ey.com

A. Income tax

Who is liable. Resident individuals are taxed on worldwide income. Resident employees earning remuneration from employment exceeding Rs. 600,000 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. A resident guest and a dual citizen are subject to tax only on income derived in Sri Lanka.

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 (see below), 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.

The value of the benefit to the employee from the allotment or the grant of the shares (that is, the exercise of the option and transfer of ownership of the shares to the employee) is taxable as employment income. The taxable amount equals the fair market value of the shares on the date of exercise of the option less the amount paid by the employee for the shares, if any. Effective from 1 April 2011, the exemption granted to employee share option schemes approved by the Commissioner General of Inland Revenue is withdrawn.

Certain travel benefits, such as the value of benefit from a motor vehicle provided by the employer or an allowance not exceeding Rs. 50,000 instead of the provision of a motor vehicle are not taxable, effective from 1 April 2011. The cost of passage for noncitizens with respect to employment duties is also not taxable.

Effective from 1 April 2011, amounts received from approved or regulated provident funds as terminal benefits from employment are exempt from income tax.

Effective from 1 April 2011, the employment income of government-sector employees is taxable, except for the following items:
• Pensions or retirement benefits
• Benefit from a motor vehicle provided by the employer or an allowance up to Rs. 50,000 per month instead of a motor vehicle
• Rental value of an official residence provided by the government

Directors' fees not included in payroll are subject to withholding tax at rates of 10% and 16% on payments less than Rs. 25,000 per month and exceeding Rs. 25,000, respectively.

Compensation derived by certain government employees, diplomatic representatives and officials employed by international agencies such as the United Nations is exempt from tax.

Compensation earned by resident individuals in foreign currency for duties performed abroad is exempt from tax if the funds are remitted to Sri Lanka.

Income earned by individuals and partnerships for services rendered in or outside Sri Lanka to persons outside Sri Lanka is exempt from income tax if such income is remitted to Sri Lanka less reasonable expenses. If such exempt income is invested in treasury bonds denominated in foreign currency, a duty concession of up to 25% on the import of a vehicle by the professional is granted. This concession also applies to Sri Lankan professionals living overseas who invest foreign currency in treasury bonds.

Emoluments earned by a resident individual from employment on a ship that is owned or chartered by an offshore-registered company or that is deemed to be a Sri Lankan ship under the Merchant Shipping Act is exempt from income tax.

Income earned in foreign currency by a resident individual from services rendered outside Sri Lanka in carrying out a construction project is exempt from income tax if such income less any reasonable expenses are remitted to Sri Lanka through a bank.

Income from employment under "qualified persons" received by "qualified individuals" in foreign currency is taxed at a concessionary rate of 20%. In this context, "qualified persons" are persons or partnerships whose profits are exempt from income tax under Section 13 (ddd) of the Inland Revenue Act.

Payments made to government employees for emergency or priority services or special tasks are exempt from income tax.

Employment income resulting from participation in an international event in Sri Lanka by a noncitizen is exempt from income tax.

The employment income of pilots who are citizens of Sri Lanka is taxed at a concessionary rate of 20%.

Income of noncitizen artists and entertainers is subject to tax at a rate of 12%.

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 8%. The partnership tax is payable on the excess of Rs. 600,000 of the divisible profits. The individual partners can claim a credit for their pro rata share (based on the profit-sharing ratio) of the income tax and Economic Service Charge (see Section B) paid by the partnership against their individual income tax liabilities.

Agriculture, including primary processing income, is taxed at a maximum rate of 10%. Income derived from manufacturing of animal feed, promotion of tourism, livestock and construction is taxed at a concessionary rate of 12%.

Income from the provision of educational services is taxed at a maximum rate of 10%.

Income from a business carried on for storage, software development and supply of labor is taxed at a maximum rate of 10%.

Fifty percent of profits and income derived from sales or any other transactions with respect to a book written by an individual is exempt from income tax for a one-year period beginning with the date of first publication.

Fifty percent of the profits and income derived from the production of a drama is exempt from income for a one-year period beginning with the date of the first public performance.

Profits and income derived from a song or musical composition derived by the lyricist, the composer or the singer is exempt from income tax.

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 at least 1,500 square feet (139.35 square meters) is exempt from income tax for five years, beginning with the year in which construction is completed, if the construction is completed before 1 April 2008. If the floor area of the house is less than 1,500 square feet, the duration of the exemption is increased to seven years. For a residential house completed after 1 April 2008, rental income is exempt for five years if the floor area is less than 500 square feet.

Interest income accruing from money deposited in a Treasury Bond Investment External Rupee Account is exempt from income tax.

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.

The withholding tax rate on interest paid by banks and financial institutions to individuals varies according to the amount of annual assessable income declared by the individual to the bank or financial institution. The following are the rates, effective from 1 April 2011.

Annual assessable income declared Exceeding Rs.	Not exceeding Rs.	Withholding tax rate %
0	500,000	0
500,000	1,500,000	2.5
1,500,000	—	8

If no declaration is made, the withholding tax rate is 8%. This is the final tax on such interest.

A final withholding tax at a rate of 10% is imposed on interest income from corporate debt securities at the time of issuance of the security. The issuer must estimate the interest component that would accrue on the debt security and withhold the 10% tax up front at the time of issuance.

Interest income up to Rs. 500,000 that accrues 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.

Interest or discounts arising or accruing to any nonresident citizen of Sri Lanka on the purchase of Motherland Development Bonds denominated in foreign currency issued by the government of Sri Lanka is exempt from income tax.

Interest or discounts on Sri Lanka Development Bonds denominated in U.S. dollars, which are issued by the Central Bank of Sri Lanka, is exempt from income tax.

Interest or discounts on sovereign bonds that are denominated in foreign currency and issued on or after 21 October 2008 by the government of Sri Lanka to nonresident persons is exempt from income tax.

Dividends and interest on investments made outside Sri Lanka are exempt from income tax if such income is remitted to Sri Lanka through a bank.

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 and income derived from the sale of sovereign bonds by nonresident persons are exempt from income tax.

Profits and income derived from the sale of Sri Lanka Development Bonds are exempt from income 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. 500,000 (also applicable to nonresident citizens).
- An additional tax-free allowance of Rs. 100,000 if the only source of income is employment income.
- 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 certain approved investments and life and medical insurance premiums.
- Approved donation relief, limited to donations made to charities established for the provision of institutionalized care for the sick and needy.
- Insurance premiums paid under special insurance policies covering incurable diseases (excluding such premiums paid outside Sri Lanka for policies issued outside Sri Lanka).
- 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. The relief is limited to expenditure incurred before 1 April 2011.

Deductions of annuities, royalties and interest on housing loans are not allowed with respect to employment income.

No qualifying payment relief is granted with respect to employment income.

Rates. The rates of income tax that apply to resident individuals for the income year of 1 April 2011 through 31 March 2012 are set forth in the following table.

Taxable income		
Exceeding Rs.	Not exceeding Rs.	Rate %
0	500,000	4
500,000	1,000,000	8
1,000,000	1,500,000	12
1,500,000	2,000,000	16
2,000,000	3,000,000	20
3,000,000	—	24

Noncitizens who are employed in Sri Lanka are treated as resident individuals for income tax purposes. However, such individuals are liable only for their income arising in Sri Lanka until the date of cessation of employment in Sri Lanka. The above rule also applies to noncitizens who are employed in Sri Lanka by undertakings that have entered into agreements with the Board of Investment (BOI) of Sri Lanka.

The following are exceptions to the above rule regarding noncitizens:

- Noncitizens employed by undertakings that entered into an agreement with the BOI before 31 December 1994 and that are currently enjoying a tax holiday are exempt from income tax until the end of the tax holiday of the employer.

- Noncitizen employees who are employed by undertakings that have entered into agreements with the government of Sri Lanka providing for the exemption of emoluments or by Strategic Development Projects gazetted by the BOI are exempt from income tax.

The following special rules apply to certain types of income:
- Income derived by citizens of Sri Lanka who are employed as pilots of airlines licensed under the Air Navigation Act is taxed at a maximum rate of 20%.
- The relevant part of employment income received in foreign currency by "qualified individuals" employed by "qualified persons" is taxed at a maximum rate of 20%. "Qualified individuals" and "qualified persons" are defined in the Inland Revenue (Amendment) Act.
- Fifty percent of the profits and income derived from the sale of books written by an individual is exempt from tax for one year from the date of first publication.
- Fifty percent of the profits and income derived from the production of a drama is exempt from tax for one year from the date of first public performance.

For a sample tax calculation, see Appendix 2.

Relief for losses. Losses from a trade, profession or vocation (other than a loss carryforward) may be deducted from statutory income. A business may set off loss carryforwards and losses incurred during the current year, against the total statutory income, subject to a limitation of 35% of the total statutory income in that year, and the balance may be carried forward indefinitely.

Capital losses were 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 (paid for by inward remittances of foreign currency), 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. Individuals residing abroad who were previously citizens of Sri Lanka and who invest in Motherland Development Bonds are also exempt from transfer tax on the acquisition of property in Sri Lanka.

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%, 0.25%, 0.1% or 0.05% of the turnover, depending on the type of enterprise. Turnover for a quarter exceeding Rs. 25 million is subject to ESC. The maximum ESC liability is Rs. 30 million per quarter.

Nation Building Tax. Nation Building Tax (NBT) is payable by persons who carry on the business of manufacturing or importing or who provide services. Certain specific exemptions are provided. The tax rate is 2%, which is applied to total turnover if the turnover exceeds Rs. 500,000 per quarter. For turnover from certain specified goods and services, NBT liability results from turnover exceeding Rs. 25 million per quarter.

Value-added tax. The standard rate for value-added tax (VAT) is 12%. A 0% rate applies to exports of goods and services. Certain goods and services are exempt from VAT.

Stamp duty. The government stamp duty which was abolished, effective from 1 May 2002, was reintroduced, effective from 3 April 2006. The reintroduced stamp levy is imposed on the following:
- Specified instruments executed, drawn or presented in Sri Lanka
- Specified instruments executed outside Sri Lanka with respect to property in Sri Lanka and presented in Sri Lanka

It does not apply to the following:
- Instruments and documents already subject to debits tax
- Letters of credit that are subject to Ports and Airport Development Levy
- Specified instruments exempted by gazette notifications

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. 5 million (if the period of contributions exceeds 20 years) or Rs. 2 million (in other cases) are taxed at a maximum rate of 10%. 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. 1,800,000 or the average salary for the last three years of employment, multiplied by the number of years of service.

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.

Employees who have no other income, other than dividend and interest income from which a 10% withholding tax has been deducted, are not required to file an income tax return, effective from the 2011-12 year of assessment.

Existing files for individuals in cases subject to the above rule will be closed.

Tax deducted under the PAYE scheme is considered the final tax on employment income.

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 September following the tax year. Penalties are levied on late or insufficient payments.

The following concessions and incentives are provided to good taxpayers:
- 10% reduction in tax payable for quarterly 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
- Duty concessions on imports of vehicles if more than Rs. 250,000 has been paid as income tax for the preceding 10 consecutive years, beginning 1 April 2001

E. Double tax relief and tax treaties

Sri Lanka has entered into double tax treaties with the following countries.

Australia	Italy	Russian Federation
Bangladesh	Japan	Saudi Arabia*
Belgium	Korea (South)	Singapore
Canada	Kuwait	Sweden
China	Malaysia	Switzerland
Denmark	Mauritius	Thailand
Finland	Nepal	United Arab Emirates*
France	Netherlands	United Kingdom
Germany	Norway	United States
Hong Kong*	Oman*	Vietnam
India	Pakistan	
Indonesia	Poland	
Iran	Romania	

* 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, in general, 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.

- 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 three 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. Extensions beyond three months are considered if valid reasons for the extension exist.

Nationals of the following countries may obtain visit visas at the port of entry into Sri Lanka.

Albania
Armenia
Australia
Austria
Azerbaijan
Bahrain
Bangladesh
Belarus
Belgium
Bhutan
Bosnia-Herzegovina
Brunei Darussalam
Bulgaria
Canada
China
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Georgia
Germany
Greece
Hong Kong
Hungary
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Japan
Kazakhstan
Korea (South)
Kuwait
Kyrgyzstan
Latvia
Lithuania
Luxembourg
Macedonia
Malaysia
Maldives
Moldova
Montenegro
Nepal
Netherlands
New Zealand
Norway
Oman
Pakistan
Philippines
Poland
Portugal
Qatar
Romania
Russian Federation
Saudi Arabia
Serbia
Seychelles
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sweden
Switzerland
Tajikistan
Thailand
Turkey
Turkmenistan
Ukraine
United Arab Emirates
United Kingdom
United States
Uzbekistan
Vietnam

Foreign nationals other than those from the countries listed above must obtain visas at the Sri Lanka diplomatic missions in their countries before 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. 15,000. 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	—	X	(b)
Maintenance of employee-owned 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.
- For furnished accommodation, an additional Rs. 1,500 per month is added to the value.

(b) Cash benefits provided by an employer to an employee with respect to a vehicle is exempt from income tax up to a maximum of Rs. 50,000 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
- 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 the allotment or grant of the shares. The employee is taxed on the difference between the market price of the shares on the date of allotment or grant and the cost of the shares to the employee.

Appendix 2: Income tax calculation

A sample tax calculation is provided below for an expatriate employee who is taxed as a resident individual, effective from 1 April 2011. It is assumed that the income of this individual consists only of employment income.

	Rs.	Rs.
Calculation of taxable income		
Salary	3,600,000	
Cash allowances	1,200,000	
Bonus	25,000	
Housing benefit	180,000	
Furniture	18,000	
Other benefits	240,000	
Total salary and benefits		5,263,000
Tax borne by employer		1,051,642*
Personal allowance		(600,000)
Taxable income		5,714,642
Calculation of tax		
Tax on Rs. 500,000 at 4%		20,000
Tax on Rs. 500,000 at 8%		40,000
Tax on Rs. 500,000 at 12%		60,000
Tax on Rs. 500,000 at 16%		80,000
Tax on Rs. 1,000,000 at 20%		200,000
Tax on Rs. 2,714,642 at 24%		651,514
Rs. 5,714,642		
Total tax payable		1,051,514

* The rate of tax on tax when the tax is borne by the employer is 31.6%.

Swaziland

Please direct all inquiries regarding Swaziland to Rendani Neluvhalani of the Johannesburg, South Africa office (office telephone: + 27 11 772 3948; fax: +27 11 772 4948; email: rendani.neluvhalani@za.ey.com) or Josephine Banda of the Gaborone, Botswana office (office telephone: +267 397 4078; fax +267 397 4079; email: josephine.banda@za.ey.com).

A. Income tax

Who is liable. Individuals are taxed on employment and self-employment income from sources in or deemed to be in Swaziland except to the extent that the income is of a capital nature. An amount is deemed from a source in Swaziland if it is paid for services rendered or work or labor performed by a person in Swaziland regardless of whether the payment is made by a resident or nonresident of Swaziland.

Income subject to tax. The various types of income subject to tax are described below.

Employment income. Employees are subject to tax on their remuneration, which consists of salary, wages, leave pay, allowances, overtime pay, bonuses, gratuities, commissions, fees, emoluments, pensions, superannuation allowances, retirement allowances, stipends, honoraria and lump-sum payments. These items are included in remuneration regardless of whether they are paid in cash or whether they relate to services rendered. Employment income also includes the annual value of benefits with respect to any quarters, board or residence, loans granted to employees, payments for restraint of trade (lump-sum payments to employees with unique or specialized expertise in exchange for the agreement of the employees not to provide services to entities or persons in direct competition with the payer), share options and employers' contributions to approved bursary schemes for the benefit or educational assistance of the children of employees or dependants of employees.

Investment income. Dividends paid to resident individuals are subject to 10% withholding tax that is a final tax.

Interest or dividends of up to E 20,000 accruing from the following is exempt from tax:
- Subscription shares in building societies registered under the Building Societies Act 1962
- Permanent or fixed-period shares in building societies registered under the Building Societies Act 1962
- Society shares from savings at mutual loan associations or cooperative societies
- Deposits in financial institutions, building societies or the Swaziland Development Savings Bank established under the Swaziland Development and Savings Bank Order 1973
- Deposits in unit trust companies

Self-employment and business income. Persons receiving income other than remuneration, such as self-employment income, must submit an income tax return when the Commissioner of Taxes issues a notice for the submission of returns.

Directors' fees. A director is an employee as defined in the Income Tax Order. Directors' fees are considered to be remuneration and are subject to the Final Deduction System (FDS; see Section D) at a marginal rate of 33% (the highest applicable tax rate).

Taxation of employer-provided stock options. An employee is liable to tax on 50% of the difference between the value of the shares and the amount paid by the employee for shares issued to an employee under an employee share acquisition scheme. Employees are taxed on the same basis for both share acquisition and share option schemes. Employees are also taxable on gains derived from the disposal of a right or option to acquire shares under an employee share acquisition scheme.

Capital gains and losses. Swaziland does not impose capital gains tax.

However, during the 2010 budget speech, it was proposed that Swaziland introduce a capital gains tax. The proposed rate of the tax and the implementation date have not yet been announced.

Deductions

Deductible expenses. Expenses are deductible to the extent that they are incurred both in and outside Swaziland in the production of taxable income. However, they are not deductible if they are of a capital nature.

Personal deductions and allowances. Contributions to approved pension funds are deductible to the extent that the total amount does not exceed 10% of an individual's pensionable salary. Contributions to a retirement annuity fund are deductible to the extent that they do not exceed 15% of the taxable income accruing to that person from a trade carried out by that person. If an individual contributes to both pension and retirement annuities, the total deductible amount is restricted to 15% of taxable income.

Rates. The following are the personal income tax rates in Swaziland.

Taxable income		Tax on lower	Rate on
Exceeding E	Not exceeding E	amount E	excess %
0	60,000	0	20
60,000	80,000	12,000	25
80,000	100,000	17,000	30
100,000	—	23,000	33

For a sample tax calculation, see Appendix 1.

Credits. Individuals below the age of 60 as of the last day of the year of assessment (1 July through 30 June) are entitled to an annual rebate of E 7,200. Individuals above the age of 60 as of the last day of the year of assessment are entitled to an annual primary rebate of E 7,200 and a secondary rebate of E 2,000, resulting in a total rebate of E 9,200. The rebate is apportioned if the period of assessment is less than one year.

Relief for losses. Losses may be carried forward indefinitely and deducted from taxable income. Losses incurred by individuals from one business cannot be offset against income from another business.

B. Other taxes

Wealth tax and net worth tax. Swaziland does not impose a wealth tax or net worth tax.

Property tax. Transfer duty is levied on the transfer of immovable property. The duty is based on the purchase price or value of the property. The following are the rates:
• 2% on first E 40,000
• 4% on the next E 20,000
• 6% on the amount exceeding E 60,000

Local authorities tax. Local authorities impose tax based on the value of the immovable properties located in their jurisdictions.

Graded tax. Graded tax of E 1.50 per month is levied on each Swazi adult.

C. Social security contributions

Employers and employees must each make monthly contributions of E 57.50 to the Swaziland National Provident Fund (SNPF).

D. Tax filing and payment procedures

The year of assessment (tax year) runs from 1 July through 30 June.

Swaziland has adopted the Final Deduction System (FDS) with respect to all individuals who receive employment income only. The FDS requires the employer to deduct and remit employees' tax as a final tax. Consequently, employers must deduct tax from their employees' remuneration and remit it to the Commissioner of Taxes. The FDS system is a Pay-As-You Earn (PAYE) system in which the employer makes the final deduction of tax on the employee's tax. Unlike under a normal PAYE system in which the tax authority makes the final adjustment of individual tax on the submission of a return, under the FDS system, the employer may make adjustments to the employee's tax at the end of the year with respect to any overpayment or underpayment of tax during the year.

Employees must submit tax returns regardless of whether the deductions were made under the FDS system during the year. Tax returns must be submitted within 30 days after the issuance of the Commissioner of Taxes' public notice. They are generally due by 31 October of each year. The tax must be paid within the time period prescribed in the notice of assessment.

A person who receives income other than remuneration as defined in the Income Tax Order is a provisional taxpayer. Provisional taxpayers must make provisional tax payments based on tables prescribed by the Commissioner of Taxes and file income tax returns. Fifty percent of the provisional tax must be paid within six months after the beginning of the year of assessment (less any employee's tax deducted by the taxpayer's employer). The balance is payable by the last day of the year of assessment.

Directors of private companies must file their income tax returns together with their companies' returns.

E. Double tax relief and tax treaties

Swaziland has entered into double tax treaties with Mauritius, South Africa and the United Kingdom.

F. Temporary visas

Visitors' visas are issued to foreign nationals who visit Swaziland. To obtain a visitor's visa, an individual needs to submit the following:

- One recent passport photograph
- Passport that is valid for at least three months before expiration
- Supporting documents or motivation letter that explain briefly the purpose of the visit
- Invitation letter from the host institution or individual
- Itinerary including accommodation arrangements

A single-entry visa costs R 80. The following are the costs for a multiple-entry visa:

- 3 months: R 300
- 6 months: R 700
- 9 months: R 1,000
- 12 months: R 1,300

The processing time for a visa is normally two to three days.

Nationals from the following countries are not required to obtain a visa when travelling to Swaziland.

Andorra
Argentina
Australia
Austria
Bahamas
Barbados
Belgium
Bosnia-Herzegovina
Botswana
Brazil
Canada
Chile
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Gambia
Germany
Ghana
Greece
Greenland
Hungary
Kenya
Latvia
Lesotho
Liechtenstein
Lithuania
Luxembourg
Madagascar
Malawi
Malaysia
Malta
Monaco
Namibia
Nauru
Netherlands
New Zealand
Norway
Papua New Guinea
Poland
Portugal
Russian Federation
Samoa
San Marino
Serbia
Seychelles
Sierra Leone
Singapore
Slovenia
Solomon Islands
Tonga
Trinidad and Tobago
Turkey
Uganda
Ukraine
United States
Uruguay
Zambia
Zimbabwe

United Nations passport holders do not need a visa to enter Swaziland.

Nationals of European Union (EU) member states (other than British subjects, which are citizens of the United Kingdom and its colonies) and countries not mentioned above require visas.

G. Entry permits

The following are the classes of entry permits:

- Class A: An individual who is offered specific employment that will be beneficial to Swaziland by a specific employer and is qualified to undertake such employment
- Class B: An individual who holds a dependant's pass and is offered specific employment that will be beneficial to Swaziland by a specific employer
- Class C: An individual who is a member of a missionary society approved by the government of Swaziland and whose presence in Swaziland will be beneficial to Swaziland
- Class D: An individual who intends to carry out agricultural or animal husbandry activities, has been granted permission to acquire suitable land and has enough capital resources to undertake such activities
- Class E: An individual who intends to undertake prospecting or mining activities, has obtained or has been assured of obtaining the necessary right or license and has enough capital and other resources to carry out such activities

- Class F: An individual who intends to engage in a specific trade, business, or profession (other than a prescribed profession), has obtained or is assured of obtaining the necessary authorization for the purpose and has the necessary capital and other resources to engage in that trade or profession
- Class G: An individual who intends to engage in specific manufacturing, has obtained or is assured of obtaining the authorization to undertake such activity and has enough capital and resources
- Class H: A member of a prescribed profession who holds the prescribed qualifications and has the necessary capital and resources to practice such profession
- Class I: A person who is at least 21 years of age and is deriving income from sources outside Swaziland or from property located or a pension or annuity payable from sources in Swaziland and undertakes not to be employed in Swaziland

H. Residence permits

Temporary residence permits can be granted to the following:

- Dependants
- Students
- Employees
- Businesspersons

I. Family and personal considerations

Marital property regime. Two types of marriages are solemnized in Swaziland. These are the western/civil rights marriage, which has community property provisions, and the customary marriage, which does not have community property rights.

Drivers' permits. Foreigners who enter Swaziland are free to use their home country drivers' licenses or permits.

Appendix 1: Sample tax calculation

The following is an annual tax calculation for an employee who is age 38 in Swaziland.

	E	E
Calculation of taxable income		
Gross salary		108,000.00
Less: allowable deductions		
Pension contributions	5,400.00	
SNPF contributions	690.00	
Total deductions		(6,090.00)
Taxable income		101,910.00
Calculation of income tax		
Tax on first E 100,000.00		23,000.00
Tax on balance of E 1,910.00 at 33%		630.30
Total tax		23,630.30
Tax rebate		(7,200.00)
Annual tax payable		16,430.30
PAYE calculations		
Monthly		
E 16,430.30 ÷ 12		1,369.19

	E	E
Weekly		
E 1,369.19 ÷ 4		342.30
Daily		
E 1,369.19 ÷ 30		45.63

Sweden

(Country code 46)

Stockholm **GMT +1**

Ernst & Young
Mail address:
Box 7850
103 99 Stockholm
Sweden

Street address:
Jakobsbergsgatan 24
Stockholm
Sweden

Executive and immigration contact

Astrid Randahl
(8) 520-597-28
Email: astrid.randahl@se.ey.com

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 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 deduction equals SEK 105 per day for the first 30 days.

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.
- 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 an average of 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 or earned.

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.
- 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)
- 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. The effective tax rate on such gains is approximately 22% 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. Effective from January 2009, employees who are resident in Sweden at the time of exercise are subject to tax on 100% of the stock option income, regardless of whether the options were fully or partially vested before the individual moved to Sweden. If double taxation occurs, the individual may be entitled to a foreign tax credit or tax exemption, depending on the applicable tax treaty. 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 must be deducted from the employee's normal salary and forwarded to the tax authorities as normal withholding on salary.

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 22/30 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 22%. A substantial portion of capital losses, which varies depending on the asset generating the loss, may be deducted against capital gains and investment income.

Deductions

Deductible expenses. The principal deductions allowed are interest expense, expenses for travel between home and work and for business, payments for pension insurance premiums, and alimony payments.

Interest expenses may be deducted from investment income. If the expenses exceed investment income, 30% of the expenses up to SEK 100,000 may be credited against taxes payable. For expenses exceeding SEK 100,000, the percentage of the tax credit is reduced to 21%.

Under certain conditions, travel costs between home and work that exceed SEK 9,000 are deductible. The amount deductible if using a private automobile is SEK 1.85 for each kilometer traveled. An employee is also entitled to a deduction of SEK 1.85 for each kilometer traveled in a private automobile to carry out the employer's business.

Pension insurance premiums and pension savings account payments are generally deductible. The maximum annual deduction is limited to SEK 12,000 unless the individual's employer does not offer an occupational pension plan. In such circumstances, further deductions may be possible. Only annuity schemes with a pension payment period of at least five years are recognized for tax purposes.

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 2011, the amount of the basic local and state deduction ranges from a minimum of SEK 12,600 to a maximum of SEK 33,000. However, this does not imply that all income in excess of SEK 12,600 is taxed because, under other measures, no tax is payable if total income does not exceed SEK 18,200 (for 2011). Accordingly, up to this low level of income, the personal deduction does not apply. Beyond an income level of SEK 18,200 the personal deduction supersedes the exemption rule and it gradually increases up to an income in the bracket of SEK 116,400 to SEK 133,600. Thereafter, it is reduced to reach the lower limit of SEK 12,600 at an income of SEK 336,700.

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 2011, employment income is subject to both national income tax and local income tax, at the rates set forth below.

Employment income over SEK 395,600, up to SEK 560,900 (before the personal deduction), is subject to national tax at a flat rate of 20%. Income over SEK 560,900 is subject to national tax at a rate of 25%.

Local taxes are levied on employment income at rates ranging from 29% to 36%.

Nonresidents who perform work in Sweden are taxed at a flat rate of 25%, and no deductions are allowed. This tax is imposed 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.

Credits. Employee social security contributions described in Section C are credited against income taxes in the year paid. Because the tax authorities automatically subtract this credit when computing individuals' final tax assessments, taxpayers receive this credit without claiming it on their returns.

A tax credit applies to income from employment or self-employment. This tax credit is calculated on the basis of the eligible income. Depending on the amount of income and the amount of local tax, the annual amount of the credit ranges from approximately SEK 100 at a very low income level to approximately SEK 20,800. The latter is reached at an income of SEK 335,000. For individuals age 65 and older, the credit is somewhat higher and can reach a maximum of SEK 30,000.

A tax credit is granted for expenses with respect to so-called household or housekeeping services. Such services include cleaning, childcare in the home, cooking, laundry and garden maintenance as well as personal care and assistance to handicapped or elderly members of the household. The tax credit is granted against tax payable and calculated as 50% of actual costs up to an annual maximum limit of SEK 100,000. As a result, the maximum annual tax credit is SEK 50,000.

Under a bill recently passed by the Swedish parliament, the above tax credit is also available for certain maintenance and repair costs on the taxpayer's home or summer house if the taxpayer owns his or her home or summer house. The credit is granted only for labor costs and the costs must be substantiated by invoices. The home or summer house must be located within the European Union (EU)/European Economic Area (EEA).

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. The net wealth tax was abolished, effective from 1 January 2007.

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 2011, the total average rate for most employers is 31.42%.

For employees under age 26 at the beginning of the income year, the rate of social security taxes is reduced to 15.49%.

If the individual was born between 1938 and 1944 (both years inclusive), the rate is 10.21%. For employees born in 1937 or earlier, no social security tax is payable.

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 income base units. In 2011, one income base unit equals SEK 52,100. As a result, the ceiling for the calculation of contributions is now SEK 420,447 and, accordingly, the capped contribution is SEK 29,400. This pension insurance contribution is fully creditable against tax.

Certain expatriates may apply to qualify for an exemption of certain remuneration from Swedish social security contributions (see Section A).

The employee social security contributions described above are credited against income taxes in the year paid. For details, see Section A.

Self-employed individuals. Self-employed individuals are subject to social security taxes on their net taxable profit. For 2011, after deducting the cost of social security taxes, the nominal tax rate is 28.97% for income from a business actively conducted by an individual. For self-employed individuals born in 1985 or a later year, the rate is reduced to 14.88%. In addition, the rate is 10.21% for individuals born between 1938 and 1945 (both years inclusive). The rate is 0% for individuals born in 1937 or earlier. For other business income, the rate is 24.26%.

Totalization agreements. To provide relief from double social security taxes and to assure benefit coverage, Sweden has entered into totalization agreements with various countries, including EU/EEA countries. Some of the totalization agreements apply only to certain parts of the social security taxes. The following is a list of the totalization agreement countries.

Austria
Belgium
Bosnia-Herzegovina
Canada
Cape Verde
Chile
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Israel
Italy
Latvia
Liechtenstein
Lithuania
Luxembourg
Malta
Morocco
Netherlands
Norway
Poland
Portugal
Quebec
Serbia and Montenegro
Slovak Republic
Slovenia
Spain
Switzerland
Turkey
United Kingdom
United States

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 non-employment 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 (b)	Philippines
Argentina	India	Poland
Australia	Indonesia	Portugal
Austria	Ireland	Romania
Bangladesh	Israel	Russian Federation
Barbados	Italy	Singapore
Belarus	Jamaica	South Africa
Belgium	Japan	Spain
Bolivia	Kazakhstan	Sri Lanka
Botswana	Kenya	Switzerland
Brazil	Korea (South)	Taiwan
Bulgaria	Latvia	Tanzania
Canada	Lithuania	Thailand
Chile	Luxembourg	Trinidad and
China (a)	Macedonia	Tobago

Cyprus	Malaysia	Tunisia
Czechoslovakia (c)	Malta	Turkey
Denmark (b)	Mauritius	Ukraine
Egypt	Mexico	USSR (c)
Estonia	Morocco	United Kingdom
Faroe Islands (b)	Namibia	United States
Finland (b)	Netherlands	Venezuela
France	New Zealand	Vietnam
Gambia	Norway (b)	Yugoslavia (c)
Germany	Pakistan	Zambia
Greece	Peru	Zimbabwe
Hungary		

(a) The treaty does not apply to Hong Kong.
(b) Sweden has signed the Nordic Mutual Assistance Treaty, together with Denmark, the Faroe Islands, Finland, Iceland and Norway.
(c) Sweden will apply the treaties with Czechoslovakia, 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.

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

In December 2008, the Swedish parliament enacted legislation revising the rules regarding work permits. The intention was to facilitate the hiring by Swedish employers of non-EU/EEA citizens with special skills. The legislation transfers the responsibility for determining the availability of the needed skills from the Labour Boards and the Immigration Board to the individual employers.

Citizens of EU/EEA-member countries and Switzerland 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 “end user” (the company for which the individual performs work in Sweden if not the formal and legal employer; the formal employer is normally the legal employer) in Sweden. In situations in which the foreign (non-EU/EEA or Swiss) national is a new hire (by the formal employer), the position must be posted on the EU job exchange (EURES) network before a job offer is issued to the foreign national.

Non-EU/EEA nationals 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 terms of the offer of employment must comply with current collective bargaining agreements concerning wages and other benefits or, if no collective agreements exist, market practice. They must also provide social security coverage or adequate health insurance, as well as practical assistance with housing arrangements.

An application is normally approved if an employer claims that a certain individual is required for specialized activities or otherwise possesses qualities that are scarce in Sweden and needed by the employer. In general, applicants involved in intracompany transfers are 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/EEA-member countries must register for residence. The filing of residence registration is allowed only if the individual is employed or can prove other means of support. EU nationals must file their residence registration within three months after their time of arrival in Sweden. A valid passport and an employment statement from the employer or other evidence of financial support for the stay in Sweden must be submitted with the registration form.

Nationals of other Nordic countries do not need residence permits, but they 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 contributions received by employee	X	—	—
Housing contributions paid by employee	(X)	—	—
Educational reimbursement	X	—	(c)
Hardship allowance	X	—	—
Other allowances	X	—	—
Premium allowance	X	—	—

	Taxable*	Not taxable	Comments
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)
Value of household services	X	—	(f)
Other items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(g)
Capital gain from sale of personal residence in home country	X	—	—
Foreign capital gains, dividends and interest	X	—	(g)

* 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 the 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 value of household services provided by an employer is a taxable benefit for the employee. However, the law provides that a tax credit may be granted up to a maximum amount of SEK 50,000. The credit equals 50% of the cost of services, up to a maximum cost of SEK 100,000, including value-added tax, per year.

(g) The income is taxable if the expatriate is considered to be resident in Sweden for tax purposes.

Appendix 2: Sample tax calculations

The following are sample tax calculations for a resident and a nonresident of Sweden.

	SEK
Resident	
Employment income	600,000
Basic allowance	(12,600)
Taxable earned income	587,400

	SEK
Municipal tax:	
(SEK 587,400 at 31%)	182,094
National tax:	
([SEK 587,400 - SEK 383,000] at 20%	
+ [SEK 587,400 - SEK 548,300] at 5%)	42,835
Employee social security tax	29,400
Total tax	254,329
Tax credit for employment income	(20,878)
Tax credit for 100% of social security tax	(29,400)
Tax due	204,051

Nonresident

Gross employment income (net taxable income)	600,000
National tax (SEK 600,000 at 25%)	150,000

Switzerland

(Country code 41)

Zurich **GMT +1**

Ernst & Young
Bleicherweg 21
P.O. Box 5272
CH-8022 Zurich
Switzerland

Executive contacts

Kevin Cornelius	(58) 286-56-78 Fax: (58) 286-56-60 Email: kevin.cornelius@ch.ey.com
Dr. Michael Hildebrandt	(58) 286-52-45 Fax: (58) 286-51-05 Email: michael.hildebrandt@ch.ey.com
Dominik Bürgy	(58) 286-44-35 Fax: (58) 286-31-90 Email: dominik.burgy@ch.ey.com

Immigration contacts

Andrea Kaiser	(58) 286-32-46 Email: andrea.kaiser@ch.ey.com
Andrea Bantle	(58) 286-32-69 Email: andrea.bantle@ch.ey.com

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
- 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:
- 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)
- 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. At the cantonal level, tax is also assessed 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:
- Interest in Swiss real estate
- Interest in a Swiss partnership or sole proprietorship
- Trade or business attributable to a Swiss permanent establishment or fixed place of business

• 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)
• 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) and social security contributions (unless the terms of an applicable totalization agreement specify otherwise).

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.

Dividends received are taxed as ordinary income. However, if the recipient of a dividend owns at least 10% of the share capital of the payer company, only 60% of the dividend is taxable for the purpose of the federal income tax. Some cantons have adopted similar rules.

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.

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 granted are 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 exercise 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 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.

A federal law that might come into force (probably in January 2012) will affect the cantonal practice. It will be binding for all Swiss cantons.

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
- 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 entered into inheritance tax treaties with the following countries.

Austria	Germany	Sweden
Denmark	Netherlands	United Kingdom
Finland	Norway	United States
France		

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 10.3% of total salary, with no ceiling; the employer and employee each pay 5.15%. The employee's share is withheld monthly by the employer. In addition, contributions at a rate of 2.2% on annual salary up to CHF 126,000, and 1% on annual salary from CHF 126,001 up to CHF 315,000 must be made to the unemployment insurance fund. This cost is also divided equally between the 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. Self-employed individuals must make social security contributions at a maximum rate of 9.7% of their income from their business or profession. The 9.7% 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.

Australia	Hungary	Poland
Austria	Iceland	Portugal
Belgium	India	Quebec
Bulgaria	Ireland	Romania
Canada	Israel	San Marino
Chile	Italy	Slovak Republic
Croatia	Latvia	Slovenia
Cyprus	Liechtenstein	Spain
Czech Republic	Lithuania	Sweden
Denmark	Luxembourg	Turkey
Estonia	Macedonia	United Kingdom
Finland	Malta	United States
France	Netherlands	Yugoslavia (former)*
Germany	Norway	
Greece	Philippines	

* This treaty applies to Bosnia-Herzegovina, Montenegro and Serbia.

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.

Under an agreement between Switzerland and the European Union (EU), Switzerland applies European Regulation 1408/71, which overrules the bilateral totalization agreements listed above with respect to Swiss and EU nationals.

New Regulation (EC) No. 883/2004 of the European Parliament and the Council of 29 April 2004 on the coordination of social security schemes is expected to be applied, most probably, from 1 January 2012. This may have a significant impact on the social security situation of mobile employees.

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
Algeria
Argentina
Armenia
Australia
Austria
Azerbaijan
Bangladesh
Barbados
Belarus
Belgium
Bulgaria
Canada
Chile
China
Côte d'Ivoire
Croatia
Czech Republic
Denmark
Ecuador
Egypt
Estonia
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Jamaica
Japan
Kazakhstan
Korea (South)
Kuwait
Kyrgyzstan
Latvia
Liechtenstein
Lithuania
Luxembourg
Macedonia
Malawi
Malaysia
Mexico
Moldova
Pakistan
Philippines
Poland
Portugal
Qatar
Romania
Russian Federation
Serbia
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sri Lanka
Sweden
Thailand
Trinidad and Tobago
Tunisia
Ukraine
United Kingdom

Finland	Mongolia	United States
France	Montenegro	Uzbekistan
Germany	Morocco	Venezuela
Ghana	Netherlands	Vietnam
Greece	New Zealand	Zambia
Hungary	Norway	Zimbabwe

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 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.
- 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
- 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 Migration Office, have a quota of permits at their disposal. In other words, each canton may issue residence permits to year-round residents and short-term residents, up to a predetermined number, usually for a 12-month period. Since January 2011 the quotas are split between third-state nationals and assigned EU/European Free Trade Association (EFTA) nationals.

In general, residence permits for first-time residents are granted only if no Swiss or EU/EFTA nationals or current permit holders can be found. However, this rule does not apply to qualified intragroup transfers.

Short-term residence permits. One category of short-term residence permits is the 4-months/120-days permit, which does not fall under the Swiss quota system discussed above. 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-months/120-days 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.

Short-term residence permits (L-Permits) for a period between 4 months and one year are generally issued for project-related stays or short-term assignments. After one year, the L-Permit may be extended for another year. In addition, the authorities tend to first issue L-Permits and convert them into B-permits (see *Year-round residence*) after the maximum duration of 24 months is reached, because quotas for B-Permits are very scarce.

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 generally routinely renewed.

In this category, the Federal Migration 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, but the permit card must be renewed every five years. The permit lapses 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 four years, the permit may be maintained if an application is filed before departure.

The cantonal rules determine the application process for residence permits. Consequently, the procedure for obtaining a residence permit varies accordingly. Processing time may take up to eight weeks after the filing of the application. As a result, applications should be filed well in advance.

Changes for EU nationals. Under the bilateral treaties between Switzerland and the EU, since June 2007 and May 2011 (May 2011 was the end of the transitional period for the eight EU member states that entered the EU in 2004; these countries are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia), Switzerland grants freedom of movement for EU nationals (except Bulgaria and Romania). An EU national employed in Switzerland may move to Switzerland and obtain a residence permit without having to meet any further requirements. Family members (regardless of their nationality) of EU nationals may move to and work in Switzerland. B-Permits are commonly issued to EU nationals for an initial period of five years.

Immigration of EU nationals into Switzerland may be limited during the period beginning 6 years after the bilateral treaties enter into effect and ending 12 years after that date, if the immigration of EU nationals has increased substantially. Bulgarian and Romanian nationals must apply as non-EU nationals for work permits. However a special quota applies to them. The bilateral treaties between Switzerland and the EU do not apply to assigned EU nationals. However, a notification process may apply for activities up to 90 days within a calendar year. Under the new rules (similar to the old regime), retirees, students and other unemployed persons 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 B-Permit and 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 old 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.
- Parental supervision and school attendance 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
- 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
- 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, Canada, the United States 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	—

	Taxable*	Not taxable	Comments
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 or 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 to a specific project, limited to a duration of five years.
- 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 2011 is provided below for an expatriate who resides in Geneva, Switzerland for all of 2011 and is married with two dependent children under 18 years old (one is under 13 years old). During 2011, 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 82,200 for a single taxpayer and CHF 164,400 for a married couple, plus an additional CHF 41,100 per child).
- 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 7.22%		9,530

Syria

(Country code 963)

Damascus **GMT +2**

Ernst & Young
Mail address:
P.O. Box 30595
Damascus
Syria

Street address:
5th Floor – Rouya 4
8th Gate, Yafour
Damascus
Syria

Executive and immigration contacts

Abdulkader I. Husrieh	(11) 394-4000, Ext. 115 Fax: (11) 394-4009 Email: abdulkader.husrieh@sy.ey.com
Haytham Hassan	(11) 394-4000, Ext. 109 Fax: (11) 394-4009 Email: haytham.hassan@sy.ey.com
Narjes Tomeh	(11) 394-4000, Ext. 114 Fax: (11) 394-4009 Email: narjes.tomeh@sy.ey.com

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. However, interest on governmental securities is exempt under Legislative Decree No. 23 of 2011.
- 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.
- 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. In general, capital gains are included in taxable income and taxed at the rates applicable to business income (see *Rates*). However, a special tax rate applies to real estate.

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.
- Provisions made for the payment of employees' dismissal indemnities 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 for depreciation of real property.
- 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 general partnership companies, and general partners in limited partnership companies are entitled to an annual deduction of SYP 50,000 per partner.

Rates

Wages and Salaries Tax. The following are the rates of the Wages and Salaries Tax on employment income.

Taxable income Exceeding SYP	Taxable income Not exceeding SYP	Rate %
0	10,000	Exempt
10,000	15,000	5
15,000	20,000	7
20,000	25,000	9
25,000	30,000	11
30,000	38,000	13
38,000	50,000	16
50,000	75,000	19
75,000	—	22

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 10% of the tax due is imposed. The tax on income from movable capital and the surcharge are withheld at source.

Business income. Flat tax rates apply to Syrian joint stock and limited liability companies engaged in specified activities and to certain other companies, including the Syrian Petroleum Company and the Syrian Gas Company. Certain hotels are subject to special tax rates. Other types of businesses are subject to tax at the progressive rates shown in the following table.

Taxable income		
Exceeding SYP	**Not exceeding SYP**	**Rate %**
0	50,000	0
50,000	200,000	10
200,000	500,000	15
500,000	1,000,000	20
1,000,000	3,000,000	24
3,000,000	—	28

In addition, a municipality surcharge tax of 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 applicable tax rates:
- 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).

Tax is imposed at rates of 5% (treated as income tax) and 2% (treated as wages and salaries tax) of the total value of royalties and management fees received from companies and businesses other than oil and gas companies. These rates are increased to 7% (income tax) and 3% (wages and salaries tax) for royalties and management fees received from oil and gas companies.

Law No. 60 of 2004 requires that the taxes described above be remitted to the tax authorities within the first 15 days of the month following the month in which the payment to the recipient is made.

Legislative Decree No. 23 of 2011 differentiates between the following foreign entities:

- Foreign entities that have branches or temporary offices in Syria
- Foreign entities that do not have branches or temporary offices in Syria, but perform activities in Syria

Under Legislative Decree No. 23 of 2011, the first category is subject to Income Tax Law No. 60 of 2004 and the second category is subject to Income Tax Law No. 24 of 2003. The following are the tax rates under these laws.

Type of item	Tax rate under Law No. 60 %	Tax rate under Law No. 24 %
Food supplies	1	0
Supplies	2	0
Mixed services	4	4
Pure services	7	7

Legislative Decree No. 23 of 2011 is effective from 1 June 2011. However, the executive instructions to illustrate the application of the decree have not yet been issued.

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 provides special rules for the taxation of nonresident companies. These rules apply regardless of whether the nonresident company has a branch in Syria. The law states that contracts entered into by nonresidents before 2005 are subject to a tax treatment that differs from the contracts entered into in 2005 and subsequent years.

Contracts entered into before 2005. For contracts entered into before 2005, Wages and Salaries Tax and income tax are applied. The rates of these taxes are discussed below.

The following are the rates of Wages and Salaries Tax:
- One percent of the total value of turnkey projects. This 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 supplies.
- Two percent of the total value of turnkey projects. This is treated as the tax on salaries and wages for expatriates if only services are provided under the contract or if a clear split exists between services and pure supplies.

The following are the rates of income tax:
- 5% of the total value of turnkey contracts and contracts without a clear split between the value of services and pure supplies.
- 10% of the total value of services contracts and of fees paid for the exploitation of movies, equipment, patents, and commercial and industrial trademarks.

The taxes mentioned above must be withheld by the paying party and remitted to the tax authorities by the 15th day of the month following the month of the payments to the recipients.

Contracts entered into in 2005 and subsequent years. In 2004, Law No. 60 modified the above rates for all contracts concluded in 2005 and subsequent years. The following are the 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 (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 (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 of 2004 states that the taxes due must be remitted to the tax authorities within the first 15 days of the month following the month in which the payments to the recipients are made.

B. Other taxes

Property tax. Income from real property is taxed at rates ranging from 14% to 60%. The tax base is the estimated rental value, which takes into account certain factors, including the property's construction, location and total measured area.

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 15% of the value of the property as estimated by the Ministry of Finance.

Inheritance and gift tax. Legislative Decree No. 56 of 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.

Stamp duty. Stamp duties are imposed on contracts signed by two parties or any documents that include legal obligations between two parties. Stamp duty may be imposed at a fixed rate, which varies according to the type of the transaction, or at a proportional rate based on the value of the document subject to the duty. Stamp duty must be paid to the tax authorities within five days after the day following the date of signing the contract. Any delay is subject to a penalty equaling twice the amount of stamp duty due. The following are the rates of the stamp duty:
- Contracts that do not mention the amount: SYP 300 for each copy
- Contracts with a fixed amount: 0.4% for each copy
- Loan contracts: 0.3%
- Payment receipts: SYP 20

Air travel taxes. The following taxes are levied on air travel in Syria:
- Departure tax
- Exit tax on Syrian nationals
- Luxury tax

Departure tax. Departure tax is levied on non-Syrian passengers on international flights departing from Syrian airports. 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 at a fixed rate of SYP 1,500. Children under 10 and passengers in transit are exempt.

Luxury tax. Luxury tax is levied on first class tickets bought by passengers on domestic or international flights. The tax is charged at a rate of 10% of the applicable fare.

Under Legislative Decree No. 34 of 2009, the taxes mentioned above must be added to the price of the air ticket to facilitate the exit procedures at the airport.

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 on a monthly basis.

Under Law No. 34 of 2008, non-Syrian employees whose employment contracts were entered into outside Syria do not need to be registered at the Establishment of Social Security.

D. Tax filing and payment procedures

The fiscal year is normally the same as the calendar year. However, taxpayers may obtain the approval of the Minister of Finance to use different dates for the fiscal year. Taxpayers must use the form of tax return prepared by the Ministry of Finance, which must be signed by a licensed auditor. Taxes declared must be paid within 30 days of submission of the tax return.

Shareholding companies, limited liability companies, state-owned enterprises and large taxpayers must file their annual tax return by 31 May. Other taxpayers must file their income tax return by 31 March.

A delay fine of 10% of the assessed tax is imposed for the late filing of tax returns.

E. Double tax relief and tax treaties

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

Algeria	Jordan	Romania
Armenia	Korea (North)	Russian Federation
Bahrain	Kuwait	Saudi Arabia
Belarus	Lebanon	Slovak Republic
Bulgaria	Libya	Sudan
Croatia	Malaysia	Tunisia
Cyprus	Malta	Turkey
Egypt	Morocco	Ukraine
France	Oman	

India	Pakistan	United Arab Emirates
Indonesia	Poland	Yemen
Iran	Qatar	
Italy		

Syria has entered into limited tax treaties for sea and/or air transportation with Cyprus, France, Greece, Italy and the Netherlands.

F. Entry visas

A visa can be requested from the Syrian Embassy in the expatriate's country. The employer sends an invitation to the expatriate who must file an application. The issuance of the visa takes two to four weeks.

The following items are required to obtain a visa:
- A passport that is valid for six months at the time of submission and that has at least two blank pages and no Israeli stamps
- Two color passport photographs
- Two Syrian visa forms (per person) to be completed and signed

Holders of passports from the following countries do not require a Syrian visa.

Algeria	Libya	Sudan
Bahrain	Mauritania	Tunisia
Egypt	Morocco	Turkey
Jordan	Oman	United Arab Emirates
Kuwait	Qatar	Yemen
Lebanon	Saudi Arabia	

G. Work permits

Expatriates require work permits in order to work in Syria. Applications for these permits must be filed with the Ministry of Labour and Social Affairs. Permits are valid for one year and can be renewed.

Expatriates also require a residence permit, which is issued by the Ministry of the Interior.

The following items are required to obtain a work permit:
- Notarized employment contract signed between the employee and the employer or the license for practicing the profession for the employer
- Employee *curriculum vitae* (CV) and notarized translations of diplomas or certificates of education
- Notarized copies of licensing documents that support the operation of the company in Syria
- Copy of passport with two photos
- For employers that wish to employ expatriates, an unconditional bank guarantee in the amount of SYP 300,000 that is issued by one of the working banks in Syria must be deposited
- A license fee equal to 15% of the annual wages of the expatriate, limited to an amount of SYP 300,000, which must be paid to the Ministry of Labour and Social Affairs
- Application from Directorate of Social Affairs
- Certified residence document
- A document supporting the individual's social security contribution

To obtain a residence permit, a foreigner must submit the following documents to the Immigration and Passports Directorate within 15 days after entry into Syria:
- Residence application
- Copy of passport (copies of the name page and stamped page showing the last entry into Syria)
- Four handwritten declaration reports, which are submitted to the security departments
- Five personal photos
- Tuberculosis screening
- An accurate and clear residence address
- HIV blood test

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 Labour and Social Affairs within 48 hours of the beginning of 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
- 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 Emigration Department issues the resident permits.

Drivers' permits. Holders of foreign drivers' licenses may drive in Syria if they drive rental or diplomatic cars.

Taiwan

(Country code 886)

Taipei **GMT +8**

Ernst & Young
Taipei World Trade Center
International Trade Building
9th Floor
333, Keelung Road, Sec. 1
Taipei
Taiwan 110

Executive contact

Heidi Liu — (2) 2720-4000 Ext. 2705
Fax: (2) 2720-3179
Email: heidi.liu@tw.ey.com

Immigration contacts

Sophia Ni — (2) 2720-4000 Ext. 2209
Fax: (2) 2757-6049
Email: sophia.ni@tw.ey.com

Heidi Liu	(2) 2720-4000 Ext. 2705 Fax: (2) 2720-3179 Email: heidi.liu@tw.ey.com

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 where the compensation is paid.

Individuals are considered residents of 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.

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, but not including the voluntary pension contribution and the voluntary annuity insurance premiums based on the Labor Pension Act, which are up to 6% of the individual's monthly wage or salary
- Interest income
- Rental income and royalties
- Self-employment income from farming, fishing, animal husbandry, forestry and mining
- Gains 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, non-insurance old-age pension payments and insurance payments made under annuity insurance based on the Labor Pension Act received by the individual
- 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.

Under a recently issued tax decree, foreign professionals may qualify for preferential tax treatment. For details, see *Foreign professionals*.

For a table outlining the taxability of income items, see Appendix 1.

Employment income. In general, 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 an offshore employer, provided the payment is not charged back to any Taiwan entity; otherwise, the income is subject to an 18% 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 employment income, regardless of where the income is paid, at a fixed rate of 18% on salary income.

For individuals who stay in Taiwan less than 300 days in a calendar year, salary not borne by a Taiwan entity may be allocated based on the number of days present in Taiwan to determine the amount taxable in Taiwan.

The following benefits are exempt from consolidated income tax for all expatriates:

- 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 furniture purchased by a Taiwan-registered entity

Individuals who qualify as "Foreign Professionals" (see *Foreign professionals*) are also exempt from consolidated income tax on water, electricity, gas, telephone and cleaning services for expatriates' houses leased by Taiwan entities.

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. In addition, the following types of interest income are subject to withholding tax and are not included in gross income:

- Interest income from short-term commercial paper is subject to a 10% withholding tax for residents and 15% for nonresidents.
- Interest income from beneficiary securities or asset-based securities issued according to the Financial Asset Securitization Act and the Real Estate Securitization Act is subject to a 10% withholding tax for residents and 15% for nonresidents.
- Interest income from public debts, corporate bonds or financial bonds is subject to a 10% withholding tax for residents and 15% for nonresidents.

The rate of withholding tax on other interest for nonresidents is 20%. For dividends, the rate of withholding tax is 0% for residents and 20% for nonresidents.

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 10% for residents and 20% for nonresidents.

Other income. The taxable amount of a lump-sum severance payment received in 2011 is calculated in accordance with the following rules:

- If the total amount received in one lump sum is less than NT$169,000 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$169,000 multiplied by the number of service years at the time of separation, half of the excess over NT$169,000 but less than NT$339,000 multiplied by the number of service years at the time of separation is taxable income.
- The excess over NT$339,000 multiplied by the number of service years at the time of separation is taxable income.
- If the individual spent only certain years rendering service in Taiwan among the total service years with an employer, the severance payment may be allocated based on the ratio of the number of years in Taiwan to the total service years in order to arrive at the amount subject to tax in Taiwan.

For severance payments received in installments, the taxable income amount is the total of all payments received in 2011 in excess of the NT$733,000 annual deduction.

The exemption amount for the severance payment may be adjusted if the accumulated consumer price index has increased by at least 3% over the last adjustment.

Effective from 1 January 2009, if a Taiwan entity pays income tax on behalf of its expatriates, such payment is considered a gift to the expatriates from the company and is taxed as other income for the expatriates. A supplementary tax ruling was published in 2010. This ruling provides that, effective from 12 March 2010, income tax paid by an employer on behalf of its expatriates should be treated as the expatriates' salary income if the employment contract or other related document states that such tax payments constitute part of the expatriate's compensation package. If the income tax paid by an employer does not constitute part of the expatriate's compensation package, it is considered a gift to the expatriate and is treated as the expatriate's other income.

Foreign professionals. On 8 January 2008, the Taiwan Ministry of Finance released a tax decree "Preferential Tax Treatment for Foreign Professionals," which is effective from 1 January 2008. However, it applies to foreign professionals who began to work in Taiwan before the issuance of the tax decree. The decree provides for the preferential taxability of certain assignment benefits paid in accordance with an assignment agreement for a foreign national who qualifies as a "Foreign Professional."

To qualify as a "Foreign Professional" and accordingly enjoy certain preferential tax treatment for assignment-related benefits, an individual must satisfy the following conditions:

- He or she must be physically present in Taiwan for 183 days or more during a calendar year.
- He or she must not hold dual nationality of Taiwan and another country.
- His or her annual taxable salary income must exceed NT$1,200,000.
- The individual must have obtained a working permit from the authority in Taiwan in accordance with Article 46 of the Employment Service Act.

Taxation of share-based compensation. On 30 April 2004, the Ministry of 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 to employees who exercise stock options.

In addition to the 30 April 2004 income tax decree, the Ministry of 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. However, based on the tax authority's current practice, for Taiwan employees on assignment to foreign countries, if the individuals remain as employees of the Taiwan entity (that is, the Taiwan entity continues the enrollment of National Health Insurance and Labor Insurance for the relevant employees), the proration of stock option income may not be allowed.

During 2007, the Ministry of Finance issued decrees indicating that the income (discount) derived from employee stock purchase plans and income derived from stock appreciation rights should also be treated as other income.

For other types of equity income, no specific Taiwan income tax laws or regulations addressing Taiwan taxation currently exist.

Capital gains and losses. Taiwan does not currently 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*.

Income tax on gains derived from the sale of shares ceased to be imposed, effective from 1 January 1990, and losses are not deductible. A securities transaction tax is imposed on proceeds from the sale of shares at a rate of 0.3%.

Income tax on income derived from transactions in futures is suspended for the time being, and losses are not deductible.

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 2011, a taxpayer is entitled to personal exemptions of NT$82,000 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$123,000 per person. The exemption amount is also increased to NT$123,000 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 for a taxpayer, his or her spouse, and qualified dependants if given to officially registered educational, cultural, public welfare or charitable organizations.
  - Up to 100% of gross consolidated income for a taxpayer, his or her spouse, and qualified dependants if given for national defense or troop support or if contributed directly to government agencies.
  - Up to 20% of gross consolidated income for a taxpayer, his or her spouse, and qualified dependants, not exceeding NT$200,000, if given to a political party.
  - Up to NT$200,000 if given to qualified political candidates, not exceeding NT$100,000 per candidate.
- Insurance premiums, up to NT$24,000 per person per year (except for the National Health Insurance, which is 100% deductible), for life insurance, medical insurance, labor insurance, national pension, 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 the national health insurance program.
  - Hospitals maintaining complete and accurate accounting records recognized by the Ministry of Finance. Expenses incurred outside of Taiwan may be allowed as deductions only if such expenses are incurred in a foreign public hospital, university hospital, or private foundation hospital. Claims for deductions of expenses incurred in foreign hospitals must be supported by evidence of the officially registered status of the hospitals.
- 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 Taiwan, 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 2011, a taxpayer may claim a standard deduction instead of the itemized deductions listed above. The standard deduction is NT$76,000 for a single taxpayer and NT$152,000 for a married taxpayer filing jointly.

The standard deduction amount may be adjusted if the accumulated consumer price index has increased by at least 3% over the last adjustment.

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$104,000 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), from short-term commercial paper (which is subject to a final 10% withholding tax) and from beneficiary securities or asset-based securities issued according to the Financial Asset Securitization Act and the Real Estate Securitization Act (which is subject to a final 10% withholding tax).
- Special deduction for individuals with disabilities: Up to NT$104,000 is deductible for an individual meeting the definition of a person with disabilities or diagnosed as having mental illness under 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: Up to NT$25,000 of tuition fees paid for each dependent child less any reimbursement received for post-secondary education is deductible.

The amounts of the special deductions for salary or wages and for persons with disabilities may be adjusted if the accumulated consumer price index has increased by at least 3% over the last adjustment.

Rates. The progressive consolidated income tax rates for residents for 2011 are set forth in the following table.

Taxable income		Tax on lower amount	Rate on excess
Exceeding NT$	Not exceeding NT$	NT$	%
0	500,000	0	5
500,000	1,130,000	25,000	12
1,130,000	2,260,000	100,600	20
2,260,000	4,230,000	326,600	30
4,230,000	—	917,600	40

The income tax rate brackets may be adjusted if the accumulated consumer price index has risen at least 3% over the previous rate adjustment.

The flat tax rate for nonresident individuals varies according to the type of income. The following are the flat tax rates:
- Salary income and severance and retirement payments: 18%
- Interest income other than those specifically identified in the tax regulation (see *Investment income*): 20%
- Dividends, commissions, rentals, royalties, gains from winnings in competitions or lotteries and income from independent professional practice: 20%

For a sample tax calculation, see Appendix 2.

Alternative Minimum Tax. The Alternative Minimum Tax (AMT) Law took effect on 1 January 2006. The AMT Law applies to both profit-seeking enterprises and individuals.

Under the AMT Law, for residents, 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 in a tax year (this item is effective from the 2010 tax year)
- Insurance payments from life insurance policies or annuities contracted on or after 1 January 2006 in which the beneficiary and the purchaser are not the same person (NT$30 million exemption may be claimed)
- 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
- Other items published by the Ministry of Finance

The AMT rate for individuals is 20%. A NT$6 million 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$12 million 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
- 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
- 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
- A percentage of the value of any estate property that was inherited by the decedent within nine years before his or her death and that was subject to tax
- Taxes and penalties owed, and debts incurred, by the decedent before his or her death
- NT$1,110,000 for funeral expenses
- Direct and necessary expenses to execute the decedent's will and administer the estate

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
- Property inherited by the decedent within five years before death that was subject to tax

The net estate, after exclusions, deductions and exemptions for 2011, is taxed at a rate of 10%.

The following items may be adjusted if the accumulated consumer price index has increased by at least 10% over the last adjustment:

- Exemptions
- Estate tax rate brackets
- Exclusion amount of furniture, household equipment and other daily necessities, and tools used in the decedent's profession
- Deductions for the surviving spouse, lineal descendants, parents, siblings, and grandparents of the decedent, standard deduction for funeral expenses, and special deductions for handicapped heirs

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 18 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$2,200,000 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
- 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 for 2011, is taxed at a rate of 10%.

The annual exemption amount and gift tax rate brackets may be adjusted if the accumulated consumer price index has increased by at least 10% over the last adjustment.

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$2,200,000 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 18 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$43,900; paid by	
Employer	5.6
Employee	1.6

Contributions	Rate (%)
National health insurance scheme, on monthly salary of up to NT$182,000; paid by	
Employer	5.2734
Employee	1.551

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:

- In general, a nonresident staying in Taiwan for 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 various tax rates depending on the respective income classification (see *Rates*). However, capital gains derived from property transactions or securities transactions (currently exempt) and other income that is not subject to withholding tax must be declared and any tax due must be 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 the following countries.

Australia	Israel	Singapore
Belgium	Macedonia	South Africa
Denmark	Malaysia	Swaziland
France	Netherlands	Sweden
Gambia	New Zealand	United Kingdom
Hungary	Paraguay	Vietnam
Indonesia	Senegal	

F. Entry visas

Foreign passport holders must have valid visas when they enter Taiwan. 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 on their arrival in Taiwan, 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 time periods (for example, for sightseeing, conducting business and other purposes). Depending on the applicant's nationality, the two types of visitor visa are single-entry visas and multiple-entries visas. The single-entry visas are valid for a period from one month to three months, and the multiple-entries visas are valid for a period from three months to one year. Both types of visas entitle the individual to stay in Taiwan for 14 days to 90 days per visit.

Foreign nationals wishing to work in Taiwan must obtain the necessary employment authorization (work permits) as well as the appropriate visas to enter Taiwan.

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 National Immigration Agency.

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 National Immigration Agency to secure their residence and apply for Alien Resident Certificates (ARCs) and Re-Entry Permits within the 15-day period beginning with the date after their arrival. The ARC bears the foreign national's personal information, the reason for residence, the residential address in Taiwan and the expiration date. Expatriates holding ARCs should report any changes to the ARCs to the National Immigration Agency.

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 National Immigration Agency.

An application for employment authorization must be filed by the employer in accordance with the Measures for Regulations on the Permission and Administration of the Employment of Foreign Workers (Employment Rules).

The Employment Rules apply to foreign nationals who wish to work in Taiwan. For most professional foreign expatriates, the following are the two types of jobs:
- Type A: Specialized or technical workers
- Type B: 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, foreign employees must possess one of the following qualifications:
- A Ph.D. or Master's degree in a related field
- A Bachelor's degree in a related field with more than two years of work experience in related jobs
- Employment in related jobs for more than five years
- Employment with a multinational enterprise for more than one year and an assignment to work in Taiwan from the multinational enterprise

The wages for foreign employees who undertake the above job assignments may not be lower than the amount recorded in the latest survey.

An employer must satisfy one of the following conditions to hire foreign specialized or technical workers in the manufacturing industry or the wholesale business:
- 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
- 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 of a foreign-investment approved company, 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$3 million for the preceding year, or an average of NT$3 million 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
- The company has been incorporated for less than one year and has paid-in capital of NT$500,000
- The foreign branch has been established for less than one year and has registered working capital of NT$500,000
- Foreign representative office has been approved by the government authorities and has been operating in Taiwan for more than a year

Employment authorization is based on the employment contract, with a maximum length of three years. Employment extensions can be 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. Normally, the duration of such work permit may not exceed one year, but it is possible to apply for an extension. The entry visa held by such foreign employee is deemed to be a work permit for up to 30 days. The work permit for the foreign employee must be applied for within 30 days following the employee's arrival in Taiwan.

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 Taiwan 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 six years old, resident visa and ARC applications must be accompanied by a health certificate issued within the preceding three months. However, if both the dependants and expatriate are eligible for visa-exempt entry into Taiwan, the health certificate is not required.

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.

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's estate.

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 after applying for international drivers' license permits in Taiwan.

Foreign nationals with valid international drivers' licenses from reciprocating countries may drive legally in Taiwan for 30 days without applying for international drivers' license permits. However, if the stay in Taiwan is for more than 30 days, foreign nationals must apply for international drivers' license permits.

Based on driver's license reciprocity with the expatriate's home country, an expatriate who possesses an ARC (see Section G) with a validity period of more than one year may obtain a Taiwan license after taking a physical examination if his or her home-country license is valid. An expatriate without a home-country license must take a learner license or driving school class that is longer than three months, 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)	(b)
Cost-of-living allowance	X	—	—
Housing allowance	X	—	—
Employer-provided housing	X	—	(c)
Housing contribution	—	(X)	—
Educational allowance	X	—	—
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	X	—	(d)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	—
Tax reimbursement (current and/or prior year)	X	—	—
Value of meals provided	X	—	(e)
Utilities	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 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 nondeductible for Taiwan tax purposes.
(b) Retained hypothetical tax may be offset against tax reimbursement subject to the tax authorities' approval.
(c) If a lease is signed between the employer and the local landlord, the value of the housing is not taxable to the employee.
(d) An expatriate's share of home-leave expenses is not taxable, but the share of expenses incurred by family members is taxable.
(e) Meal allowances in excess of NT$60 per day are taxable.
(f) Utilities are not taxable if the expatriate qualifies to be treated as a "Foreign Professional." For further details, see Section A.

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		(328,000)
Deductions		
Standard deduction	(152,000)	

		NT$	NT$
Special deduction for salary		(104,000)	(256,000)
Taxable income			1,816,000

Calculation of income tax

Tax on NT$1,130,000		100,600	
Tax on NT$686,000	at 20%	137,200	
NT$1,816,000			
Income tax due			237,800

Tanzania

(Country code 255)

Dar es Salaam **GMT +3**

Ernst & Young
Mail address:
P.O. Box 2475
Dar es Salaam
Tanzania

Street address:
Utalii House
36 Laibon Road
Oysterbay
Dar es Salaam
Tanzania

Executive and immigration contact

Catherine Mbogo
(22) 266-7227
Fax: (22) 266-6948, 266-6869
Mobile: 783-681-903
Email: catherine.mbogo@tz.ey.com

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.
- 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
- 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%.

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	Not exceeding TSHS	Tax on lower amount TSHS	Rate on excess %
0	135,000	0	0
135,000	360,000	0	14
360,000	540,000	31,500	20
540,000	720,000	67,500	25
720,000	—	112,500	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	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	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
- 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 for individuals is the calendar 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 the following countries.

Canada	India	South Africa
Denmark	Italy	Sweden
Finland	Norway	Zambia

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 entered into 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 a period of 60 days and are not renewable.

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 two years and are renewable. 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 any of the following:
- A trade, business or profession
- Agriculture or animal husbandry
- Mineral prospecting
- Manufacturing

The applicant's investment in Tanzania must be at least US$300,000. The applicant should have a strong financial background.

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
- 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 purposefully 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 with respect to 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	—
Payments that are unreasonable or administratively			

	Taxable	Not taxable	Comments
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

	TSHS	TSHS
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:		
Deduction for retirement contributions (10% of TSHS 2,095,000)		(209,500)
Taxable income		1,885,500
Calculation of tax*		
Tax on TSHS 720,000		112,500
Tax on TSHS 1,165,500 at 30%		349,650
TSHS 1,885,500		
Income tax payable		462,150

* The income tax on employment income is collected through the Pay-As-You-Earn (PAYE) system.

Thailand

(Country code 66)

Bangkok	GMT +7

Ernst & Young
Mail address:
G.P.O. Box 1047
Bangkok 10501
Thailand

Street address:
Lake Rajada Office Complex
33rd Floor
193/136-137 New Rajadapisek Road
(Opposite Tobacco-Monopoly Lake
Near Queen Sirikit National
Convention Centre)
Bangkok 10110
Thailand

Executive and immigration contacts

Yupa Wichitkraisorn	(2) 264-0777 Fax: (2) 264-0790 Email: yupa.wichitkraisorn@th.ey.com
Siriporn Thamwongsin	(2) 264-0777 Fax: (2) 264-0790 Email: siriporn.thamwongsin@th.ey.com
Wai Ph'ng Ng	(2) 264-0777 Fax: (2) 264-0790 Email: wai-ph'ng.ng@th.ey.com

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. In addition, group medical insurance premiums paid by the employer to an insurance company operating in Thailand on behalf of its employees are tax-exempt benefits if the duration of the group insurance policy does not exceed one year. Effective from 25 April 2006, income received from a provident fund by an employee at the termination of his or her employment as a result of retirement, disability or death is exempt from income tax, subject to certain conditions.

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:

$$\text{Tax credit} = \frac{t}{100 - t} \text{ x dividends received}$$

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 THB 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	THB 30,000
Spouse allowance	THB 30,000
Child allowance	THB 15,000 per child (maximum 3 children)
Education allowance	THB 2,000 per child studying in Thailand
Parental support allowance	THB 30,000 per parent (conditions apply)
Life insurance allowance	Up to THB 100,000 (conditions apply)
Parental health insurance allowance	Up to THB 15,000 per parent (conditions apply)
Provident fund (PF) allowance	Up to THB 500,000 (contribution cannot exceed 15% of basic salary)

Benefit	Amount
Retirement Mutual Fund (RMF)	Up to THB 500,000 (contribution cannot exceed 15% of sum of assessable income, RMF allowance and PF allowance, subject to certain conditions)
Long-Term Equity Fund (LTF)	Up to THB 500,000 (contribution not exceeding 15% of assessable income)
Interest allowance (housing loans)	Up to THB 100,000
Donations allowance	Up to 10% of net assessable income
Social security fund allowance	Actual amount (normally 5% of basic salary, not exceeding THB 9,000 per year)
Patronage of disabled spouse/parent/ child allowance	THB 30,000 per person (conditions apply)

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 THB 60,000
Income from copyrights	40%, up to THB 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 THB	Not exceeding THB	Rate %
0	150,000	0
150,000	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.

Proposed income tax changes. On 24 May 2010, the Finance Ministry proposed a new tax package for companies setting up Regional Operating Headquarters (ROHs) in Thailand. Expatriate employees working for ROHs will be eligible for a reduced personal income tax rate of 15% on gross income for eight years, subject to certain conditions. However, the specific conditions and formal procedures for existing ROHs with respect to applying for this extended tax privilege have not been officially issued by the Thai Revenue Department.

On 8 June 2010, the Thai cabinet approved measures allowing individuals who purchase domestic tour packages from local authorized tour agents to deduct up to THB 15,000 from their taxable income. This measure is expected to be effective from 7 June 2010 until the end of 2010. To take effect, a regulation containing this change must be officially issued by the Thai Revenue Department. However, at the time of writing, this regulation had not yet been issued.

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 THB 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%.

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	Indonesia	Romania
Australia	Israel	Seychelles
Austria	Italy	Singapore
Bahrain	Japan	Slovenia
Bangladesh	Korea (South)	South Africa
Belgium	Kuwait	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	
India	Poland	

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 (business type) visas are required for foreign nationals 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 50 years of age and older or who invest at least THB 10 million in Thailand may apply for one-year nonimmigrant visas.

G. Work permits and self-employment

Foreign nationals who wish to work in Thailand must obtain work permits from the labor authority. 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 employees 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, and financial statements and corporate income tax return (IT. 50) for the preceding year
- Educational records and employment history of the applicant
- Recent medical certificate of the applicant obtained from a hospital operating 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 permit 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, but the duration of the permit may not exceed the period of the current visa. An application for renewal is required 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 Foreign 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 Immigration Bureau.

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 medical certificate from a hospital operating in Thailand
- 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	—	—

	Taxable*	Not taxable	Comments
Employee stock ownership plan	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 THB 1,440,000. The expatriate's Thai employer provides housing to the employee at a cost to the company of THB 360,000 per year. The company pays school fees of THB 120,000 and a total of THB 240,000 for the electricity and water supplied to the house. The following is the tax calculation.

	THB	THB
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)	

	THB	THB
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:		
THB 150,000 at 0%	0	
THB 350,000 at 10%	35,000	
THB 500,000 at 20%	100,000	
THB 997,000 at 30%	299,100	434,100
THB 1,997,000		
Tax on tax:		
THB 434,100 at 30%	130,230	
THB 130,230 at 30%	39,069	
THB 39,069 at 30%	11,721	
THB 11,721 at 30%	3,516	
THB 3,516 at 30%	1,055	
THB 1,055 at 30%	316	
THB 316 at 30%	95	
THB 95 at 30%	28	
THB 28 at 30%	8	
THB 9 at 30%	3	
THB 3 at 30%	1	186,042
Total tax payable		620,142

Trinidad and Tobago

(Country code 1)

Port-of-Spain **GMT -4**

Ernst & Young
Mail address:
P.O. Box 158
Port-of-Spain
Trinidad

Street address:
5-7 Sweet Briar Road
Port-of-Spain
Trinidad

Executive and immigration contacts

Wade George	(868) 628-5185 Fax: (868) 622-0918 Email: wade.george@tt.ey.com
Gregory Hannays	(868) 822-5016 Fax: (868) 622-0918 Email: gregory.hannays@tt.ey.com
Anna Mouttet	(868) 822-5025 Fax: (868) 622-0918 Email: anna.mouttet@tt.ey.com

A. Income tax

Who is liable. Individuals ordinarily resident in Trinidad and Tobago are subject to tax on their worldwide income. Individuals not ordinarily resident in Trinidad and Tobago are 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. The concept of ordinary residence is expanded under common law jurisprudence and examines various factors that determine the individual's habitual place of abode.

Income subject to tax. Taxable income is the aggregate of world-wide 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.

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 resident company (other than preferred dividends) are exempt from tax. Interest received on bank deposits and certificates of deposit held at financial institutions in Trinidad and Tobago and interest on bonds and similar instruments are exempt from tax. Rental income and royalties are taxed as ordinary income.

For nonresidents, a final withholding tax is levied at source at a rate of 15% on interest, royalties and management fees. A final withholding tax is imposed at a rate of 5% on dividends paid to a parent company. For other dividends paid to nonresidents, the final withholding tax rate is 10%. 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 acquired and purchased within a 12-month period.

The following assets are exempt from tax:
- 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

• Winnings from legal gambling

The following gains are exempt from tax:
• Gains accruing on the disposal of any security in Trinidad and Tobago
• 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
• 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)
• 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 an irrevocable 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. If a vesting period must elapse before the employee obtains an irrevocable right to acquire shares, the taxing date is the date of vesting.

Specific provisions apply to profit-sharing schemes approved by the Board of Inland Revenue. An employer that establishes an employee share ownership plan (ESOP) must contribute at least 25% of the annual bonus distribution to the plan's trustee for the purchase of company shares. When shares 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

Allowances and deductible expenses. The following table lists allowances and deductible expenses.

Allowances and deductible expenses	Amount
Personal allowance	TT$60,000
Contribution to approved pension or retirement fund deferred annuity and 70% of contribution to the National Insurance Scheme (NIS)	TT$30,000
Tertiary education expenses	TT$60,000
First-time home owner allowance	TT$18,000
Maintenance or alimony (under court order)	Amount paid (unlimited)
Donations under deed of covenant	Up to 15% of total income
Purchase and installation of CNG kit	Tax credit of 25% of cost (up to TT$10,000)
Purchase of solar water heating equipment	Tax credit of 25% of cost (up to TT$10,000)

Expenses wholly, exclusively and necessarily incurred by an employee in the performance of his or her duties with respect to his or her employment is deductible for tax purposes to the extent that the expenses have not been reimbursed by the employer.

Business deductions. The following expenses incurred wholly and exclusively in the production of income are deductible:

- Wear-and-tear allowance: A tax depreciation allowance is available for assets used in a business. The rates range from 10% to 40%, depending on the class of the asset.
- Bad debts: Bad debts incurred that are proved to the satisfaction of the Board of Inland Revenue to have become unrecoverable during the income year are deductible.
- Interest paid: Interest paid on loans or overdrafts is an allowable expense.
- Balancing charge and allowance: Effective from 1 January 2006, all assets are included in the various classes contained in the Seventh Schedule of the Income Tax Act. A balancing charge arises only if the disposal results in a credit balance on the entire pool of assets.
- Rental payments: Rental expenses are 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).
  - — 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 with respect to the creation or expansion of foreign markets except those markets within the Caribbean Community and Common Market (CARICOM).
- Child care or homework facility: The actual expenditure incurred in setting up a child care or homework facility for dependants of employees is deductible up to a maximum of TT$500,000 per facility but not exceeding in aggregate TT$3 million.

Rates. For 2011, income tax is imposed at a flat rate of 25%.

Credits. Most tax credits have been replaced by the deductible personal allowance of TT$60,000 (see above).

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 employers' weekly required contributions for 2011 range from TT$11.52 for employees earning less than TT$866.99 per month to TT$137.88 for employees earning TT$8,300 or more per month. The employees' weekly required contributions range from TT$5.76 to TT$68.94.

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 are required to file income tax returns.

Income		Weekly
Weekly TT$	Monthly TT$	contribution TT$
0 to 109	0 to 469.99	4.80
Over 109	Over 469.99	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.

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 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 Caribbean Commonwealth tax rate does not exceed the tax rate in Trinidad and Tobago, relief is given at one-half of the Caribbean Commonwealth rate of tax.
- If the appropriate Caribbean Commonwealth 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 Caribbean Commonwealth tax rate.

Relief under double tax treaties. Trinidad and Tobago has entered into double tax treaties with the following countries.

Canada	India	Sweden
China	Italy	Switzerland
Denmark	Luxembourg	United Kingdom
France	Norway	United States
Germany	Spain	Venezuela

In addition, the treaty with the CARICOM states (Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, 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)
- 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
- 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.

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. This is a one-off exemption granted on the first entry. The one-off exemption is not intended for individuals who intend to exercise employment in Trinidad and Tobago for greater than 30 days within a 12-month period. If persons are required to work for a period exceeding 30 days, the employers of such persons must apply to the Permanent Secretary at the Ministry of National Security for work permits. The employer must 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 four to six weeks from the date of submission of the application. Copies of work permits issued are forwarded to the International Tax Unit of the Board of Inland Revenue.

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.

By order, the Minister of National Security may exempt nonresidents from the requirement to have a visa and work permit. In addition, the following facilitation policies apply:

- Reciprocal agreement: Under 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.
- Free Zone operations: Under the Free Zones Act, workers employed by approved enterprises engaged in free zone operations are exempt from the payment of fees with respect to the grant of the work permit.

- CARICOM nationals: CARICOM nationals seeking to exercise rights conferred by the Immigration (Caribbean Community Skills Nationals) Act or the Caribbean Community (Movement of Factors) Act are exempt from the requirement to obtain a work permit.

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
- 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. 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 90 days after their date of arrival. A driver must keep a valid passport and license in his or her possession at all times. If the foreign national's period of stay is more than 90 days, he or she is required to apply for a Trinidad and Tobago driver's license.

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

(Country code 216)

Tunis | **GMT +1**

AMC, Ernst & Young
Boulevard de la Terre
Centre Urbain Nord
1003 Tunis
Tunisia

Executive and immigration contact

Ridha Ben Zaied	(70) 749-111 Fax: (70) 749-045 Email: ridha-ben.zaied@tn.ey.com

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.
- 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.

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 shares are taxable at a rate of 10%, with an annual deduction of TND 10,000.

Capital gains derived from the sale of buildings and lands is subject to tax at a rate of 10% if the asset retention period is less than 10 years and 5% if the retention period is more than 10 years.

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
- 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 TND 1,500
- Rental income from property that houses students
- TND 150 for heads of families, in addition to TND 90 for the first child, TND 75 for the second, TND 60 for the third, TND 45 for the fourth, and TND 1,000 for disabled children, plus 5% of net income per dependent parent, up to a combined maximum of TND 150
- TND 1,000 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 TND	Not exceeding TND	amount TND	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 six months 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:
- TND 15 per page and per copy for direct lineal relatives (children, spouses and parents) and 5% for indirectly related individuals. Gifts of houses to a spouse under the community regime are subject to a charge of TND 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 9.19%. The total rate for contributions paid by the employer is 16.57%. 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.

The general taxation method is the withholding of tax by employers. Employers must calculate the income tax and deduct it from the monthly gross salary.

Some exceptions exist for expatriates whose salaries are paid abroad. Such employees pay tax through self withholding and make a filing each month.

E. Double tax relief and tax treaties

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

Algeria	Korea (South)	Romania
Austria	Kuwait	Senegal
Belgium	Lebanon	South Africa
Cameroon	Libya	Spain
Canada	Luxembourg	Sudan
China	Mali	Sweden
Czech Republic	Malta	Switzerland
Denmark	Mauritania	Syria
Egypt	Mauritius	Turkey
Ethiopia	Morocco	Union of the Arab Maghreb
France	Netherlands	United Arab Emirates
Germany	Norway	United Kingdom
Hungary	Oman	United States
Indonesia	Pakistan	Yemen
Iran	Poland	
Italy	Portugal	
Jordan	Qatar	

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 the following documents to foreign nationals:
- Entry visas for stays of less than three months
- Work permits
- Residence permits, which often require applicants to possess work permits

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 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.
- 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	Taxable	Not taxable	Comments
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 is provided below for an expatriate who is a resident in Tunisia for the entire year and is married with two dependent children under 20 years old. During the year, the expatriate received compensation of TND 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 TND 10,000. The expatriate earned dividends of TND 5,000 from a home-country investment. These dividends were remitted to Tunisia and were not taxed abroad. The following is the tax calculation.

Calculation of taxable income	TND	TND
Salary	100,000	
Housing value	10,000	
Total compensation		110,000
Dividends		5,000
Deduction of professional expenses (10% of TND 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 TND 1,500	at 0%	0
Tax on TND 3,500	at 15%	525
Tax on TND 5,000	at 20%	1,000
Tax on TND 10,000	at 25%	2,500
Tax on TND 30,000	at 30%	9,000
Tax on TND 53,685	at 35%	18,790
TND 103,685		
Income tax payable		31,815

Turkey

(Country code 90)

Istanbul	**GMT +2**

Kuzey Y.M.M.A.S.
Büyükdere Caddesi
Beytem Plaza
343810 Sisli
Istanbul
Turkey

Executive and immigration contacts

Hülya Tekneci	(212) 368-5259 Fax: (212) 234-1067 Email: hulya.tekneci@tr.ey.com
Didem Erdem	(212) 368-5851 Fax: (212) 234-1067 Email: didem.erdem@tr.ey.com

A. Income tax

Who is liable. Individuals who are resident in Turkey (full liability taxpayers) are subject to tax on their worldwide income. Nonresidents (limited liability taxpayers) are taxed only on earnings and revenues derived in Turkey.

Residents include individuals with legal permanent residence in Turkey and those who reside in Turkey for more than six months during one calendar year. Temporary absence does not interrupt the continuity of residence in Turkey.

The civil law defines residency as an "intention to settle down." The law does not specify any objective criteria for the determination of residency. However, factors, such as purchasing an apartment in Turkey, closing business operations abroad or having vital social and economic interests in Turkey, may be considered in determining Turkish residency.

An exception to the six-month rule described above applies to expatriates such as businesspersons, scientists, experts, employees of governments or journalists who come to Turkey to perform temporary and predefined work as well as those who have arrived for the purpose of education, medical treatment, rest and travel. Such persons are considered to be nonresidents even if they stay in Turkey longer than six months in a calendar year.

In general, if an individual is a nonresident of Turkey under these rules, the individual is also a nonresident for purposes of the application of Turkey's tax treaties. This may affect the taxation of non-Turkish income in the source country.

Income subject to tax. Turkey has a unitary tax 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 the tax due in the annual return. Income derived in Turkey by residents and nonresidents are allocated to the following categories:

- Commercial income
- Agricultural income
- Employment income (remuneration)
- Self-employment earnings
- Revenues from immovable properties (including royalties)
- Income from capital investments (dividends and interest)
- Other earnings and gains (capital gains)

The above categories of income and the rules for determining the sources of such income are described below. For a table outlining the taxability of income items, see Appendix 1.

Commercial income. Income derived from every kind of commercial and industrial operation through a place of business in Turkey, or through a permanent representative in Turkey, is considered to be income derived in Turkey.

Agricultural income. Income arising from agricultural operations carried out in Turkey is considered to be derived in Turkey.

Employment income. Salary and wages are defined as money and goods given as compensation to employees in connection with a specific place of business as well as benefits provided to them that can be represented in terms of money. No distinction is made between salary and wages in Turkey. Wages include amounts paid as cash, indemnities, allowances, overtime, advances, subscriptions, premiums, bonuses, expense accruals or percentages of profits of enterprises that are not partnerships. Certain payments made by employers on behalf of employees, such as payment for rent and utilities are grossed up and taxed as salary and wage income.

Wage income is considered to be derived in Turkey by nonresident individuals if either of the following conditions is satisfied:
- The employment service is performed in Turkey.
- The services are evaluated in Turkey. Services are considered to be evaluated in Turkey if the payment for the services is made in Turkey or if the payment for the services is made abroad and the amount of the payment is transferred to the account of or deducted from the profit of a Turkish resident entity.

An employment service is considered to have been evaluated in Turkey if the salaries are booked as a cost or expense by a Turkish entity.

Individuals in Turkey who work for liaison offices 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.
- The amount of compensation is brought into Turkey as foreign currency.

Self-employment earnings. Self-employment earnings include services rendered by a person who satisfies the following conditions:
- He or she works on behalf of himself or herself in his or her name.
- He or she uses his or her own professional knowledge.
- He or she works without being dependent on an employer.

If benefits are derived from self-employment activities performed in Turkey or if the self-employment activities are evaluated in Turkey, the income derived from such activities is considered to be income derived in Turkey and is accordingly taxable to nonresidents.

Recipients of services provided by resident and nonresident self-employed individuals must withhold a 20% tax from the amounts paid to the individuals and remit the withholding tax to the tax offices on behalf of the individuals. If the service provider is a nonresident, provisions of an applicable double tax treaty need to be taken into account.

Revenues from immovable properties. Revenues derived from the rental of immovable properties and rights by their owners, by their holders, by those holding easement and usufruct rights or by their tenants are taxable in Turkey if the immovable property is located in Turkey or if such properties and rights are used or evaluated in Turkey.

Rental income derived by resident and nonresident individuals from immovable assets and royalties for patents and rights are subject to withholding tax at a rate of 20%. For nonresidents, this withholding tax may be eliminated or reduced under applicable double tax treaties.

Capital investment income. The following types of income are included in investment income:
- Dividends from all types of share certificates
- Earnings arising from participation shares
- Profits distributed to the chairman and members of the board of directors of companies
- Interest income derived from bonds and bills
- All interest income (time deposits, repurchase [REPO] agreements and others)

Resident and nonresident individuals are subject to withholding tax on dividends and interest. A 15% withholding tax is imposed on dividends. The general rate of withholding tax on interest is 15%. The withholding tax rates may be reduced under applicable double tax treaties.

Other earnings and gains. The following types of income are included in other earnings and gains:
- Earnings arising from the sale of securities, rights, copyrights and patents
- Earnings arising from the disposal of land, immovable properties and ships within five years after the acquisition of the assets
- Earnings arising from the transfer of rights of partnership shares
- Earnings arising from the disposal of a whole operation whose activities were halted or from the disposal of part of such operation
- Incidental earnings

Capital gains. Capital gains are normally considered to be ordinary income. However, capital gains derived from transfers of shares are exempt from income tax in certain cases. The rules applicable to capital gains derived from the transfer of shares acquired on or after 1 January 2006 are summarized below.

Under a Council of Ministers' Decree, the withholding tax rate is reduced to 0% for capital gains derived by resident and nonresident individuals from the sale of shares traded at the ISE. This is the final taxation.

Capital gains derived from the disposal of the shares without the intermediation of a bank or an intermediary institution (that is, capital gains derived by resident and nonresident individuals from the sale of shares not traded on the ISE) are subject to tax at the general progressive income rates (see *Rates*) and reported in the annual income tax return. However, if the shares are issued by Turkish resident companies and held for more than two years, the gain is not subject to income tax.

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 employment income at the time of exercise. The time of taxation may vary depending on the stock option plan. In addition, under certain circumstances, stock options are subject to stamp tax at a rate of 0.66% and may be subject to social security contributions (see Section C).

Deductions. In determining taxable income, expenses allowable under the income tax law are deducted from gross revenue.

Individuals who render independent professional services or who carry out commercial activities may deduct ordinary business-related expenses from taxable income, including salaries, rental payments, fees and the cost of utilities. Depreciation on fixed assets is also allowed. Penalties are not deductible.

The employee portions of social security contributions and unemployment insurance premiums are deductible from gross employment income.

Premiums paid by the employee for himself or herself, his or her spouse or children with respect to personal insurance policies covering life, death, accident, illness, disablement, unemployment, maternity, birth and education, as well as contributions made to the Individual Retirement System, are deductible if the following conditions are satisfied:
- The insurance policy and the retirement contract are concluded with an insurance company that is located in Turkey and whose headquarters is in Turkey.
- The amount of the monthly premium, membership fee or contributions that are paid to the Individual Retirement System, may not exceed 10% of the salary earned in that month. The premiums paid for personal insurance policies other than amounts paid to the Individual Retirement System must not exceed 5% of the wages earned in the month in which the premium was paid.
- The annual total of the monthly premiums, membership fees and contributions that are paid must not exceed the annual legal minimum wage determined by the law (currently TL 796.50 per month).

Lighting, heating, water, elevator, administration, insurance, interest, tax, depreciation, and maintenance expenses paid by an individual who earns rental income can be deducted from taxable rental income.

Rates. In principle, individual income and gains calculated on a cumulative basis are subject to income tax at progressive tax rates which vary between 15% and 35% and are calculated on a cumulative basis. The following are the 2011 brackets and relevant income tax rates.

Taxable income		Rate on
Exceeding TL	Not exceeding TL	excess %
0	9,400	15
9,400	23,000	20
23,000	80,000	27
80,000	—	35

Remuneration paid by local employers is also subject to a 0.66% stamp duty.

For a sample tax calculation, see Appendix 2.

Credits. The minimum living allowance may be claimed as a credit against the tax on employment income. The minimum living allowance applicable for each month of employment may not exceed 50% of the monthly gross amount of the legal minimum wage that is effective at the beginning of the calendar year in which the wage is earned. The percentage is 10% for a spouse who is unemployed and does not earn income, 7.5% for the first two children and 5% for other children. The tax credit is calculated by multiplying the total minimum living allowance amount by 15%. However, the credit cannot exceed the total tax calculated on the employment income, and no refund is granted in the event of an excess amount.

The minimum living allowance does not apply to nonresident individuals who derive employment income in Turkey.

Relief for losses. Self-employed individuals engaged in a business or individuals who carry out commercial activities may carry forward business losses for five years. No loss carrybacks are allowed.

B. Other taxes

Inheritance and gift tax. For 2011, beneficiaries of inheritances and gift recipients are subject to inheritance and gift tax at rates ranging from 1% to 30%. The tax is paid over three years in two equal installments, in May and November. For 2011, inheritances amounting to TL 118,438 and gifts amounting to TL 2,730 are exempt from tax. The following are the tax rates.

Tax base		Inheritance	Gift
Exceeding TL	Not exceeding TL	tax rate %	tax rate %
0	170,000	1	10
170,000	540,000	3	15
540,000	1,340,000	5	20
1,340,000	2,940,000	7	25
2,940,000	—	10	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.

Motor vehicle tax. The persons in whose names motor vehicles are registered may pay motor vehicle tax for each year in two equal installments in January and July. The amount of tax is determined separately for each group of vehicles by taking into consideration the age and engine capacity of the vehicles.

Real estate tax. Buildings and land in Turkey are subject to real estate tax. The taxpayer is the owner of the building or land, the owner of any usufruct over the building or land, or if neither of these exist, any person that uses the building or land as its owner. A partial exemption of 25% of the tax value is granted for buildings or apartments used as residences. This partial exemption applies for five years from the year following the year of the completion of construction.

The tax base for the real estate tax is the tax value of the building or land. The tax value is the value recorded at the Land Registry. The rate of building tax is generally 0.2%, but this rate is reduced to 0.1% for buildings used as residences. The rate of land tax is 0.1%, and the rate of parceled land tax is 0.3%. These rates are increased by 100% within the frontiers of a metropolitan municipality and contiguous regions as defined by law.

A declaration is submitted to the municipality where the building or land is located if a modification is made that might lead to a change in the tax value. Taxes are paid annually in two equal installments, the first at any time during the period from March through May and the second in November.

C. Social security

The Turkish social security system was previously based on three institutions each regulated by its own law. These institutions were the Social Security Institution (for private sector employees), the Pension Fund (for public sector employees) and the Bag-Kur (for self-employed people). Effective from 1 October 2008, the Social Security and General Health Insurance Law No. 5510 unified the prior three social security regimes.

Under the new law, all employees of Turkish private entities are subject to a national social insurance system that covers work-related accidents and illness, general social security, disability and death. The new law also provides retirement benefits.

Employers and employees pay monthly contributions at varying percentages calculated on gross salary, subject to upper and lower limits stated in the law. For the period of 1 January 2011 through 30 June 2011, the upper limit for monthly salary subject to social security contributions is TL 5,177.40, and the lower limit for monthly salary subject to social security contributions is TL 796.50. Employees pay contributions at a rate of 14%. Employers pay contributions at a rate between 19.5% and 25%, depending on the risk class of the business. Five percent of the employers' contribution can be reimbursed by the Republic of Turkey Prime Ministry Undersecretariat of Treasury if certain conditions are fulfilled by the employer. The rate of unemployment insurance premiums is 1% for employees and 2% 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 bilateral 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	

Turkey is also a party to the European Social Security Agreement. Article 15-1/a of the agreement contains the following provision:

> "Workers employed by a corporation which has a normal employer in one of the contracting states, who are sent to another contracting state for a specific piece of work for the corporation, are subject to the legislation of the state where they were originally employed, provided that the estimated period of employment in that state does not exceed 12 months and that such workers are not sent to replace workers whose periods of employment have ended.
>
> In cases where the work takes longer than 12 months for unforeseen reasons, the employment law of the country of origin will continue to apply until the end of the work, subject to the agreement of the authorities in the country where the work is being carried out."

D. Filing and payment procedures

Tax is imposed on a calendar-year basis in Turkey.

Employers must withhold income tax from salaries and wages paid to employees. All withholding taxes must be declared monthly on the 23rd day and paid on the 26th day of the month following the month of payment (in cash or by accrual).

A taxpayer who derives commercial or self-employment income must file and pay advance income tax quarterly. The advance tax amount equals 15% of net income. The advance payments must be made by the 17th day of the second month following the end of the quarterly tax period. Advance tax paid is deducted from the income tax payable in the final tax return.

Annual income tax returns must be submitted to the tax authorities between 1 March and 25 March of the following year. The balance of tax due must be paid in two equal installments in March and July.

Nonresidents are generally not required to file income tax returns if they have only earnings subject to withholding tax. Nonresident individuals or Turkish citizens who reside in Turkey with the intention of staying or nonresident individuals who derive income not subject to withholding tax must file annual income tax returns for other sources of earnings, including commercial income. If nonresident individuals having such earnings leave Turkey, they must file an "occasional" tax return 15 days before their departure.

Nonresident individuals who are not required to file an annual income tax return must file a special tax return for certain gains listed in the Income Tax Code. The special tax return must be filed within 15 days following the date on which the gains are derived. For gains related to self-employment earnings, the special tax return must be filed within 15 days after the ending of the self-employment activities.

E. Double tax relief and tax treaties

Tax resident individuals may claim a credit for taxes paid abroad on income derived outside Turkey and subject to tax in Turkey. This credit can be applied against the tax payable in Turkey. A foreign tax credit is not available to nonresidents.

The tax amount allowed as a foreign tax credit for a resident is limited to the amount of tax to be paid in Turkey for the same amount of income. Accordingly, if the tax rate applied in the other country is greater than the tax rate applicable in Turkey the difference cannot be considered in calculating the foreign tax credit. The portion of the income tax corresponding to the earnings derived in foreign countries is calculated based on the ratio of such income to worldwide income.

To claim the foreign tax credit, both of the following conditions must be satisfied:

- The tax paid in the foreign country must be a personal tax levied on the basis of income.
- The payment of the tax in a foreign country must be substantiated with documents obtained from competent authorities and attested to by the local Turkish Embassy or Consulate, or if these institutions do not exist, by similar representatives of Turkey in that country.

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

Albania
Algeria
Austria
Azerbaijan
Bahrain
Bangladesh
Belarus
Belgium
Bosnia-Herzegovina
Bulgaria
China
Croatia
Czech Republic
Denmark
Egypt
Estonia
Ethiopia
Iran
Ireland
Israel
Italy
Japan
Jordan
Kazakhstan
Korea (South)
Kuwait
Kyrgyzstan
Latvia
Lebanon
Lithuania
Luxembourg
Macedonia
Malaysia
Moldova
Mongolia
Qatar
Romania
Russian Federation
Saudi Arabia
Serbia and Montenegro
Singapore
Slovak Republic
Slovenia
South Africa
Spain
Sudan
Sweden
Syria
Tajikistan
Thailand
Tunisia

Finland	Morocco	Turkmenistan
France	Netherlands	Ukraine
Georgia	Northern Cyprus	United Arab Emirates
Germany	Norway	United Kingdom
Greece	Oman	United States
Hungary	Pakistan	Uzbekistan
India	Poland	Yemen
Indonesia	Portugal	

F. Entry visas

Nonresident foreign nationals, who are not exempt from the visa requirements of Turkey under reciprocal agreements, must obtain a visa from the Turkish Embassy or the Consular Bureau in their country before their travel. Exemptions apply for a stay of limited duration (that is, 30 days, 60 days or 90 days, depending on the country of nationality). In addition, foreign nationals from a limited group of countries, who are subject to the visa requirement, may obtain a banderole visa at the port of entry for a stay of limited duration (that is, 30 days, 60 days or 90 days, depending on the country of nationality).

G. Work permits and resident permits

Under the Law Concerning Work Permits of Expatriates and the Regulation Concerning Work Permits of Expatriates, nonresident expatriates must obtain a work permit and a residence permit to be eligible for employment in Turkey. Work permits are issued by the Ministry of Labor and Social Security. The application for a work permit can be filed from abroad with the local Turkish Embassy or the Consular Bureau, or filed in Turkey directly with the Ministry, provided that the expatriate has been in Turkey legally for the preceding six months.

Expatriates filing from abroad must also apply for an employment visa before their travel. The following are the four steps for obtaining a work and residence permit based on applications from abroad:
- Personal application to the Turkish Embassy and/or Consular Bureau in the home country of the expatriate
- Application to the Ministry of Labor and Social Security in Ankara, Turkey within 10 days after the date of filing of the application with the Turkish Embassy and/or Consular Bureau
- Personal application for an employment visa within 90 days after obtaining the work permit from the Ministry
- Application to the local Police Department, Foreigners Bureau, to obtain a residence permit within 30 days after entering Turkey

The work permit is granted for a one-year period, which may be extended initially up to three years, and at the end of the first extension, up to six years, provided that the expatriate will maintain his position with the same employer for the entire extended period. A request for extension of a residence permit must be filed by the expatriate within 15 days of the expiration date.

The family of the expatriate may obtain a residence permit for the duration of the expatriate's employment. Dependants cannot file their applications jointly with the expatriate. They must file their applications following the issuance of the expatriate's residence permit.

H. Family and personal considerations

Family members. After a 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 Turkish Civil Code considers the marital property regime to be the statutory regime for management of marital property. The ordinary marital property regime is participation in the jointly acquired property. Spouses can opt out of the regime by mutual agreement, which must be executed in writing and notarized.

Forced heirship. Turkish succession law provides for forced heirship. If a decedent leaves descendants 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 nonresident foreign national can use his or her driver's license obtained from his or her home country in Turkey if he or she holds a valid tourist visa. An expatriate must file for the conversion of his or her driver's license to a Turkish driver's license after obtaining his or her residence permit in Turkey. The application is filed with the local Traffic Bureau.

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	—	—
Meals	X	—	(b)
Value of lodging provided	X	—	(c)
Business travels	—	X	—
Mass transportation from or to work place	—	X	—
Other items			
Personal ordinary income (interest and dividends)	—	X	(d)

	Taxable*	Not taxable	Comments
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, and if they are made for business purposes.

(b) Meals provided to the employees in the business premises and vouchers for daily meals not exceeding TL 10.70 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 are subject to tax if the real estate is sold within five years (before 1 January 2007, 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 monthly tax calculation in 2011 for an employee whose only income is remuneration received from a Turkish employer.

	TL
Calculation of taxable income	
Monthly gross remuneration	10,000.00
Social security premium for the employee (TL 5,177.40 at 14%)	(724.83)
Unemployment premium (TL 5,177.40 at 1%)	(51.77)
Taxable income	9,223.40
Calculation of tax	
Withholding income tax:	
Up to TL 9,400 at 15%	1,383.51
Minimum living allowance (a)	(95.58)
Net income tax	1,287.93
Stamp duty:	
(0.66% of TL 10,000) (b)	66.00
Total tax	1,353.93

(a) The minimum living allowance credit is calculated based on the assumption that the employee has a nonworking wife and three children. The minimum living allowance credit does not apply to nonresident individuals.

(b) Remuneration paid by local employers is also subject to a 0.66% stamp duty.

Uganda

(Country code 256)

Kampala	**GMT +3**

Ernst & Young
Ernst & Young House
18 Clement Hill Road
P.O. Box 7215
Kampala
Uganda

Executive and immigration contacts

Muhammed Ssempijja	(41) 230-637 Fax: (41) 251-736 Email: muhammed.ssempijja@ug.ey.com
David Kibumba Baliraine	(41) 343-520 Fax: (41) 251-736 Email: david.baliraine@ug.ey.com
Allan Mugisha	(41) 343-520 Fax: (41) 251-736 Email: allan.mugisha@ug.ey.com

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 the following:

- Trading profits
- Gains from disposals of business assets, shares of profits or partnership interests
- Professional and management fees
- 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. The balance is subject to a depreciation (wear-and-tear) allowance at the applicable rate.

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 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. In general, losses may not be carried back. However, with respect to long-term construction contracts, a loss in the final year of the contract can be carried backward to offset reported tax profits of previous years.

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 18%. A reduced VAT rate of 5% applies to sales of residential houses. 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. In 2008, Burundi and Rwanda were admitted to the EACCU. The EACCU provides for the duty-free movement of goods among member states and a common external tariff (CET) on goods from third countries. The CET is generally imposed at a rate of 0% to 25% on goods imported from third countries into Uganda. However, sensitive products are subject to a duty rate exceeding 25%. Eligible goods from Common Market of East and Southern Africa (COMESA) and Southern African Development Community (SADC) countries continued to attract preferential treatment for 2009 and 2010. The import duty rate on goods imported into Uganda from Kenya was progressively reduced by two percentage points per year, from an initial 10% in 2005 to 0% in 2010. The EACCU 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 monetary remuneration, and employers contribute an amount equal to 10% of each employee's total monetary remuneration.

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 six 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 Belgium, Denmark, India, Italy, Mauritius, the Netherlands, Norway, South Africa and the United Kingdom. Certain treaties are in the final discussion phase including treaties with China, Egypt, Seychelles, Sudan and the United Arab Emirates.

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) or the East African Community (EAC), 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)
- 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
- 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
- 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
- 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. Thereafter, the foreign national can apply to the Uganda Revenue Authority for a Conversion Permit, which allows the national to obtain a Ugandan driver's permit with classes equivalent to those in his or her home country permit.

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	—	—

	Taxable	Not taxable	Comments
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	—	—
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
- 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.
- 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 is provided below for an expatriate who is a resident in Uganda for the entire tax year and is married with one dependant who goes to school. During the tax year, 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 tax 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*
Leave pay	500,000
Value of air tickets	700,000
Taxable income	6,855,000
Calculation of tax	
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

* 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 U Sh 1,028,250, the housing benefit is deemed to be U Sh 655,000.

Ukraine

(Country code 380)

Kyiv **GMT +2**

Ernst & Young
19A, Khreschatyk Street
Kyiv 01001
Ukraine

Executive and immigration contacts

Olga Gorbanovskaya	(44) 490-3000 Fax: (44) 490-3030 Email: olga.gorbanovskaya@ua.ey.com
Halyna Khomenko	(44) 490-3000 Fax: (44) 490-3030 Email: halyna.khomenko@ua.ey.com

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 real estate in Ukraine
- Interest from deposits held in Ukraine
- Rent from property located in Ukraine
- Dividends paid on shares of Ukrainian companies

An individual is considered to be a tax resident of Ukraine if he or she has a place of abode 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 abode 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.

However, in practice, since January 2010, the most important criteria from the perspective of the tax authorities in Ukraine is physical presence (183 days) during a calendar year in Ukraine, which must be confirmed by documents. The majority of the tax authorities in Ukraine issues tax residency certificates only if an individual has spent 183 days in Ukraine in a calendar year and if the individual can prove this fact documentarily.

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 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 a Ukrainian employer to employees and compensation for such benefits, such as accommodation and corporate cars, are exempt from tax if the following conditions are satisfied:
- These benefits are provided with respect to the performance of labor.
- The benefits are stipulated in an applicable employment agreement.
- The employment 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:
- Unified social tax payable by the employer on an employee's salary

- Amounts paid by employers to Ukrainian educational institutions to cover educational costs for the training of their employees with respect to the business activities of the employer, subject to certain limitations
- 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 5%. 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 2015. Effective from 1 January 2015, 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)
- 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. Because of the broad definition of income, a risk of taxation of an option at the moment of grant exists. The position of the Ukrainian tax authorities on this matter is unclear, but it appears that this risk is remote. As a result, options are likely to be taxed at the moment of exercise.

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 15% for monthly income not exceeding 10 minimum wages and 17% for the portion of monthly income exceeding 10 minimum wages. Currently, one minimum monthly wage in Ukraine equals UAH 941.

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 currency residents. Ukrainian currency residents 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. In addition, if shares are received as a gift or inheritance, the taxable amount is decreased by the amount of personal income tax and state duty (the current maximum rate is 5%).

Capital gains. A capital gain is usually 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 at a rate of 1% is levied on proceeds derived from the alienation of transport vehicles and motor boats sold not more than once per reporting period under a notarized agreement on which state duty (the current maximum rate is 5%) is paid. The proceeds may not be less than 25% of the cost of a new vehicle of the same make and model.

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 1,320. 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 half to one minimum monthly wage (currently, one minimum monthly wage in Ukraine equals UAH 941), 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 1,882 per month, which is the amount of two minimum wages, effective from 1 January 2011.

A Ukrainian tax resident who has a Tax Identification Code may apply for a tax discount by deducting from salary income the sum of certain amounts paid to Ukrainian residents during the tax year. The following amounts may be included in the tax discount:
- 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 Medical 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, with certain restrictions
- Payments for state services related to the adoption of a child
- Payments for equipment that allows a taxpayer's vehicle to use biofuel
- Expenses incurred on the building or purchase of accommodation that is classified as affordable

The total amount of the income tax discount 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 discount that is not used as a result of this restriction may not be carried back or forward.

To claim the tax discount, 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 discount and refund any excess tax paid not later than 60 days after receipt of the tax return.

Rates. Flat income tax rates of 1%, 5%, 15%, 17%, 30% and 34% 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 0% or 5%, depending on the following:
- Duration of ownership of such property
- The size of the property
- The frequency of alienations
- Type of property

Effective from 1 January 2013, a 5% rate will apply to deposit interest or discount income derived from savings or deposit certificates.

A 10% tax rate applies to employment income of mine workers.

A 17% tax rate applies to resident and nonresident individuals whose monthly income exceeds the amount of 10 minimum wages (established on 1 January of the reporting tax year; currently, 10 minimum wages equal UAH 9,410 [US$1,185]). The 17% rate applies to the excess amount. Otherwise, a 15% tax rate applies regardless of the tax residency status.

A 5% rate applies to dividends and royalties received by resident and nonresident individuals in Ukraine.

Gifts and inheritances received are treated as income and are subject to personal income tax at rates of 0%, 5% or 15%. The applicable rate depends on the residency status of the giver and on the degree of relation between the giver and recipient.

Tax rates of 30% and 34% apply to prizes and gains derived from nonstatutory lotteries. The 30% tax rate applies to monthly income not exceeding 10 minimum wages. The 34% rate applies to the portion of monthly income that exceeds 10 minimum wages. Currently, one minimum monthly wage in Ukraine equals UAH 941.

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 10 March 2011 is US$1 = UAH 7.9351.

Relief for losses. Loss carryforwards and carrybacks are not allowed.

B. Property tax

Property living space that exceeds 120 square meters for an apartment and 250 square meters for a house is subject to property tax. Property tax varies from 1% of a minimum salary (UAH 941 [US$118]) to 2.7% of a minimum salary (UAH 2,541 [US$319]) per square meter of living space.

C. Social security

Effective from 1 January 2011, social security contributions to four Ukrainian social security funds (pension, unemployment, temporary disability and accident at work) are combined under the newly established unified social tax and the pension fund of Ukraine is assigned to act as its administrator.

Locally paid salaries are subject to the unified social tax, payable by the employee at a 3.6% rate and payable by the employer at a rate ranging from 36.76% to 49.7% depending on the workplace's safety rating. The base for the contributions is capped by the maximum monthly wage base, which is currently UAH 14,115 (US$1,778).

Unified social tax is not payable on salaries paid from outside Ukraine by nonresident employers to their 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 the following individuals:

- Individuals who derive income that is taxable in Ukraine if a tax agent did not withhold income tax from such income
- Individuals who have received income from two or more tax agents in an amount that exceeds 10 minimum wages (UAH 9,410) in any of the months of the year
- Foreign individuals who obtained Ukrainian residence status in the reporting year

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 or a tax discount.

An individual must file the annual income tax return before 1 May of the year following the reporting year. Under the tax law, the deadline for the settlement of tax liability is 1 August of the year following the reporting year.

Tax residents who intend to leave Ukraine must file a departure tax return no later than two months before departure. After the 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, for delinquent filing, the tax authorities may impose an administrative fine of up to UAH 170 (US$21) and a fine of up to 25% of the tax liability.

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.

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	India	Russian Federation
Armenia	Indonesia	Singapore
Austria	Iran	Slovak Republic
Azerbaijan	Israel	Slovenia
Belarus	Italy	South Africa
Belgium	Jordan	Sweden
Brazil	Kazakhstan	Switzerland
Bulgaria	Korea (South)	Syria
Canada	Kuwait	Tajikistan
China	Kyrgyzstan	Thailand
Croatia	Latvia	Turkey
Cuba	Lebanon	Turkmenistan
Czech Republic	Libya	United Arab
Denmark	Lithuania	

Egypt	Macedonia	Emirates
Estonia	Moldova	United Kingdom
Finland	Morocco	United States
France	Netherlands	Uzbekistan
Georgia	Norway	Vietnam
Germany	Poland	Yugoslavia
Greece	Portugal	(Federal
Hungary	Romania	Republic of)
Iceland		

Ukraine has signed a double tax treaty with Luxembourg, but this treaty has not yet been ratified.

F. Entry visas

Individuals may travel to 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. Visitors from other countries need 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).

Citizens of the majority of member countries of the Commonwealth of Independent States (CIS) do not need visas to enter Ukraine, with certain exceptions.

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 have 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 have 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
- Registration certificate of the business entity

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.

Effective from 8 May 2009, significant changes were introduced to the procedure for obtaining work permits. New documents are required, and the statutory fee is increased.

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 3,764 (US$475) for each work permit application
- A copy of the document confirming the education or qualifications of the foreign national (legalized, *apostilled* or notarized, depending on the country of issuance, and translated into Ukrainian by a certified interpreter)
- A certificate issued by the tax authorities confirming the prospective employer's payment of all applicable taxes and duties
- Two 3.5 by 4.5 centimeters color photographs
- Document confirming absence of debt of an employer to Unemployment Fund of Ukraine
- Official document confirming absence of previous convictions of the individual

All documents issued in foreign countries and in foreign languages must be legalized, *apostilled* or notarized, depending on the country of issuance, before their translation.

In addition, the procedure for obtaining a work permit now varies depending on the category of the employee. The new rules make a clear distinction between the lists of documents needed to obtain work permits for direct employees, secondees and intra-corporate transferees (a specific category of secondees).

Work permits may be issued to employees who are in the "intra-corporate transferee" category (directors, managers and specialists) and to "persons, providing services without establishing commercial representations in Ukraine" for a period up to three years, which can be extended for up to two years.

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. To commute freely to and from Ukraine, a temporary residence permit must be obtained.

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 defense. 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 90 days. Individuals from countries for which no visa is required are considered registered for a period of 90 days during a 180-day period, 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:
- Employer-provided housing or a housing allowance is prescribed by the employment contract or a collective bargaining agreement.
- The amount of the limit 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 taxable benefits to the employees.

(c) Deposit interest or discount income derived from savings or deposit certificates placed in Ukrainian banks is taxable, effective from 1 January 2015.

United Arab Emirates

(Country code 971)

Dubai **GMT +4**

Ernst & Young
Mail address:
P.O. Box 9267
Dubai
United Arab Emirates

Street address:
Al Attar Business Tower
28th Floor
Sheikh Zayed Road
Dubai
United Arab Emirates

Executive and immigration contacts

Michelle Kotze
(4) 312-9410
Fax: (4) 332-4004
Email: michelle.kotze@ae.ey.com

Christi Jefferson
(4) 701-0823
Fax: (4) 332-4004
Email: christi.jefferson@ae.ey.com

A. Income tax

No personal taxation currently exists in the United Arab Emirates (UAE).

Laws covering corporate tax exist in all the individual emirates but, in practice, taxes are enforced only on the following entities:
- Foreign oil and gas producing companies (oil/hydrocarbon companies with actual production in the Emirates) at rates set forth in their government concession agreements (which are confidential)
- 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 capital gains tax is imposed in the UAE. 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 and employees from the other Gulf Cooperation Council (GCC) states contribute to retirement and pension funds in accordance with specific regulations. UAE nationals working in the Emirate of Abu Dhabi contribute only to the Abu Dhabi Retirement Pensions and Benefits Fund.

D. End-of-service benefits

An employee who completes a period of continuous service that is longer than one year is entitled to gratuity equal to the total of the following amounts:
- 21 days basic wages for each year of the first five years of service
- 30 days basic wages for each year thereafter, up to a maximum of two years

The gratuity is calculated based on the last basic wage paid to the employee. It is payable on the termination or expiration of the employment contract. The employee is entitled to a gratuity for any fraction of a year of service if the employee has completed at least one year of continuous service.

E. Wages Protection System

In 2009, the UAE Ministry of Labour issued a decree requiring all registered employers to use the Wages Protection System (WPS) for the transferring of wages to employees.

The WPS is an electronic salary transfer system that allows institutions to pay workers' wages through authorized banks, *bureaux de change* (currency exchanges) and financial institutions in the UAE. The UAE Central Bank regularly issues an updated list of financial institutions that are authorized to offer wage payment services through WPS agents. WPS enables the Ministry of Labour to create and maintain a database of wage payments in the private sector.

F. 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 and passengers in transit who do not leave the airport. Foreign nationals may enter the UAE under visit visas, employment visas, residence permits, service visas, service employment visas, or tourism visas. The number of visas that are issued to entities based in the UAE, whether in the Emirates or in the Free Zones, depend on the type of activity and the area of space leased by the entity.

Certain Western European citizens and GCC expatriates do not need to apply for an entry permit (visit) visa in advance. On entry, they receive a special visit visa enabling them to stay in the UAE for 30 days. For Western European citizens and GCC expatriates who are listed professionals, this visa may be renewed once for a further period of 30 days. The only documentation required for such individuals is their passports.

Citizens of the following countries can apply for a visit visa on arrival at the UAE.

Andorra	Hong Kong	New Zealand
Australia	Iceland	Norway
Austria	Ireland	Portugal
Belgium	Italy	San Marino
Brunei	Japan	Singapore
Cyprus	Liechtenstein	Spain
Denmark	Luxembourg	Sweden
Finland	Malaysia	Switzerland
France	Malta	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.

G. Work and residence permits and self-employment

Foreign nationals wishing to take up employment in the UAE must obtain employment visas, which are issued by the Ministry of Labour, and residence permits, which are issued by the Department of Immigration.

Residence permits allow foreign nationals to take up employment in the UAE with specific employers. Residence permits are valid for two years and are renewable for additional two-year periods.

The application process for obtaining an employment visa is completed by the sponsoring company. The company submits an application form including, but not limited to, 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
- Authenticated educational certificates of the employee
- 10 passport photos

After all of the documents are submitted, it takes approximately four to six weeks for the issuance of the employment visa.

A foreign national may not commence employment until his or her application and other papers are approved and accepted. A foreign national may change employers after completing two years of his or her initial contract if he or she satisfies certain conditions.

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.

H. Family and personal considerations

Family members. Residence visas are granted to dependants of foreign nationals who have residence permits sponsored by an employer and who satisfy certain income and status conditions.

The spouse of a holder of a residence permit does not automatically receive a residence visa. An application for a residence visa of such spouse 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.

The UAE has driver's license reciprocity with European Union (EU) member countries, Australia, Japan, New Zealand, Singapore and the United States.

For applicants from other countries, to obtain a local UAE driver's license, the applicant must undergo a prescribed course for a stipulated number of hours and a physical examination. In addition, the applicant must also pass a driving skills test.

United Kingdom

(Country code 44)

London **GMT**

Ernst & Young
1 More London Place
London SE1 2AF
England
United Kingdom

Executive contacts

Alistair Beecher	(20) 7951-2755 Email: abeecher@uk.ey.com
David Dunlop	(20) 7951-2730 Email: ddunlop@uk.ey.com
Matthew Fox	(20) 7951-1485 Email: mfox1@uk.ey.com

Social security contacts

Mike Kenyon	(20) 7951-2583 Email: mkenyon@uk.ey.com
Gary Chandler	(20) 7951-1280 Email: gchandler@uk.ey.com

Immigration contacts

David Birch	(20) 7951-2753 Email: dbirch@uk.ey.com
Sue Kukadia	(20) 7951-1548 Email: skukadia@uk.ey.com

International High Net Worth Group contact

Andrew Tailby-Faulkes (20) 7951-0575
Email: atailbyfaulkes@uk.ey.com

A. Income tax

Who is liable. The taxation of individuals in the United Kingdom is determined by residency and domicile. Tax residents are liable to U.K. tax on their worldwide income. However, some short-term residents and individuals who are regarded as not domiciled in the United Kingdom may be subject to U.K. tax on offshore income and capital gains only if the funds are remitted to the United Kingdom (this is known as the "remittance basis"). Before 6 April 2008, the remittance basis was automatic for those who qualified. Effective from 6 April 2008, individuals wanting to be taxed on the remittance basis must make an election each year unless their total unremitted offshore income and gains from all sources for that year is less than £2,000. Individuals who have unremitted offshore income and gains of at least £2,000 do not need to make a claim if their only U.K. income is taxed income of no more than £100. Individuals who elect the remittance basis lose their tax-free personal allowance for the year and also surrender their annual capital gains tax exemption. In addition, any individual who has been resident in any part of seven of the preceding nine tax years must effectively pay additional "tax" of £30,000 for each year for which they elect the application of the remittance basis. The budget announced on 23 March 2011 indicated that this charge will increase to £50,000, effective from 6 April 2012, for individuals resident in the United Kingdom for 12 years. However this measure is currently under consultation. For further details regarding the remittance basis, see *Remittance basis*.

Nonresidents are subject to tax on compensation attributable to U.K. workdays and certain U.K.-source investment income.

Domicile. Under English law, an individual's domicile is the country considered to be his or her permanent home, even though he or she 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. Therefore, 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 remains a question of fact.

Individuals who are resident in the United Kingdom are deemed to be resident and ordinarily resident (R/OR) or resident but not ordinarily resident (R/NOR).

Before 6 April 2009, an individual's U.K.-residence status was generally determined under the following mostly nonstatutory rules:

- If an individual came to the United Kingdom for a period of less than two years, he or she was regarded as resident for the whole of any tax year in which he or she spent 183 days or more in the country and was not resident for the whole of any tax year in which he or she spent less than 183 days in the country.

• If an individual's stay in the United Kingdom was likely to last for a period of two years or more, the individual was regarded as resident from the date of arrival until the date of final departure.

In the absence of a clear intention to remain in the United Kingdom for three years or more, the type of residence status was based on the previous periods of residence or presence in the United Kingdom.

Ordinarily resident. Someone who intended to remain in the United Kingdom for three years or more was regarded as ordinarily resident from the date of arrival. The purchase of accommodation or a lease of three years or more was considered a strong indication of an intention to remain for three years or more. An individual who had been present in the United Kingdom for an average of more than 90 days over 4 consecutive tax years was regarded as R/OR from the beginning of the fifth year. If a clear intention was established to visit the United Kingdom for more than 90 days a year on average before the fifth year, the individual was regarded as R/OR from the beginning of the tax year in which the intention was established.

Not ordinarily resident. If employees came to the United Kingdom with no definite intentions concerning the length of their stay and if they occupied only temporary accommodation, they were normally considered as R/NOR until the beginning of the tax year following the third anniversary of their arrival and R/OR thereafter.

Individuals who came to the United Kingdom with no intention to remain in the United Kingdom for at least three years and who then purchased permanent accommodation or otherwise changed their intention such that they intended to remain in the United Kingdom for at least three years were regarded as R/OR from the beginning of the tax year in which their intention changed. However, individuals whose intention was to remain long term and who then changed that intention and left the United Kingdom within three years were regarded as R/NOR from the beginning of the tax year in which they could prove that their intention clearly changed.

Recent changes. Effective from 6 April 2009, some of the principles outlined above have changed. In general, whether an individual is regarded as resident or not resident in the United Kingdom is determined under similar rules to those outlined above. However, the basis on which an individual's ordinary residence status is determined is changed in certain important respects.

Following a court decision published in March 2009, HM Revenue and Customs withdrew all of its previous guidance on residence and issued draft replacement guidance. A further decision was published in February 2010. Under this decision, no minimum period must elapse before an individual becomes ordinarily resident in the United Kingdom. The decision suggests that ordinary residence in the United Kingdom is based on whether the individual's residence in the United Kingdom has been voluntarily adopted and is for a settled purpose such as employment. The decision concluded that an individual can have a settled purpose even if this is for a finite period.

In December 2010, HM Revenue and Customs published further guidance. Under this guidance, an individual's personal intention is no longer relevant in determining his or her ordinary residence position. An individual is considered ordinarily resident in the United Kingdom if it is determined that an individual has a settled purpose in the United Kingdom. Individuals who can clearly demonstrate that they are in the United Kingdom for a temporary limited purpose may be able to demonstrate that they do not have a settled purpose in the United Kingdom and accordingly are not ordinarily resident in the United Kingdom. Individuals who are in the United Kingdom for a temporary purpose for three years or more are not able to claim that they are not ordinarily resident in the United Kingdom. It is now more difficult for individuals to prove that their stay in the United Kingdom is for a temporary purpose and accordingly more difficult to be considered not ordinarily resident.

On 23 March 2011, an announcement was made to confirm that a statutory residence test will be introduced. A consultation on this test is taking place in June 2011, with the intention of implementing the test by April 2012.

Because the determination of an individual's residence status is crucial in determining the individual's liability to U.K. tax and because the current guidance is not entirely clear, individuals should seek professional advice at the earliest opportunity.

Days present in the United Kingdom. Until 5 April 2008, days of arrival and departure were regarded as days spent wholly outside the United Kingdom. Effective from 6 April 2008, any day in which the individual is present in the United Kingdom at midnight is considered a full day of presence in the United Kingdom for residence purposes.

Remittance basis. R/NOR individuals may be taxed on a remittance basis on employment income earned offshore that is not remitted to the United Kingdom. They are also subject to remittance basis taxation on investment income held offshore. However, unless they are domiciled outside the United Kingdom, they are liable to capital gains tax on the disposal of worldwide assets. Individuals who are not domiciled in the United Kingdom may be subject to remittance basis taxation on all offshore investment income and all offshore capital gains. Remittance basis taxation may also apply if individuals satisfy both of the following conditions:
- They are R/OR in the United Kingdom.
- They have a non-U.K. employer and none of the duties of such employment are performed in the United Kingdom.

Effective from 6 April 2008, the default position is that all residents are subject to U.K. tax on worldwide income and gains on an arising basis. Individuals who qualify must elect to be taxed on the remittance basis unless either of the following circumstances exists:
- Their total unremitted offshore income and gains is less than £2,000.
- They have not made any remittances to the United Kingdom and their only U.K.-source income is taxed income of no more than £100.

This election comes at a cost. Individuals who elect the remittance basis may not claim personal tax allowances and the annual capital gains tax exemption. In addition, individuals who have been resident in any seven of the preceding nine tax years must pay additional "tax" of £30,000 for each year for which an election is made. This "tax" charge is met by nominating a minimum of £1 of offshore income and/or gains for the year to be taxed as if the arising basis applied in order to generate an additional U.K. tax liability of £30,000. If the amount of income and/or gains actually nominated is insufficient to generate £30,000 of additional tax, the balance payable is treated as income tax, albeit income tax that has not been paid on any specific non-U.K.-source income or gains. The law further provides that this nominated income is deemed to be the last to be remitted to the United Kingdom behind all other offshore income and gains for that year. The arrangement is an attempt to turn the remittance basis charge into a "tax," but the government offers no guarantee that other tax authorities will agree to grant a credit for such "tax." The budget announced on 23 March 2011 indicated that the £30,000 charge will increase to £50,000, effective from 6 April 2012 for individuals resident in the United Kingdom for 12 years. However, this measure is currently under consultation.

Each family member must make an election if they wish to benefit from the remittance basis unless his or her total unremitted offshore income and gains is less than £2,000 or his or her only U.K.-source income is taxed income of no more than £100. Family members who are 18 years or older at any time during the U.K. tax year are also subject to the £30,000 charge if they wish to claim the remittance basis.

In considering whether the remittance basis should be claimed, individuals should review the provisions of any relevant double tax treaties and note that many of the treaties the United Kingdom has entered into with other countries contain what is known as a "remittance clause." Under this clause, non-U.K.-source income is exempt from tax in the source country only if it is remitted to the United Kingdom.

Organizing bank accounts. If the remittance basis applies, special rules identify the source of funds remitted to the United Kingdom from a so-called "mixed fund." A "mixed fund" is a fund that contains monies from different sources such as employment income, investment income, capital gains and "clean capital." The special rules specify eight categories of income and gains. If monies remitted to the United Kingdom are remitted from a mixed fund, income is regarded as being remitted in a specific order which, in general terms, is the following:

- Employment income for the current year
- Investment income and gains for the current year yielding the highest net amount of U.K. tax
- Investment income and gains for the current year yielding lower U.K. tax

The above ordering applies to the income and gains for each tax year separately beginning with the most recent tax year and working backwards. If possible, it is important to organize offshore accounts containing separate monies from different sources in order to clearly identify the source and minimize the net U.K. tax on remittances.

As a result of the complexities of the remittance basis and the mixed fund rules, it is suggested that specific advice be sought.

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. However, contributions by an employer to an occupational pension plan registered with HM Revenue and Customs are normally not taxed (see *Pensions*).

All salaries and fees earned by directors are taxable as employment income. Directors and employees earning at an annual rate of £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 employees who are non-U.K. domiciliaries or nonresidents also includes salaries, bonuses, commissions, various expatriate allowances (for education, housing and cost of living) and tax reimbursements. In addition, foreign-service premiums and hardship allowances are taxable in the United Kingdom.

The U.K. rules on the taxation of contributions to pension schemes changed significantly, effective from 6 April 2006. Further changes took effect on 22 April 2009, and additional changes took effect on 6 April 2011. Under the rules that are currently in force, most employer-paid pension contributions into non-U.K. plans, whether a foreign government plan, a private plan or a tax-favored plan, are not taxable (see *Pensions*).

Subject to certain limits and conditions, individuals assigned temporarily to the United Kingdom for periods of 24 months or less are not taxed on employer-paid temporary housing or reimbursed costs of subsistence.

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 taxpayers. This 20% rate also applies to savings income earned abroad by U.K.-domiciled residents who are basic-rate taxpayers. Individuals who are not basic-rate taxpayers are taxed at a rate of 40% on savings income if their taxable income is not more than £150,000 or at a rate of 50% if they have more than £150,000 of taxable income.

U.K. dividends are subject to a nonrefundable 10% notional withholding tax. Dividends from non-U.K. companies are also subject to a nonrefundable 10% notional withholding tax, effective from 6 April 2008. U.K. dividends are taxed at a rate of 10% if included in income up to the higher rate threshold of £35,000, and at a rate of 32.5% if included in income above that threshold. Effective from 6 April 2010, U.K. dividends are taxed at a rate of 42.5% if the individual has more than £150,000 of taxable income. Effective from 6 April 2008, foreign dividends remitted to the United Kingdom by an individual claiming or entitled to benefit from the remittance basis are taxed at a top rate of tax of 40% rather than 32.5%. Effective from 6 April 2010, these rates are increased to 50% and 42.5%, respectively, if the individual has more than £150,000 of taxable income; see *Remittance basis*. Foreign dividends received by resident individuals who are not using the remittance basis are taxed at the same rates as U.K. dividends. Certain foreign dividends are also deemed to be subject to a nonrefundable 10% notional tax credit. As a result, the effective tax rate on such dividends is 44.44% and 36.11%, respectively.

U.K. 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 the highest rate (50%) 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 50%	£50
Less tax paid	(£20)
Tax due at the highest rate	£30

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. Individuals who claim the remittance basis and accordingly lose their right to a personal allowance may not claim exemption from withholding.

Unless HM Revenue and Customs 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, which for this purpose is an individual living outside the United Kingdom for at least six months. If no leasing agent is involved, the tenant must levy the withholding tax on rent paid to a nonresident landlord, unless HM Revenue and Customs 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*.

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 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 grant to vesting rather than from grant to exercise if a double tax treaty applies, unless the relevant double tax treaty specifically mentions that the sourcing period is from grant 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 or unless the employee was liable to U.K. tax on the basis of U.K. workdays at the date of grant.

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 taxation of options granted to employees who are resident but not ordinarily resident is complicated. The precise U.K. tax consequences depend on the date the option was granted. Options granted before 6 April 2008 are taxed differently from options granted on or after 6 April 2008. For options granted on or after 6 April 2008, the U.K. tax treatment is similar to the treatment given to options granted to an employee who is resident and ordinarily resident but with the possibility of claiming that a specified portion of the gain should be taxed only if remitted to the United Kingdom.

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 to resident and ordinarily resident employees 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 deduct the contributions paid when calculating the amount of the gain liable to U.K. income tax. This treatment is available only if the social security liability arose on or after 28 July 2000. A similar agreement can be made with respect to restricted stock awards made to resident and ordinarily resident employees on or after 1 September 2004. Such agreements may now be made with respect to options and restricted stock awards made to resident but not ordinarily resident employees.

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. Individuals may contribute any amount into a U.K.-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 the annual allowance of £50,000, effective from 6 April 2011.
- The total savings that may be accrued in a lifetime without penalties being incurred is £1,800,000, effective from 6 April 2010. This limit is set to be reduced to £1,500,000, effective from 6 April 2012.

In determining whether the above limits are breached, employer and employee contributions need to be added together. If one or both limits are breached, penalty-type charges may apply.

Effective from 6 April 2011, tax relief for pension contributions to pension funds for individuals is limited to the annual allowance of £50,000. This limit applies to pension contributions made in the pension input period, which is generally the pension plan year for a U.K.-registered scheme and the U.K. tax year for non-U.K. registered schemes. Unused annual allowances can be carried forward for up to three years in certain circumstances.

Before 6 April 2011, the annual allowance for pension contributions was £255,000 for the 2010-11 tax year. Rules were introduced to restrict the tax relief for "irregular" pension contributions made between 22 April 2009 and 5 April 2011.

In principle, employer contributions paid into non-U.K. pension schemes are not taxable to the employee, but any employee contributions are tax-deductible only if a claim is successfully made under the Migrant Member Relief (MMR) or Transitional Corresponding Relief (TCR) provisions, or those of a relevant double tax treaty. If a claim is available under one of these three relieving provisions, the employer contributions are also deductible for corporation tax purposes. Certain penalty-type charges may apply either when the employee is in the United Kingdom or at some point after departure, regardless of whether a claim for relief is made. The circumstance under which a penalty-type charge is most likely to apply is if benefits are withdrawn at a time or in a manner that is not permitted by U.K. law. Such penalty-type charges are not overridden by the provisions of a relevant double tax treaty.

As a result of the complexity of the pension legislation, advice should be sought in all cases.

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 occupational pension plan registered with HM Revenue and Customs, within specified limits (see *Pensions*).

Personal deductions and allowances. A U.K. taxpayer is entitled to a limited number of personal deductions and allowances. However, these deductions are not allowed if an election is made for the remittance basis for that year.

Relief for alimony and maintenance payments is available only if at least one of the spouses was 65 years of age or older on 5 April 2000 and if certain other conditions are met.

U.K. resident taxpayers are normally entitled to personal allowances reflecting their personal circumstances. For the 2011–12 tax year, £7,475 of assessable income is exempt from tax. This deduction is decreased by £1 for every £2 of income over £100,000. Married couples also qualify for the married couples allowance if one or both of the spouses was 65 years of age or older on 5 April 2000. The maximum amount of this allowance is £7,295, depending on the taxpayers' age and income. This relief may be taken only at a rate of 10%.

Nonresident European Economic Area (EEA) nationals, as well as residents and nationals of some countries with which the United Kingdom has entered into double tax treaties, are entitled to the full personal allowance of £6,475 unless they elect the remittance basis, subject to the reduction for individuals with more than £100,000 of income. Nonresident British Commonwealth subjects were also previously entitled to the full personal allowance. However this was withdrawn, effective from 6 April 2010.

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
- Expenses not incurred wholly and exclusively for the purposes of the business
- Costs of a capital nature
- 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.

Rates. The basic rate of tax for the 2011–12 tax year is 20%. Taxable income exceeding £35,000 and up to £150,000 is taxed at a rate of 40%. Taxable income over £150,000 is taxed at a rate of 50%.

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 who elects to be taxed on the remittance basis for that year is taxed on disposals of overseas assets only if the proceeds are remitted to the United Kingdom. The gain element of the sale proceeds is regarded as being remitted ahead of the capital. Individuals who leave the United Kingdom to reside abroad and do not remain nonresident for at least five complete tax years remain subject to capital gains tax (CGT) on gains derived from the disposal of assets held at the date of departure unless they were not resident in the United Kingdom during any part of four of the seven tax years immediately preceding the year of departure. In general, gains on the disposal of assets acquired while an individual is nonresident and sold while the individual is still nonresident are not subject to CGT. However, an individual who has been absent from the United Kingdom for less than five complete U.K. tax years is liable to CGT on any gains made in the year of return to the United Kingdom, regardless of whether the sale occurs before or after the date of return.

Beginning 6 April 2008, all capital gains were taxed at a flat rate of 18% with the exception of gains derived from the disposal of a business. Effective from 23 June 2010, the 18% rate applies to basic rate taxpayers only. Higher rate taxpayers (individuals with taxable income exceeding £35,000) pay capital gains tax at a rate 28%. Gains derived from the disposal of a business are taxed at a rate of 10%. A lifetime allowance known as "entrepreneurs' relief," is granted. This lifetime allowance is increased to £10 million, effective from 6 April 2011. The allowable cost of assets held before 31 March 1982 is adjusted to reflect the market value at that date.

Capital losses may be deducted from capital gains in the same year. Any unused losses may be carried forward indefinitely to relieve future gains. Special rules apply to losses incurred on the disposal of non-U.K. assets by individuals who elect to be taxed on the remittance basis.

An annual exemption of £10,600 for 2011–12 is granted. This exemption is forfeited if a claim for the remittance basis is made for the tax year.

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 in any 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.

The inheritance tax rate is 40%. A nil rate band of £325,000 applies for 2010-11. Any unused allowance of a spouse or civil partner may be transferred to the second deceased estate, provided the second death occurs after 9 October 2007.

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 all types of family trusts are subject to IHT at half the normal rates, subject to certain limited exemptions. 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

Business Property Relief and Agricultural Property Relief are available at either 100% or 50% on the transfers of certain assets if various conditions are satisfied.

To prevent double taxation, the United Kingdom has entered into inheritance tax treaties with the following countries.

France	Netherlands	Sweden
India	Pakistan	Switzerland
Ireland	South Africa	United States
Italy		

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 2011–12, the employee contribution is payable at a rate of 12% on weekly earnings between £139 and £817 and at a rate of 2% on weekly earnings in excess of £817.

An employer contributes at a rate of 13.8% on an employee's earnings above £136, with no ceiling. However, if the employee contracts out of the state second pension (S2P), which is permitted if the employee is a member of a registered 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 must also 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 2011–12, a weekly contribution of £2.50 is due if annual profits are expected to exceed £5,315. 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 2011–12 profit-related contribution rates are 9% on annual profits ranging from £7,225 to £42,475 and 2% on annual profits in excess of £42,475. Nonresident self-employed individuals are not subject to profit-related contributions.

The 2011–12 National Insurance contribution rates for employed individuals are set forth in the following tables.

Not contracted out

Total weekly earnings Exceeding £	Not exceeding £	Employer's contribution %	Employee's contribution %
0	136	0	0
136	139	13.8	0
139	817	13.8	12
817	—	13.8	2

Contracted out

Total weekly earnings		Employer's contribution		
Exceeding £	Not exceeding £	COSR (a) scheme %	COMP (b) scheme %	Employee's contribution %
0	136	0 (d)	0 (d)	0 (c)
136	139	10.1	12.4	0
139	770	10.1	12.4	10.4
770	817	13.8	13.8	12
817	—	13.8	13.8	2

(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 £102 to £139.
(d) Additional employer National Insurance contribution rebate at a rate of 3.7% for employers with COSR schemes or 1.4% for employers with COMP schemes on weekly earnings from £102 to £136.

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 legislation 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 legislation. New European Union (EU) social security legislation (EEC Council Regulation No. 883/2004) is effective from 1 May 2010. This legislation applies to all inter-EU moves for EU nationals. However, for the time being, the United Kingdom has not decided whether to extend the application of 883/2004 to non-EU nationals. In addition, moves involving Iceland, Liechtenstein, Norway and Switzerland are also not covered by these new rules (these four countries have delayed implementing the new legislation). The previous EU legislation (EEC Council Regulation No. 1408/71) continues to apply to non-EU nationals and to these four countries until agreement is reached for them to implement the new regulations.

Under the EU legislation, a covered worker normally pays social security contributions in a single member country, usually the country where his or her employment duties are performed, even though he or she may not live there.

Under an exception to this rule, a worker seconded to work in the United Kingdom from another member state normally remains subject to social security contributions in his or her home country if the assignment is for 12 months or less (if Regulation 1408/71 applies) or 24 months or less (if Regulation 883/2004 applies). Individuals may remain in their home country scheme for significantly longer periods if they are deemed to work partly in more than one member state (multistate workers), 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)	Israel	Philippines
Barbados	Jamaica	Switzerland (c)
Bermuda	Japan	Turkey
Canada	Jersey	United States
Guernsey	Korea (South)	Yugoslavia (b)
Isle of Man (d)	Mauritius	

(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	Latvia	Poland
Czech Republic	Lithuania	Slovak Republic
Estonia	Malta	Slovenia
Hungary		

Bulgaria and Romania joined the EU, effective from 1 January 2007.

(b) The United Kingdom honors the Yugoslavia treaty with respect to Bosnia-Herzegovina, Croatia, Macedonia, Montenegro and Serbia. The EC social security rules have applied to Slovenia since 1 May 2004.

(c) The EC social security rules apply to assignments to and from Switzerland, effective from 1 January 2002.

(d) The Isle of Man agreement is limited, and liability is generally determined according to place of residence.

D. Tax filing and payment procedures

General. 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 2011, and earns a bonus of £20,000 for that tax year which is not paid until December 2011, the salary is subject to tax in 2010–11, but the bonus, earned in the same period as the salary, is subject to tax in 2011–12, 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 HM Revenue and Customs to ensure that 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 HM Revenue and Customs by employers after the end of the tax year and by employees on their tax returns. HM Revenue and Customs 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 HM Revenue and Customs may choose to have HM Revenue and Customs calculate and assess their tax liability or to calculate and assess the tax due themselves. Individuals who choose to have HM Revenue and Customs calculate and assess tax must complete and submit their tax returns by 31 October following the end of the tax year. Individuals who choose to calculate and assess tax themselves must complete and submit paper tax returns by 31 October. Returns can be filed electronically, together with a calculation of the tax due, up to 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 income 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 further surcharge of 5% is imposed if the tax is not paid within six months following the final payment date.

A fixed penalty of £100 is imposed if a return is not filed by the applicable deadline (that is, 31 October or 31 January). If the return is three months late, HM Revenue and Customs may seek to impose daily penalties. A further fixed penalty of the higher of £300 or 5% of the tax due is imposed when the return is six months and twelve months late. Alternatively, in serious cases, 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 not withheld at source who do not receive a tax return must inform HM Revenue and Customs 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)
Antigua and Barbuda
Argentina
Australia
Austria
Azerbaijan
Bangladesh
Barbados
Belgium
Belize
Bolivia
Botswana
Brazil (d)
British Virgin Islands (f)
Brunei Darussalam
Bulgaria
Cameroon (d)
Canada
Cayman Islands (f)
Chile
Ghana
Greece
Grenada
Guernsey
Guyana
Hong Kong (f)
Hungary
Iceland
India
Indonesia
Iran (d)
Ireland
Isle of Man
Israel
Italy
Jamaica
Japan
Jersey
Jordan
Kazakhstan
Kenya
Kiribati
Korea (South)
New Zealand
Nigeria
Norway
Oman
Pakistan
Papua New Guinea
Philippines
Poland
Portugal
Qatar (f)
Romania
Russian Federation
Saudi Arabia (e)
Sierra Leone
Singapore
Slovenia
Solomon Islands
South Africa
Spain
Sri Lanka
St. Kitts and Nevis
Sudan

China
Congo (Democratic Republic of) (d)
Côte d'Ivoire
Cyprus
Czechoslovakia (b)
Denmark
Egypt
Estonia
Ethiopia (d)
Falkland Islands
Faroe Islands
Fiji
Finland
France
Gambia
Georgia
Germany
Kuwait
Latvia
Lebanon (d)
Lesotho
Libya (f)
Lithuania
Luxembourg
Macedonia
Malawi
Malaysia
Malta
Mauritius
Mexico
Moldova
Mongolia
Montserrat
Morocco
Myanmar
Namibia
Netherlands
Swaziland
Sweden
Switzerland
Taiwan
Thailand
Trinidad and Tobago
Tunisia
Turkey
Tuvalu
Uganda
Ukraine
USSR (c)
United States
Uzbekistan
Venezuela
Vietnam
Yugoslavia (a)
Zambia
Zimbabwe

(a) The United Kingdom honors the Yugoslavia treaty with respect to Bosnia-Herzegovina, Croatia, Montenegro and Serbia. It has entered into tax treaties with Macedonia and Slovenia.
(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, Tajikistan and Turkmenistan.
(d) The provisions of these treaties relate to shipping and air transport only.
(e) This treaty is effective in the United Kingdom from 6 April 2010.
(f) This treaty is effective in the United Kingdom from 6 April 2011.

F. Entering the United Kingdom

In general, to enter the United Kingdom, you must have a travel document (in most cases a passport) that is usually required to be valid for six months after your proposed return date.

Regardless of the duration or purpose of their visit, nationals of some countries, principally those in Asia, Africa, Central America, and Eastern Europe, must obtain visas before traveling to the United Kingdom. Individuals from the relevant countries are commonly known as "visa nationals."

In contrast, "non-visa nationals" are not required to obtain entry clearance if traveling to the United Kingdom as visitors or business visitors (performing certain activities) for a period not exceeding six months.

If the purpose of the visit is for work or employment, individuals, including non-visa nationals, must obtain an appropriate entry clearance (visa) before traveling to the United Kingdom.

Entry-clearance applications must be made to a British Embassy, Consulate General or High Commission (collectively known as British diplomatic posts) or one of their Commercial Partners' offices in the individual's home country or country of legal residence (other than as a visitor).

Applications for entry clearance may be refused if the applicant has breached U.K. immigration rules during the preceding 10 years. Providing misleading or false information when applying for entry clearance or leave to enter may result in an individual being barred from entering the United Kingdom for a minimum of one year.

A British diplomatic post approving an entry clearance for longer than six months may stipulate that the individual must register with the police within seven days after arriving in the United Kingdom. A national of an EEA or Commonwealth country does not have to register with the police.

U.K. authorities may impose financial penalties on airlines and shipping companies that bring unauthorized passengers to the United Kingdom. This legislation was introduced to reduce the number of persons who are turned away at the port of entry because they do not have the necessary entrance authorization.

Visitors. Individuals coming to the United Kingdom as tourists or business visitors are normally granted admission for a period of six months. The rules regarding business visitors are complex and should be considered on a case-by-case basis. Business visitors are prohibited from working while in the United Kingdom or receiving salary in the United Kingdom. However, they are allowed to attend meetings, transact business and negotiate contracts with U.K. companies. It is suggested that an individual planning to come to the United Kingdom as a business visitor have a letter from his or her employer stating the purpose and duration of the visit.

Visa nationals coming to the United Kingdom must obtain entry clearance before traveling to the United Kingdom. Although non-visa nationals coming to the United Kingdom as visitors for up to six months do not require entry clearance, they must restrict their activities to those prescribed and permitted under the business visitor framework.

Students, Working Holiday Makers and Investors. Like several previous immigration categories, the rules governing foreign students, the Working Holiday Scheme, and Investors have been replaced by new categories under the Points Based System (PBS). Individuals seeking to come to the United Kingdom as students, Investors or individuals entering under the Youth Mobility Scheme (the replacement for the Working Holiday Scheme) now need to score a specified number of points to qualify for entry clearance. For further details regarding the PBS, see Section G.

G. Entry for the purposes of employment, self-employment, studying, government-exchange program and other purposes

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 the appropriate immigration document and/or entry clearance (visa). Whether a combination of these items is required depends on the individual's circumstances.

European Economic Area and Swiss nationals. The European Economic Area (EEA) consists of the following countries.

Austria	Greece	Netherlands
Belgium	Hungary	Norway
Bulgaria	Iceland	Poland
Cyprus	Ireland	Portugal
Czech Republic	Italy	Romania
Denmark	Latvia	Slovak Republic
Estonia	Liechtenstein	Slovenia
Finland	Lithuania	Spain
France	Luxembourg	Sweden
Germany	Malta	United Kingdom

For the purposes of entry on the grounds of employment, the list of countries above extends to Switzerland, notwithstanding the fact that Switzerland is not a member of the EEA.

Nationals of EEA countries have varying degrees of access to the U.K. labor market.

Nationals of older EEA member-countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain and Sweden) have full rights of free movement in the United Kingdom and do not require a work permission in order to work. Their dependants, including a spouse or civil partner, children and grandchildren who are under 21 years of age and parents or grandparents may join them in the United Kingdom, and enjoy a right of residence.

In general, Bulgarians and Romanians require work permission to work in the United Kingdom. After nationals from these countries obtain authorization to work in the United Kingdom, their dependants may also acquire the rights to reside and work in the United Kingdom.

EEA nationals (with the exception of those from Bulgaria and Romania) may apply for a residence document on arrival in the United Kingdom, but this is not mandatory. The residence document is usually valid for five years. After an individual has been resident in the United Kingdom for five years, he or she may qualify to apply for permanent residency subject to meeting certain requirements.

In all cases, non-EEA dependants who wish to join an EEA family member in the United Kingdom must obtain an EEA Family Permit (usually valid for six months) from a British diplomatic post before traveling to the United Kingdom.

Non-EEA nationals. In general, non-EEA nationals, and persons without settled status or a right of abode in the United Kingdom who wish to come to the United Kingdom for the purpose of employment must obtain the requisite employment authorization entry clearance for that purpose before traveling to the United Kingdom.

In 2008, the government introduced a new Points Based System (PBS) and new legislation for the prevention of illegal working. The PBS is a point-scoring system under which foreign migrants are awarded points to reflect aptitude, experience and the demand for skills in certain sectors. The illegal working legislation increased the penalties for employers who breach the requirements. These measures are aimed at strengthening the government's ability to control immigration more effectively.

Since 2010, the new coalition government has introduced several changes to the PBS that are designed to significantly reduce the numbers of non-EEA economic migrants entering the United Kingdom. The most significant of these changes was the introduction of an annual limit (cap), effective from 6 April 2011.

A key feature of some of the tiers of the PBS is that employers must obtain a sponsor license to sponsor foreign migrants coming to the United Kingdom. Sponsors are required to estimate their use of the Certificate of Sponsorship (CoS) in different categories on an annual basis. They are also subject to reporting and compliance requirements to maintain their status as licensed sponsors.

The PBS consists of five tiers, which are discussed below.

Tier 1. Tier 1 has several subcategories:

The Tier 1 (Exceptional Talent) category is intended for applicants who are internationally recognized in their field as a leading world talent. This new category is not intended to replace the earlier Tier 1 (General) category, which was abolished, effective from 6 April 2011, or the prior Highly Skilled Migrant Program. Transitional arrangements remain in place to enable those already in the United Kingdom under the prior Highly Skilled Migrant Program or Tier 1 (General) category to extend their stay in the United Kingdom.

The Tier 1 (Investor) category applies to foreign migrants who intend to make a large investment in the United Kingdom. Such individuals need access to £1 million that is disposable and that is in a financial institution, or £2 million in net personal assets and £1 million in a loan.

The Tier 1 (Entrepreneur) category applies to foreign migrants who intend to invest in the United Kingdom by setting up or taking over the running of a business and can demonstrate they have access to a certain amount of investment funds that are held in one or more regulated financial institutions and that are disposable in the United Kingdom.

The Tier 1 (Post-Study Worker) category will be closed, effective from 2012. Currently, this category applies to individuals who are studying now or have studied in the past 12 months up to a required level in the United Kingdom. If successful, they are granted leave to remain in the United Kingdom for two years. This category is designed as a bridge to highly skilled or skilled work and it is anticipated that applicants will switch into another appropriate category such as Tier 2 (General) of the PBS as soon as possible. After the closure of this category, only those graduates who have an offer of a skilled job from a sponsoring licensed employer will be able to stay in the United Kingdom to work under the Tier 2 (General) category of the PBS.

Tier 2. The Tier 2 (General) category applies to skilled workers who do not have 12 months' previous work history abroad with the licensed sponsor that has offered them a job in the United Kingdom. The employer must satisfy the prescribed Resident Labour Market Test to demonstrate an inability to fill the post with a resident worker. Except for nationals from a handful of majority-English speaking countries, foreign nationals who wish to work in the United Kingdom under Tier 2 must provide specified documents to show that they have a good knowledge of English.

This category is subject to an annual limit, with the exception of applicants who will receive an annual salary of more than £150,000 per year. Licensed sponsors must apply for a "restricted" certificate of sponsorship through the monthly allocation. The sponsor must already have carried out the Resident Labour Market Test before applying for a "restricted" certificate. Each month, a set number of "restricted" certificates is available for allocation to U.K. employers, based on a points test. Jobs in occupations with shortage and certain PhD-level positions are given priority. In the event that the number of valid applications received is greater than the number of certificates available, the applications scoring the lowest number of points are less likely to be approved. In the event that not all the allocated certificates are used, the excess is carried over and added to the following month's available allocation.

The Tier 2 (Intracompany Transfer, or ICT) category has four subcategories:

The Tier 2 (ICT) Established Staff – Long Term and Short Term categories apply to employees of multinational companies who are being transferred by an overseas employer to a U.K.-based branch of the organization. These employees must have worked abroad with the company for at least 12 months. Individuals who enter the United Kingdom under this category must fill roles at the graduate level or above that cannot be filled by a settled worker. Applicants are not required to demonstrate English language ability unless they later apply to extend their stay beyond three years. For applications made on or after 6 April 2011, only individuals who will be earning more than £40,000 per year are eligible for the Tier 2 (ICT) Established Staff – Long Term category, and accordingly are able to work in the United Kingdom for more than 12 months. The initial leave under the Long Term category is granted for up to three years with the possibility of an extension for a further two years. The applicant will not be able to extend leave beyond five years and will not be able to reapply to return to the United Kingdom in that category until 12 months after the end of the leave under the expired ICT. These "cooling off" periods are based on the period of leave granted, not the amount of time spent in the United Kingdom. Individuals who will be earning between £24,000 and £39,999 per year will be allowed only to work for a maximum period of 12 months.

The Tier 2 (ICT) Skills Transfer category applies to employees of multinational companies who are being transferred by overseas employers to the U.K.-based branches of the organizations for no more than six months to acquire the skills and knowledge that they may need to fulfill their role overseas or to impart their specialist skills or knowledge to the U.K. workforce. Only certain roles are eligible to qualify for this visa, and the role must be additional to normal staffing requirements. This category must not be used to fill U.K. vacancies or to displace resident workers by, for example, filling positions in a U.K.-based project or by rotating the admission of skills transferees to effectively fill long-term positions in the United Kingdom. On-the-job training and work for the purposes of skills transfer is allowed if the work undertaken is in line with the skills transfer.

The Tier 2 (ICT) Graduate Trainee category applies to recent graduate employees of multinational companies, with at least three months of service overseas, who are being transferred by overseas employers to the U.K.-based branch of the organization for no more than 12 months for the purpose of training. Individuals may only come to the United Kingdom in this category if they are part of a structured graduate training program with clearly defined progression towards a managerial or specialist role within the organization. Only certain roles are eligible to qualify for this visa. Only five graduate trainee visas may be issued per sponsor per financial year.

The Minister of Religion category applies to individuals coming to the United Kingdom as religious workers for religious organizations for more than two years. Individuals coming to the United Kingdom under this category are required to meet the English language requirement.

The Sportsperson category applies to elite sports people and coaches who are internationally established at the highest level, and will make a significant contribution to the development of their sport. Individuals coming to the United Kingdom under this category are required to meet the English language requirement.

Representatives of foreign newspapers, broadcasters or news agencies that do not have a U.K. operation and that could apply for a Tier 2 sponsor license have the choice of applying for entry clearance under the PBS or under the old immigration rules. This is a temporary arrangement, and the government has signified its intention to put in place a permanent framework for this category. Representatives who are being posted to the United Kingdom for six months or less can apply to enter the United Kingdom as business visitors (see Section F).

Tier 3. Tier 3 covers low level skill workers. This tier is currently suspended until further notice.

Tier 4. Tier 4 covers individuals wishing to study in the United Kingdom. Such individuals must be sponsored by a licensed educational institution in the United Kingdom.

Tier 5. Tier 5 covers the following temporary workers:
- Individuals coming to the United Kingdom to work or perform as sportspersons, entertainers or creative artists
- Individuals coming to the United Kingdom to do voluntary work for charity
- Individuals coming to the United Kingdom to work temporarily as religious workers
- Individuals coming to the United Kingdom through approved government-exchange programs
- Individuals coming to the United Kingdom under contract to do work that is covered under international law

Tier 5 also covers young people from participating countries who would like to experience life in the United Kingdom under a youth mobility scheme.

Other matters regarding the tiers. The five tiers have different conditions, entitlements and entry clearance requirements. For each tier, applicants need to score sufficient points to gain entry clearance or leave to remain in the United Kingdom, as well as demonstrate the ability to support themselves and any dependants.

Individuals applying to come to the United Kingdom under the PBS must obtain entry clearance before traveling to the United Kingdom. More specifically, individuals coming to the United Kingdom for employment purposes may not begin employment in the United Kingdom until they have obtained entry clearance or leave to remain for the specific job and the particular employer in question. A short visit to the United Kingdom while a PBS application is underway may be permitted (see Section F), but risks are associated with such a trip.

Tiers 1 and 2 (but not any of the intracompany routes) may potentially lead to settlement (permanent residency) if an individual meets settlement requirements at the time of the application.

An entry clearance issued under Tiers 1, 2 and 4 may be extended before its expiration if the requirements for extension are met.

Permit-free employment categories. Individuals who fall into certain categories do not need permission to work in the United Kingdom but must obtain prior entry clearance from a British diplomatic post before entering the United Kingdom. The following are the categories:
- Commonwealth nationals with a British-born grandparent or right of abode (U.K. ancestry)
- Sole representatives of foreign firms that do not have a branch, subsidiary or other representation in the United Kingdom, including representatives of foreign newspapers, broadcasters or news agencies on a long-term assignment to the United Kingdom
- Individuals coming to the United Kingdom as representatives of foreign governments or as employees of the United Nations or other international organizations

Further details regarding the first two categories are provided below.

U.K. ancestry. A Commonwealth citizen with a British-born grandparent may be given permission to live and work in the United Kingdom for five years. Towards the end of this period the individual may apply for indefinite leave to remain in the United Kingdom.

The position is different for individuals with British parents. In certain circumstances, they may qualify for a British passport or be entitled to the right of abode. As a result, they can live and work in the United Kingdom without restriction. However, they still need to obtain the appropriate documentation from a British diplomatic post before coming to the United Kingdom.

Sole representatives. Employing a sole representative is a simple way for overseas companies to introduce their products into the U.K. market. This approach is often used by companies who are interested primarily in trading with the United Kingdom rather than in the United Kingdom. It is also a convenient way for an overseas company to bring an employee to the United Kingdom to set up operations.

To obtain clearance as a sole representative, an individual must prove that he or she will be the sole representative of a particular overseas company in the United Kingdom. He or she must also demonstrate that a need exists for his or her presence in the United Kingdom and that it is his or her intention to establish a subsidiary or branch of the foreign company after entering the United Kingdom.

A sole representative must remain under the direct control of the overseas company. Initially, entry clearance is usually granted for up to three years. After this period the individual can apply for an extension if certain criteria are met.

H. Permanent residence status

If an individual has been living and working in the United Kingdom continuously for five years as a work permit holder or a Highly Skilled Migrant, or on leave obtained under the PBS (which leads to settlement), he or she and his or her dependants may be eligible to apply for permanent residence status, otherwise known as Indefinite Leave to Remain (ILR).

Permanent residence status removes the time and employment restrictions that were imposed when an individual first entered the United Kingdom. This means that the individual may be able to settle permanently in the United Kingdom and take up any employment.

An individual can retain his or her permanent resident status during a period of absence if he or she is not away from the United Kingdom for a continuous period of more than 24 months and if he or she retains close ties with the United Kingdom during his or her absences; that is, when the individual returns to the United Kingdom, he or she is returning to reside, not to visit.

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 or civil partner and children less than 18 years of age. However, dependants must obtain entry clearance (a visa) before accompanying the principal applicant to the United Kingdom.

The spouse or civil partner 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 an initial period of six months. On entry into the United Kingdom, they may extend their stay by applying for a Residence Card. 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. Consequently, 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. Consequently, 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 located 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 located 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 the following countries.

EU member countries	Cyprus	New Zealand
Australia	Finland	Singapore
Barbados	Hong Kong	Sweden
British Virgin Islands	Japan	Switzerland
	Kenya	Zimbabwe
	Malta	

Individuals from nonreciprocal countries must take a practical driving examination after 12 months in the United Kingdom.

J. Other matters

British citizenship. An individual holding a work visa may be eligible to apply to naturalize as a British citizen after a continuous period of five years' residence in the United Kingdom (three years if married to a British citizen), the last twelve months of which must have been as a holder of ILR. The United Kingdom allows dual nationality. However, not all countries allow dual nationality. Consequestly, this should be confirmed before making an application.

Identity cards for non-EEA nationals. The government has introduced identity cards for foreign nationals in the United Kingdom. The cards replace the stickers or vignettes in passports. Identity cards have now been introduced for all migrant worker categories.

At the time of writing, the program had not been extended to migrant workers. This situation is expected to change in the near future.

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 not taxable in the United Kingdom and employee contributions are not deductible. However, if the plan is a Qualified Overseas Pension Scheme and if certain other conditions are met, 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. However, in the cases of tax-deductible employee contributions and tax-exempt employer contributions, certain penalty-type charges may apply if the contributions to the plan, or the size of the funds invested, exceed specified limits or if the conditions for relief are subsequently breached. A penalty-type charge may also apply with respect to individuals with taxable income of at least £150,000 if the contributions paid in 2009-10 or 2010-11 exceed the contributions paid in previous years.

(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 spouse and children under 18 years of age. 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) Residents are taxed on worldwide investment income unless a remittance basis election is made, in which case income from offshore investments is taxed to the extent that it is remitted to the United Kingdom.

(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) Individuals resident or ordinarily resident in the United Kingdom are taxed on worldwide gains. Nondomiciled residents who elect the remittance basis are taxed on U.K. gains and offshore gains to the extent that they are remitted to the United Kingdom.

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 employer and receives compensation from the employer in a bank account outside the United Kingdom. No other income or gains are credited to this bank account other than the interest on the account itself. The individual elects to be taxed on the remittance basis.

In Case B, the individual is resident and ordinarily resident and has one non-U.K. employer or the individual is resident but not ordinarily resident and does not make an election to be taxed on the remittance basis.

In Case C, the individual has an employment contract for U.K. duties with a U.K. resident employer and a separate employment contract with a different non-U.K. resident employer providing for duties that are performed wholly outside the United Kingdom. The individual receives compensation for each employment in separate bank accounts outside the United Kingdom. No other income or gains are credited to either bank account. The individual elects to be taxed on the remittance basis.

In Cases A and C, the individuals limit their remittances to the United Kingdom to no more than £45,000.

The following are the tax calculations.

	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	(0)	(7,475)	(0)
Taxable income	45,000	52,525	45,000
Income tax	11,000	14,010	11,000

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.

United States

(Country code 1)

New York, New York **GMT -5**

Ernst & Young
5 Times Square
New York, NY 10036
United States

Executive contacts

Wes Okumura, *America's Director - Human Capital*	(408) 947-5403 Email: wes.okumura@ey.com
Michael Abdalian, *Director of Knowledge*	(216) 583-1508 Email: michael.abdalian@ey.com
Keith Longman, *Director of Quality*	(612) 371-8367 Email: keith.longman@ey.com
Jason Ward, *U.S. Director Assignment Services*	(214) 754-3940 Efax: (866) 390-8941 Email: jason.ward@ey.com
Michael Bussa, *Global Equity*	(212) 773-7510 Email: michael.bussa@ey.com

Immigration contacts

James P. Egan	(416) 943-2533 Email: james.p.egan@ca.ey.com
George Reis	(416) 943-2535 Email: george.reis@ca.ey.com
Batia J. Stein	(416) 943-3593 Email: batia.j.stein@ca.ey.com

International High Net Worth Group contacts

David Boyle	(206) 654-7690 Email: david.boyle@ey.com
Charles Kowal	(404) 817-4260 Email: charles.kowal@ey.com
Michael A. Spielman	(202) 327-7290 Email: michael.spielman@ey.com

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 $92,900 (for 2011) 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; see Section G) 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 with the following percentages:

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.
• 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, which is generally salary and earnings from active trades or businesses
- Portfolio income, which is generally investment income, including interest, dividends, certain royalties and gains from the disposition of investment property
- Passive income, which is 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.
- 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 ($3,700 in 2011), 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.
- 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% (0% 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. For certain qualified small business stock acquired during the period of 28 September 2010 through 31 December 2011, the exclusion is 100%.

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. For sales occurring after 2008, part of the gain on the sale of a principal residence may not be eligible for exclusion. To the extent the taxpayer has "nonqualified use" of the property (after 2008), that portion of the gain (determined on a time basis over the total holding period of the property) is not eligible for exclusion from income. A complex set of rules applies to determine whether a particular use of the property, such as renting out the property or leaving it vacant, is considered a "nonqualified use."

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% (0% 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, and individual retirement account (IRA) contributions of up to $5,000 ($6,000 if age 50 or older at the end of 2011) 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 2011, the standard deduction is $11,600 for married individuals filing a joint return, $8,500 for a head of household, $5,800 for a single (not married) individual and $5,800 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
- Unreimbursed employee business expenses and other miscellaneous itemized deductions, to the extent that the net total exceeds 2% of adjusted gross income

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.

Personal exemptions. Individuals who are not dependants of other taxpayers are entitled to deduct a personal exemption in arriving at taxable income. For 2011, each personal exemption equals $3,700. 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.

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 2011 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	17,000	0.00	10
17,000	69,000	1,700.00	15
69,000	139,350	9,500.00	25
139,350	212,300	27,087.50	28
212,300	379,150	47,513.50	33
379,150	—	102,574.00	35

Married filing separate return

Taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
$	$	$	%
0	8,500	0.00	10
8,500	34,500	850.00	15
34,500	69,675	4,750.00	25
69,675	106,150	13,543.75	28
106,150	189,575	23,756.75	33
189,575	—	51,287.00	35

Head of household

Taxable income		Tax on lower	Rate on
Exceeding	Not exceeding	amount	excess
$	$	$	%
0	12,150	0.00	10
12,150	46,250	1,215.00	15
46,250	119,400	6,330.00	25
119,400	193,350	24,617.50	28
193,350	379,150	45,323.50	33
379,150	—	106,637.50	35

Single individual

Taxable income Exceeding	Not exceeding	Tax on lower amount	Rate on excess
$	$	$	%
0	8,500	0.00	10
8,500	34,500	850.00	15
34,500	83,600	4,750.00	25
83,600	174,400	17,025.00	28
174,400	379,150	42,449.00	33
379,150	—	110,016.50	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 2011 rate for residents of New York City is 3.876%. State income tax rates generally range from 0% to 10%. 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 $13,360 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 $2,500, 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. The laws governing estate and gift taxation have changed significantly over the past several years and may change again in the near future. The rules for 2011 are summarized below.

U.S. estate and gift taxes are imposed at graduated rates ranging from 18% to 35% on the value of property transferred by reason of death or gift. In general, citizens and residents are entitled to a unified exemption of $5 million on these taxes. A third transfer tax, known as the generation-skipping transfer (GST) tax, operates under a complex set of rules.

In general, transfers between spouses who are U.S. citizens, or 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.

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 or gift. 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 the following countries.

Australia	Germany	Netherlands
Austria	Greece	Norway
Denmark	Ireland	South Africa
Finland	Italy	Switzerland
France	Japan	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 $13,000 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 $26,000 for each recipient. Gifts in excess of the annual exclusion are subject to taxes ranging from 18% to 34%. However, a credit may be used to offset this liability.

A U.S. citizen or resident is exempt from gift tax on annual transfers (other than gifts of future interests in property) of up to $136,000 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 $13,000 annually to each recipient with no gift tax consequences, but they may not split gifts with their spouses.

U.S. citizens or resident aliens (as defined for income tax purposes) are required to report gifts or bequests from foreign sources in excess of $14,375, in aggregate, 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. Substantial penalties may be imposed for failure to report such gifts or bequests.

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.
- 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.
- The surviving spouse dies.

For U.S. tax purposes, the estate of a nonresident includes only property deemed to be located in the United States. This generally includes tangible, intangible and real property located within the United States at the time of death. For this purpose, shares of U.S. domestic corporations, U.S. property owned through certain trusts and certain debt obligations of U.S. residents are considered to be property located in the United States. In addition, in some instances, U.S. property held by a partnership or limited liability company may be considered to be property located in the United States, but the law in this area is unclear. 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.

Expatriation tax. Before 17 June 2008, the United States did not have an exit tax. However, former U.S. citizens and former long-term permanent residents were subject to reporting requirements and potentially to U.S. income tax under a complex set of rules generally in effect for 10 years following expatriation.

Effective from 17 June 2008, certain individuals known as "covered expatriates" are immediately taxed on the net unrealized gain in their property exceeding $600,000, as if they sold the property for fair market value the day before expatriating or terminating their U.S. residency. In general, "covered expatriates" are U.S. citizens or long-term residents ("green card" holders [see Section G] for any part of 8 tax years during the preceding 15 years) who have a five-year average income tax liability exceeding $124,000 (indexed for inflation; $147,000 for 2011) or net worth of $2 million or more. Net gains are recognized to the extent that they exceed $600,000 (indexed for inflation; $636,000 for 2011). This treatment applies to most types of property interests held by individuals.

The above rules also affect the taxation of certain deferred compensation items (including foreign and U.S. pension plans), interests in and distributions from nongrantor trusts and certain tax-deferred accounts, such as so-called "529 plans," Coverdell education savings accounts and health-savings accounts.

At the election of the taxpayer, subject to approval of the IRS, payment of the exit tax may be deferred if adequate security is provided. Such deferral is irrevocable, carries an interest charge and requires the taxpayer to waive any treaty rights with respect to the taxation of the property.

U.S. citizens or residents receiving gifts or bequests of more than $10,000 (indexed for inflation) from covered expatriates are taxed at the highest gift or estate tax rate currently in effect (35% in 2011). Under the general U.S. rules of gift taxation, tax is assessed on the donor. However, the rule described above imposes tax on the U.S. citizens or residents receiving the gifts. This rule does not appear to have a time limit. The tax on gifts or bequests from a covered expatriate to a U.S. citizen or resident may be assessed at any time such a gift or bequest is received after the expatriation of the covered expatriate.

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 2010, the social security tax was imposed at a rate 15.3%, including a 2.9% Medicare tax. The social security tax is imposed on the first $106,800 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. For 2011, a one-year reduction in the employee portion of social security tax was enacted. The annual employee contribution of 6.2% of wages up to $106,800 is reduced to 4.2%. The employer contribution remains at 6.2% for 2011.

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 the following countries.

Australia	France	Netherlands
Austria	Germany	Norway
Belgium	Greece	Poland
Canada	Ireland	Portugal
Chile	Italy	Spain
Czech Republic	Japan	Sweden
Denmark	Korea (South)	Switzerland
Finland	Luxembourg	United Kingdom

An agreement with Mexico has been signed but it is not 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 2010, SECA tax was imposed at a rate of 15.3%, including a 2.9% Medicare tax. The SECA tax is imposed on self-employment income, up to $106,800. 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. For 2011, a one-year reduction similar to the FICA tax reduction described above was enacted. The 12.4% contribution on wages up to $106,800 is reduced to 10.4%. 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 2011 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. 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. 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 ($3,700 in 2011). 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 and 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 or 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, and certain nonresidents. The rules cover interests and signature authority in foreign bank and other financial accounts and assets, corporations, trusts and partnerships. They are extremely complex, and penalties (both civil and criminal) 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 two categories of income. These categories are passive category income and general category income, which includes earnings from personal services. 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. 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	Portugal
Austria	Ireland	Romania
Bangladesh	Israel	Russian Federation
Barbados	Italy	Slovak Republic
Belgium	Jamaica	Slovenia
Bulgaria	Japan	South Africa
Canada	Kazakhstan	Spain
China	Korea (South)	Sri Lanka
Cyprus	Latvia	Sweden
Czech Republic	Lithuania	Switzerland
Denmark	Luxembourg	Thailand
Egypt	Malta	Trinidad and Tobago
Estonia	Mexico	Tunisia
Finland	Morocco	Turkey
France	Netherlands	Ukraine
Germany	New Zealand	USSR*
Greece	Norway	United Kingdom
Hungary	Pakistan	Venezuela
Iceland	Philippines	
India	Poland	

* 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 an arrival-departure record (Form I-94), which is stapled into a nonimmigrant's passport. The I-94 indicates both the individual's status in the United States and the last date on which the individual may remain in the United States. In almost all cases, the I-94 is collected on departure from the United States to confirm that the individual has left the United States within his or her period of authorized stay.

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 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 or the work authorized L-1 intracompany transferee. 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 the authorized stay. However, most nonimmigrant visa categories have maximum stay limitations. Some categories of nonimmigrants may also become eligible for permanent residence or "Green Card" 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 in a nonimmigrant category. If the employee wishes to remain in the United States on a permanent basis, the immigrant 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. B-1 status is issued to people temporarily visiting the United States to engage in business on behalf of foreign employers. B-1 holders may not be employed by U.S. employers, but, among other activities, 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	Hungary	Netherlands
Australia	Iceland	New Zealand
Austria	Ireland	Norway
Belgium	Italy	Portugal
Brunei Darussalam	Japan	San Marino
Czech Republic	Korea (South)	Singapore
Denmark	Latvia	Slovak Republic
Estonia	Liechtenstein	Slovenia
Finland	Lithuania	Spain
France	Luxembourg	Sweden
Germany	Malta	Switzerland
Greece	Monaco	United Kingdom

The above list is updated occasionally; readers are advised to contact their local U.S. embassy or consulate to confirm status before traveling.

Effective from 12 January 2009, all VWP travelers are required to obtain a travel authorization through the U.S. Department of Homeland Security's Electronic System for Travel Authorization (ESTA) before traveling to the United States. ESTA is an automated system used to determine the eligibility of visitors to travel to the United States under the VWP. The ESTA is accessible online at http://esta.cbp.dhs.gov for citizens of VWP countries. Travelers are encouraged to apply as soon as travel is planned, and it is strongly suggested that they apply at least 72 hours before traveling to the United States. An approved ESTA travel authorization is valid for multiple entries into the United States and is generally valid, unless revoked, for up to two years or until the traveler's passport expires, whichever comes first. ESTA is not a guarantee of admission to the United States at a port of entry. ESTA approval only authorizes a traveler to board a carrier for travel to the United States under the VWP. Readers should review the U.S. Department of State website for the most up-to-date information about ESTA.

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. Nationals of the Czech Republic, Estonia, Hungary, Korea (South), Latvia, Lithuania, Malta and the Slovak Republic require passports with an integrated chip containing the information from the data page. Please consult with the U.S. Department of State for current passport requirements.

Specialty occupations—H-1B. 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 H-1B status 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 2010 and subsequent fiscal years, only 65,000 H-1Bs are made available. In addition, regulations allow a further 20,000 H-1Bs to be issued to persons having a masters or higher degree from qualifying U.S. post-secondary institutions. Readers should consult with the USCIS to ensure that the H-1B 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. H-3 status 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-1 and E-2. 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 and the following countries authorize treaty trader (E-1) and treaty investor (E-2) classifications for nationals of these countries (for a current list of treaty countries, please consult with the U.S. Department of State).

Albania (b)
Argentina
Armenia (b)
Australia
Austria
Azerbaijan (b)
Bahrain (b)
Bangladesh (b)
Belgium
Bolivia
Bosnia-Herzegovina
Brunei Darussalam (a)
Bulgaria (b)
Cameroon (b)
Canada
Chile
Colombia
Congo (b)
Costa Rica
Croatia
Finland
France
Georgia (b)
Germany
Greece (a)
Grenada (b)
Honduras
Iran
Ireland
Israel (a)
Italy
Jamaica (b)
Japan
Jordan
Kazakhstan (b)
Korea (South)
Kyrgyzstan (b)
Latvia
Liberia
Lithuania (b)
Luxembourg
Macedonia
Norway
Oman
Pakistan
Panama (b)
Paraguay
Philippines
Poland (b)
Romania (b)
Senegal (b)
Singapore
Slovak Republic (b)
Slovenia
Spain
Sri Lanka (b)
Suriname
Sweden
Switzerland
Taiwan
Thailand
Togo
Trinidad and Tobago (b)

Czech Republic (b)	Mexico	Tunisia (b)
Denmark	Moldova (b)	Turkey
Ecuador (b)	Mongolia (b)	Ukraine (b)
Egypt (b)	Morocco (b)	United Kingdom
Estonia	Netherlands	Yugoslavia
Ethiopia		

(a) Limited to E-1 status.
(b) Limited to E-2 status.

E-3 for Australians. The E-3 is a visa category available to nationals of Australia (as well as their children and spouses), limited to 10,500 per fiscal year. The E-3 status 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 category. 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. 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 a one year "new office" period. 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 that need the services of managers, executives or personnel with specialized knowledge. If, at the end of the first year, the start-up company is unable to prove that this progress has been made, it may be possible for the individual to receive an extension of an additional year to continue to grow the business.

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.
- 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. An L-1 visa holder's spouse who holds L-2 status 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.

Over the past several years, USCIS service centers have shown a clear trend towards higher scrutiny of L-1 petitions, resulting in greatly increased rates for requests for additional evidence and denials. This increased scrutiny has been applied across the board with L-1 visa petitions, but has been most evident for petitions involving start-up companies and personnel with specialized knowledge.

Extraordinary ability—O-1. 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
• 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. 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
• 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 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
• Interns
• Trainees
• Teachers
• Professors and research scholars
• Alien physicians

- Au pairs
- 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 up 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. 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. Some F-1 holders may obtain a 17-month extension (up to 29 months total) to their work authorization if they have completed a degree in science, technology, engineering or mathematics and if they have accepted employment with employers enrolled in the USCIS's E-Verify employment verification program. Students should consult with their Designated School Officials and/or the USCIS before requesting an extension of their work authorization.

Nonacademic students—M. 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. The AR-11 form can now be filed online.

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 U.S. 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.

Brazil
Canada
China (Mainland China-born only)
Colombia
Dominican Republic
Ecuador
El Salvador
Guatemala
Haiti
India
Jamaica
Korea (South)
Mexico
Pakistan
Peru
Philippines
Poland
United Kingdom (except Northern Ireland) and its dependent territories
Vietnam

Persons born in the Hong Kong Special Administrative Region (SAR), Macau and Taiwan are eligible. Please consult with the U.S. Department of State for a current list and lottery instructions.

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.
— 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.
  — 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.
- 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
- 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
- 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. Labor certifications are issued in accordance with regulations for the permanent employment of aliens in the United States 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 recruitment 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 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, specific 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
- 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 or more 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
- 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 certain groups. However, these groups are experiencing severe backlogs as a result of annual demand exceeding annual quotas. The following are the groups:

- 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
- 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 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 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.

Appendix 1: Taxability of income items

	Taxable*	Not taxable	Comments
Compensation			
Base salary	X	—	—
Employee contributions to Section 401(k) 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	—	(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)

	Taxable*	Not taxable	Comments
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 may be able to claim an exclusion of up to $250,000 ($500,000 for joint filers) of the gain.

Appendix 2: Sample federal tax calculations

The following are sample 2011 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)	(4,000)	(d)
Standard deduction	—	(c)	—	(d)
Personal exemptions	(14,800)	(e)	(3,700)	(f)
Taxable income	94,900		112,300	

Calculation of tax

		$	
Resident alien			
$17,000	at 10%	1,700	
$52,000	at 15%	7,800	
$23,900	at 25%	5,975	
$2,000	at 15%	300	(g)
$94,900		15,775	(h)
Nonresident alien			
$8,500	at 10%	850	
$26,000	at 15%	3,900	
$35,175	at 25%	8,794	
$36,475	at 28%	10,213	
$6,150	at 33%	2,030	
$2,000	at 30%	600	(i)
$114,300		26,387	(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 state income taxes, $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.

(e) Assumed personal exemptions for husband, wife and two children ($3,700 x 4 = $14,800).
(f) In general, a nonresident alien is allowed only one personal exemption.
(g) Qualified dividend income is taxed at 15% (see Section A).
(h) The rates for married persons filing joint returns are used. This taxpayer is also entitled to a child tax credit of $1,250, resulting in a total federal tax liability of $14,525.
(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 2011. 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	4.54%
Arkansas	7%
California	9.55%
Colorado	4.63%
Connecticut	6.5%
Delaware	6.95%
District of Columbia	8.5%
Florida	None
Georgia	6%
Hawaii	11%
Idaho	7.8%
Illinois	5%
Indiana	3.4%
Iowa	8.98%
Kansas	6.45%
Kentucky	6%
Louisiana	6%
Maine	8.5%
Maryland	5.5%
Baltimore	3.2%
Massachusetts	5.3%
Michigan	4.35%
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	4.9%
New York	8.97%
New York City	3.876%
North Carolina	7.75%
North Dakota	3.99%
Ohio	5.925%
Oklahoma	5.5%
Oregon	11%
Pennsylvania	3.07%

State	Highest marginal rate
Philadelphia	
Resident	3.928% on compensation and net profits
Nonresident	3.4985% on compensation and net profits
Rhode Island	5.99%
South Carolina	7%
South Dakota	None
Tennessee	6% on interest and dividends
Texas	None
Utah	5%
Vermont	8.95%
Virginia	5.75%
Washington	None
West Virginia	6.5%
Wisconsin	7.75%
Wyoming	None

U.S. Virgin Islands

Please direct all inquiries regarding the U.S. Virgin Islands to Teresita Fuentes (telephone: +1 787 772 7066; fax: +1 787 753 0813; email: teresita.fuentes@ey.com) of the San Juan, Puerto Rico office.

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 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.

Under Internal Revenue Code Section 937, which was added by the AJCA, and Treasury Regulation Section 1.937-1(h), effective from 2001, an individual with worldwide gross income of more than US$75,000 must file Form 8898 for the tax year in which he or she becomes or ceases to be a bona fide resident of one of the U.S. Virgin Islands, among other U.S. possessions.

For married individuals, the US$75,000 filing threshold applies to each spouse separately.

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 US$13,000 for each recipient in 2011) 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 the 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
- 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 2011 is provided below for an expatriate who is a resident of the U.S. Virgin Islands for all of 2011 and is married with two dependent children under 18 years old. During 2011, the expatriate received compensation of US$150,000, US$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 US$60,000. The expatriate earned dividends from home-country investments of US$3,000, US$1,000 of which was remitted to the U.S. Virgin Islands. The following is the tax calculation.

	US$	US$
Calculation of taxable income		
Income:		
Salary	150,000	
Taxable housing	60,000	
Foreign dividends	3,000	
Total income		213,000
Less:		
Standard deduction	(11,600)	
Four personal exemptions	(14,800)	
Total deductions and exemptions		(26,400)
Taxable income		186,600
Calculation of tax		
Tax on US$187,500		40,317

Uruguay

(Country code 598)

Montevideo **GMT -3**

Ernst & Young
Avda. 18 de Julio 984
4th and 5th Floors
Palacio Brasil
P.O. Box 1303
11100 Montevideo
Uruguay

Executive and immigration contacts

Luis Montone	(2) 902-3147 Fax: (2) 902-1331 Email: luis.montone@uy.ey.com
Ricardo Villarmarzo	(2) 902-3147 Fax: (2) 902-1331 Email: ricardo.villarmarzo@uy.ey.com
Martha Roca	(2) 902-3147 Fax: (2) 902-1331 Email: martha.roca@uy.ey.com

A. Income tax

Under the personal income tax law, effective from 1 July 2007, individuals are subject to income tax in Uruguay.

Resident individuals are subject to tax on their Uruguayan-source income. Effective from January 2011, they are also subject to tax on certain foreign source income, such as capital gains and work income, if certain conditions are met. Income subject to the tax is divided into the categories of capital gains (Category I) and labor income (Category II).

The basic rate of personal income tax on capital gains is 12%.

Tax on labor income applies to income derived from dependent or independent work. A specified amount of income is not subject to tax. The tax is imposed at progressive rates ranging from 10% to 25%.

Since July 2008, income from pension funds is subject to the Tax of Assistance to Social Security. This tax is similar to the personal income tax. From July 2007 through June 2008, income from pension funds was subject to personal income tax.

Nonresident individuals are subject to income tax on their Uruguayan-source income at a rate of 12%. They are also subject to tax on their income from technical services performed abroad if certain conditions are met.

In addition, 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 2%. They are entitled to deduct a tax-free allowance (approximately US$100,000).

Inheritance and gift taxes. Transfers of real estate by gift or inheritance are subject to the 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	7.5 (a)	15 (a)	22.5
Medical care	5	3 to 6	8
Tax on salaries (b)	0.125	0.125	0.25

(a) This rate applies to the portion of income that does not exceed approximately US$3,000.
(b) 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 personal income tax and the net worth tax.

E. Tax treaties

Uruguay has entered into double tax treaties with Germany, Hungary, Mexico (entered into force in December 2010) and Spain (entered into force in April 2011).

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
- 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
- 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.

Uzbekistan

(Country code 998)

Tashkent	GMT +5

Ernst & Young
Inconel Business Center, 3rd Floor
75 Mustaqillik Avenue
Tashkent 100000
Uzbekistan

Executive contacts

Doniyorbek Zulunov	(71) 140-6482 Fax: (71) 140-6483 Email: doniyorbek.zulunov@uz.ey.com
Zhanna S. Tamenova *(resident in Almaty, Kazakhstan)*	+7 727 258 5960 Fax: +7 727 258 5961 Email: zhanna.s.tamenova@kz.ey.com

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 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 minimum wage (approximately US$30) to 13 minimum wages (approximately US$385) 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 are normally 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 April 2011, one minimum wage (MW) equals UZS 49,735 per month (approximately US$30). The following is the monthly individual income tax rate table.

Monthly taxable income		Tax on	Rate on
Exceeding MW	Not exceeding MW	lower amount MW	excess %
0	5	0	10
5	10	0.5	16
10	—	1.3	22

The following is an annual tax rate table using U.S. dollars, based on the exchange rate of UZS 1,681 = US$1 (as of 1 April 2011).

Annual taxable income		Tax on	Rate on
Exceeding US$	Not exceeding US$	lower amount US$	excess %
0	1,775	0	10
1,775	3,550	176	16
3,550	—	462	22

For a sample tax calculation, see Appendix 2.

Relief for losses. Losses may not be carried forward or back by individuals.

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 vary from 0.75% to 1.13% of the cost of the property.

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 77.4 to UZS 336.5 per square meter, depending on the location of the land plot.

Tax on consumption of gasoline, diesel fuel and liquid gas. The tax rates on the consumption of gasoline, diesel fuel and liquid or compressed gas by individuals are UZS 175 per liter of gasoline and diesel fuel, UZS 140 per liter of liquid gas, and UZS 175 per cubic meter of compressed gas. The tax is added to the retail price of fuel and collected at fuel stations.

C. Social security

Uzbek citizens (as well as foreign citizens permanently living in Uzbekistan) are subject to a pension fund contribution at a rate of 4.5% 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 a unified social fund contribution on the payroll of employees at a rate of 25%.

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. 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
Azerbaijan
Bahrain
Belarus
Belgium
Bulgaria
Canada
China
Czech Republic
Finland
France
Georgia
Germany
Greece
Hungary
India
Indonesia
Iran
Israel
Italy
Kazakhstan
Korea (South)
Kuwait
Kyrgyzstan
Latvia
Lithuania
Luxembourg
Malaysia
Moldova
Netherlands
Oman
Pakistan
Poland
Romania
Russian Federation
Saudi Arabia
Singapore
Slovak Republic
Switzerland
Thailand
Turkey
Turkmenistan
Ukraine
United Kingdom
Vietnam

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 certain documents including 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 (if over 60 days), Tajikistan and Turkmenistan, who do require a visa
- 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, Malaysia, Spain, Switzerland and the United Kingdom)
- Completed and signed visa application form
- Valid passport
- 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, Malaysia, 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, Malaysia, Spain, Switzerland and the United Kingdom)
- Completed and signed visa application form
- Valid passport
- 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
- Valid passport and 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.
- 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 50 MWs to 100 MWs (US$1,479 to US$2,959), depending on the period of time that 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			
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 2011 is provided below for an expatriate who is a resident in Uzbekistan for all of 2011. During

2011, the expatriate received compensation of UZS 50 million, UZS 30 million 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 million. The expatriate earned income of UZS 15 million from leasing a personal residence in the expatriate's home country, UZS 5 million of which was remitted to Uzbekistan. The following is the tax calculation.

	UZS
Calculation of taxable income	
Salary	50,000,000
Housing	20,000,000
Leasing income	15,000,000
Taxable income	85,000,000
Calculation of tax	
Tax on first UZS 2,984,100 (5 annual minimum wages [MWs]) at 10%	298,410*
Tax on next UZS 2,984,100 (5 annual MWs) at 16%	477,456
Tax on remaining UZS 79,031,800 at 22%	17,386,996
Income tax payable	18,162,862

* The annual MW for 2011 currently equals UZS 596,820 (UZS 49,735 x 12 months). The monthly MW may change during 2011. As a result, the amount of the annual MW may also change.

Venezuela

(Country code 58)

Caracas **GMT -4½**

Mendoza, Delgado, Labrador & Asociados
Avenida Francisco de Miranda
Centro Lido, Torre A, Piso 13
El Rosal
Caracas 1060
Venezuela

Executive and immigration contact

José A. Velázquez
(212) 905-6659
Fax: (212) 953-7151
Email: jose.a.velazquez@ve.ey.com

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 2011 tax year, the value of a tax unit is Bs.F 76. For the 2010 tax year, the value of a tax unit was Bs.F 65. 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
- 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
Labor Benefits System contributions on monthly salary of each employee, up to a ceiling of five minimum salaries; paid by	
Employer	2
Employee	0.5
Housing and Habitual Benefts System contributions on total monthly salary of each employee up to 15 minimum salaries; paid by	
Employer	2
Employee	1
National Socialist Training Institute 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 has entered into double tax treaties with the following countries.

Austria	Germany	Portugal
Barbados	Indonesia	Spain
Belgium	Iran	Sweden
Canada	Italy	Switzerland
China	Korea (South)	Trinidad and Tobago
Cuba	Kuwait	United Kingdom
Czech Republic	Malaysia	United States
Denmark	Netherlands	
France	Norway	

Venezuela has also signed double tax treaties with Brazil, Mexico, Qatar and the Russian Federation, which have not yet entered into force. Treaties are currently under negotiation with Chile, Finland and India.

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 Socialist Training Institute (Instituto Nacional de Capacitación y Educación Socialista, or INCES)
- 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
- Résumé, translated into Spanish if 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)
- 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	—	(a)
Retained hypothetical tax	(X)	—	—
Cost-of-living allowance	X	—	—
Housing allowance	X	—	(b)
Education reimbursement	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 meals provided	—	X	(c)
Other items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(d)

	Taxable*	Not taxable	Comments
Capital gain from sale of personal residence in home country	X	—	(d)
Capital gains from sale of stock in home country	X	—	(d)

* The bracketed amount reduces taxable income.
(a) A bonus is not taxable if it is neither regular nor permanent.
(b) These items are taxable, but an expatriate may deduct them. The deduction for the housing allowance is limited to 800 tax units or 1,000 tax units. For the 2011 tax year, the value of a tax unit is Bs.F 76.
(c) These expenses must be incurred during company business, such as trips or seminars.
(d) U.S. tax residents may be taxed only in the United States if they meet the tie-breaker rules under the tax treaty between Venezuela and the United States.

Vietnam

(Country code 84)

Ho Chi Minh City **GMT +7**

Ernst & Young
2A-4A Ton Duc Thang, 8th Floor
District 1
Ho Chi Minh City
Vietnam

Executive and immigration contacts

Christopher Butler	(8) 3824-5252 Fax: (8) 3824-5250 Email: christopher.butler@vn.ey.com
Sarah Jubb	(8) 3824-5252 Fax: (8) 3824-5250 Email: sarah.jubb@vn.ey.com

Hanoi **GMT +7**

Ernst & Young
360 Kim Ma
14th Floor
Ba Dinh District
Hanoi
Vietnam

Executive and immigration contacts

Huong Vu	(4) 3831-5100 Fax: (4) 3831-5090 Email: huong.vu@vn.ey.com
Huyen Nguyen	(4) 3831-5100 Fax: (4) 3831-5090 Email: huyen.thi.nguyen@vn.ey.com

A. Income tax

Who is liable. Under the new Personal Income Tax Law which is effective from 1 January 2009, taxpayers are resident and non-resident individuals who have income subject to tax.

The following individuals are considered to be resident for tax purposes:

- Persons residing in Vietnam for an aggregate of 183 days or more in a calendar year or in a continuous 12-month period beginning on the first date of arrival. In calculating the number of days, the arrival and departure dates are counted as one day in total.
- Persons having a usual place of domicile in Vietnam. These include persons with a registered permanent address as stated in the Resident or Temporary Resident Card and persons with house leases whose total terms exceed 90 days. The total terms of the leases equal the sum of the lease terms for different leased locations in a tax year, including hotels, motels, working places and offices.

A nonresident individual is a person who does not meet the above conditions. However, if an individual stays in Vietnam for more than 90 days but less than 183 days in a tax year and if he or she can prove that he or she is a tax resident in another country, he or she is treated as a Vietnam tax nonresident in that tax year.

The first tax year is a calendar year (from 1 January to 31 December) if an individual stays in Vietnam 183 days or more in that calendar year. If an individual stays in Vietnam less than 183 days in a calendar year, but he or she stays 183 days or more in the period of 12 consecutive months beginning with the first date of arrival in Vietnam, the first tax year is 12 consecutive months beginning with the first date of arrival in Vietnam. The second tax year is the calendar year.

Income subject to tax. Residents are taxed on their worldwide income, while nonresidents are taxed on their Vietnam-source income.

Under the new PIT law, the following 10 types of income are subject to tax:
- Income from business
- Income from employment
- Income from capital investment
- Income from capital transfers
- Income from transfers of real property
- Income from royalties
- Income from franchising
- Income from winnings or prizes
- Income from the receipt of inheritances
- Income from the receipt of gifts

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

Income from employment. Employment income includes salaries, wages, bonuses, allowances, premiums, directors' fees and remuneration, housing benefits (with a tax concession; see next paragraph), income tax and benefits paid by the employer, allowances and other payments for employment services rendered. Tax on employment income for resident individuals is provisionally paid on a monthly basis, while tax on nonresident individuals is paid when the income arises. Uniform progressive tax rates ranging from 5% to 35% are applicable to both Vietnamese and expatriate residents (see *Rates*) while a flat rate of 20% applies to nonresidents. 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 gross taxable income (income before deductions and tax). 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 gross taxable income.

The following main categories of employment income are exempt from tax:
- 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 recognized by competent state authorities
- One-off allowance for relocation to Vietnam based on a labor contract or agreement between the employer and employee
- School fees paid by the employer for elementary and high school education for the children of expatriate employees
- Cost of return air ticket to home country of expatriate employee for holiday once a year
- Transportation between home and work, provided to employees collectively
- Membership fees for sports and golf clubs and similar organizations, if the membership is not in the names of specific employees
- Cost of services such as health care, entertainment, sports and similar items, if the services are not in the names of specific employees
- Night-shift meals arranged directly by the employer or paid in cash to employees up to the amount stipulated in labor regulations
- Stationery, per diems, telephone and uniforms within the limits provided by the prevailing regulations
- Cost of training for improvement of the professional skills of employee
- Retrenchment, redundancy and unemployment allowances
- Financial support from an employer's after-tax fund for an employee and his or her family members for cures or medical treatments for fatal diseases

Income from business. Business income is income derived from production and business activities. It also includes income derived from production and business activities in agriculture, forestry, salt production, aquaculture and fishery if such activities do not qualify for tax exemption, as well as income from independent practice.

For residents, the tax rates applicable to business income are the same as the tax rates applicable to employment income. For nonresidents, the following flat rates apply:
- Doing business in goods and production: 1%
- Services: 5%
- Production, construction, transportation and other business activities: 2%

Income from capital investment. Income from capital investment is income earned from lending money, investing in shares and making capital contributions. Types of income from capital investment include cash dividends, stock dividends, shares of profits, bond interest, loan interest and similar types of income. Assessable income is determined when the income is paid to the individual or when the individual receives such income (in case of offshore investments). For the applicable tax rates, see *Tax rates*.

Income from capital transfers. Income from capital transfers refers to gains derived by individuals from transfers of capital contributions in a limited liability company, partnership, shareholding company, business cooperation contract, cooperative or economic organization, transfers of securities and transfers of capital in other forms. Taxable income from transfers of capital equals the transfer price less the purchase price and reasonable expenses. For transfers of securities, individuals can opt to pay tax on net gain or on the transfer price. However, if the taxpayer opts to pay tax on the gain, registration and certain conditions are required. For the applicable tax rates, see *Tax rates*.

Income from transfers of real property. Income from transfers of real property include the following:
- Income receivable from transfers of land-use rights, residential houses, infrastructure, buildings, engineering works and other assets attached to the land
- Transfers of ownership or use rights of residential houses, lease rights to land or water surfaces and other rights to real property

Assessable income equals the transfer price less the purchase price and relevant reasonable expenses. If prime cost is indeterminable, the fixed tax rate on the transfer price applies. For the applicable tax rates, see *Tax rates*.

Income from royalties. Income from royalties is income derived from the assignment or transfer of the right to use intellectual property rights or objects including literary, artistic and scientific works, copyrights, inventions, industrial designs, trademarks, technical know-how and similar items. Assessable income equals the amount of the royalties in excess of VND 10 million, which is determined each time the royalties are paid.

Income from franchising. Income from franchising is income derived by an individual from a franchising contract under which the franchisor authorizes the franchisee to purchase and sell goods or provide services in accordance with conditions imposed by the franchisor. Assessable income equals the amount of franchise fee based on the contract in excess of VND 10 million.

Income from winnings or prizes. Income from winnings or prizes is income derived from winnings in cash or in kind in excess of VND 10 million from lotteries, betting, casinos, promotional prizes and similar items. Assessable income equals the amount of the prize determined on a transaction basis.

Income from receipt of inheritances or gifts. Income from the receipt of inheritances or gifts is income in excess of VND 10 million derived by an individual under a testament or law from the receipt of inherited or gifted assets, including securities, contributed capital, real property and other assets that are required to be registered. Effective from 1 January 2009, such income is taxable. The amount of assessable income is determined when the procedures are completed for the transfer of ownership or the transfer of the right to use the asset or when the taxpayer receives the gift.

Tax exemptions and reductions. Certain types of income are exempt from tax, including the following:

- Income from the transfer of real property by inheritance or gift between husband and wife, parents and children including adoptive parents and adopted children, parents-in-law and children-in-law and grandparents and grandchildren, and between siblings
- Income from the transfer of a residential house or right to use residential land and assets attached to land by an individual who has one sole residential house and/or land-use right in Vietnam
- Interest on money deposited at banks or credit institutions, and from life insurance policies
- Income in foreign currency received from overseas Vietnamese
- Pensions paid by the Social Insurance Fund under the Law on Social Insurance
- Scholarships
- Compensation payment from life and nonlife insurance contracts, compensation for labor accidents and other state compensation payments
- Income received from charitable funds or from foreign-aid sources for charitable or humanitarian purposes

Foreign experts working for official development assistance (ODA) projects in Vietnam are exempt from tax if they meet certain conditions.

Resident and nonresident individuals working in economic zones are entitled to a 50% tax reduction.

Taxation of employer-provided stock. Securities provided to employees are taxable as employment income. Share awards are treated as employment income (bonuses) and are taxed when the shares are transferred. Taxable income equals the value of the shares recorded in the accounting books of the employer. Income from the transfer of the awarded shares is also subject to capital gain tax (see *Capital gains*).

Capital gains. Capital gains are taxed in accordance with the rules described in *Income from capital transfers*.

Deductions

Personal deductions and allowances. Personal relief of VND 4 million per month is automatically granted to resident individuals who derive income from employment or business. If an individual has both employment and business income, he or she can select the type of income for such deduction. Dependent relief of VND 1,600,000 is granted for each eligible dependant. No limit is imposed on the number of dependants. However, an eligible dependant must meet certain conditions with respect to income, age and relationship with the taxpayer.

Deductions from employment income. Mandatory social, health and unemployment insurance contributions are deductible from employment income for personal income tax purposes. Certain contributions to charitable, humanitarian or study promotion funds are also deductible.

Deductions from business income. Expenses that may be deducted from business income are expenses arising from and directly related to the creation of taxable income, including salaries of employees, materials, depreciation, interest, management expenses, taxes and fees.

Credit. Tax paid in other countries may be claimed as a credit against the tax liability in Vietnam. However, the amount of the credit may not exceed the amount payable in accordance with the Vietnamese tax scale that is assessed and allocated to the part of the income arising overseas.

Tax rates. The table below presents the progressive tax rates on employment and business income of resident individuals. To calculate tax due using the tables, multiply the taxable income by the tax rate and then subtract the bracket adjustment. As a result, the total taxable income benefits from the lower progressive rates. The following is the tax rate table.

Residents' average monthly assessable income			
Exceeding VND (thousands)	Not exceeding VND (thousands)	Tax rate %	Bracket adjustment VND (thousands)
0	5,000	5	0
5,000	10,000	10	250
10,000	18,000	15	750
18,000	32,000	20	1,650
32,000	52,000	25	3,250
52,000	80,000	30	5,850
80,000	—	35	9,850

The following fixed tax rates are imposed on income derived by resident individuals other than employment and business income.

Type of income	Tax rate (%)
Income from capital investment	5
Income from royalties and franchising (exceeding VND 10 million)	5
Income from winnings or prizes (exceeding VND 10 million)	10
Income from inheritances (exceeding VND 10 million)	10
Income from capital transfers	20 (a)
Gains from transfers of real property	25 (b)

(a) Transferors of securities must register to qualify for the flat rate of 20% on the gain. If the gain from the transfer of securities cannot be determined, the tax payable is calculated at 0.1% of the transfer price.
(b) If the cost of real property is indeterminable, the tax payable is calculated at 2% of the transfer price.

The following flat tax rates apply to the income of nonresident individuals.

Type of income	Rate (%)
Income from employment	20
Income from business	
Trading of goods	1
Provision of services	5
Production, construction, transportation and other	2
Income from capital investment	5

Type of income	Rate (%)
Income from royalties and franchising (exceeding VND 10 million)	5
Income from winnings or prizes (exceeding VND 10 million)	10
Income from capital transfers	0.1 (a)
Income from transfers of real property	2 (b)

(a) Income from the transfer of capital by nonresident individuals is taxed at 0.1% of the transfer price regardless of whether the transfer is implemented in Vietnam or overseas.

(b) Income from the transfer of real property by nonresident individuals is taxed at 2% of the transfer price.

For a sample tax calculation, see Appendix 2.

Relief for losses. Business losses cannot be offset against employment income if an individual has income from both business and employment.

B. Other taxes

Net worth tax is not levied in Vietnam.

C. Social security

The following are the statutory contribution rates for employers and employees with respect to social security, health insurance and unemployment insurance (SHUI).

	Social insurance %	Health insurance %	Unemployment insurance %
Employer	16	3	1
Employee	6	1.5	1
Total	22	4.5	2

The SHUI contribution is calculated based on the salary or wage stated in the labor contract. However, it may not exceed 20 times the general minimum salary provided by the government. From 1 January 2011 to 30 April 2011, the capped salary for the SHUI contribution is VND 14.6 million (VND 730,000 x 20). Effective from 1 May 2011, the cap is VND 16,600,000 (VND 830,000 x 20). The general minimum salary changes from year to year according to the government's decision.

Social and unemployment insurance contributions do not apply to foreigners. Foreigners who sign labor contracts with Vietnamese entities with a term of three months or more contribute to Vietnamese health insurance. The contribution rate and salary base is the same as those applicable to Vietnamese individuals.

D. Tax filing and payment procedures

Organizations and individuals must withhold income tax from income paid to resident and nonresident individuals with respect to income from employment, capital investments, capital transfers (including transfers of securities), royalties, franchising, and winnings and prizes.

Declaration and payment of tax on employment income must be made on a monthly basis by the 20th day of the following month. A year-end finalization of income tax also must be declared and any amounts due paid within 90 days after the end of the first tax year or the end of the calendar year. A quarterly filing is required if the income-paying individual or organization has monthly tax payable of less than VND 5 million. The quarterly tax filing is due by the 30th day of the first month of the following quarter.

A resident individual receiving employment income paid from overseas also must file tax declarations. Finalization is required if any of the following circumstances exist:

- The tax payable is greater than the tax withheld or paid.
- The individual is eligible for a tax refund.
- The individual is a resident foreigner who is departing from Vietnam.

The declarations described in the preceding paragraph must be filed by the 20th day of the following month. The year-end finalization of income tax must be declared and any amounts due paid within 90 days after the end of the first tax year or the end of the calendar year.

Individuals or groups of individuals deriving income from business are required to file tax declarations on a quarterly basis by the 30th day of the first month of the following quarter and finalize the tax within 90 days after the end of the calendar year.

If an individual has both business income and employment income, only business income is required to be reported in the declaration described in the preceding paragraph. A tax finalization is required if any of the following circumstances exist:

- Monthly taxable income exceeds VND 4 million.
- An application is made for a tax refund or for overpaid tax to be carried forward to the next period.

An individual deriving income from the transfer of real property must declare tax and file a tax return together with the documents relating to transfer of ownership or right to use the real property. The tax must be paid in accordance with the tax notice.

An individual deriving income from the transfer of capital must declare tax when he or she performs procedures for the transfer of the capital. The tax must be paid in accordance with the tax notice.

An individual who has registered to pay tax on income from the transfer of securities at a flat rate of 20% on the gain must perform a tax finalization if either of the following circumstances exists:

- The tax payable at the rate of 20% on gain is greater than 0.1% of the transfer price on an annual basis.
- A request is made for a tax refund or for overpaid tax to be carried forward to the following year.

An individual deriving income from inheritances or gifts must declare tax each time the income arises. The tax declaration must be submitted when the procedures for the transfer of ownership or right to use of the inherited or donated assets are conducted.

For resident individuals deriving income arising from overseas, employment income and business income is declared in accordance with the rules stated in the second, third and fourth paragraphs above. Other types of income (capital investment, capital transfer, transfer of real property, royalties, franchising, winnings, inheritances and gifts) must be declared within 10 days after the date the income arises or is received. If the individual is currently traveling overseas, the deadline is 10 days after the date of return to Vietnam.

E. Tax treaties

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

Algeria*	India	Qatar*
Australia	Indonesia	Romania
Austria	Ireland*	Russian Federation
Bangladesh	Israel*	Saudi Arabia
Belarus	Italy	Seychelles
Belgium	Japan	Singapore
Brunei Darussalam	Korea (North)	Slovak Republic
Bulgaria	Korea (South)	Spain
Canada	Kuwait*	Sri Lanka
China	Laos	Sweden
Cuba	Luxembourg	Switzerland
Czech Republic	Malaysia	Taiwan
Denmark	Mongolia	Thailand
Egypt*	Morocco*	Tunisia
Finland	Myanmar	Ukraine
France	Netherlands	United Arab Emirates*
Germany	Norway	United Kingdom
Hong Kong	Oman	Uzbekistan
Hungary	Pakistan	Venezuela
Iceland	Philippines	
	Poland	

* This treaty is not yet in force.

F. Entry visas

All foreign nationals must obtain valid entry visas to enter Vietnam, except the following:

- Foreign nationals originated from Vietnam and their spouses and children
- Foreign nationals who are spouses or children of Vietnamese citizens
- Citizens of certain countries who are granted short-term visa exemptions, such as 15 days for citizens of Denmark, Finland, Japan, Korea (South), Norway and Sweden, 30 days for citizens of Indonesia, Laos, Malaysia, Singapore and Thailand, and 21 days for citizens of the Philippines

For the first and second categories above, the following documents must be submitted to Vietnamese Embassies or Consulates in foreign countries or the Department of Immigration in Vietnam:

- An application letter for visa exemption certificate with a duration of up to five years
- Passport
- A document proving the Vietnamese origin or the relationship with Vietnamese citizens or foreign nationals originated from 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
- 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
- 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 three months or foreign employees engaged in emergency situations
- Foreign employees who are members of limited liability companies with two or more members, owners of one-member limited liability companies or members of the board of management of shareholding companies
- A foreigner entering Vietnam to offer services
- Foreign lawyers to whom the Ministry of Justice has issued a law practicing certificate in Vietnam

H. Residence permits

Foreign nationals intending to reside in Vietnam can apply for residence permits with a duration of up to three 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
- 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 with a home country driver's license can apply for an equivalent driver's license in Vietnam.

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	—	—
Compulsory 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	—	(e)
Education reimbursement	—	X	(f)
Hardship allowance	X	—	—
Other allowance	X	—	—
Premium allowance	X	—	—
Home-leave allowance	—	X	(g)
Other compensation income	X	—	—
Moving expense reimbursement	—	X	(h)
Tax reimbursement (current and/or prior, including interest, if any)	X	—	—
Value of hotel provided	—	X	(i)
Other items			
Foreign-source personal ordinary income (interest and dividends)	X	—	(j)
Capital gain from sale of personal residence in home country	X	—	(j)

	Taxable	Not taxable	Comments
Capital gains from sale of stock in home country	X	—	(j)

(a) Contributions in the nature of social security and health insurance are not taxable if they are compulsory in the home country and if they are supported by proper documentation or evidence of payment.
(b) The hypothetical tax withheld is deductible from taxable income if it is supported by proper documentation or evidence. Income after the hypothetical tax deduction is treated as net. A grossing up is required (that is, the income net of tax is converted to gross income which includes tax).
(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) Housing contribution made by an employee through a deduction from the employee's income is not taxable. Housing contribution made by an employer on behalf of an employee is taxable.
(f) Reimbursement of school fees up to high school for an assignee's children is not taxable if the invoices are in the name of the employer.
(g) Home-leave airfares for expatriate employees to return to their home countries once a year are not taxable.
(h) Moving expense reimbursements for relocation to Vietnam are not taxable.
(i) The value of hotel accommodation provided to an employee is not taxable if the following conditions are satisfied:
- The hotel accommodation is for business travel purposes.
- The employee is reimbursed dollar for dollar for the cost of the accommodation for business travel.
- The reimbursement is supported by invoices or receipts.

If hotel accommodation is for residential purposes, the lower of actual hotel payments and 15% of taxable income is taxed as a taxable housing allowance.
(j) These items are taxable for resident individuals.

Appendix 2: Sample tax calculation

A sample tax calculation is provided below for an expatriate, who is a resident of Vietnam for the entire year and is married with two dependent children under 18 years old. During the year, 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 million,* VND 25 million of which were remitted to Vietnam. The following is the tax calculation.

	Annual VND	Monthly VND
Calculation of taxable income		
Net employment income	740,800,000	61,733,333
Grossed-up income	920,971,428	76,747,619
Taxable value of housing (lower of VND 285,300,000 or 15% of VND 920,971,428)	138,145,714	11,512,143
Taxable employment income	1,059,117,142	88,259,762
Personal relief	(48,000,000)	(4,000,000)
Dependent relief	(38,400,000)	(3,200,000)
Assessable income	972,717,142	81,059,762
Calculation of tax		
Tax on VND 5,000,000 at 5%	3,000,000	250,000
Tax on VND 5,000,000 at 10%	6,000,000	500,000

	Annual VND	Monthly VND
Tax on VND 8,000,000 at 15%	14,400,000	1,200,000
Tax on VND 14,000,000 at 20%	33,600,000	2,800,000
Tax on VND 20,000,000 at 25%	60,000,000	5,000,000
Tax on VND 28,000,000 at 30%	100,800,000	8,400,000
Tax on VND 1,059,762 at 35%	4,451,004	370,917
VND 81,059,762		
Employment income tax payable	222,251,004	18,520,917
Tax on income from capital investment	2,500,000	2,500,000
Total tax payable	224,751,004	21,020,917

* Under the tax law, in principle, dividends received on home-country investments are taxable for resident individuals.

Zambia

(Country code 260)

Lusaka **GMT +2**

Ernst & Young
Mail address:
P.O. Box 32385
Lusaka
Zambia

Street address:
Development House
1st Floor
Corner Chachacha Road and
Katondo Street
Lusaka
Zambia

Executive and immigration contacts

Nelson Mwila
(211) 236-120/1
Fax: (211) 227-437
Email: nelson.h.mwila@zm.ey.com

Henry C. Nondo
(211) 237-785
Fax: (211) 227-437
Email: henry.c.nondo@zm.ey.com

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 withholding tax on dividends at a rate of 15%. This is a final tax.

Resident individuals are subject to withholding tax on bank interest at a rate of 15%. This is a final 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 5%, effective from 1 April 2011, on the realizable value of property. For purposes of PTT, property consists of land in Zambia, which includes buildings, structures and other improvements, and shares issued by companies incorporated in Zambia.

Deductions

Personal exemption. Individuals are exempt from tax on the first K 12 million of their annual income, effective from 1 April 2011.

Business deductions. Expenses (except capital expenses) incurred in earning taxable income are deductible.

Rates. Effective from 1 April 2011, the following income tax rates apply to individuals.

Taxable income		
Exceeding K	Not exceeding K	Rate %
0	12,000,000	0
12,000,000	20,820,000	25
20,820,000	50,400,000	30
50,400,000	—	35

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 impose estate or gift tax.

C. Social security

Zambia does not impose 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 by the 14th day of each month.

Individuals with business or self-employment income must pay estimated taxes in quarterly installments by the following dates:

- First quarter: 14 July
- Second quarter: 14 October
- Third quarter: 14 January
- Fourth quarter: 14 April

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	Ireland	South Africa
Canada	Italy	Sweden
Denmark	Japan	Switzerland
Finland	Kenya	Tanzania
France	Netherlands	Uganda
Germany	Norway	United Kingdom
India	Romania	

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.

Zimbabwe

(Country code 263)

Harare	GMT +2

Ernst & Young
Mail address:
P.O. Box 62
Harare
Zimbabwe

Street address:
Angwa City
Corner of Julius Nyerere and
Kwame Nkrumah
Harare
Zimbabwe

Executive and immigration contacts

Nigel Forsgate	(4) 750-979 Fax: (4) 773-842 Email: nigel.forsgate@zw.ey.com
Kelvin Harvey	(4) 750-906 Fax: (4) 750-707 Email: kelvin.harvey@zw.ey.com
Max S. Mangoro	(4) 750-979 Email: maxwell.mangoro@zw.ey.com

A. Income tax

Who is liable. All individuals 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 terms "resident" and "ordinarily resident" are not legislatively defined. Residential status depends on the facts and circumstances indicating a degree of presence. For example, a person living and working temporarily in Zimbabwe is considered resident but not ordinarily resident, while a transient visitor is considered neither ordinarily resident nor 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.

To calculate income tax liability, the following steps must be followed:

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 the 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 younger and all allowances or benefits accruing to employees are taxable for income tax purposes, but not for social security purposes. Social security contributions are calculated on basic salaries.

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 generally subject to tax at a rate of 25.75%.

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 are refundable on assessment.

Tax at a rate of 20% must be withheld from gross fees paid to nonworking directors and 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 25.75%. Withholding tax is imposed on nonresidents at a rate of 15% 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. Fees paid to working directors are taxed with other employment income at the rates described in *Rates*.

Fees paid to nonworking directors are included in business income and taxed at a rate of 25.75%. Tax at a rate of 20% that is withheld from payments of the gross fees can be offset against income tax payable on quarterly dates or on assessment.

Investment income. Individuals are subject to a final withholding tax at a rate of 10% on dividends derived from companies listed on the Zimbabwe Stock Exchange, and to a 15% final withholding tax on all other domestic dividends.

Interest paid 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 15%. Individuals aged 55 and older are exempt from withholding tax on the first US$3,000 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 15% at the time of disposal or maturity of the instrument. Individuals aged 55 and older are exempt from withholding tax on the first US$3,000 of such income.

Other interest is not subject to withholding tax and is taxed at a rate of 25.75%.

Foreign-source dividends and interest paid to individuals who are ordinarily resident are deemed to be from a Zimbabwean source. Foreign-source dividends are subject to income tax at a rate of 20% of gross dividends. 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 25.75%. Individuals aged 55 and older are exempt from tax on the first US$3,000 of such income.

Nonresidents are taxed on investment income from Zimbabwe sources, other than dividends, at a flat tax rate of 25.75%. For nonresidents, withholding tax is imposed at a rate of 15% on fees and royalties. This withholding tax is allowed as 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.

Dividends paid to nonresidents on listed and unlisted marketable securities are subject to a final withholding tax at rates of 10% and 15%, respectively.

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*.

Gains on the disposal of stock acquired through an employee option scheme are included in remuneration from employment and are subject to the Pay-As-You-Earn (PAYE) system (see Section D). The gains are included in remuneration. Tax on the gains is calculated in accordance with the rules discussed below.

For options granted before and exercised after 1 February 2009, the value of the benefit is the market value of the shares at the date the option is exercised. The benefit is subject to the PAYE system at a rate of 5% plus the 3% AIDS levy.

For options granted after 1 February 2009, the value of the benefit is the market value of the shares on the date the option to acquire them is exercised less the sum of the following:
- The option price paid by the employee
- The market price of the shares at the date of the offer
- An inflationary allowance computed by applying to the market price of the shares at the date of the offer the percentage increase in the All Items Consumer Index from the date the option was offered to the date the option was exercised

The benefit described in the preceding paragraph is included in income subject to the PAYE system at the normal rates plus the 3% AIDS levy.

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 capital gains tax. Disposals of all specified assets purchased before 1 February 2009 are taxed at a rate of 5% of the gross sale proceeds. Disposals of listed marketable securities after that date are taxed at a rate of 1% of the gross sale proceeds. This 1% tax became a final tax, effective from 1 August 2009. Disposals of other specified assets purchased after 1 February 2009 are taxed at a rate of 20% of the capital gain after deduction of an inflationary allowance of 2.5 % per year on the cost from the acquisition date to the disposal date.

The capital gains withholding tax is imposed at the following rates:

- 5% of the gross proceeds from disposals of immovable property purchased before 1 February 2009
- 15% of the gross proceeds from disposals of immovable property purchased after 1 February 2009
- 1% of the gross proceeds from disposals of listed marketable securities
- 5% for disposals of unlisted marketable securities

The above taxes are credited against the capital gains tax, except for the 1% tax, which became a final tax, effective from 1 August 2009.

Individuals aged 55 and older are exempt from tax on the sale of their principal private residence and on the first US$1,800 of total proceeds received during the year from the sale of listed and unlisted 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 losses may be carried forward indefinitely.

Deductions

Deductible expenses. Pension contributions, up to a maximum annual amount of US$5,400, may be deducted from taxable income. If both pension and retirement fund contributions are made, the maximum combined deduction is US$5,400.

Personal credits. The following tax credits are deductible from basic income tax payable, effective from 1 January 2011.

Type of credit	Amount
Taxpayers 60 years of age and older	US$900 per year
Blind or disabled person	US$900 per year
Medical expenses, cost of invalid appliances and contributions to medical aid societies	50% of amount

Business deductions. A deduction of 25% 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 three years. Allowable deductions are subject to recapture on the sale or other disposal of such assets.

Rates. The following tax rates applied to employment income for the year ending 31 December 2011.

Annual taxable income		Tax on lower	Rate on
Exceeding US$	Not exceeding US$	amount US$	excess %
0	2,700	0	0
2,700	6,000	0	20
6,000	12,000	660	25
12,000	18,000	2,160	30
18,000	—	3,960	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. However, they are not deductible from income from other mining locations or from nonmining income. 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 and a family vehicle are not included in the dutiable value of the estate. The first US$50,000 of the dutiable value is tax free. The rate of the estate tax on the balance of the dutiable value is 5%.

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, cross-border traders, small-scale miners, hairdressers and operators of taxicabs, omnibuses, specified goods' vehicles, driving schools, licensed and unlicensed bottle stores and restaurants and cottage industries (cottage industries are trades or industries involved in furniture making and upholstery or metal fabrication and other industries prescribed in statutory instruments). Presumptive tax paid is allowed as a credit against income tax due on assessment.

C. Social security

Monthly contributions payable by the employee, which are 3% of the first US$200 of an employee's monthly basic monetary earnings, are withheld by employers and paid to the National Social Security Authority monthly, together with an equal amount contributed by the employer.

D. Tax filing and payment procedures

Employers withhold tax under the Pay-As-You-Earn (PAYE) system.

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 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. The following are the quarterly provisional tax payments that must be made during the tax year and the percentages of the estimated tax payable:
• 10% by 25 March
• 25% by 25 June
• 30% by 25 September
• 35% by 20 December

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 the following countries.

Bulgaria	Germany	Norway
Canada	Iran*	Poland
Congo (Democratic Republic of)*	Malaysia	Serbia*
France	Mauritius	South Africa
	Namibia*	Sweden
	Netherlands	United Kingdom

* This treaty has not yet entered into force.

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.
- 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
- 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
- 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
- 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 individual who meets any of the following conditions:
- He or she is a dependant of a resident who will support the person (dependants may be any close relatives).
- He or she 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.
  - US$1 million if the foreign national wants an unrestricted or indefinite permit for an investment project.
- He or she holds a TEP and has been resident in Zimbabwe for a continuous period of at least 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 December 2011 is provided below for an expatriate who is resident in Zimbabwe for that period and is married with two dependent children under 18 years old. During December 2011, the expatriate received compensation equal to US$240,000 from his home-country employer. Of this amount, US$60,000 was paid in Zimbabwe, US$80,000 was withheld by the home country for payment to the Zimbabwe income tax authorities, and the balance was deposited in the employee's home-country bank account and not remitted to Zimbabwe. The individual's host-country employer also provided housing with a value to the employee of US$18,000. The expatriate earned dividends from home-country investments equal to US$15,000, of which the equivalent of US$5,000 was remitted to Zimbabwe. The income tax is payable monthly under the PAYE system. The following is the tax calculation.

	US$	US$
Calculation of taxable income		
Salary		240,000
Housing benefit		18,000
Taxable income before tax-paid benefit		258,000
Net tax-paid benefit	10,599 (a)	
Tax on gross tax-paid benefit	5,975	
Gross tax-paid benefit		16,574 (b)
Taxable income after tax-paid benefit		274,574
Calculation of tax payable (c)		
Tax on first US$18,000		3,960
Tax on US$256,574 at 35%		89,801
		93,761
AIDS levy at 3% of the tax payable		2,813
Total tax payable		96,574

(a) The following is the calculation of the net tax-paid benefit.

	US$
Tax on first US$258,000	87,960
AIDS levy on 3% of the tax payable	2,639
Income tax payable	90,599
Withheld by home-country employer for payment to Zimbabwe Revenue Authority	(80,000)
Net tax-paid benefit	10,599

(b) The following calculation confirms the amount of the gross tax-paid benefit shown in the example.

	US$
Total tax payable	96,574
Less tax paid on behalf of employee by home-country employer	(80,000)
Gross tax-paid benefit	16,574

(c) PAYE is calculated using rates on a sliding scale.

Contacts for emerging markets

For information regarding services in emerging markets in which Ernst & Young does not currently have an office, please contact the Ernst & Young professionals listed below.

Algeria

Joseph Pagop-Noupoue
Office: +33 1 55 61 18 36
Mobile: +33 6 74 57 72 12
Email: joseph.pagop.noupoue@ey-avocats.com

Anguilla

Wade George
Office: +1 868 628 1105
Mobile: +1 868 788 0670
Email: wade.george@tt.ey.com

Antigua and Barbuda

Wade George
Office: +1 868 628 1105
Mobile: +1 868 788 0670
Email: wade.george@tt.ey.com

Bangladesh

Dinesh Agarwal
Office: +91 33 6615 3470
Mobile: +91 98310 14513
Email: dinesh.agarwal@in.ey.com

Bosnia-Herzegovina

Spyros Kaminaris
Office: +30 210 288 6369
Mobile: +30 697 334 0973
Email: spyros.kaminaris@gr.ey.com

Burkina Faso

Eric N'Guessan
Office: +225 20 21 11 15
Mobile: +225 01 07 60 06
Email: eric.nguessan@ci.ey.com

Dominica

Wade George
Office: +1 868 628 1105
Mobile: +1 868 788 0670
Email: wade.george@tt.ey.com

Faroe Islands

Niels Josephsen
Mobile: +45 51 58 27 73
Email: niels.josephsen@dk.ey.com

Gibraltar

Víctor Gómez de la Cruz
Office: +34 915 727 385
Mobile: +34 609 572 204
Email: victor.gomezdelacruztalegon@es.ey.com

Greenland

Niels Josephsen
Mobile: +45 51 58 27 73
Email: niels.josephsen@dk.ey.com

Grenada

Wade George
Office: +1 868 628 1105
Mobile: +1 868 788 0670
Email: wade.george@tt.ey.com

Guyana

Wade George
Office: +1 868 628 1105
Mobile: +1 868 788 0670
Email: wade.george@tt.ey.com

Iran

Sherif El-Kilany
Office: +20 2 3336 2000
Mobile: +20 10 507 0500
Email: sherif.el-kilany@eg.ey.com

Korea (North)

Jong Yeol Park — Office: +82 2 3770 0904
Mobile: +82 10 6470 9833
Email: jong-yeol.park@kr.ey.com

Kosovo

Spyros Kaminaris — Office: +30 210 288 6369
Mobile: +30 697 334 0973
Email: spyros.kaminaris@gr.ey.com

Kyrgyzstan

Aliya K. Dzhapayeva — Office: +7 727 2585 960
Mobile: +7 777 211 0100
Email: aliya.k.dzhapayeva@kz.ey.com

Liberia

Wilfred Okine — Office: +233 21 779 742
Mobile: +233 20 201 9661
Email: wilfred.okine@gh.ey.com

Mali

Raky Gueye — Office: +221 33 849 2219
Mobile: +221 77 450 7125
Email: raky.gueye@sn.ey.com

Marshall Islands

Lance K. Kamigaki — Office: +1 671 649 4577
Mobile: +1 671 787 7468
Email: lance.kamigaki@gu.ey.com

Micronesia

Lance K. Kamigaki — Office: +1 671 649 4577
Mobile: +1 671 787 7468
Email: lance.kamigaki@gu.ey.com

Monaco

Lionel Benant — Office: +33 1 55 61 16 12
Mobile: +33 6 80 11 58 44
Email: lionel.benant@ey-avocats.com

Mongolia

Eng Ping Yeo — Office: +60 3 2095 7043
Email: eng-ping.yeo@my.ey.com

Montserrat

Wade George — Office: +1 868 628 1105
Mobile: +1 868 788 0670
Email: wade.george@tt.ey.com

Myanmar (Burma)

Huong Vu — Office: +84 4 3831 5100
Mobile: +84 903 432 791
Email: huong.vu@vn.ey.com

Niger

Eric N'Guessan — Office: +225 20 21 11 15
Mobile: +225 01 07 60 06
Email: eric.nguessan@ci.ey.com

Palau

Lance K. Kamigaki — Office: +1 671 649 4577
Mobile: +1 671 787 7468
Email: lance.kamigaki@gu.ey.com

St. Kitts and Nevis

Wade George — Office: +1 868 628 1105
Mobile: +1 868 788 0670
Email: wade.george@tt.ey.com

St. Lucia

Wade George	Office: +1 868 628 1105 Mobile: +1 868 788 0670 Email: wade.george@tt.ey.com

St. Vincent and the Grenadines

Wade George	Office: +1 868 628 1105 Mobile: +1 868 788 0670 Email: wade.george@tt.ey.com

Sudan

Catherine Mbogo	Office: +255 22 266 7227 Mobile: +255 783 681 903 Email: catherine.mbogo@tz.ey.com

Suriname

Wade George	Office: +1 868 628 1105 Mobile: +1 868 788 0670 Email: wade.george@tt.ey.com

Tajikistan

Peter Reinhardt	Office: +7 495 705 9738 Mobile: +7 495 790 1754 Email: peter.reinhardt@ru.ey.com

Timor Leste (formerly East Timor)

Chad Dixon	Office: +61 8 9429 2216 Mobile: +61 411 426 937 Email: chad.dixon@au.ey.com

Turkmenistan

Erlan B. Dosymbekov	Office: +7 727 2585 960 Mobile: +7 777 211 1078 Email: erlan.b.dosymbekov@kz.ey.com

Yemen

Alok Chugh	Office: +965 2295 5104 Mobile: +965 9788 2201 Email: alok.chugh@kw.ey.com

Foreign currencies

The following list sets forth the names and symbols for the currencies of jurisdictions discussed in this book.

Country	Currency	Symbol
Afghanistan	Afghanis	Afs
Albania	Lek	ALL
Angola	Kwanza	Kz
Argentina	Peso	ARS
Armenia	Dram	AMD
Aruba	Florin	Afl.
Australia	Dollar	A$
Austria	Euro	€
Azerbaijan	Manat	MAN
Bahamas	Dollar	B$
Bahrain	Dinar	BD
Barbados	Dollar	BDS$
Belarus	Ruble	BYR
Belgium	Euro	€
Bermuda	Dollar	BMD
Bolivia	Boliviano	Bs
Botswana	Pula	P
Brazil	Real	R$
British Virgin Islands	U.S. Dollar	US$
Brunei Darussalam	Dollar	B$
Bulgaria	Leva	BGN
Cambodia	Khmer Riel	KHR
Cameroon	CFA Franc BEAC	XAF
Canada	Dollar	C$
Cayman Islands	Dollar	CI$
Chile	Peso	CH$
China	Renminbi Yuan	RMB
Colombia	Peso	Col$
Congo, Democratic Republic of	Franc	CDF
Congo, Republic of	CFA Franc BEAC	XAF
Costa Rica	Colon	¢
Côte d'Ivoire	CFA Franc BCEAO	XOF
Croatia	Kuna	HRK
Curaçao	Antillean Guilder	ANG
Cyprus	Euro	€
Czech Republic	Koruna	CZK
Denmark	Krone	DKK
Dominican Republic	Peso	RD$
Ecuador	U.S. Dollar	US$
Egypt	Pound	EGP
El Salvador	Colon	SVC
Equatorial Guinea	Franc CFA BEAC	XAF
Estonia	Euro	€
Ethiopia	Birr	Birr
European Monetary Union	Euro	€

Country	Currency	Symbol
Fiji	Dollar	FJD
Finland	Euro	€
France	Euro	€
Gabon	CFA Franc BEAC	XAF
Georgia	Lari	GEL
Germany	Euro	€
Ghana	Cedi	GH¢
Greece	Euro	€
Guam	U.S. Dollar	US$
Guatemala	Quetzal	GTQ
Guernsey	Pound	£
Guinea	Guinea Franc	FG
Honduras	Lempira	L
Hong Kong	Dollar	HK$
Hungary	Forint	HUF
Iceland	Krona	ISK
India	Rupee	INR
Indonesia	Rupiah	Rp
Iraq	Dinar	IQD
Ireland	Euro	€
Isle of Man	Pound	£
Israel	New Shekel	NIS
Italy	Euro	€
Jamaica	Dollar	J$
Japan	Yen	¥
Jersey	Pound	£
Jordan	Dinar	JD
Kazakhstan	Tenge	KZT
Kenya	Shilling	KSH
Korea (South)	Won	W
Kuwait	Dinar	KD
Laos	Kip	LAK
Latvia	Lats	LVL
Lebanon	Pound	LL
Lesotho	Maloti	M
Libya	Dinar	LD
Liechtenstein	Swiss Franc	CHF
Lithuania	Litas	LTL
Luxembourg	Euro	€
Macau	Pataca	MOP
Macedonia	Denar	MKD
Madagascar	Ariary	MGA
Malawi	Kwacha	K
Malaysia	Ringgit	RM
Maldives	Rufiyaa	Mrf
Malta	Euro	€
Mauritania	Ouguiya	MRO
Mauritius	Rupee	Rs.
Mexico	Peso	Ps
Moldova	Leu	MDL
Montenegro	Euro	€
Morocco	Dirham	MAD
Mozambique	Metical	MT
Namibia	Dollar	N$
Netherlands	Euro	€
New Zealand	Dollar	NZ$
Nicaragua	Cordoba	C$
Nigeria	Naira	₦

Country	Currency	Symbol
Northern Mariana Islands	U.S. Dollar	US$
Norway	Krone	NOK
Oman	Rial	RO
Pakistan	Rupee	PKR
Palestinian Authority	None	–
Panama	Balboa	B/.
Papua New Guinea	Kina	K
Paraguay	Guarani	G
Peru	New Sol	PEN
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	CFA Franc BCEAO	XOF
Serbia	Dinar	RSD
Seychelles	Rupee	SR
Singapore	Dollar	S$
Sint Maarten	Antillean Guilder	ANG
Slovak Republic	Euro	€
Slovenia	Euro	€
South Africa	Rand	R
Spain	Euro	€
Sri Lanka	Rupee	Rs.
Swaziland	Emalangeni	E
Sweden	Krona	SEK
Switzerland	Franc	CHF
Syria	Pound	SYP
Taiwan	Dollar	NT$
Tanzania	Shilling	TSHS
Thailand	Baht	THB
Trinidad and Tobago	Dollar	TT$
Tunisia	Dinar	TND
Turkey	Lira	TL
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	UYP
Uzbekistan	Soum	UZS
Venezuela	Bolivar	Bs.F
Vietnam	Dong	VND
Zambia	Kwacha	K
Zimbabwe	U.S. Dollar	US$

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

About Ernst & Young's Tax services
Your business will only achieve its true potential if you build it on strong foundations and grow it in a sustainable way. At Ernst & Young, we believe that managing your tax obligations responsibly and proactively can make a critical difference. So our 25,000 talented tax professionals in over 135 countries give you technical knowledge, business experience, consistent methodologies and an unwavering commitment to quality service — wherever you are and whatever tax services you need. It's how Ernst & Young makes a difference.

EYG no. DL0457